LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

CPAs / ADVISORS

blue

LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC. AND AFFILIATES

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Little Company of Mary Hospital of Indiana, Inc. and Affiliates
Jasper, Indiana

We have audited the accompanying consolidated balance sheets of Little Company of Mary Hospital of Indiana, Inc. and Affiliates (the Corporation), a wholly controlled subsidiary of the American Province of Little Company of Mary Sisters, as of June 30, 2010 and 2009 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2010 and 2009, and the results of its consolidated operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

October 7, 2010

LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.
AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2010 AND 2009

ASSETS

	2010	2009
Current assets		
Cash and cash equivalents	$ 31,051,435	$ 19,889,060
Patient accounts receivable, less allowances for uncollectible accounts of $8,297,641 in 2010 and $9,689,326 in 2009	18,080,856	21,049,621
Current portion of assets limited as to use	1,470,000	1,400,000
Other current assets	5,706,087	5,902,344
Total current assets	56,308,378	48,241,025
Assets limited as to use, less current portion		
Board designated funds	35,668,397	32,997,322
Trustee held, less current portion	6,540,822	7,385,401
Donor restricted funds	781,714	422,984
Other	3,409,307	3,232,993
Total assets limited as to use	46,400,240	44,038,700
Property and equipment		
Land and improvements	5,545,814	4,370,016
Buildings and building equipment	103,172,482	97,417,222
Furniture and equipment	59,850,901	57,221,688
	168,569,197	159,008,926
Less allowances for depreciation	76,730,784	67,465,980
Total property and equipment, net	91,838,413	91,542,946
Other assets	2,081,992	2,138,984
Total assets	$ 196,629,023	$ 185,961,655

See accompanying notes to consolidated financial statements.

LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.
AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2010 AND 2009

LIABILITIES AND NET ASSETS

	2010	2009
Current liabilities		
Accounts payable	$ 2,206,858	$ 3,903,900
Accrued expenses and other current liabilities	8,182,877	6,971,341
Estimated settlements due to third-party payors	800,000	1,684,087
Current portion of long-term debt	1,470,000	1,400,000
Total current liabilities	12,659,735	13,959,328
Long-term liabilities		
Pension liability	13,864,642	9,374,089
Long-term debt, less current portion	52,295,978	53,757,291
Other long-term liabilities	-0-	7,976
Total long-term liabilities	66,160,620	63,139,356
Total liabilities	78,820,355	77,098,684
Net assets		
Unrestricted	116,919,745	108,355,588
Temporarily restricted	781,714	422,984
Net assets - controlling interest	117,701,459	108,778,572
Non-controlling interest	107,209	84,399
Total net assets	117,808,668	108,862,971
Total liabilities and net assets	$ 196,629,023	$ 185,961,655

See accompanying notes to consolidated financial statements.

LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.
AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Unrestricted revenue and other support		
Net patient service revenue	$ 139,960,195	$ 138,793,080
Other revenue	4,014,893	3,936,869
Total unrestricted revenue and other support	143,975,088	142,729,949
Expenses		
Salaries and wages	60,026,366	61,235,997
Employee benefits	13,807,742	14,427,258
Supplies and drugs	23,729,832	24,112,317
Professional fees	5,947,417	5,461,115
Bad debt	6,343,009	7,049,707
Depreciation and amortization	10,135,110	9,618,877
Interest	2,535,545	2,800,360
Other	17,098,072	17,210,025
Total expenses	139,623,093	141,915,656
Income from operations	4,351,995	814,293
Nonoperating gains (losses)		
Interest and dividends	1,034,986	1,514,848
Net realized gains (losses) on investments	883,004	(433,233)
Other	(9,273)	(48,362)
Total nonoperating gains (losses), net	1,908,717	1,033,253
Excess of revenues over expenses	6,260,712	1,847,546
Other changes in unrestricted net assets		
Net unrealized gains (losses) on investments	1,086,007	(2,375,434)
Contributed property	6,000,000	-0-
Net assets released from restriction	27,742	53,629
Pension related changes other than net periodic pension cost	(4,787,494)	(5,275,632)
Change in unrestricted net assets	8,586,967	(5,749,891)
Temporarily restricted net assets		
Contributions	386,472	81,316
Net assets released from restriction	(27,742)	(53,629)
Change in temporarily restricted net assets	358,730	27,687
Consolidated change in net assets	8,945,697	(5,722,204)
Less amount attributable to non-controlling interest	(22,810)	(15,601)
Change in net assets attributable to controlling interest	$ 8,922,887	$ (5,737,805)

See accompanying notes to consolidated financial statements.

LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.
AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	Controlling Interest	Non-controlling Interest	Total
Net asset balances			
June 30, 2008	$ 114,516,377	$ (31,202)	$ 114,485,175
Consolidated change in net assets	(5,737,805)	15,601	(5,722,204)
Contributions	-0-	100,000	100,000
Distributions	-0-	-0-	-0-
June 30, 2009	108,778,572	84,399	108,862,971
Consolidated change in net assets	8,922,887	22,810	8,945,697
Contributions	-0-	-0-	-0-
Distributions	-0-	-0-	-0-
June 30, 2010	$ 117,701,459	$ 107,209	$ 117,808,668

See accompanying notes to consolidated financial statements.

LITTLE COMPANY OF MARY HOSPITAL OF INDIANA, INC.
AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Operating activities		
Consolidated change in net assets	$ 8,945,697	$ (5,722,204)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Restricted contributions	(386,472)	(81,316)
Change in pension related changes other than net periodic pension cost	4,787,494	5,275,632
Depreciation and amortization	10,135,110	9,618,877
Bad debt	6,343,009	7,049,707
Net realized and unrealized (gains) losses on investments	(1,969,011)	2,808,667
Contributed property	(6,000,000)	-0-
Amortization of deferred financing costs	91,992	93,016
Other	8,898	48,362
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,374,244)	(2,561,316)
Other current assets	196,257	(789,815)
Accounts payable	(1,697,042)	(421,619)
Accrued expenses and other current liabilities	1,211,536	238,994
Estimated settlements due to third-party payors	(884,087)	810,055
Pension liability and other	(339,917)	457,656
Net cash flows from operating activities	17,069,220	16,824,696
Investing activities		
Additions to property and equipment, net	(4,439,475)	(14,297,395)
Change in investments in assets limited as to use	(462,529)	3,706,256
Proceeds from the sale of property and equipment	-0-	1,693,303
Net cash flows from investing activities	(4,902,004)	(8,897,836)
Financing activities		
Restricted contributions	386,472	81,316
Receipts from non-controlling interest in consolidated entity, net	-0-	79,000
Repayments of long-term debt	(1,391,313)	(1,336,312)
Net cash flows from financing activities	(1,004,841)	(1,175,996)
Net change in cash and cash equivalents	11,162,375	6,750,864
Cash and cash equivalents		
Beginning of year	19,889,060	13,138,196
End of year	$ 31,051,435	$ 19,889,060
Supplemental cash flows information		
Property and equipment included in accounts payable	$ 259,603	$ 142,539

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The mission of Little Company of Mary Hospital of Indiana, Inc. d/b/a Memorial Hospital and Health Care Center, Inc. (Corporation) is as follows:

> *We, the board, physicians, staff, volunteers and auxiliary of Memorial Hospital and Health Care Center will provide excellent health care services to the people of the communities we serve. We will pledge ourselves to care for each individual in a manner that reflects the physical, psychological and spiritual healing ministry of Jesus Christ. We will work together to create an atmosphere of mutual respect, dignity, compassion and joy. We will effectively and efficiently utilize our resources in providing health care. We will be guided by the needs of those we serve and as needs change, we will change. We will "be for others!"*

The Corporation is a subsidiary of and operates under the auspices of the American Province of The Little Company of Mary Sisters (American Province). The Little Company of Mary Sisters is a religious community of the Roman Catholic Church, which operates health care facilities in the United States and certain other countries. The Board of Directors of the Corporation is appointed by the members of the Provincial Council of the American Province. The Corporation operates a general primary acute care hospital located in Jasper, Indiana.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly controlled affiliates, Memorial Hospital Foundation, Inc. (Foundation), and Barrett Health Corporation of Southwestern Indiana, LLC (Barrett). Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Nonoperating gains and losses include investment income, realized gains and losses on investments, gains or losses on the sale or disposal of property and equipment, and gains and losses on the sale of joint ventures.

During 2009, the Corporation acquired a 60% interest in Memorial Hospital/Seton Health Corp. Sleep Center, LLC (Sleep Center). The remaining 40% is owned by Seton Health Corporation (Seton). The Sleep Center provides management services to support efforts of the Corporation to provide sleep services. The Sleep Center has been consolidated for financial statement presentation. Amounts attributable to Seton's ownership are recorded as non-controlling interest in the consolidated financial statements.

Significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the allowance for estimated uncollectible accounts and estimated third-party payor settlements, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

Charity Care and Community Benefit

Patients are provided care regardless of their ability to pay and charity services are provided in accordance with charity care policies of the Corporation. These policies define charity services as those services for which no payment is anticipated and are based on federal poverty income levels and certain other factors. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. Foregone charity charges at established rates approximated $5,464,297 and $4,531,259 in 2010 and 2009, respectively. In addition to providing charity care, other programs and services for the benefit of the general community are provided. The cost of providing these services is included in operating expenses.

Cash Equivalents

All highly liquid instruments with an original maturity of 90 days or less excluding investments limited as to use by board designation or pursuant to trust agreements, are considered to be cash equivalents. Cash equivalents consist primarily of short-term certificates of deposit. The Corporation maintains its cash in accounts, which at times may exceed federally insured limits.

The Corporation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable, Estimated Third-Party Payor Settlements and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payers (including insurers), and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews, or investigations. The effect of settling cost reports and other changes in estimates increased net patient service revenue by approximately $727,000 in 2010 and decreased net patient service revenue by approximately $484,000 in 2009.

The Corporation is primarily located in Jasper, Indiana. The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross receivables and revenue from patients and third-party payors as of June 30, 2010 and 2009 was as follows:

	Receivables		Revenue	
	2010	2009	2010	2009
Medicare	36%	33%	45%	47%
Medicaid	11%	9%	9%	7%
Blue Cross	9%	9%	16%	16%
Commercial	16%	21%	25%	25%
Self-pay	28%	28%	5%	5%
	100%	100%	100%	100%

Other Current Assets

Other current assets consist primarily of pharmaceutical and medical supply inventories and prepaid expenses.

Inventory

Inventory is valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) method. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Assets Limited as to Use and Investment Income

Nonparticipating certificates of deposit, demand deposits and similar negotiable instruments that are not reported as cash and cash equivalents are reported as investments at contract value, which approximates fair value. Marketable debt and equity securities are reported at fair value. Marketable debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency. Mutual funds are reported at fair value based on the fund's market price. Donated investments are reported at fair value at the date of receipt.

Dividends, interest income and realized gains (losses) on sales of investments are recorded as nonoperating investment gains (losses) while unrealized gains (losses) on investments are reported as other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Board designated investments limited as to use consist of short-term investments (principally money market mutual funds), US Government and government agency obligations, marketable debt securities, marketable equity securities, and mutual funds. Investments are generally reported at fair value.

Investments held by trustee have been established as required by terms of the various bond agreements. Such funds are to be used for payment of principal and interest, replacement or construction of property and equipment, and cash reserves. Funds held for obligations classified as current liabilities are reported as current assets.

Board designated investments limited as to use represent certain funds from operations, investments held by the Foundation and other sources designated by the Board of Directors of the Corporation to be used to fund future capital asset replacements, for the retirement of certain long-term debt, or for other purposes.

Property and Equipment and Depreciation

Property and equipment are stated at cost, or if donated, at fair value at the date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized. Provisions for depreciation of property and equipment are computed using the straight-line method based upon the estimated useful lives of the assets, which range from 2 to 40 years.

During 2010, the Foundation received a donation of property. The donated property was recorded at fair value based on an appraisal and is recorded as property and equipment in the consolidated balance sheets. There were no donor restrictions imposed on the property. The donated property is currently being used by the Corporation for various activities.

Current accounting standards related to the accounting for conditional asset retirement obligation clarify when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered these standards, specifically as they relate to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligations is unknown and cannot be estimated. As a result, as of June 30, 2010 and 2009, the Corporation cannot reasonably estimate a liability related to these potential asset retirement activities.

Deferred Financing Costs

Deferred financing costs included in other assets consist of the costs incurred in conjunction with the issuance of bonds. The Corporation's policy is to amortize deferred financing costs over the term of the bonds. Deferred financing costs, net of amortization, are included in other assets in the consolidated balance sheets.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors for capital projects or for a specific time or purpose.

When donor restrictions expire, temporary net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations. Resources arising from the results of operations or assets set aside by the Board of Directors are not considered to be temporarily restricted.

Compensated Absences

The Corporation's policy on compensated absences (which include vacation, holidays and a personal day) allows full time employees and regular part time employees to accrue days off, to a maximum of 240 hours. Compensated absences are accrued when incurred and reported as a liability on the consolidated balance sheet.

Advertising Costs

Advertising costs are expenses as incurred. Total advertising expense for 2010 and 2009 was $208,911 and $239,884, respectively.

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include pension related changes other than net periodic pension cost, unrealized gains and losses on other than trading securities, contributions of long-lived assets and certain other items.

Medical Malpractice

Medical malpractice coverage is provided through a program of self-insurance and commercial insurance, and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (Act). The Act limits the amount of individual claims to $1,250,000 of which $1,000,000 would be paid by the State of Indiana Patient Compensation Fund (Fund) and $250,000 by the Corporation, if self-insured, or by its commercial insurer. The Corporation maintains professional liability insurance coverage on a claims-made basis. Should the claims made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. Premiums are expensed in the period to which they relate.

On February 1, 2002, the Insurance Commissioner of the Commonwealth of Pennsylvania placed PHICO Insurance Company into liquidation. Prior to January 2002, PHICO served as the Hospital's malpractice insurance carrier. The PHICO policy was a claims-made policy. The new coverage obtained by the Hospital in January 2002 is also a claims-made policy, retroactive back to July 1976. For those claims filed prior to January 2002 that have not been fully mitigated, the Hospital has exposure up to the $250,000 per occurrence maximum per the Indiana Medical Malpractice Act.

Pension Plan

The Corporations defined benefit pension plan covers substantially all employees. The benefits are based on years of service and each employee's compensation during the years of employment. Contributions to the plan include amortization of past service costs plus interest thereon over approximately ten years and are currently funded.

Tax Status

The Corporation and Foundation are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Sleep Center and Barrett are organized as limited liability companies, whereby net taxable income is taxed directly to the members and not the Sleep Center and Barrett. Thus, the consolidated financial statements do not include any provision for Federal or State income taxes.

Subsequent Events

The Corporation has evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is October 7, 2010.

Reclassifications

Certain 2009 balances were reclassified to conform to the current year presentation. There is no effect on the consolidated change in net assets as a result of these reclassifications.

2. ACCOUNTING FOR NON-CONTROLLING INTEREST

In 2010, new accounting guidance relative to the presentation of non-controlling interests in financial statements became effective. The Corporation adopted this guidance and reclassified the non-controlling interest as a component of net assets in the consolidated balance sheets and consolidated statements of changes in net assets.

In addition, consolidated change in net assets is shown in two components, displaying the portions attributable to both the controlling interest and non-controlling interest, on the consolidated statements of revenues and expenses. The adoption of this pronouncement did not have an effect on consolidated change in net assets for 2009.

3. NET PATIENT SERVICE REVENUE

Certain agreements with third-party payors provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the patient's diagnosis. Medicare reimbursements are subject to audit by Medicare. Provision has been made for the estimated effect of review and audits by the Program.

Medicaid

Reimbursement for Medicaid services are paid at prospectively determined rates per discharge or per occasion of service.

Other

Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

The difference between established rates and payment under these agreements is reflected as contractual allowances. A reconciliation of the amount of services provided to patients at established rates to net patient service revenue for the years ended June 30, 2010 and 2009, is as follows:

	2010	2009
Inpatient services	$ 97,788,900	$ 100,954,410
Outpatient services	138,549,455	137,222,460
Physician services	18,972,422	17,818,780
Gross patient service revenue	255,310,777	255,995,650
Charity care	(5,464,297)	(4,531,259)
Contractual allowances	(109,886,285)	(112,671,311)
Deductions from revenue	(115,350,582)	(117,202,570)
Net patient service revenue	$ 139,960,195	$ 138,793,080

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Reimbursement from the Medicare and Medicaid programs is determined from annual cost reports, which are subject to audit by the programs. The Corporation's management believes that amounts recorded in the consolidated financial statements for estimated settlements will approximate the final settlements for open cost reports. The Corporation's cost reports for substantially all of its controlled subsidiaries have been audited by the government or its agents and settled through June 30, 2007.

4. ASSETS LIMITED AS TO USE

The composition of assets limited as to use at June 30 is set forth below:

	2010	2009
Board designated funds		
Certificates of deposit and cash equivalents	$ 3,235,121	$ 12,556,245
Marketable equity securities	2,322,639	1,823,171
Mutual funds	18,298,125	12,896,236
U.S. government obligations	10,976,070	5,575,198
Corporate obligations	836,442	146,472
	35,668,397	32,997,322
Trustee held funds		
Cash equivalents	8,010,822	6,842,382
U.S. government obligations	-0-	1,943,019
Less current portion	1,470,000	1,400,000
	6,540,822	7,385,401
Investments held by Foundation		
Cash equivalents	1,106,525	971,501
Mutual funds	1,390,481	1,226,218
Corporate obligations	1,273,342	791,017
Other	420,673	667,241
	4,191,021	3,655,977
	$ 46,400,240	$ 44,038,700

The composition of investment return recognized in the consolidated statements of operations and changes in net assets follows:

	2010	2009
Interest and dividend income	$ 1,034,986	$ 1,514,848
Realized gain on sale of investments	925,310	242,727
Realized loss on sale of investments	(42,306)	(675,960)
Unrealized gain (loss) on investments	1,086,007	(2,375,434)
Investment income (loss), net	$ 3,003,997	$ (1,293,819)

The Corporation’s investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at lease reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

The following schedule summarizes the fair value of securities included in investments that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of June 30, 2010. The schedule further segregates the securities that have been in a gross unrealized loss position as of June 30, 2010, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary.

The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future. These individual investments have projected recoveries in value in near term. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of June 30, 2010 and 2009.

	June 30, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ -0-	$ -0-	$ 1,606,457	$ 311,556	$ 1,606,457	$ 311,556
Mutual funds	1,373,537	76,463	9,043,001	2,269,671	10,416,538	2,346,134
U.S. government obligations	-0-	-0-	99,601	399	99,601	399
Corporate obligations	-0-	-0-	284,759	5,080	284,759	5,080
Total temporarily impaired securities	$ 1,373,537	$ 76,463	$ 11,033,818	$ 2,586,706	$ 12,407,355	$ 2,663,169

	June 30, 2009					
	Less Than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	$ 721,659	$ 245,263	$ 611,153	$ 188,995	$ 1,332,812	$ 434,258
Mutual funds	3,497,984	1,014,828	4,208,493	2,065,045	$ 7,706,477	$ 3,079,873
U.S. government obligations	279,171	4,630	-0-	-0-	$ 279,171	$ 4,630
Corporate obligations	1,663,232	27,658	-0-	-0-	$ 1,663,232	$ 27,658
Total temporarily impaired securities	$ 6,162,046	$ 1,292,379	$ 4,819,646	$ 2,254,040	$ 10,981,692	$ 3,546,419

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

- Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 are as follows:

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets limited as to use				
Marketable equity securities	$ 2,322,639	$ 2,322,639	$ -0-	$ -0-
Mutual funds	19,688,606	19,688,606	-0-	-0-
U.S. government obligations	10,976,070	-0-	10,976,070	-0-
Corporate obligations	2,109,784	2,109,784	-0-	-0-
Other	420,673	-0-	420,673	-0-
		$ 24,121,029	$ 11,396,743	$ -0-
Certificates of deposit and cash equivalents	12,352,468			
Total assets limited as to use	$ 47,870,240			

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 are as follows:

	June 30, 2009			
	Total	Level 1	Level 2	Level 3
Assets limited as to use				
Marketable equity securities	$ 1,823,171	$ 1,823,171	$ -0-	$ -0-
Mutual funds	14,122,454	14,122,454	-0-	-0-
U.S. government obligations	7,518,217	-0-	7,518,217	-0-
Corporate obligations	937,489	937,489	-0-	-0-
Other	667,241	-0-	667,241	-0-
		$ 16,883,114	$ 8,185,458	$ -0-
Certificates of deposit and cash equivalents	20,370,128			
Total assets limited as to use	$ 45,438,700			

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value.

Long-term debt: Fair value of the Corporation's variable rate revenue bonds is based on current traded value. Fair value of the Corporation's fixed rate revenue bonds is estimated by using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements. Total fair value of the Corporation's long-term debt approximated $57,000,000 and $64,000,000 at June 30, 2010 and 2009, respectively.

6. LONG-TERM DEBT

Long-term debt consists principally of tax-exempt revenue bonds as follows:

	2010	2009
Hospital Authority of the City of Jasper Variable Rate Demand Revenue Bonds, Series 2008	$ 14,000,000	$ 14,510,000
Hospital Authority of the City of Jasper Hospital Facilities Refunding Revenue Bonds, Series 2002:		
Term bonds, payable through mandatory sinking fund deposits, commencing November 2008 through November 2012 in amounts ranging from $855,000 to $1,015,000. Interest payable semiannually at 4.400%	2,915,000	3,805,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2013 through November 2017 in amounts ranging from $1,060,000 to $1,310,000. Interest payable semiannually at 5.500%	5,910,000	5,910,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2018 through November 2022 in amounts ranging from $1,385,000 to $1,720,000. Interest payable semiannually at 5.625%	7,730,000	7,730,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2023 through November 2032 in amounts ranging from $1,820,000 to $2,940,000. Interest payable semiannually at 5.500%	23,405,000	23,405,000
	53,960,000	55,360,000
Less unamortized bond discount	194,022	202,709
	53,765,978	55,157,291
Less current portion	1,470,000	1,400,000
	$ 52,295,978	$ 53,757,291

Maturities of long-term debt for the next five years and thereafter are as follows:

Year Ending June 30,		
2011	$	1,470,000
2012		1,520,000
2013		1,595,000
2014		1,665,000
2015		1,745,000
Thereafter		45,770,978
	$	53,765,978

Interest paid totaled $2,356,629 and $2,646,949 in 2010 and 2009, respectively.

In May 2008, the Hospital Authority of the City of Jasper issued $15 million of Variable Rate Demand Revenue Bonds, Series 2008 (the Series 2008 Bonds), dated May 1, 2008, on behalf of the Corporation. The proceeds of the Series 2008 Bonds were used for the purpose of financing a portion of the costs of construction of and equipping of cardiology labs, patient rooms, food and nutrition services and other ancillary spaces, and to pay issuance costs of the Series 2008 Bonds. A letter of credit in the amount of approximately $14,500,000 secures the Series 2008 Bonds. The letter of credit expires on August 31, 2013. There was no balance outstanding as of June 30, 2010 and 2009. The Series 2008 Bonds and letter of credit are collateralized by a security interest in all accounts and general intangibles of the Corporation and all proceeds there from, with the exception of donor-restricted contributions.

In the event of a liquidity drawing, the Corporation would generally be required to reimburse the bank on the termination date of the letter of credit. Reimbursements of other than liquidity drawings are due on the date such drawings are honored.

The 2008 Bonds have various annual maturity requirements ranging from $490,000 in 2009 to $1,080,000 in 2028. The 2008 Bonds bear interest at adjustable rates (3.500% and 1.590% at June 30, 2010 and 2009, respectively) that are set on a 7-day basis and are based upon current market conditions. While the 2008 Bonds are at variable rates, redemption can occur prior to maturity at the option of the Corporation, at a redemption price of 100% of the principal amount, plus accrued interest. The 2008 Bonds can be converted to a fixed rate at the option of the Corporation with certain restrictions.

On November 1, 2002, the Corporation borrowed $45,560,000 of Series 2002 Bonds from the Hospital Authority of the City of Jasper. The 2002 Bonds were used to decease the 2000, 1997, 1992 and 1986 issuances, and to fund the construction of the new patient tower.

The 2002 Bonds have various annual maturity and sinking fund requirements ranging from $715,000 in 2003 to $2,940,000 in 2032. The 2002 Bonds bear interest at certain fixed rates depending on the term. The interest rates vary from 3.400% for the series that matured in 2007 to a maximum of 5.625% for the 2018 through 2022 series. The interest rate for 2010 was 4.400%. Outstanding Series 2002 Bonds maturing on or after November 1, 2017 are also subject to redemption and payment prior to maturity at the option of the Corporation, on or after November 1, 2012, in whole on any date or in part on any interest payment date, at a redemption price equal to 100% of the principal amount, plus accrued interest. The Series 2002 Bonds are also subject to extraordinary optional redemption prior to maturity, upon the direction of the Corporation, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest, without premium, if certain conditions are met.

The Series 2002 Bonds are collateralized by a security interest in all accounts and general intangibles of the Corporation and all proceeds there from, with the exception of donor-restricted contributions. The Corporation covenants in the financing agreements not to create any lien on its property other than certain permitted encumbrances. In addition, the agreements require maintenance of certain debt service income ratios, limit additional borrowings, and require compliance with various other restrictive covenants. The payment of principal and interest on the Series 2002 Bonds is guaranteed pursuant to municipal bond insurance policies.

The Corporation has agreed to certain covenants, which, among other things, limit additional indebtedness and guarantees and require the Corporation to maintain specific financial ratios. Management believes they are in compliance with the covenants.

Funds held by the trustee for the tax-exempt bonds at June 30 are as follows:

	2010	2009
Interest funds	$ 363,519	$ 368,999
Bond sinking fund	624,000	593,498
Debt service reserve funds	3,180,024	3,178,949
Project fund	3,843,279	4,643,955
	8,010,822	8,785,401
Less current portion	1,470,000	1,400,000
	$ 6,540,822	$ 7,385,401

7. RETIREMENT PLANS

The Corporation participates in a non-contributory defined benefit pension plan (Plan) which covers the Sisters of the American Province, Little Company of Mary Hospital and Health Care Centers (Illinois), and substantially all employees of the Corporation. Benefits are based upon years of service with the Corporation and annual compensation levels. Contributions to the Plan include amortization of past service costs over twenty-five years and are funded currently at an amount not less than the minimum required by ERISA.

The Corporation adopted the provisions of accounting standards relating to defined benefit pension and other postretirement plans. These standards require employers to recognize in their balance sheets the overfunded or underfunded status of defined benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation based upon a measurement date of June 30, 2010 and 2009, respectively.

The following table sets forth the Plan's funded status and amounts allocated to the Corporation recognized in the financial statements at June 30, 2010 and 2009:

	2010	2009
Change in benefit obligation		
Benefit obligation at beginning of year	$ 31,895,951	$ 29,983,389
Employee contributions	571,514	606,861
Service cost	953,690	915,640
Interest cost	2,184,546	1,979,530
Actuarial losses (gains)	5,780,722	(729,982)
Benefit payments	(1,152,921)	(859,487)
Projected benefit obligation at end of year	40,233,502	31,895,951
Changes in plan assets		
Fair value of plan assets at beginning of year	22,521,862	26,369,612
Actual return on plan assets	2,928,405	(4,095,124)
Hospital contributions	1,500,000	500,000
Employee contributions	571,514	606,861
Benefit payments	(1,152,921)	(859,487)
Fair value of plan assets at end of year	26,368,860	22,521,862
Funded status		
Funded status of the plan, end of year	$ (13,864,642)	$ (9,374,089)

In September 2010, the Corporation contributed $1.15 million to the Plan. The Corporation expects to contribute an additional $1.15 million to the Plan in 2011.

Other pension disclosures for 2010 and 2009 include:

	2010	2009
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Transition obligation asset (obligation)	$ -0-	$ -0-
Prior service cost	(7,104)	(21,046)
Actuarial loss	15,177,638	10,404,086
Other changes in unrestricted net assets	$ 15,170,534	$ 10,383,040
Components of net periodic benefit cost		
Service cost	$ 953,690	$ 915,640
Interest cost	2,184,546	1,979,530
Expected return on plan assets	(2,034,631)	(1,975,129)
Net amortization and deferral	99,454	64,639
Net periodic benefit cost	$ 1,203,059	$ 984,680
Other changes in unrestricted net assets		
Prior service cost arising during year	$ (7,104)	$ (21,046)
Net loss arising during year	4,695,144	5,232,039
Amortization of prior service cost	(13,942)	(13,942)
Amortization of gain	113,396	78,581
Total other changes in unrestricted net assets	$ 4,787,494	$ 5,275,632
Amounts that will be amortized from other changes in unrestricted net assets over the next fiscal year		
Amortization of transition (obligation) asset	$ -0-	$ -0-
Amortization of prior service cost	$ (19,344)	$ (13,942)
Actuarial loss	$ 658,943	$ 47,019
Weighted-average actuarial assumptions to determine net periodic pension cost of June 30		
Discount rate	7.00%	6.75%
Expected long-term rate of return on assets	7.25%	7.25%
Rate of compensation increase	4.00%	4.00%

	2010	2009
Weighted-average actuarial assumptions to determine benefit obligation cost of June 30		
Discount rate	5.75%	7.00%
Expected long-term rate of return on assets	7.25%	7.25%
Rate of compensation increase	3.50%	4.00%
Additional year end information		
Projected benefit obligation	$ 40,233,502	$ 31,895,951
Accumulated benefit obligation	$ 36,956,778	$ 27,948,721
Fair value of plan assets	$ 26,368,860	$ 22,521,862

The following is a schedule by year of expected benefit payments:

Year Ending June 30,	
2011	$ 1,611,043
2012	1,419,839
2013	1,829,209
2014	1,813,995
2015	1,979,881
2016-2020	13,967,246
	$ 22,621,213

Determination of net periodic pension cost for the years ended June 30, 2010 and 2009 is based on assumptions and census data as of January 1, 2010 and 2009, respectively.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The plan allocation includes growth assets (60%) and fixed income (40%). In addition, active management strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

As permitted under current accounting standards, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

The Plan's weighted-average, asset allocations as of June 30, 2010 and 2009, by asset category, are as follows:

	2010	2009
Equity funds	57%	43%
Fixed income funds	43%	57%
	100%	100%

The Plan's assets are invested in a portfolio that provides for asset allocation strategies across equity markets, both domestic and international, and debt markets. The portfolio's objective is to maximize the Plan's surplus, minimize annual contributions, and fund the annual interest credit. Management and its investment advisor have prepared asset allocation recommendations based on detailed analyses of the Plan's current and expected future financial needs. Based upon these analyses and objectives of the Plan, the following is the target asset allocation:

Equity securities	60%
Debt securities	40%
	100%

Following is an analysis for the fair value of major classes of Plan assets as of June 30, 2010:

	June 30, 2010			
	Total	Level 1	Level 2	Level 3
Asset category				
Domestic equity funds	$ 12,820,880	$ 3,784,206	$ 9,036,674	$ -0-
International equity funds	2,153,078	2,153,078	-0-	-0-
Domestic fixed income funds	10,310,525	-0-	10,310,525	-0-
International fixed income funds	1,084,343	1,084,343	-0-	-0-
		$ 7,021,627	$ 19,347,199	$ -0-
Cash equivalents	34			
Total plan assets	$ 26,368,860			

See Note 5 for description of fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value.

The Corporation also maintains 401(k), 403(b) and 457(b) plans for eligible employees. The 403(b) and 457(b) plans do not provide for employer matching contributions from the Corporation. The amount of employer matching contributions for the 401(k) plan is determined each year by the Corporation. The amount of employer matching contributions for the 401(k) plan for the years ended June 30, 2010 and 2009 was $326,517 and $300,170 , respectively.

8. FUNCTIONAL EXPENSE

The Corporation provides general health care services to patients in the communities in which it operates. Expenses related to providing these services are as follows:

	2010	2009
Health care services	$ 126,373,532	$ 128,888,476
General and administration	13,249,561	13,027,180
	$ 139,623,093	$ 141,915,656

9. SELF-INSURED HEALTH AND DENTAL PLAN

The Corporation provides self-insured health and dental benefits to its employees. A third-party claims administrator has been retained to process all benefit claims. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. A stop/loss policy through commercial insurance covers individual claims in excess of $150,000 per individual per policy year with an aggregate limit of $8,640,065 Self funded health and dental insurance and related expenses were $7,311,570 and $8,125,913 for 2010 and 2009, respectively.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Corporation has several non-cancellable operating leases expiring at various dates through 2013. Total lease expense for 2010 and 2009 was $2,522,004 and $2,453,102, respectively. The future minimum payments due under these leases are as follows:

Year Ending June 30,		
2011	$	1,694,256
2012		1,419,393
2013		441,989
2014		231,005
2015		110,745
	$	3,897,388

Litigation

The Corporation is involved in litigations and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation’s future financial position or results from operations.