REHABILITATION HOSPITAL OF INDIANA, INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

REHABILITATION HOSPITAL OF INDIANA, INC.
Indianapolis, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
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CONTENTS

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, 2011 and 2010, 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 financial statements referred to above present fairly, in all material respects, the financial position of Rehabilitation Hospital of Indiana, Inc. as of December 31, 2011 and 2010, 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 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, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling other information directly to the underlying accounting and such records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
April 4, 2012

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,883,305	$ 2,636,972
Patient accounts receivables, less allowance for doubtful accounts of $2,053,579 and $2,138,243 for 2011 and 2010, respectively	6,791,709	7,883,510
Inventories	234,388	199,144
Prepaid expenses and other current assets	429,026	337,454
Investments	3,188,359	3,180,732
Total current assets	18,526,787	14,237,812
Property and equipment		
Land	1,904,164	1,904,164
Buildings and improvements	14,042,828	14,003,959
Equipment	9,332,182	9,064,400
Construction in progress	119,515	73,766
	25,398,689	25,046,289
Less accumulated depreciation	16,705,725	15,819,859
Property and equipment, net	8,692,964	9,226,430
Other assets		
Land held for expansion	602,474	602,474
Unamortized debt issuance costs	315,539	60,957
Total other assets	918,013	663,431
Total assets	$ 28,137,764	$ 24,127,673
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and other accrued liabilities	$ 1,699,354	$ 2,489,133
Salaries, wages, and related liabilities	1,774,186	1,657,125
Accrued interest	104,724	76,919
Current portion of capital lease obligation	38,000	196,266
Current portion of long-term debt	350,000	900,000
Third-party settlements	414,503	449,062
Current portion of interest rate swap	362,899	354,469
Total current liabilities	4,743,666	6,122,974
Long-term debt	19,070,000	14,900,000
Interest rate swap liability	1,279,655	828,452
Capital lease obligation	12,403	42,303
	20,362,058	15,770,755
Total liabilities	25,105,724	21,893,729
Net assets		
Unrestricted	2,778,311	1,901,373
Temporarily restricted	253,729	332,571
Total net assets	3,032,040	2,233,944
Total liabilities and net assets	$ 28,137,764	$ 24,127,673

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, 2011 and 2010

	2011	2010
Unrestricted revenues		
Net patient service revenue	$ 37,762,506	$ 37,022,908
Other revenue	464,411	299,346
Net assets released from restrictions	830,112	779,655
Total unrestricted revenues	39,057,029	38,101,909
Expenses		
Salaries and wages	18,052,565	16,954,170
Employee benefits	6,099,312	6,092,265
Contract and purchased services	6,080,242	6,591,206
Supplies	2,873,125	2,792,166
Utilities and other	2,374,320	2,332,798
Depreciation and amortization	963,888	964,261
Interest	705,036	717,054
Changes in financial instrument fair value	459,633	205,352
Provision for bad debts	536,237	1,144,843
Total expenses	38,144,358	37,794,115
Operating revenue in excess of expenses	912,671	307,794
Nonoperating (expenses) revenues		
Interest income	8,903	5,195
Loss on disposal of assets	(1,805)	(4,382)
Loss on retirement of debt issuance costs	(42,831)	-
	(35,733)	813
Change in unrestricted net assets	876,938	308,607
Temporarily restricted net assets		
Contributions	747,876	980,260
Net assets released from restrictions	(830,112)	(779,655)
Investment earnings	3,394	1,462
Change in temporarily restricted net assets	(78,842)	202,067
Change in net assets	798,096	510,674
Net assets, beginning of year	2,233,944	1,723,270
Net assets, end of year	$ 3,032,040	$ 2,233,944

See accompanying notes to consolidated financial statements.

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010

	2011	2010
Operating activities		
Change in net assets	$ 798,096	$ 510,674
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	963,888	964,261
Retirement of debt issuance costs	42,831	-
Unrealized (gain)/loss in investments	162	(5,627)
Loss on disposal of assets	1,805	4,382
Change in interest rate swap agreement	459,633	205,352
Provision for bad debts	536,237	1,144,843
Change in operating assets and liabilities		
Patient accounts receivable, net	555,564	(2,714,763)
Inventories and other current assets	(53,706)	(62,912)
Accounts payable and other accrued liabilities	(862,889)	631,938
Salaries, wages, and related liabilities	117,061	(12,115)
Accrued interest	27,805	946
Estimated third-party settlements	(34,559)	(26,818)
Net cash from operating activities	2,551,928	640,161
Investing activities		
Purchases of property and equipment	(395,288)	(2,107)
Purchase of investments	(5,014,039)	(3,001,811)
Proceeds from sale of investments	5,006,250	1,048,515
Proceeds from sale of equipment	600	-
Net cash used in investing activities	(402,477)	(1,955,403)
Financing activities		
Borrowings from related party	-	3,000,000
Borrowings on long-term debt	16,420,000	-
Repayments on long-term debt	(12,800,000)	(800,000)
Principal payments on capital lease obligations	(203,118)	(215,942)
Payments for debt issuance costs	(320,000)	-
Net cash from financing activities	3,096,882	1,984,058
Change in cash and cash equivalents	5,246,333	668,816
Cash and cash equivalents, beginning of year	2,636,972	1,968,156
Cash and cash equivalents, end of year	$ 7,883,305	$ 2,636,972
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 677,231	$ 716,108
Purchase of equipment through capital lease	14,952	37,297

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 IU Health 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 transactions between affiliated organizations have been eliminated in consolidation.

Adoption of New Accounting Standards: In accordance with ASU 2010-24 *Presentation of Insurance Claims and Related Insurance Recoveries*, the accounting for professional liability insurance and disclosures has been updated to include additional requirements with respect to the reporting of insurance claims recoveries and related claim liabilities. The update states that receivables related to insurance recoveries should not be netted against the related claim liability and such claim liabilities should be determined without considering insurance recoveries. The update is effective for fiscal years beginning December 15, 2010 and was adopted by the Hospital on January 1, 2011. The adoption of this update had no impact on the consolidated balance sheets or changes in net assets of the Hospital.

In accordance with ASU 2010-23 *Measuring Charity Care for Disclosure*, the accounting for charity care and related disclosures has been updated to increase additional information and disclosure requirements. The update requires the Hospital to use its direct and indirect costs of providing charity care as the measurement basis for charity care disclosures. The update also requires additional disclosures of the method used to determine such costs. The Hospital adopted this update on January 1, 2011. The adoption of this update had no impact on the consolidated balance sheets or changes in net assets of the Hospital.

In accordance with ASU 2010-20 *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, consideration has been given to enhanced disclosures regarding any financing receivables held by the Hospital. The update requires increased transparency, through disclosures, regarding the Hospital's allowance for credit losses. The Hospital adopted this update on January 1, 2011. The adoption of this update did not require any additional disclosures by the Hospital, nor did it have an impact on the consolidated balances sheets or changes in net assets of the Hospital.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASU 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts* requires the accounting for patient accounts receivable and associated revenues be updated to require all healthcare organizations that perform services for patients for which the ultimate collection of all or a portion of the amounts billable or balance cannot be determined at the time services are rendered to present all bad debt expense associated with patient service revenue as an offset to the patient service revenue line item in the statement of operations. The update also requires qualitative disclosures about the Hospital's policy for recognizing revenue and bad debt expense for patient service transactions and qualitative information about the effects of changes in the assessment of collectibility of patient service revenue. This update is effective for fiscal years beginning after December 15, 2011. This update is not expected to have an impact on the Hospital's change in net assets, but 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.
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.

In August 2010, the FASB issued ASU 2010-23, which requires the Hospital to use its direct and indirect costs of providing charity care as the measurement basis for charity care disclosures. This ASU also requires additional disclosures of the method used to determine such costs. The Hospital adopted this Update on January 1, 2011. The estimated cost incurred by the Hospital to provide these services to patients who are unable to pay was approximately $1,380,292 and $499,022 for 2011 and 2010, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under the Hospital's charity care policy and that do not otherwise qualify for reimbursement from a governmental program. During 2011 and 2010, the Hospital did not receive any funds to help defray the costs of indigent charity care.

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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenue in excess of expenses unless the income or loss is restricted by donor or law. The Hospital has shown the unrealized gain (loss) on available-for-sale investments of ($162) and $5,627 at December 31, 2011 and 2010, respectively, within interest income on the consolidated statements of operations and changes in net assets.

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, 2011 and 2010.

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 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.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The assets' estimated lives used in computing depreciation are as follows:

Buildings and improvements	5 -30 years
Equipment	3 - 15 years

Debt Issuance Costs: Costs incurred in connection with the issuance of debt are capitalized and amortized by the effective-yield method, over the term of the related debt. The gross amounts being amortized are $320,000 and $389,920 at December 31, 2011 and 2010. Accumulated amortization on the debt issuance costs is $22,587 and $328,963, as of December 31, 2011 and 2010. Amortization expense for debt issuance costs is scheduled to be $26,765 in 2012, $26,194 in 2013, $25,347 in 2014, $24,418 in 2015 and $23,415 in 2016. During 2011, the Hospital recorded a loss of $42,831 related to the write-down of debt issuance costs related to the extinguishment of its 1990 Series Bonds (Note 7).

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, 2011 and 2010 has been reflected at fair value on the consolidated balance sheets with the offset being reflected in operating expenses.

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 IU Health Risk Retention Group and the balance would be paid by the State of Indiana Patient Compensation Fund. At December 31, 2011, the Hospital is not aware of any specific material claims that would not be covered by its insurance carriers. The Hospital has estimated an incurred but not reported liability for $63,000 and $52,000 at December 31, 2011 and 2010, respectively, which is included in accounts payable and other accrued liabilities.

Operating Revenue in Excess of Expenses: The consolidated statements of operations includes the operating revenue in excess of expenses as the performance indicator. Changes in net assets that are excluded from operating revenue in excess of expenses, consistent with industry practice, include contributions and investment income.

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, 2011 and 2010 were $35,313 and $56,595, respectively.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011 and 2010 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.

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 2007 and for all state income taxes through 2007. 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, 2011 and 2010.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2011 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2011. Management has performed their analysis through April 05, 2012, the date the financial statements were issued.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on net assets of the change in net assets.

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, 2011.

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

NOTE 2 - NET PATIENT SERVICE REVENUE (Continued)

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:

	2011	2010
Routine services	$ 32,411,866	$ 30,019,663
Ancillary services		
Inpatient	35,953,381	32,755,534
Outpatient	11,812,019	11,743,271
Physician services	1,347,439	1,750,853
	81,524,705	76,269,321
Less contractual allowances and charity care charges foregone	(43,762,199)	(39,246,413)
Net patient service revenue	$ 37,762,506	$ 37,022,908

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.

	2011		2010	
	Accounts Receivable	Revenue	Accounts Receivable	Revenue
Medicare	33%	42%	26%	43%
Medicaid	17%	13%	25%	13%
Managed Care/ Commercial/Other	42%	26%	36%	26%
Blue Cross/Blue Shield	8%	19%	13%	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:

	2011	2010
Rehabilitative services	$ 34,536,164	$ 34,300,753
General and administrative	3,322,253	3,234,093
Fundraising	267,815	259,269
	$ 38,126,232	$ 37,794,115

NOTE 5 - INVESTMENTS

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

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 149,492	$ 149,492	$ 149,477	$ 149,477
Treasury bills	3,006,776	3,006,776	3,003,597	3,003,597
Equity funds	15,077	18,626	11,090	13,026
Equities	11,505	13,465	11,505	14,632
	$ 3,182,850	$ 3,188,359	$ 3,175,669	$ 3,180,732

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

	2011	2010
Interest and investment income	$ 12,297	$ 6,657

NOTE 6 - LINE OF CREDIT

At December 31, 2011, 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, 2011 and 2010, respectively. Interest is payable at the LIBOR rate plus 0.85% (1.13% and 1.11% at December 31, 2011 and 2010, respectively). This line is secured by guarantees of corporate member Hospitals. The line expires in June 2012. The agreement also contains various loan covenants. At December 31, 2011, the Hospital was in compliance with all covenants.

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following:

	2011	2010
Indiana Health Facility Financing Authority Adjustable Convertible Extendible Securities Hospital Revenue Bonds, Series 2011 Term Bonds, payable through November 2031, subject to mandatory redemption. Interest payable month at variable rates (0.10% at December 31, 2011)	$ 16,420,000	$ -
Indiana Health Facility Financing Authority Adjustable Convertible Extendible Securities Hospital Revenue Bonds, Series 1990 Term Bonds, payable through November 2020, subject to mandatory redemption. These bonds were paid in full in December 2011.	-	12,800,000
IU Health Subordinated promissory note. Lump sum payment due July 2017. Interest is payable quarterly at variable rates (.11% at December 31, 2011 and 2010)	1,500,000	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, 2011 and 2010)	1,500,000	1,500,000
Less current portion of long-term debt	350,000	900,000
	$ 19,070,000	$ 14,900,000

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

2012	$ 350,000
2013	520,000
2014	570,000
2015	615,000
2016	650,000
Thereafter	16,715,000
	$ 19,420,000

During November, 2011 the Hospital, through the Indiana Health Facility Financing Authority, issued $16,420,000 of Series 2011 Bonds. The proceeds from the bond issuance were used to pay the remaining balance outstanding on the Series 1990 Bonds, with the remainder of the proceeds established for future capital improvement projects of the Hospital.

NOTE 7 - LONG-TERM DEBT (Continued)

The interest rate on the Series 2011 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 payables. The Hospital and Rate-Setting Agent can change to another interest mode by giving notice. In addition, bondholders of the Series 2011 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 2011 Bonds. The Agreement's expiration date is November 9, 2016. 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 and limitations on additional borrowings. The Hospital was in compliance with their debt covenants as of December 31, 2011.

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, 2011 and 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.

Interest Rate Swap: In January 2006, 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 with a notional amount of $11,900,000. The arrangement requires the Hospital to pay interest at a fixed rate of 3.98% to replace the variable rate which was at .10% at December 31, 2011, 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 $1,642,554 and $1,182,921 at December 31, 2011 and 2010, respectively. The loss of $459,633 and $205,352 for 2011 and 2010, respectively, related to this arrangement is included in operating expenses.

Capital Lease Obligations: The Hospital has entered into various capital lease agreements for equipment. Monthly lease payments are $3,255, including interest. The lease obligations end at various times through June 2013.

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

	2011	2010
Equipment	$ 831,686	$ 816,734
Accumulated depreciation	(366,441)	(262,652)
	$ 465,245	$ 554,082

NOTE 7 - LONG-TERM DEBT (Continued)

Future minimum payments on the capital leases are as follows:

2012	$ 39,508
2013	12,681
Amount representing interest	(1,786)
Present value of future minimum lease payments (current portion of $38,000)	$ 50,403

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.

The fair value of the equity securities, treasury bills, and money market funds, are determined based upon quoted and readily available market prices and are subject to fluctuation 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 derivative is 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).

NOTE 8 - FAIR VALUE (Continued)

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 2011 and 2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2011				
Assets:				
Money market funds	$ 149,492	$ -	$ -	$ 149,492
Treasury bills	3,006,776	-	-	3,006,776
Equity funds	18,626	-	-	18,626
Equities	13,465	-	-	13,465
Total investments	3,188,359	-	-	3,188,359
Total assets	$ 3,188,359	$ -	$ -	$ 3,188,359
Liabilities:				
Interest rate swap derivative instrument	$ -	$ 1,642,554	$ -	$ 1,642,554
2010				
Assets:				
Money market funds	$ 149,477	$ -	$ -	$ 149,477
Treasury bills	3,003,597	-	-	3,003,597
Equity funds	13,026	-	-	13,026
Equities	14,632	-	-	14,632
Total investments	3,180,732	-	-	3,180,732
Total assets	$ 3,180,732	$ -	$ -	$ 3,180,732
Liabilities:				
Interest rate swap derivative instrument	$ -	$ 1,182,921	$ -	$ 1,182,921

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.

NOTE 9 - RETIREMENT PLAN (Continued)

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.

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 $455,095 and $422,276 were expensed in 2011 and 2010, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Hospital contracts with affiliates of IU Health, St. Vincent Health, and United Hospital Services for various services. Fees for building rent, laundry, linen, laboratory, billing and collection services, drug screening, and overlap payments amounted to $832,430 and $708,310 in 2011 and 2010, respectively. Included in the 2011 and 2010 accrued expenses are fees of $347,353 and $471,501.

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, 2011 and 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 $140,000 for the first incident, and $100,000 for each subsequent incident per covered person, and a maximum aggregate per covered person in excess of an attachment point of approximately $1,900,000. The Hospital recorded a provision for claims incurred but not reported, which amounted to $394,643 and $210,653 at December 31, 2011 and 2010 respectively, and is included in salaries, wages, and related liabilities. Expenses of the plan for 2011 and 2010 were $2,162,058 and $2,362,608, respectively. The plan includes three claimants who exceeded the stop-loss during 2011 and seven claimants who exceeded the stop loss during 2010. The Hospital has recorded a $41,848 and $47,273 re-insurance receivable related to these claims as of December 31, 2011 and 2010, respectively.

NOTE 12 - OPERATING LEASES

The Hospital leases facilities and equipment under operating leases expiring at various dates through December 2016. Total rental expense in 2011 and 2010 for all operating leases was $580,617 and $589,447, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2011, that have initial or remaining lease terms in excess of one year.

2012	$ 300,602
2013	17,481
2014	16,382
2015	16,382
2016	16,382
	$ 367,229

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.

NOTE 15 - SUBSEQUENT EVENTS

During January 2011, the Hospital entered into an employment agreement, with a term of one year, with the Chief Executive Officer. The agreement includes provisions for an annual salary, incentive compensation, benefits, certain relocation expenses, sign-on bonus and separation benefits.

SUPPLEMENTARY INFORMATION

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING CONSOLIDATED BALANCE SHEETS
December 31, 2011

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ 7,488,515	$ 394,790	$ 7,883,305	$ -	$ 7,883,305
Patient accounts receivables, less allowance for doubtful accounts of $2,053,579	6,791,709	-	6,791,709	-	6,791,709
Inventories	234,388	-	234,388	-	234,388
Prepaid expenses and other current assets	597,656	138,352	736,008	(306,982)	429,026
Investments	3,006,776	181,583	3,188,359	-	3,188,359
Total current assets	18,119,044	714,725	18,833,769	(306,982)	18,526,787
Property and equipment					
Land	1,904,164	-	1,904,164	-	1,904,164
Buildings and improvements	14,042,828	-	14,042,828	-	14,042,828
Equipment	9,270,872	61,310	9,332,182	-	9,332,182
Construction in progress	119,515	-	119,515	-	119,515
	25,337,379	61,310	25,398,689	-	25,398,689
Less accumulated depreciation	16,650,387	55,338	16,705,725	-	16,705,725
Property and equipment, net	8,686,992	5,972	8,692,964	-	8,692,964
Other assets					
Land held for expansion	602,474	-	602,474	-	602,474
Unamortized debt issuance costs	315,539	-	315,539	-	315,539
Total other assets	918,013	-	918,013	-	918,013
	$ 27,724,049	$ 720,697	$ 28,444,746	$ (306,982)	$ 28,137,764

(Continued)

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING CONSOLIDATED BALANCE SHEETS
December 31, 2011

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable and other accrued liabilities	$ 1,552,621	$ 453,715	$ 2,006,336	$ (306,982)	$ 1,699,354
Salaries, wages, and related liabilities	1,774,186	-	1,774,186	-	1,774,186
Accrued interest	104,724	-	104,724	-	104,724
Current portion of capital lease obligation	38,000	-	38,000	-	38,000
Current portion of long-term debt	350,000	-	350,000	-	350,000
Estimated third party settlements	414,503	-	414,503	-	414,503
Current portion of interest rate swap liability	362,899	-	362,899	-	362,899
Total current liabilities	4,596,933	453,715	5,050,648	(306,982)	4,743,666
Long-term debt	19,070,000	-	19,070,000	-	19,070,000
Interest rate swap liability	1,279,655	-	1,279,655	-	1,279,655
Capital lease obligation	12,403	-	12,403	-	12,403
	20,362,058	-	20,362,058	-	20,362,058
Net assets					
Unrestricted	2,765,058	13,253	2,778,311	-	2,778,311
Temporarily restricted	-	253,729	253,729	-	253,729
Total net assets	2,765,058	266,982	3,032,040	-	3,032,040
	$ 27,724,049	$ 720,697	$ 28,444,746	$ (306,982)	$ 28,137,764

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING CONSOLIDATED 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 $2,138,243	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 CONSOLIDATED 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 obligation	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 liability	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	14,900,000	-	14,900,000	-	14,900,000
Interest rate swap liability	828,452	-	828,452	-	828,452
Capital lease obligation	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 CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended December 31, 2011

	RHI	Foundation	Total Before Eliminations	Eliminations	Consolidated
Unrestricted revenues					
Net patient service revenue	$ 37,762,506	$ -	$ 37,762,506	$ -	$ 37,762,506
Other revenue	416,156	159,930	576,086	(111,675)	464,411
Donated services	-	535,013	535,013	(535,013)	-
Net assets released from restrictions - revenue	-	830,112	830,112	-	830,112
Total unrestricted revenues	38,178,662	1,525,055	39,703,717	(646,688)	39,057,029
Expenses					
Salaries and wages	17,733,901	440,943	18,174,844	(122,279)	18,052,565
Employee benefits	6,020,871	78,441	6,099,312	-	6,099,312
Contract and purchased services	5,774,644	718,332	6,492,976	(412,734)	6,080,242
Supplies	2,849,773	135,027	2,984,800	(111,675)	2,873,125
Utilities and other	2,194,307	180,013	2,374,320	-	2,374,320
Depreciation and amortization	958,801	5,087	963,888	-	963,888
Interest	705,036	-	705,036	-	705,036
Changes in financial instrument fair value	459,633	-	459,633	-	459,633
Provision for bad debts	536,237	-	536,237	-	536,237
	37,233,203	1,557,843	38,791,046	(646,688)	38,144,358
Operating revenue in excess of expenses	945,459	(32,788)	912,671	-	912,671
Nonoperating (expenses) revenues					
Interest income	8,484	419	8,903	-	8,903
Loss on disposal of assets	(1,805)	-	(1,805)	-	(1,805)
Loss on retirement of debt issuance costs	(42,831)	-	(42,831)	-	(42,831)
	(36,152)	419	(35,733)	-	(35,733)
Change in unrestricted net assets	909,307	(32,369)	876,938	-	876,938
Temporarily restricted net assets					
Contributions	-	747,876	747,876	-	747,876
Net assets released from restrictions	-	(830,112)	(830,112)	-	(830,112)
Investment earnings	-	3,394	3,394	-	3,394
Change in temporarily restricted net assets	-	(78,842)	(78,842)	-	(78,842)
Change in net assets	909,307	(111,211)	798,096	-	798,096
Net assets, beginning of year	1,855,751	378,193	2,233,944	-	2,233,944
Net assets at end of year	$ 2,765,058	$ 266,982	$ 3,032,040	$ -	$ 3,032,040

REHABILITATION HOSPITAL OF INDIANA, INC.
CONSOLIDATING CONSOLIDATED 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	238,330	63,178	301,508	(2,162)	299,346
Donated services	-	705,241	705,241	(705,241)	-
Net assets released from restrictions - revenue	-	779,655	779,655	-	779,655
Total unrestricted revenues	37,261,238	1,548,074	38,809,312	(707,403)	38,101,909
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	(2,162)	2,792,166
Utilities and other	2,159,843	172,955	2,332,798	-	2,332,798
Depreciation and amortization	956,871	7,390	964,261	-	964,261
Interest	717,054	-	717,054	-	717,054
Changes in financial instrument fair value	205,352	-	205,352	-	205,352
Provision for bad debts	1,144,843	-	1,144,843	-	1,144,843
	36,843,766	1,657,752	38,501,518	(707,403)	37,794,115
Operating revenue in excess of expenses	417,472	(109,678)	307,794	-	307,794
Nonoperating (expenses) revenues					
Interest income	5,316	(121)	5,195	-	5,195
Loss on disposal of assets	(4,382)	-	(4,382)	-	(4,382)
	934	(121)	813	-	813
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
	-	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