MARION GENERAL HOSPITAL, INC.

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KPMG LLP
Suite 1500
111 Monument Circle
Indianapolis, IN 46204

Independent Auditors' Report

The Board of Directors
Marion General Hospital, Inc.:

We have audited the accompanying balance sheets of Marion General Hospital, Inc. (Hospital) as of June 30, 2010 and 2009, and the related statements of operations, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Marion General Hospital, Inc. as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 1 to the financial statements, effective June 30, 2009, the Hospital adopted Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*.

KPMG LLP

October 5, 2010

MARION GENERAL HOSPITAL, INC.

Balance Sheets

June 30, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	$ 16,146,917	3,744,543
Assets limited as to use – required for current liabilities	1,153,891	7,639,755
Accounts receivable:		
Patient services, net	18,805,393	18,753,322
Physician practices, net	540,005	529,469
Other	1,175,089	671,844
Estimated third-party settlements	562,747	4,615,627
Accrued interest	135	2,412
Inventories	154,502	141,851
Current portion of notes receivable	683,757	445,943
Prepaid expenses	1,058,429	1,278,462
Other current assets	555,786	—
Total current assets	40,836,651	37,823,228
Assets limited as to use or restricted:		
Funds held by trustee, less current portion	6,624,549	8,892,740
By board of directors	106,967,010	93,494,450
Other restricted assets	10,155	11,114
Total assets limited as to use or restricted	113,601,714	102,398,304
Property and equipment, net	66,824,055	70,859,306
Other assets:		
Investment in joint ventures	3,068,385	3,260,148
Unamortized bond issuance costs	1,448,089	1,547,726
Notes receivable, net	2,716,756	2,446,947
Goodwill and intangible assets	1,589,750	3,396,597
Other assets	596,077	622,029
Total other assets	9,419,057	11,273,447
Total assets	$ 230,681,477	222,354,285

See accompanying notes to financial statements.

Liabilities and Net Assets	2010	2009
Current liabilities:		
Current portion of long-term debt	$ 1,260,000	1,220,000
Letter of credit	—	1,438,750
Accounts payable	3,082,941	4,332,761
Accrued liabilities:		
Salaries and related liabilities	7,275,147	7,135,560
Interest	796,307	828,859
Other	200,745	195,057
Postretirement obligation – current portion	—	587,754
Total current liabilities	12,615,140	15,738,741
Long-term debt	50,196,146	55,743,927
Accrued pension liability	17,281,440	11,763,695
Postretirement obligation – long-term portion	—	5,023,074
Other	457,816	452,270
Total liabilities	80,550,542	88,721,707
Net assets:		
Unrestricted	150,120,780	133,621,464
Temporarily restricted	—	959
Permanently restricted	10,155	10,155
Total net assets	150,130,935	133,632,578
Total liabilities and net assets	$ 230,681,477	222,354,285

MARION GENERAL HOSPITAL, INC.

Statements of Operations

Years ended June 30, 2010 and 2009

		2010	2009
Unrestricted revenue and support:			
Net patient service revenue	$	130,827,532	130,305,469
Other revenue, net		2,275,053	2,431,161
Net assets released from restrictions used for operations		959	4,304
Total revenue and support		133,103,544	132,740,934
Expenses:			
Salaries and wages		40,040,829	41,089,180
Employee benefits		11,089,144	11,936,265
Physician services		8,243,546	7,347,164
Professional services		5,954,580	5,860,815
Medical supplies		10,828,082	10,099,213
Drugs and IV solutions		9,455,803	10,027,524
Food		23,433	26,800
Purchased services		7,664,771	7,249,522
Rent		1,255,875	1,199,047
Plant and equipment maintenance		3,648,377	3,307,015
Utilities		1,801,143	2,094,273
Nonmedical supplies		1,815,692	1,643,812
Leased property expenses		1,006,428	1,086,277
Other expenses		1,073,674	1,222,120
Insurance		749,658	768,291
Interest		2,142,663	2,134,381
Depreciation and amortization		10,408,019	10,464,115
Provision for bad debts		13,360,256	11,076,693
Total expenses		130,561,973	128,632,507
Operating income		2,541,571	4,108,427
Other nonoperating gains:			
Investment income (loss) and other, net		6,216,652	(779,165)
Excess of revenue, support, and gains over expenses		8,758,223	3,329,262
Change in net unrealized losses on investments		7,982,216	(11,971,092)
Change in periodic pension and postretirement costs not yet recognized in expense		(241,123)	(21,348,807)
Increase (decrease) in unrestricted net assets	$	16,499,316	(29,990,637)

See accompanying notes to financial statements.

MARION GENERAL HOSPITAL, INC.

Statements of Changes in Net Assets

Years ended June 30, 2010 and 2009

		2010	2009
Unrestricted net assets:			
Excess of revenue, support, and gains over expenses	$	8,758,223	3,329,262
Change in net unrealized losses on investments		7,982,216	(11,971,092)
Change in periodic pension and postretirement costs not yet recognized in expense		(241,123)	(21,348,807)
Increase (decrease) in unrestricted net assets		16,499,316	(29,990,637)
Temporarily restricted net assets:			
Net assets released from restrictions		(959)	(4,304)
Decrease in temporarily restricted net assets		(959)	(4,304)
Increase (decrease) in net assets		16,498,357	(29,994,941)
Net assets at beginning of year		133,632,578	163,627,519
Net assets at end of year	$	150,130,935	133,632,578

See accompanying notes to financial statements.

MARION GENERAL HOSPITAL, INC.

Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Cash flows from operating activities:			
Increase (decrease) in net assets	$	16,498,357	(29,994,941)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation and amortization		10,408,019	10,464,115
Amortization of bond issuance costs and bond discount		128,106	133,122
Provision for bad debts		13,360,256	11,076,693
Loss on disposal of property and equipment		185,633	282,949
Change in unrealized losses on investments		(7,982,216)	11,971,092
Dividends received from joint ventures		853,286	786,099
Investment return, net		(6,216,652)	779,165
Change in periodic pension and postretirement costs not yet recognized in expense		241,123	21,348,807
Changes in assets and liabilities:			
Accounts receivable		(13,926,108)	(9,577,612)
Accrued interest, inventories, prepaid expenses, and other current assets		209,659	64,108
Other current assets		(179,880)	—
Other long-term assets		72,596	(40,953)
Prepaid pension		5,276,622	(5,967,413)
Accounts payable and accrued liabilities		(6,742,379)	1,111,770
Estimated third-party settlements		4,052,880	(4,791,684)
Net cash provided by operating activities		16,239,302	7,645,317
Cash flows from investing activities:			
Additions to property and equipment		(5,278,430)	(10,024,317)
Proceeds from sale of property and equipment		150,970	32,787
Proceeds from the sale or maturity of investments		43,852,130	104,013,780
Purchases of investments		(35,078,975)	(102,259,104)
Change in notes receivable, net		(507,623)	(570,547)
Net cash provided by (used in) investing activities		3,138,072	(8,807,401)
Cash flows from financing activities:			
Proceeds on letter of credit		—	5,755,000
Repayment of long-term debt		(1,220,000)	(565,000)
Repayment on line of credit		—	(681,066)
Repayment on letter of credit		(5,755,000)	—
Payments for bond issuance costs		—	(5,542)
Net cash (used in) provided by financing activities		(6,975,000)	4,503,392
Net increase in cash and cash equivalents		12,402,374	3,341,308
Cash and cash equivalents at beginning of year		3,744,543	403,235
Cash and cash equivalents at end of year	$	16,146,917	3,744,543
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized of $349,944 and $206,728 in 2010 and 2009, respectively	$	2,395,012	2,161,105

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization*

Marion General Hospital (Hospital), a not-for-profit corporation, provides inpatient and outpatient services primarily to residents from the Grant County area. Expenses related to directly providing these services were approximately 92% and 93% of total expenses for the years ended June 30, 2010 and 2009, respectively.

(b) *Codification*

In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard that established the Accounting Standards Codification (the Codification or ASC) to become the single source of authoritative accounting principles. The standard also provides the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. generally accepted accounting principles. All guidance contained in the Codification carries an equal level of authority. The Codification is not intended to change generally accepted accounting principles, but is expected to simplify accounting research by reorganizing current generally accepted accounting principles into specific accounting topics. The Hospital adopted this accounting standard in the fourth quarter of 2009. The adoption of this accounting standard, which was subsequently codified in ASC Topic 105, *Generally Accepted Accounting Policies*, had no impact on the Hospital's results of operations, financial position, and liquidy.

(c) *Estimates and Uncertainties*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents consist of a cash management fund and demand deposit accounts, all with an original maturity of three months or less.

(e) *Investments*

Investments are recorded at fair value in the balance sheets. Investment income and other, net (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenue, support, and gains over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue, support, and gains over expenses unless the unrealized loss on investment security is considered other-than-temporary. Generally, the fair value of the alternative investments – fund of funds are based on the fair value of the underlying marketable securities as of June 30, 2010 and 2009. There are, however, some securities for which prices are not readily available. In this instance, the fair value is based on the fair value of similar securities. Accordingly, the fair values of these securities may differ significantly from the values that would have been used had a ready market existed for these investments.

A decline in the market value of any other-than-trading security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to excess of revenue, support, and gains over expenses and a new cost basis for the security is established. Management continually reviews the investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. A critical factor in this evaluation is the length of time and extent to which the market value of the individual security has been less than cost. Other factors considered include recommendations of investment advisors and conditions specific to the issuer or industry in which the issuer operates. For the years ended June 30, 2010 and 2009, the Hospital has recorded other-than-temporary declines in the fair value of its investments of $0 and $4,987,964, respectively, included in investment income and other, net. While management uses available information to measure other-than-temporary impairment at the balance sheet date, future write downs may be necessary based on extended duration of current unrealized losses and changing market conditions.

On July 1, 2008, the Hospital adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities. In accordance with Topic 820, fair value is defined as the price that the Hospital would receive to sell an investment or pay to transfer a liability in an orderly transaction with an independent counter party in the principal market or in the absence of a principal market, the most advantageous market for the investment or liability. Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 7).

(f) Inventories

Inventories are stated on the weighted average cost method, which approximates market value.

(g) Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside by the board of directors for future capital improvements and other purposes, over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Assets held by trustees under indenture agreements are also included within this caption and are classified as current assets to the extent they are to be used to pay for current liabilities.

Restricted assets include assets whose use by the Hospital has been limited by donors to a specific purpose or to be held in perpetuity.

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated to the Hospital are recorded as additions to temporarily restricted net assets at their fair value at the date of receipt and as a transfer to unrestricted net assets when the assets are placed in service.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method using a half-year convention in the year of acquisition and disposal.

(i) ***Unamortized Bond Issuance Costs and Original Issue Discounts***

The costs incurred and capitalized in issuing the Series 2008 and Series 2002 Hospital Revenue Bonds are amortized into interest expense by the bonds outstanding method over the respective term of each bond series.

The discount incurred in issuing the Series 2002 Hospital Revenue Bonds is classified as a reduction to long-term debt and is amortized into interest expense using the effective-interest method over the respective term of the bond issue.

(j) ***Notes Receivable***

Notes receivable are comprised of loans and advances to certain physicians, tuition advances to various employees and prospective employees, and recruitment loan advances to various employees. The allowance for uncollectible notes receivable is $167,400 and $175,320 at June 30, 2010 and 2009, respectively.

(k) ***Business Combinations and Goodwill and Other Intangible Assets***

The Hospital accounts for a business combination using the purchase method of accounting, and accordingly, the net assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Goodwill and other intangible assets are amortized on a straight-line basis over a period of five years. Goodwill and other intangible assets related to the acquisition of certain assets of Progressive Medical Imaging (PMI) at cost are $8,374,481 and $659,757, respectively. Accumulated amortization of goodwill and intangibles is $7,444,488 and $5,637,641 as of June 30, 2010 and 2009, respectively.

The Hospital's policy is to evaluate goodwill and intangible assets based on consideration of such factors as the occurrence of a significant adverse event or change in the environment in which the business operates or if the expected future cash flows (undiscounted and without interest) are less than the carrying amount of the asset. No impairment has been recognized in 2010 or 2009 as the Hospital does not believe that there are any factors or circumstances indicating impairment as of June 30, 2010 and 2009.

(l) ***Temporarily Restricted and Permanently Restricted Net Assets***

Restricted net assets, the use of which is restricted by donors or grantors, are used to differentiate from unrestricted net assets on which donors or grantors place no restrictions or that arise as a result of the operations of the Hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted net assets at fair market value at the date of donation.

Resources restricted by donors for property and equipment replacement or expansion are added to unrestricted net assets to the extent expended within the period.

Unrestricted donations totaled $23,067 and $25,654 for the years ended June 30, 2010 and 2009, respectively, and are included in other revenue.

(m) ***Excess of Revenue, Support, and Gains over Expenses***

The statements of operations include excess of revenue, support, and gains over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue, support, and expenses. Transactions incidental to the provision of patient care services are reported as gains and losses. Changes in unrestricted net assets which are excluded from the excess of revenue, support, and gains over expenses, consistent with industry practice, include unrealized gains and losses on investments in other-than-trading securities, changes in the accrued pension liability, change in periodic pension and postretirement cost not yet recognized in expense, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

(n) ***Net Patient Service Revenue***

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

(o) ***Patient Assistance***

The Hospital provides care to patients who meet certain criteria under its patient assistance policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as patient assistance, they are not reported as revenue.

(p) ***Donor-Restricted Gifts***

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in other revenue in the accompanying financial statements.

(q) ***Pension Plan***

The Hospital has a noncontributory defined benefit pension plan (Pension Plan) covering substantially all employees of the Hospital. The funding policy is to contribute annually at least the minimum contribution required to comply with ERISA regulations.

(Continued)

(r) Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for the self-insured portion of both reported claims and claims incurred but not reported. The provision is recorded in other noncurrent liabilities.

(s) Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal taxes on related business income pursuant to Section 501(a) of the Code. The Hospital does not have a reserve for any uncertain tax positions.

(2) Net Patient Services Accounts Receivable

Net patient services accounts receivable consists of the following as of June 30, 2010 and 2009:

		2010	2009
Gross patient services accounts receivable	$	38,055,393	36,165,322
Allowance for estimated contractual adjustments		(14,045,000)	(12,886,000)
Allowance for uncollectible accounts		(5,205,000)	(4,526,000)
Net patient services accounts receivable	$	18,805,393	18,753,322

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party payment programs represent the differences between the Hospital's billings at standard rates and amounts paid by third-party payors. They also include any differences between estimated third-party settlements for prior years and subsequent final settlements. A summary of the payment arrangements with major third-party payors follows:

(a) Medicare

Under the Medicare program, the Hospital receives payment under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average cost, providers may receive additional "outlier" payments. A prospective outpatient system provides for payment for most outpatient services based on service groups called ambulatory payment classifications. Other procedures are paid on a fee schedule. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the prospective payment systems and the appropriateness of the patients' admissions are subject to validation reviews.

(b) ***Medicaid***

The Hospital is paid for Medicaid inpatient services under a prospectively determined rate per discharge. The differences between standard charges and payments are recorded as contractual adjustments.

Payment for Medicaid outpatient services is based on predetermined rates. Medicaid payments are not subject to retroactive cost-based settlements.

(c) ***Other Payment Arrangements***

The Hospital also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge and discounts from established rates. Charges from the Hospital's largest commercial health insurer were approximately 17% and 19% of gross patient service revenue in 2010 and 2009, respectively. A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for the years ended June 30, 2010 and 2009 follows:

		2010	2009
Patient service revenue:			
Inpatient	$	87,773,037	80,515,800
Outpatient:			
Ancillary services		206,078,284	202,135,091
Physician practices		11,750,538	8,526,452
Patient assistance		(15,595,845)	(16,309,165)
Patient service revenue		290,006,014	274,868,178
Contractual adjustments		(159,178,482)	(144,562,709)
Net patient service revenue	$	130,827,532	130,305,469

(4) Third-Party Settlements

For the years ended June 30, 2010 and 2009, Medicare gross patient service revenue was approximately $139,500,000 and $129,900,000, respectively. Estimated third-party settlements for this program reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year, and any differences owed to or by the Hospital after such reports have been audited. At June 30, 2010, Medicare reports have been audited and final settled with the fiscal intermediary through June 30, 2007.

In fiscal year 2010, net patient service revenue was increased by approximately $1,949,000 primarily due to an adjustment related to a Medicare Sole Community Hospital Low Volume Adjustment settlement, along with other open cost report and miscellaneous settlements. Additionally in fiscal year 2010, net patient service revenue was increased by $2,578,000 for Medicare transitional outpatient payments. In fiscal year 2009, net patient service revenue was decreased by approximately $139,000 due to an adjustment to settlement estimates related to open cost reports and miscellaneous appeal settlements. Additionally in fiscal year 2009, net patient service revenue was increased by $1,285,000 for Medicare transitional outpatient payments, and also by $4,313,000 for an Indiana Medicaid Safety Net Payment related to state fiscal year 2009.

(5) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009 follows:

	2010	2009
Medicare	33%	32%
Medicaid	12	11
Commercial insurance	15	15
Patients	30	27
Blue Cross	10	15
	100%	100%

(6) Assets Limited as to Use or Restricted

Assets limited as to use include funds held by trustee subject to indenture agreements and assets set aside by the board of directors for future capital improvements and other purposes. All investments are considered other-than-trading securities by management.

Assets limited as to use that are required for certain obligations classified as current liabilities are reported in current assets.

The funds held by trustee subject to indentures (investments are comprised of cash and cash equivalents) consist of the following at June 30, 2010 and 2009:

		2010	2009
Indiana financing authority:			
Variable rate demand revenue bonds, Series 2008A:			
Project fund	$	6,624,666	9,627,505
Purchase fund		—	5,755,000
		6,624,666	15,382,505
Indiana health facility financing authority hospital revenue bonds, Series 2002:			
Interest fund		758,732	773,236
Sinking fund		395,042	376,754
		1,153,774	1,149,990
Total trustee funds		7,778,440	16,532,495
Less current portion		(1,153,891)	(7,639,755)
	$	6,624,549	8,892,740

A description and the carrying value of the assets limited as to use by the board of directors is as follows at June 30, 2010 and 2009:

		2010	2009
Cash and cash equivalents	$	1,118,130	77,231
Index fund		3,745,457	3,757,322
International mutual funds		9,376,456	10,530,260
Mutual funds		78,048,008	67,462,085
Alternative investments – fund of funds		14,678,959	11,667,552
Assets limited as to use by board of directors	$	106,967,010	93,494,450

At June 30, 2010 and 2009, assets limited as to use under indenture agreements and other restricted assets are invested in cash and cash equivalents. At June 30, 2010 and 2009, other assets include investments in mutual funds with a fair value of $120,847 and $68,541, respectively.

(Continued)

Investment return for cash, investments, and other investments are comprised of the following for the years ended June 30, 2010 and 2009:

		2010	2009
Other nonoperating gains:			
Investment return:			
Interest and dividends	$	3,630,510	5,817,128
Net realized gains (losses) on sale of investments		1,889,989	(7,220,281)
Other gains (losses):			
Gain on equity in joint ventures		690,123	714,088
Other		6,030	(90,100)
	$	6,216,652	(779,165)
Unrealized gains (losses):			
Change in net unrealized gains (losses) on investments	$	7,982,216	(11,971,092)

The following is a description of the Hospital's investments for which market value is less than cost at June 30, 2010 and 2009 for which a continuous unrealized loss position has been less than 12 months:

		2010		2009	
		Unrealized loss	Aggregate fair value of investments with unrealized losses	Unrealized loss	Aggregate fair value of investments with unrealized losses
Mutual funds	$	1,238,772	12,939,144	5,152,907	18,505,538
International mutual funds		326,440	906,064	2,051,562	7,409,854
Index funds		—	—	—	—
Alternative investments – fund of funds		—	—	841,169	7,855,757
Total	$	1,565,212	13,845,208	8,045,638	33,771,149

(Continued)

The following is a description of the Hospital's investments for which market value is less than cost at June 30 for which a continuous unrealized loss position has been more than 12 months:

	2010		2009	
	Unrealized loss	**Aggregate fair value of investments with unrealized losses**	**Unrealized loss**	**Aggregate fair value of investments with unrealized losses**
Mutual funds	$ 1,657,129	8,296,027	568,542	30,332,637
International mutual funds	888,687	6,073,433	—	—
Index funds	826,722	3,745,457	1,365,923	3,757,322
Alternative investments – fund of funds	447,984	4,183,642	—	—
Total	$ 3,820,522	22,298,559	1,934,465	34,089,959

At June 30, 2010, there was one mutual fund and one international mutual fund which has been in a continuous unrealized loss position for less than 12 months. The market values of the funds were 91.26% and 73.51% of cost. The decline is considered temporary based on the criteria described in note 1(d). In addition, the Hospital has the ability and intent to hold the investments until the value has recovered.

At June 30, 2010, there were two mutual funds, one index fund, two international mutual funds, and one alternative investment – fund of funds which have been in continuous unrealized loss positions for more than 12 months. At June 30, 2010, the market values of the funds range from 81.92% to 90.77% of the cost. The Hospital considers the decline to be temporary based on the criteria described in note 1(d). In addition, the Hospital has the ability and intent to hold the investments until the value has recovered.

(7) Fair Value Measurements of Financial Assets and Liabilities

Certain financial assets held by the Hospital at June 30, 2010 are recorded at fair value in accordance with ASC Topic 20 as further described in note 1(d). ACS Topic 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs); and establishes a classification of fair value measurements for disclosure purposes. Various inputs are summarized in the three broad levels listed below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Hospital's own assumptions in determining the fair value of investments).

The Hospital categorized the investments measured at fair value on a recurring basis at June 30, 2010 and 2009, as follows:

		June 30, 2010			
		Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Cash and cash equivalents	$	25,053,642	—	—	25,053,642
Index fund		3,745,457	—	—	3,745,457
International mutual funds		9,376,456	—	—	9,376,456
Mutual funds		65,229,711	12,939,144	—	78,168,855
Alternative investments		—	14,678,959	—	14,678,959
Total	$	103,405,266	27,618,103	—	131,023,369

		June 30, 2009			
		Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Cash and cash equivalents	$	20,365,383	—	—	20,365,383
Index fund		3,757,322	—	—	3,757,322
International mutual funds		10,530,260	—	—	10,530,260
Mutual funds		55,853,378	11,677,248	—	67,530,626
Alternative investments		—	11,667,552	—	11,667,552
Total	$	90,506,343	23,344,800	—	113,851,143

The Hospital has alternative investments of $14,700,000 which have redemption restrictions. Of these investments, $9,200,000 can be redeemed quarterly. The remaining $5,500,000 may be redeemed on the anniversary dates of the original contribution, which are primarily, January 1 and October 1. As the restrictions lapse within six months of year-end, we do not believe that the redemptive restrictions have a significant impact on the fair value of the investments.

For financial assets and liabilities not measured at fair value on the balance sheet, the Hospital believes the carrying amount of its financial instruments (excluding long-term debt) approximates their fair values due to the relatively short maturity of these instruments. Long-term debt based on quoted market value of similar debt instruments, has an aggregate fair value of $51,768,000 and $51,385,175 at June 30, 2010 and 2009, respectively.

(8) Investment in Joint Ventures

In 1997, the Hospital invested $937,500 to purchase a 50% ownership in a joint venture, which operates an ambulatory surgery center (Surgery Center of NorthCentral Indiana, LLC d/b/a River View Surgery Center (River View) in Marion, Indiana. Since 1997, River View bought shares resulting in the increase of the Hospital's ownership to 58.594% as of June 30, 2010. The Hospital accounts for the investment under the equity method of accounting as it does not control key operating and governance factors in the organization. As a result, the Hospital recognized a gain of $177,294 and $78,066 related to its investment in River View for the years ended June 30, 2010 and 2009, respectively. The Hospital received dividend distributions during June 30, 2010 and 2009 of $336,746 and $146,259, respectively. The gain is included in investment income, net in the statements of operations.

The following is the unaudited condensed financial information of River View as of and for the years ended June 30, 2010 and 2009:

		2010	2009
Total assets	$	1,681,874	1,940,593
Total equity		1,458,321	1,730,452
Total net revenue		4,040,257	4,703,608
Net income		246,901	561,159

River View entered into a 15-year lease to rent a portion of a medical office building owned by the Hospital. Rent payments received by the Hospital in 2010 and 2009 from River View approximated $500,000 and $542,000, respectively, and are reported in other revenue.

In 2003, the Hospital invested $3,000,000 to purchase 50% ownership in a joint venture to operate a cancer care center (Progressive Cancer Center, LLC) in Marion, Indiana. Since 2003, the number of outstanding shares in Progressive Cancer Center, LLC decreased thereby increasing the Hospital's ownership to 50.804% as of June 30, 2010. The Hospital accounts for the investment under the equity method of accounting, as the governance structure is such that the Hospital cannot exercise control. As a result, the Hospital recognized a gain of $484,229 and $636,022 related to its investment in Progressive Cancer Center, LLC for the years ended June 30, 2010 and 2009, respectively. The Hospital received dividend distributions during June 30, 2010 and 2009 of $516,540 and $639,840, respectively. The gain is included in investment income, net in the statements of operations.

The following is the unaudited condensed financial information of Progressive Cancer Care, LLC as of and for the years ended June 30, 2010 and 2009:

		2010	2009
Total assets	$	4,566,841	4,940,728
Total equity		4,278,986	4,335,161
Total net revenue		2,397,772	2,639,611
Net income		941,982	1,157,328

(Continued)

(9) Property and Equipment

Property and equipment and their estimated useful lives are as follows at June 30, 2010 and 2009:

	2010	2009	Range of estimated useful lives
Land	$ 3,283,204	3,410,824	
Land improvements	1,683,188	1,581,617	10–20 years
Buildings	54,991,112	53,268,520	5–40 years
Medical office buildings	9,742,191	10,920,854	5–40 years
Building service equipment	28,578,879	27,102,561	5–25 years
Leasehold improvements	616,509	596,671	15–20 years
Fixed equipment	1,098,638	1,098,638	10–20 years
Leased equipment	142,740	142,740	4 years
Major movable equipment	57,930,127	56,544,587	2–20 years
Vehicles	814,183	772,170	4 years
	158,880,771	155,439,182	
Less accumulated depreciation	(94,065,676)	(87,077,947)	
Construction in progress	2,008,960	2,498,071	
	$ 66,824,055	70,859,306	

Construction in progress at June 30, 2010 primarily relates to Information Technology capital equipment projects. Estimated costs to complete these projects at June 30, 2010 is approximately $442,000, of which the majority has been contractually committed.

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Interest cost capitalized was $349,944 and $206,728 in 2010 and 2009, respectively. Investment income earned on unexpended bond proceeds administered by a trustee for specific projects is offset against the amount of interest cost capitalized. There was no such investment income offset in 2010 or 2009.

(10) Long-Term Debt

Long-term debt consists of the following at June 30, 2010 and 2009:

		2010	2009
Indiana Finance Authority:			
Variable rate demand revenue bonds, Series 2008A:			
Variable rate securities, payable through July 2035 applicable Weekly Mode interest rate of 2.0% at June 30, 2010	$	22,955,000	23,800,000
Revenue bonds, Series 2002:			
Serial bonds, payable through July 1, 2013, interest from 4.0% to 4.5%		1,685,000	2,060,000
Term bonds with final redemption on July 1, 2019, interest at 5.625%		3,240,000	3,240,000
Term bonds with final redemption on July 1, 2023, interest at 5.25%		2,810,000	2,810,000
Term bonds with final redemption on July 1, 2027, interest at 5.25%		6,530,000	6,530,000
Term bonds with final redemption on July 1, 2032, interest at 5.25%		14,685,000	14,685,000
		28,950,000	29,325,000
Unamortized discount		(448,854)	(477,323)
		28,501,146	28,847,677
Add letter of credit balance at June 30, 2009 interest at 0.62%		—	5,755,000
Less current installments		(1,260,000)	(2,658,750)
Total long-term debt	$	50,196,146	55,743,927

On June 10, 2008, the Hospital issued $24,000,000 of variable rate demand revenue bonds, Series 2008A, through the Indiana Finance Authority. The funds were used to refinance and retire the outstanding Series 2005 Bonds in the amount of $6,750,000, and to finance routine capital expenditures at the Hospital facilities, including but not limited to remodeling of the radiology department in the Hospital, upgrading the current CT scanners, MRIs, ultrasounds, and other radiology equipment, upgrading and improvement of other equipment in the Hospital, and replacement of IV pumps throughout the Hospital. The bonds are dated and bear interest from June 10, 2008, with interest payable monthly. The Series 2008A bonds are secured by an irrevocable letter of credit for $24,000,000, which expires July 1, 2013. Should the Hospital be unable to secure another letter of credit, bondholders may have the right the request redemption of the bonds.

On May 1, 2002, the Hospital issued $29,690,000 of revenue bonds, Series 2002, through the Indiana Health Facility Financing Authority, at a discount of $686,204. The funds were used to finance the construction of a consolidated Intensive Care and Coronary Care Nursing Unit, an addition to the fourth and fifth floors, remodeling of certain units, including the emergency room, and to refinance and retire the Series 1997 bonds. All of the bonds are dated and bear interest from May 1, 2002, with interest payable semiannually on January 1 and July 1. The Series 2002 bonds are further secured through a commercial bond insurance policy.

The Hospital granted a security interest in its gross revenue (as defined) as collateral for the Series 2008A and 2002 bonds. In addition to various financial covenants, the Hospital covenants that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances.

The following is a schedule of maturities on long-term debt as of June 30, 2010 for the next five years:

2011	$	1,260,000
2012		1,305,000
2013		1,350,000
2014		1,405,000
2015		1,455,000

(11) Pension and Other Benefits

(a) Defined Benefit Plan and Defined Benefit Health Plan

The Hospital maintains a defined benefit plan (the Pension Plan), which covers substantially all employees of the Hospital hired or rehired before December 31, 2006. The Pension Plan provides retirement and death benefits, with disability benefits though December 31, 2005. The Hospital contributes amounts necessary to provide funds sufficient to meet the benefits to be paid to participants under the Pension Plan.

Effective December 31, 2009, the Pension Plan was amended to calculate frozen benefits accrued under all prior benefit formulas as of December 31, 2009 (based on monthly plan compensation and service prior to December 31, 2009) and to add a new benefit formula for service after December 31, 2009 equal to 0.5% of monthly plan compensation per year of service earned after December 31, 2009.

Effective July 1, 2009, the Pension Plan was amended to comply with the Pension Protection Act of 2006 (PPA) and the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART).

Prior to April 1, 2010, the Hospital also had a defined benefit health plan (the Health Plan) for early retirees, which provided for health benefits, subject to certain eligibility requirements, from the date of early retirement (but not prior to age 55) to the date the retiree become Medicare eligible. This Health Plan also provided for certain coinsurance and deductibles to be paid by the retiree, same as all participants. Effective April 1, 2010, this defined benefit health plan was terminated. This reduced the postretirement liability and the items not yet recognized as a component of postretirement cost to $0. As a result, employee benefit expense was reduced by approximately $3,200,000 for the year ended June 30, 2010.

The following tables set forth the plans (Pension Plan and Health Plan) change in benefit obligation, change in plan assets, and weighted average assumptions as of June 30, 2010 and 2009 (Measurement Dates):

	Pension Plan benefits		Health Plan benefits	
	June 30, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 66,202,693	59,526,843	5,610,828	4,552,797
Service cost	1,009,814	1,032,808	—	245,925
Interest cost	4,036,480	3,962,241	—	284,255
Amendments	(574,982)	—	—	—
Actuarial loss	9,686,524	4,629,949	—	918,795
Benefits paid	(3,126,021)	(2,949,148)	—	(390,944)
Termination of plan	—	—	(5,610,828)	—
Benefit obligation at end of year	77,234,508	66,202,693	—	5,610,828
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	54,438,998	63,144,542	—	—
Actual return on plan assets	8,640,091	(10,756,396)	—	—
Employer contribution	—	5,000,000	—	—
Benefits paid	(3,126,021)	(2,949,148)	—	—
Fair value of plan assets at end of year	59,953,068	54,438,998	—	—
Funded status	$ (17,281,440)	(11,763,695)	—	(5,610,828)

	Pension Plan benefits		Health Plan benefits	
	June 30, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Amounts recognized in the balance sheets consist of:				
Accrued pension liability	$ 17,281,440	11,763,695	—	—
Postretirement benefit obligation – current	—	—	—	587,754
Postretirement benefit obligation – noncurrent	—	—	—	5,023,074
Items not yet recognized as a component of periodic pension and postretirement cost – accumulated charge to unrestricted net assets	30,142,993	27,484,315	—	2,417,555

The net loss and prior service cost for the pension benefits that the Hospital expects to amortize from unrestricted net assets into net periodic benefit cost over the next calendar year are $3,029,948 and $654,939, respectively.

	Pension Plan benefits		Health Pplan benefits	
	June 30, 2010	**June 30, 2009**	**June 30, 2010**	**June 30, 2009**
Weighted average assumptions used to determine benefit obligations:				
Discount rate	5.27%	6.25%	—%	6.30%
Rate of compensation increase	—*	—*	—	—
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	6.25%	6.83%	—%	—%
Expected return on plan assets	8.25	8.25	—	—
Rate of compensation increase	—*	—*	—	—

* Future salaries for plan purposes have been restricted to a maximum amount as defined in Amendment effective January 1, 2006.

The Hospital recognizes the cost related to employee service using the projected unit credit actuarial cost method and funds at least the minimum as calculated under the ERISA.

The discount rate was selected by applying the benefit payout stream to the Citigroup Pension Discount curve spot rates.

The Hospital's overall expected long-term rate of return on assets is 8.25%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The following table sets forth the components of net periodic benefit cost for the years ended June 30, 2010 and 2009 for the Pension Plan and the Health Plan:

	Pension Plan benefits		Health Plan benefits	
	2010	**2009**	**2010**	**2009**
Components of net periodic benefit cost:				
Service cost	$ 1,009,814	1,032,808	—	245,925
Interest cost	4,036,480	3,962,241	—	284,255
Expected return on plan assets	(4,357,649)	(5,084,476)	—	41,949
Amortization of transition amount	—	—	—	74,820
Amortization of prior service cost	(587,760)	(587,760)	—	—
Amortization of loss	2,758,183	530,588	—	—
Net periodic benefit cost (income)	$ 2,859,068	(146,599)	—	646,949

For measurement purposes of the Health Plan, a 10% annual rate of increase in the per-capita cost of covered healthcare benefits was assumed for 2009. The rate was assumed to decrease gradually to 6% over a 10-year period.

The Pension Plan asset target allocation for 2011, as well as the allocation at June 30, 2010 and 2009, by asset category is as follows:

Asset category	Target allocation 2010	Percentage of plan assets at June 30, 2010	June 30, 2009
Equity securities	45%–55%	43%	42%
Debt securities and cash equivalents	35%–45%	45	47
Alternative investments	5%–15%	12	11
Total		100%	100%

The investment policy covering pension assets is approved by the Finance Committee of the Board of Directors for the Hospital. This committee meets on a bimonthly basis and makes periodic changes to the policy. The approved investment structure includes various asset classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long term. Investment managers are reviewed on an ongoing basis.

The Hospital is planning to contribute to the Pension Plan in fiscal year 2011 in order to meet minimum funding requirements.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Pension Plan:

	Pension Plan benefits
2011	$ 3,337,279
2012	3,534,912
2013	3,707,931
2014	3,848,060
2015	4,113,646
2016 through 2020	23,416,132

(b) Defined Contribution Plan

The Hospital established a 403(b) Employer Contributory Plan (the Plan) on January 1, 2007, which permits employees of the Hospital to contribute to the Plan, on a pretax basis, up to the applicable limitations under Section 402(g)(1) of the Code. The contributions made by each employee are fully vested immediately and are not subject to forfeiture. As defined by the Plan, the Hospital makes matching contributions of 50% of the employee's contribution up to 6% of qualifying wages for benefit eligible employees not vested in the Pension Plan. The Hospital makes matching contributions of 50% of the employee's contribution up to 2% of qualifying wages for benefit eligible employees who are vested in the Pension Plan. Contributions made by the Hospital during 2010 and 2009 amounted to $413,455 and $424,594, respectively.

(12) Medical Office Buildings – Operating Leases

The Hospital owns medical office buildings in Gas City, Indiana; Swayzee, Indiana; and in Marion, Indiana, and leases the buildings to physicians, physician groups, and others under various operating leases. Lease rental income of $1,127,329 and $1,091,344 is included in other revenue for the years ended June 30, 2010 and 2009, respectively.

The Hospital is scheduled to receive future minimum rental payments under these lease agreements for the next five years as follows:

2011	$	790,479
2012		653,874
2013		284,424
2014		98,162
2015		38,427

(13) Lease Obligations

The Hospital leases various equipment and space under noncancelable operating leases expiring in various years through 2025. Total rental expense amounted to approximately $635,000 and $630,000 for 2010 and 2009, respectively. Future minimum payments under the operating leases with initial terms in excess of one year as of June 30, 2010 are as follows:

2011	$	582,297
2012		570,027
2013		557,813
2014		455,730
2015		412,522

(14) Malpractice Insurance

The Hospital participates in the Indiana Medical Malpractice Act (the Act), which limits the maximum recovery for medical malpractice claims to $1,250,000 per occurrence, of which, the first $250,000 is the responsibility of the Hospital, with the balance paid by the State of Indiana Patient Compensation Fund.

Effective July 1, 2005, the Hospital became a member of a Vermont insurance company, Indiana Healthcare Reciprocal Risk Retention Group (IHRRRG) formerly known as VHA Central (a Reciprocal Risk Retention Group), as a means to comply with the Hospital's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in IHRRRG currently includes nine Indiana hospitals. The Hospital's investment in IHRRRG of $345,934 is included in other assets as of June 30, 2010 and 2009.

(Continued)

The Hospital has estimated the reserve for loss contingencies using actuarial valuations in determining the estimated reserve for loss contingencies, including the incurred but not reported claims. In management's opinion, a reserve for loss contingencies of approximately $300,000 as of June 30, 2010 and 2009, respectively, is a reasonable estimate to cover malpractice exposures.

(15) Related-Party Transactions

The Hospital has entered into various agreements in the normal course of business with companies for which certain officers of these companies are also members of the Hospital's Board of Directors.

(16) Commitments and Contingencies

(a) Regulatory Investigations

The U.S. Department of Justice, the Internal Revenue Service, and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters that may have a material adverse effect on the Hospital's financial position or results of operations.

(b) Legal Matters

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position or results of operations of the Hospital.

(c) Guarantees

The Hospital provides gross receipts guarantee agreements to certain physicians who agree to relocate to the Hospital's community to fill a need in the Hospital's service area and commit to remain in practice there. Under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they collect in their practice up to the amount of gross receipts guarantee. The gross receipts guarantee period is typically 12-24 months. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically two to three years. At June 30, 2010, the maximum potential amount of future payments under these guarantees was approximately $280,000, none of which has been accrued in other liabilities. In accordance with ASC Topic 954-460, *Health Care Entities- Guarantees*, the Hospital analyzed its potential liability as the fair value of the obligation in issuing the guarantees.

(17) Subsequent Events

The Hospital has evaluated subsequent events from the balance sheet date through October 5, 2010, the date at which the financial statements were available to be issued and determined there are no other items to disclose.