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REHABILITATION HOSPITAL OF INDIANA, INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

REHABILITATION HOSPITAL OF INDIANA, INC.
Indianapolis, Indiana

FINANCIAL STATEMENTS
December 31, 2010 and 2009

CONTENTS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Rehabilitation Hospital of Indiana, Inc.
Indianapolis, Indiana

We have audited the accompanying consolidated balance sheets of Rehabilitation Hospital of Indiana, Inc. (the Hospital), as of December 31, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 financial position of Rehabilitation Hospital of Indiana, Inc. as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
March 23, 2011

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,636,972	$ 1,968,156
Patient accounts receivables, less allowance for doubtful accounts of $2,138,243 and $1,265,566 for 2010 and 2009, respectively	7,883,510	6,313,590
Inventories	199,144	222,674
Prepaid expenses and other current assets	337,454	324,122
Investments	3,180,732	1,221,809
Total current assets	14,237,812	10,050,351
Property and equipment		
Land	1,904,164	1,904,164
Buildings and improvements	14,003,959	14,006,401
Equipment	9,064,400	10,025,237
Construction in progress	73,766	35,830
	25,046,289	25,971,632
Less accumulated depreciation	15,819,859	15,835,736
Property and equipment, net	9,226,430	10,135,896
Other assets		
Land held for expansion	602,474	602,474
Unamortized debt issuance costs	60,957	80,730
Total other assets	663,431	683,204
Total assets	$ 24,127,673	$ 20,869,451
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other accrued liabilities	$ 2,489,133	$ 1,930,305
Salaries, wages, and related liabilities	1,657,125	1,669,240
Accrued interest	76,919	75,973
Current portion of capital lease	196,266	209,726
Current portion of long-term debt	900,000	800,000
Third-party settlements	449,062	475,880
Current portion of interest rate swap	354,469	338,335
Total current liabilities	6,122,974	5,499,459
Long-term debt, less current portion	14,900,000	12,800,000
Interest rate swap agreement	828,452	639,234
Long-term portion of capital lease	42,303	207,488
	15,770,755	13,646,722
Total liabilities	21,893,729	19,146,181
Net assets		
Unrestricted	1,901,373	1,592,766
Temporarily restricted	332,571	130,504
Total net assets	2,233,944	1,723,270
Total liabilities and net assets	$ 24,127,673	$ 20,869,451

See accompanying notes to consolidated financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2010 and 2009

	2010	2009
Unrestricted revenues		
Net patient service revenue	$ 37,022,908	$ 34,687,970
Other revenue	294,964	287,042
Net assets released from restrictions	779,655	581,811
Total unrestricted revenues	38,097,527	35,556,823
Expenses		
Salaries and wages	16,954,170	16,881,020
Employee benefits	6,092,265	5,910,939
Contract and purchased services	6,591,206	6,040,925
Supplies	2,794,328	2,710,015
Utilities and other	2,330,636	2,287,732
Depreciation and amortization	964,261	926,148
Interest	922,406	186,476
Provision for bad debts	1,144,843	758,403
Total expenses	37,794,115	35,701,658
Income (loss) from operations	303,412	(144,835)
Nonoperating (expenses) revenues		
Interest income	5,195	9,503
Total nonoperating (expense) revenue	5,195	9,503
Change in unrestricted net assets	308,607	(135,332)
Temporarily restricted net assets		
Contributions	980,260	592,888
Net assets released from restrictions	(779,655)	(581,811)
Investment earnings	1,462	9,372
Change in temporarily restricted net assets	202,067	20,449
Change in net assets	510,674	(114,883)
Net assets, beginning of year	1,723,270	1,838,153
Net assets, end of year	$ 2,233,944	$ 1,723,270

See accompanying notes to consolidated financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2010 and 2009

	2010	2009
Operating activities		
Change in net assets	$ 510,674	$ (114,883)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	964,261	926,148
Unrealized (gain)/loss in investments	(5,627)	-
Loss on disposal of assets	4,382	14,438
Change in interest rate swap agreement	205,352	(430,529)
Provision for bad debts	1,144,843	758,403
Change in operating assets and liabilities		
Patient accounts receivable, net	(2,714,763)	(1,330,816)
Inventories and other current assets	(62,912)	242
Accounts payable and other accrued liabilities	631,938	727,639
Salaries, wages, and related liabilities	(12,115)	25,239
Accrued interest	946	(2,478)
Estimated third-party settlements	(26,818)	728,444
Net cash from operating activities	640,161	1,301,847
Investing activities		
Purchases of property and equipment	(2,107)	(374,057)
Purchase of investments	(3,001,811)	(205,082)
Proceeds from sale of investments	1,048,515	411,452
Proceeds from sale of land	-	18,300
Net cash used in investing activities	(1,955,403)	(149,387)
Financing activities		
Borrowings from related party	3,000,000	-
Repayments on long-term debt	(800,000)	(800,000)
Principal payments on capital lease obligations	(215,942)	(182,339)
Net cash from financing activities	1,984,058	(982,339)
Change in cash and cash equivalents	668,816	170,121
Cash and cash equivalents, beginning of year	1,968,156	1,798,035
Cash and cash equivalents, end of year	$ 2,636,972	$ 1,968,156
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 716,108	$ 619,483
Purchase of equipment through capital lease	37,297	5,465

See accompanying notes to consolidated financial statements.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Rehabilitation Hospital of Indiana, Inc. (the Hospital) operates a 90 bed, freestanding specialty medical rehabilitation hospital located in Indianapolis, Indiana. The Hospital provides short-term, comprehensive rehabilitation services to patients, and its programs are designed to restore physical, cognitive and psychosocial functions following an incident of acute illness or trauma. Inpatient and outpatient therapy and support services provided by the Hospital include physical and occupational therapy, speech therapy, recreational therapy, activities of daily living, rehabilitation nursing, psychology, social services and cognitive retraining, and sub-acute services.

Not-for-profit corporations St. Vincent Health, Inc. and Clarian Health Partners, Inc. are the corporate members of the Hospital. In accordance with the terms of the joint venture agreement, cash distributions from the Hospital are shared by the joint venture partners, subject to certain cash flow restrictions. Additionally, the agreement contains provisions for working capital loans and support of the Hospital upon mutual agreement by the corporate members.

Included within the operations of the Hospital is Rehabilitation Hospital Foundation, Inc. (the Foundation) which was established to promote and support the mission of the Hospital. The Hospital is the sole corporate member of the Foundation. All significant intercompany accounts have been eliminated in consolidation.

Basis of Consolidation: The accompanying consolidated financial statements include the accounts of Rehabilitation Hospital of Indiana, Inc. and Rehabilitation Hospital Foundation, Inc. (collectively referred to as the "Hospital"). All inter-hospital accounts and transactions between affiliated organizations have been eliminated in consolidation.

Adoption of New Accounting Standards: The accounting for fair value measurements and disclosures (ASC 820) has been updated to include increased disclosures regarding transfers in to and out of level one and level two instruments. The update also requires further disclosures regarding the types of assets invested in and the strategies of instruments held in level three. This new standard has been adopted by the hospital and disclosures have been updated where applicable. This standard had no impact on the change in net assets of the hospital.

The Emerging issues task force has recommended changes regarding charity care and community benefit disclosures. These changes correspond to recommendations by healthcare industry groups. The changes include disclosing the estimated cost of providing charity care and community benefit services. It does not preclude the hospital from disclosing the charges foregone. This new standard is not expected to have an impact on the hospital's change in net assets, but it will increase the current disclosures.

Charity Care and Community Benefit: The Hospital provides medical care to all patients regardless of their ability to pay. A patient is classified as charity care in accordance with certain established policies and is provided care without charges or at amounts less than established rates. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided including the amount of charges foregone for services and supplies furnished.

The Hospital provides certain services to benefit the community. These services (for which a nominal or no amount is charged) include education programs, access to rehabilitative related support group classes, transportation to patients in specially equipped vans, and assistance to patients and their families for the submission of forms for insurance, financial counseling, and application to the Medicare and Medicaid programs for health service coverage. The costs of these services are included in operating expenses.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

During 2009, the Hospital began obtaining more complete household income information prior to admission from patients who came as self-pay or Medicaid pending. This new process allowed the Hospital to identify in advance patients that qualified for financial assistance and improved the identification of charity cases rather than bad debt. For 2010 and 2009 charity care amounted to $1,091,713 and $1,428,724, respectively.

Use of Estimates: The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Securities: Investments in securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income from operations unless the income or loss is restricted by donor or law.

Cash and cash equivalents held by brokerage firms are included in investments.

Cash and Cash Equivalents: For the purpose of the statements of cash flows, cash includes cash and cash equivalents with original maturities of 90 days or less.

Patient Accounts Receivable, Estimated Third-Party Settlements, and Net Patient Service Revenue: Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered.

Estimated retroactive adjustments as provided by reimbursement agreements with certain third-party payors are included with net patient service revenue and estimated third-party payor receivables or payables. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The allowance for doubtful accounts represents the expected losses to be realized upon ultimate collection of patient accounts receivable, which are not subject to third-party payor agreements. Allowance estimates are based on historical experience and other relevant factors. Accounts determined to be uncollectible are charged to operations in the year in which they are determined to be uncollectible. The Hospital can charge interest on past due accounts meeting certain criteria. There was no interest charged for the years ended December 31, 2010 and 2009.

Inventories: Inventories are stated at the lower of cost or market, with cost determined by the first-in, first-out (FIFO) method.

Property and Equipment and Depreciation: Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided by use of the straight-line method over the estimated useful lives of the assets. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

Long-lived assets, such as buildings and improvements, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated statement of financial position as well.

Debt Issuance Costs: Costs incurred in connection with the issuance of debt are amortized using the bonds outstanding method over the term of the related debt. Accumulated amortization on the debt issuance costs is $328,963 and $309,190, as of December 31, 2010 and 2009, respectively.

Derivative and Hedging: The Hospital entered into an interest swap agreement with a financial institution to fix the rate on the bonds that are discussed more fully in Note 7. The Hospital accounts for this arrangement under ASC 815-10 as a cash flow hedge, which is not deemed effective. Accordingly, the value of the derivative at December 31, 2010 and 2009 has been reflected at fair value on the balance sheets with the offset being reflected in non-operating revenues.

Medical Malpractice: The Hospital maintains medical malpractice insurance coverage on a claims-made basis. The Indiana Medical Malpractice Act provides for a maximum recovery of $750,000 per occurrence for professional liability, $250,000 of which would be paid through malpractice insurance coverage which the Hospital obtains through Clarian Health Risk Retention Group and the balance would be paid by the State of Indiana Patient Compensation Fund. The Hospital has estimated an incurred but not reported liability for $52,000 and $59,000 December 31, 2010 and 2009, respectively, which is included in accounts payable and other accrued liabilities.

Gain (Loss) from Operations: The consolidated statements of operations includes income (loss) from operations as the performance indicator. Changes in net assets that are excluded from income (loss) from operations, consistent with industry practice, include contributions, investment income and gain (loss) associated with the interest rate swap.

Description of Net Assets: Net assets are classified into categories based upon the presence or absence of donor restrictions. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. These funds are primarily restricted to chaplaincy, employee loans, patient assistance and sports programs. All other assets are considered unrestricted.

Income Taxes: The Hospital is a not-for-profit corporation pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to Section 501(a). Accordingly, no provision for income taxes is required for the Hospital in the consolidated financial statements.

Advertising Costs: The Hospital expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2010 and 2009 were $56,595 and $77,884, respectively.

Fair Value of Financial Instruments: The Hospital's carrying amount for its financial instruments, which include cash, accounts receivable, investments, accounts payable, liabilities associated with the interest rate swap, and long-term debt at December 31, 2010 and 2009 are carried at their estimated fair values. The estimated fair value amounts have been determined by the Hospital using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data and developing these estimates.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertain Tax Positions: The Hospital adopted guidance issued by the FASB with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Hospital is no longer subject to examination by U.S. federal taxing authorities for years before 2006 and for all state income taxes through 2006. The Hospital does not expect the total amount of unrecognized tax positions to significantly change in the next 12 months. The Hospital would recognize interest and/or penalties related to income tax matters in income tax expense. The Hospital has no amounts accrued for interest or penalties as of December 31, 2010 and 2009.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2010 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2010. Management has performed their analysis through March 23, 2011, the date the financial statements were issued.

NOTE 2 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. Contractual arrangements with the Medicare program provide for inpatient and certain outpatient services to be paid based on the Rehabilitation Inpatient Prospective Payment System. Reimbursement for Medicaid services is paid on a per diem basis and per occasion of service for inpatient and outpatient services, respectively. For cost reimbursed programs, the Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. Estimates have been made for retroactive adjustments for open cost reports through December 31, 2010.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the statements of operations and changes in net assets follows:

	2010	2009
Routine services	$ 30,019,663	$ 26,745,698
Ancillary services		
Inpatient	32,755,534	27,481,765
Outpatient	11,743,271	10,057,006
Physician services	1,750,853	1,663,724
	76,269,321	65,948,193
Less contractual allowances and charity care charges foregone	(39,246,413)	31,260,223
Net patient service revenue	$ 37,022,908	$ 34,687,970

NOTE 2 - NET PATIENT SERVICE REVENUE (Continued)

Certain payments from third-party payors, particularly the state Medicaid program, are subject to pre-certification for medical necessity and use varying and complex methodologies in determining payment and other factors. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations 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 interpretation as well as significant regulatory action including fines and penalties from the Medicare and Medicaid programs.

NOTE 3 - CONCENTRATIONS

A major amount of the Hospital's receivables and revenue are due from Medicare, Blue Cross/Blue Shield, and others, the loss of any one of which may have an adverse effect on the Hospital.

	2010		2009	
	Accounts Receivable	Revenue	Accounts Receivable	Revenue
Medicare	26%	46%	35%	49%
Medicaid	25%	14%	19%	13%
Managed Care/ Commercial/Other	36%	23%	30%	20%
Blue Cross/Blue Shield	13%	17%	16%	18%

NOTE 4 - FUNCTIONAL EXPENSES

The Hospital provides rehabilitative health care services to patients in central Indiana. Functional expenses categorized by their natural classification for the years ended December 31 are as follows:

	2010	2009
Rehabilitative services	$ 34,302,915	$ 32,828,526
General and administrative	3,231,931	2,508,411
Fundraising	259,269	364,721
	$ 37,794,115	$ 36,055,541

NOTE 5 - INVESTMENTS

The following are the major types of investments held by the Hospital at December 31:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Treasury bills	$ 3,180,372	$ 3,180,372	$ -	$ -
Money market accounts	-	-	1,221,809	1,221,809

Investment earnings are composed of the following for the years ended December 31:

	2010	2009
Interest and investment income	$ 6,657	$ 18,875

NOTE 6 - LINE OF CREDIT

At December 31, 2010, the Hospital has an available line of credit of $1,000,000. There were no amounts borrowed on the line of credit as of December 31, 2010 and 2009, respectively. Interest is payable at the LIBOR rate plus 0.85%. This line is secured by guarantees of corporate member Hospitals. The line expires in June 2011. The agreement also contains various loan covenants. At December 31, 2010, the Hospital was in compliance with all covenants.

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following:

	2010	2009
Indiana Health Facility Financing Authority Adjustable Convertible Extendible Securities Hospital Revenue Bonds, Series 1990 Term Bonds, payable through November 2020, subject to mandatory redemption. Interest payable monthly at variable rates (.32% and .21% at December 31, 2010 and 2009, respectively).	$ 12,800,000	$ 13,600,000
Clarian Health Partners, Inc. Subordinated promissory note. Lump sum payment due July 2017. Interest is payable quarterly at variable rates (.11% at December 31, 2010)	1,500,000	
St. Vincents Hospital Subordinated promissory note. Lump sum payment due July 2017. Interest is payable quarterly at variable rates (.11% at December 31, 2010)	1,500,000	-
Less current portion of long-term debt	900,000	800,000
	$ 14,900,000	$ 12,800,000

NOTE 7 - LONG-TERM DEBT (Continued)

Scheduled annual maturities of long-term debt are as follows:

2011	$ 900,000
2012	1,000,000
2013	1,000,000
2014	1,100,000
2015	1,200,000
Thereafter	10,600,000
	$ 15,800,000

The interest rate on the Series 1990 Bonds is determined on a weekly basis, payable on the first business day of each calendar month. As provided in the various bond agreements, the interest rate determination is subject to conversion to other interest modes, which determine the frequency, dates, and calculation of interest payments. The Hospital and Rate-Setting Agent can change to another interest mode by giving notice. In addition, bondholders of the Series 1990 Bonds have the option to present the bonds for purchase to the Remarketing Agent at various times during the year. An agreement with a commercial bank has been entered into to provide liquidity support up to the aggregate principal amount plus accrued interest should any bonds, presented by bondholders for purchase, not be remarketed.

In addition, the agreement provides an irrevocable letter of credit as security for the payment of principal and interest when due on the Series 1990 Bonds. The Agreement's expiration date is January 31, 2012. The Hospital's obligation to repay amounts drawn using the letter of credit has been guaranteed severally, but not jointly, by related parties of the corporate members. Except as permitted by the Master Trust Indenture, the Hospital may not grant a mortgage or make a specific pledge of its revenue. In addition, the various agreements contain certain restrictive covenants including minimum debt service coverage ratios, days cash on hand and limitations on additional borrowings. The Hospital was in compliance with their debt covenants as of December 31, 2010. For the year ended December 31, 2009 the Hospital was not in compliance with their debt covenants and received a waiver for their debt service coverage ratio covenant and days cash on hand covenant dated June 15, 2010.

In June, 2010 the Hospital received $3,000,000 ($1,500,000 from each corporate member) and signed subordinated promissory notes to pay back these borrowed amounts on the maturity date of July 1, 2017. The notes bear interest at the 28 day Treasury bill rate (.11% at December 31, 2010). Interest only payments are due beginning July 1, 2010 and continue quarterly until the funds are re-paid in full. The subordinated promissory notes include certain payment provisions that restrict the payment of interest on these notes until all amounts due for interest and principal sinking fund requirements are paid first related to the Second Amended Reimbursement Agreement related to the Indiana Hospital Authority Series 1990 Bonds.

<u>Interest Rate Swap:</u> The Hospital entered into an interest rate swap arrangement to fix the interest rate to better estimate future cash flows and reduce interest rate risk in January of 2006 with a notional amount of $11,900,000 and requiring the Hospital to pay interest at a fixed rate of 3.98%to replace the variable rate which was at .32% at December 31, 2010, and receive payments from the financial institution based on the Securities Industry and Financial Markets Association municipal bond market index until the arrangement expires in November, 2020. The spread paid by the Hospital is based upon the achievement of certain financial ratios. The fair value of this agreement amounted to a liability of $1,182,921 and $977,569 at December 31, 2010 and 2009, respectively. The loss of $205,352 for 2010 and the gain of $430,529 for 2009 related to this arrangement is included in interest expense.

NOTE 7 - LONG-TERM DEBT (Continued)

Capital Lease Obligations: The Hospital has entered into various capital lease agreements for equipment. Monthly lease payments are $22,782, including interest. The lease obligations end at various times through June 2013.

The following is a summary of property held under capital lease:

	2010	2009
Equipment	$ 816,734	$ 779,437
Accumulated depreciation	(262,652)	(170,459)
	$ 554,082	$ 608,978

Future minimum payments on the capital leases are as follows:

2011	$ 205,740
2012	32,032
2013	12,681
Amount representing interest	(11,884)
Present value of future minimum lease payments (current portion of $196,266)	$ 238,569

NOTE 8 - FAIR VALUE

ASC 820-10 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Hospital's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Hospital determines the fair values of its investments and derivative contracts based on the fair value hierarchy established in ASC 820-10, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the Hospital's own assumptions based on market data and on assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The Standard describes three levels within its hierarchy that may be used to measure fair value:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs: Significant other observable inputs other than Level 1 quoted prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Inputs: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would rise in pricing an asset or liability.

NOTE 8 - FAIR VALUE (Continued)

The fair value of the investments are determined based upon quoted and readily available market prices and are subject to fluctuations in market conditions. As such, fair values can be verified utilizing quoted market prices and do not involve significant management judgments (Level 1 inputs).

The derivative instruments consist of the interest rate swap. The fair value of the derivatives are determined based on the relative values of the fixed and floating rate portions of the interest rate contract. The valuation model utilized involves current interest rates, projected yield curves and volatility factors to determine the fair value of the instruments as of the date of measurement. As such, significant fair value inputs can generally be verified and do not involve significant management judgments (Level 2 inputs).

The following tables present the Hospital's assets and liabilities measured at fair value on a recurring basis under ASC 820-10 at December 31:

	Fair Value Measurements for 2010 and 2009		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2010			
Assets:			
Treasury bills	$ 3,180,732	$ -	$ -
Liabilities:			
Interest rate swap derivative instrument	$ -	$ 1,182,921	$ -
2009			
Assets:			
Money market funds	$ 1,221,809	$ -	$ -
Liabilities:			
Interest rate swap derivative instrument	$ -	$ 977,569	$ -

NOTE 9 - RETIREMENT PLAN

The Hospital has established a defined contribution retirement plan (the Plan) which covers substantially all employees; however, there are different provisions for the discretionary contribution and the matching contribution, as defined separately below.

For an employee to be eligible for the discretionary contribution component of the Plan, the employee must have worked at least 1,000 hours in the last 12 months and have been employed a minimum of one year as of December 31. This plan exercises a "cliff" vesting schedule, where employees are not vested until they have reached three years of service (effective January 1, 2007), at which time they are fully vested.

NOTE 9 - RETIREMENT PLAN (Continued)

For the 401(k) matching component of the Plan, the employee is not eligible for the match until one year of service is achieved. The employee is immediately 100% vested in the employer matching component of the Plan.

Contributions by the Hospital for the 401(k) matching contribution are based on the employees' annual earnings. Contributions of $422,276 and $426,575 were expensed in 2010 and 2009, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Hospital contracts with affiliates of Clarian Health Partners, St. Vincent Health, and United Hospital Services for various services. Fees for building rent, chaplaincy, laundry, linen, laboratory, billing and collection services, drug screening, and overlap payments amounted to $708,310 and $946,709 in 2010 and 2009, respectively. Included in the 2010 and 2009 accrued expenses are fees of $471,501 and $106,312.

In January 2008, the Hospital entered into a billing and collection services agreement with one of its corporate members, Clarian Health Partners. The agreement states that Clarian Health Partners, will begin, as of January 2008 to provide various billing and collection services for the Hospital. Fees associated with this agreement are to be assessed on a monthly basis and determined based on 1.2% of the Hospital's monthly net collection of fees for services. This agreement terminated in January 2010.

As discussed more fully in footnote 7, the Hospital's two corporate members loaned $3,000,000 to the Hospital in June of 2010. The notes are due and payable in July of 2017 and are included in long-term debt as of December 31, 2010.

NOTE 11 - EMPLOYEE HEALTH BENEFIT PLAN

The Hospital participates in a self-funded health insurance plan covering substantially all employees. Covered services include medical benefits and prescription drugs. The plan has annual reinsurance coverage for a maximum eligible claim expense per incident per covered person in excess of $100,000 and a maximum aggregate per covered person in excess of an attachment point of approximately $3,108,838. The Hospital recorded a provision for claims incurred but not reported, which amounted to $210,653 and $405,619 at December 31, 2010 and 2009 respectively, and is included in salaries, wages, and related liabilities. Expenses of the plan for 2010 and 2009 were $2,362,608 and $2,355,366, respectively. The plan includes one claimant who exceeded the stop-loss during 2009 and seven claimants who exceeded the stop loss during 2010. The Hospital has recorded a $47,000 re-insurance receivable related to these claims as of December 31, 2010.

NOTE 12 - OPERATING LEASES

The Hospital leases facilities and equipment under operating leases expiring at various dates through April 2013. Total rental expense in 2010 and 2009 for all operating leases was $589,447 and $613,676, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2010, that have initial or remaining lease terms in excess of one year.

Year Ending December 31	
2011	$ 370,298
2012	103,759
2013	1,100
2014	-
	$ 475,157

NOTE 13 - CONTINGENCIES

The Hospital is the defendant in certain litigation arising in the ordinary course of business. In the opinion of management, such items are adequately covered by insurance or their ultimate outcome will not have a material impact on the financial position of the Hospital.

NOTE 14 - NON-COMPETE AGREEMENT

As part of the joint venture agreement to form the Hospital, the corporate members entered into a non-compete agreement in effect for the term of the joint venture and for a period of thirty-six months after its termination. The non-compete agreement prohibits the members, directly or indirectly, from providing adult inpatient rehabilitation medicine services or outpatient rehabilitation services that compete with services provided by the Hospital within Marion and contiguous counties.

SUPPLEMENTARY INFORMATION

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2010

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 2,076,512	$ 560,460	$ 2,636,972	$ -	$ 2,636,972
Patient accounts receivables, less allowance for doubtful accounts of $1,265,566	7,883,510	-	7,883,510	-	7,883,510
Inventories	199,144	-	199,144	-	199,144
Prepaid expenses and other current assets	570,972	146,549	717,521	(380,067)	337,454
Investments	3,003,597	177,135	3,180,732	-	3,180,732
Total current assets	13,733,735	884,144	14,617,879	(380,067)	14,237,812
Property and equipment					
Land	1,904,164	-	1,904,164	-	1,904,164
Buildings and improvements	14,003,959	-	14,003,959	-	14,003,959
Equipment	9,005,266	59,134	9,064,400	-	9,064,400
Construction in progress	73,766	-	73,766	-	73,766
	24,987,155	59,134	25,046,289	-	25,046,289
Less accumulated depreciation	15,769,608	50,251	15,819,859	-	15,819,859
Property and equipment, net	9,217,547	8,883	9,226,430	-	9,226,430
Other assets					
Land held for expansion	602,474	-	602,474	-	602,474
Unamortized debt issuance costs	60,957	-	60,957	-	60,957
Total other assets	663,431	-	663,431	-	663,431
	$ 23,614,713	$ 893,027	$ 24,507,740	$ (380,067)	$ 24,127,673

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2010

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and other accrued liabilities	$ 2,354,366	$ 514,834	$ 2,869,200	$ (380,067)	$ 2,489,133
Salaries, wages, and related liabilities	1,657,125	-	1,657,125	-	1,657,125
Accrued interest	76,919	-	76,919	-	76,919
Current portion of capital lease	196,266	-	196,266	-	196,266
Current portion of long term debt	900,000	-	900,000	-	900,000
Estimated third party settlements	449,062	-	449,062	-	449,062
Current portion of interest rate swap	354,469	-	354,469	-	354,469
Total current liabilities	5,988,207	514,834	6,503,041	(380,067)	6,122,974
Long-term debt, less current portion	14,900,000	-	14,900,000	-	14,900,000
Interest rate swap agreement	828,452	-	828,452	-	828,452
Long-term portion of capital lease	42,303	-	42,303	-	42,303
	15,770,755	-	15,770,755	-	15,770,755
Net assets					
Unrestricted	1,855,751	45,622	1,901,373	-	1,901,373
Temporarily restricted	-	332,571	332,571	-	332,571
Total net assets	1,855,751	378,193	2,233,944	-	2,233,944
	$ 23,614,713	$ 893,027	$ 24,507,740	$ (380,067)	$ 24,127,673

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2009

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 1,754,056	$ 214,100	$ 1,968,156	$ -	$ 1,968,156
Patient accounts receivables, less allowance for doubtful accounts of $1,505,249	6,313,590	-	6,313,590	-	6,313,590
Inventories	222,674	-	222,674	-	222,674
Prepaid expenses and other current assets	361,928	139,937	501,865	(177,743)	324,122
Investments	1,048,515	173,294	1,221,809	-	1,221,809
Total current assets	9,700,763	527,331	10,228,094	(177,743)	10,050,351
Property and equipment					
Land	1,904,164	-	1,904,164	-	1,904,164
Buildings and improvements	14,006,401	-	14,006,401	-	14,006,401
Equipment	9,966,103	59,134	10,025,237	-	10,025,237
Construction in progress	35,830	-	35,830	-	35,830
	25,912,498	59,134	25,971,632	-	25,971,632
Less accumulated depreciation	15,792,875	42,861	15,835,736	-	15,835,736
Property and equipment, net	10,119,623	16,273	10,135,896	-	10,135,896
Other assets					
Land held for expansion	602,474	-	602,474	-	602,474
Unamortized debt issuance costs	80,730	-	80,730	-	80,730
Total other assets	683,204	-	683,204	-	683,204
	$ 20,503,590	$ 543,604	$ 21,047,194	$ (177,743)	$ 20,869,451

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING BALANCE SHEETS
December 31, 2009

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and other accrued liabilities	$ 1,850,369	$ 257,679	$ 2,108,048	$ (177,743)	$ 1,930,305
Salaries, wages, and related liabilities	1,669,240	-	1,669,240	-	1,669,240
Accrued interest	75,973	-	75,973	-	75,973
Current portion of capital lease	209,726	-	209,726	-	209,726
Current portion of long term debt	800,000	-	800,000	-	800,000
Estimated third party settlements	475,880	-	475,880	-	475,880
Current portion of interest rate swap	338,335	-	338,335	-	338,335
Total current liabilities	5,419,523	257,679	5,677,202	(177,743)	5,499,459
Long-term debt, less current portion	12,800,000	-	12,800,000	-	12,800,000
Interest rate swap agreement	639,234	-	639,234	-	639,234
Long-term portion of capital lease	207,488	-	207,488	-	207,488
	13,646,722	-	13,646,722	-	13,646,722
Net assets					
Unrestricted	1,437,345	155,421	1,592,766	-	1,592,766
Temporarily restricted	-	130,504	130,504	-	130,504
Total net assets	1,437,345	285,925	1,723,270	-	1,723,270
	$ 20,503,590	$ 543,604	$ 21,047,194	$ (177,743)	$ 20,869,451

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2010

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
Unrestricted revenues					
Net patient service revenue	$ 37,022,908	$ -	$ 37,022,908	$ -	$ 37,022,908
Other revenue	231,786	63,178	294,964	-	294,964
Donated services	-	705,241	705,241	(705,241)	-
Net assets released from restrictions - revenue	-	779,655	779,655	-	779,655
Total unrestricted revenues	37,254,694	1,548,074	38,802,768	(705,241)	38,097,527
Expenses					
Salaries and wages	16,489,695	585,086	17,074,781	(120,611)	16,954,170
Employee benefits	5,983,567	108,698	6,092,265	-	6,092,265
Contract and purchased services	6,438,487	737,349	7,175,836	(584,630)	6,591,206
Supplies	2,748,054	46,274	2,794,328	-	2,794,328
Utilities and other	2,157,681	172,955	2,330,636	-	2,330,636
Depreciation and amortization	956,871	7,390	964,261	-	964,261
Interest	922,406	-	922,406	-	922,406
Provision for bad debts	1,144,843	-	1,144,843	-	1,144,843
	36,841,604	1,657,752	38,499,356	(705,241)	37,794,115
Gain (loss) from operations	413,090	(109,678)	303,412	-	303,412
Interest income	5,316	(121)	5,195	-	5,195
Change in unrestricted net assets	418,406	(109,799)	308,607	-	308,607
Temporarily restricted net assets					
Contributions	-	980,260	980,260	-	980,260
Net assets released from restrictions	-	(779,655)	(779,655)	-	(779,655)
Investment earnings	-	1,462	1,462	-	1,462
Change in temporarily restricted net assets	-	202,067	202,067	-	202,067
Change in net assets	418,406	92,268	510,674	-	510,674
Net assets, beginning of year	1,437,345	285,925	1,723,270	-	1,723,270
Net assets at end of year	$ 1,855,751	$ 378,193	$ 2,233,944	$ -	$ 2,233,944

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2009

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
Unrestricted revenues					
Net patient service revenue	$ 34,687,970	$ -	$ 34,687,970	$ -	$ 34,687,970
Other revenue	329,242	43,442	372,684	(85,642)	287,042
Donated services	-	427,346	427,346	(427,346)	-
Net assets released from restrictions - revenue	-	581,811	581,811	-	581,811
Total unrestricted revenues	35,017,212	1,052,599	36,069,811	(512,988)	35,556,823
Expenses					
Salaries and wages	16,516,678	484,737	17,001,415	(120,395)	16,881,020
Employee benefits	5,800,731	110,208	5,910,939	-	5,910,939
Contract and purchased services	5,871,811	476,065	6,347,876	(306,951)	6,040,925
Supplies	2,650,327	59,688	2,710,015	-	2,710,015
Utilities and other	2,192,588	180,786	2,373,374	(85,642)	2,287,732
Depreciation and amortization	919,299	6,849	926,148	-	926,148
Interest	186,476	-	186,476	-	186,476
Provision for bad debts	758,403	-	758,403	-	758,403
	34,896,313	1,318,333	36,214,646	(512,988)	35,701,658
Gain (loss) from operations	120,899	(265,734)	(144,835)	-	(144,835)
Interest income	8,491	1,012	9,503	-	9,503
Change in unrestricted net assets	129,390	(264,722)	(135,332)	-	(135,332)
Temporarily restricted net assets					
Contributions	-	592,888	592,888	-	592,888
Net assets released from restrictions	-	(581,811)	(581,811)	-	(581,811)
Investment earnings	-	9,372	9,372	-	9,372
	-	20,449	20,449	-	20,449
Change in net assets	129,390	(244,273)	(114,883)	-	(114,883)
Net assets, beginning of year	1,307,955	530,198	1,838,153	-	1,838,153
Net assets at end of year	$ 1,437,345	$ 285,925	$ 1,723,270	$ -	$ 1,723,270