Consolidated Financial Statements and Supplementary Information

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

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Supplementary Information

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Contents

Ernst & Young LLP
The Plaza in Clayton Suite 1300
190 Carondelet Plaza
St. Louis, Missouri 63105-3434

Tel: +1 314 290 1000
Fax: +1 314 290 1882
www.ey.com

Report of Independent Auditors

The Board of Directors
Parkview Health System, Inc.

We have audited the accompanying consolidated balance sheets of Parkview Health System, Inc. and subsidiaries (the Corporation) 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 Corporation'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included 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 Corporation'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, and 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 consolidated financial position of Parkview Health System, Inc. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Corporation adopted authoritative guidance issued by the Financial Accounting Standards Board related to presentation and disclosure of patient service revenue and provisions for bad debts.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying details of consolidated balance sheets as of December 31, 2011 and 2010, and the details of consolidated statements of operations and changes in net assets for the years then ended, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

April 19, 2012

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Balance Sheets
(In Thousands)

	December 31	
	2011	**2010**
Assets		
Current assets:		
Cash and cash equivalents	**$ 19,153**	$ 21,209
Patient accounts receivable, less allowances for bad debts of $37,171 and $28,868 in 2011 and 2010, respectively	**128,046**	120,743
Inventories	**12,295**	10,915
Prepaid expenses and other current assets	**23,190**	20,566
Collateral from securities lending agreement *(Note 6)*	**6,040**	6,318
Total current assets	**188,724**	179,751
Investments *(Note 6)* :		
Board-designated debt reserve and capital replacement funds	**490,325**	650,549
Securities pledged	**7,304**	7,660
Other investments	**133**	122
	497,762	658,331
Property and equipment *(Note 7)* :		
Cost	**1,441,104**	1,223,956
Less accumulated depreciation and amortization	**506,510**	500,642
	934,594	723,314
Other assets:		
Interest rate swaps	**5,596**	6,197
Deferred financing costs, net	**2,944**	3,146
Investments in joint ventures	**2,763**	4,237
Goodwill and intangible assets, net *(Note 3)*	**47,173**	45,735
Other assets	**20,543**	30,448
	79,019	89,763
Total assets	**$ 1,700,099**	$ 1,651,159

	December 31	
	2011	**2010**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 73,251**	$ 71,424
Salaries, wages, and related liabilities	**60,665**	41,415
Accrued interest	**3,130**	2,944
Estimated third-party payor settlements	**6,513**	6,208
Payable under securities lending agreement *(Note 6)*	**7,482**	7,835
Current portion of long-term debt *(Note 8)*	**15,739**	32,250
Total current liabilities	**166,780**	162,076
Noncurrent liabilities:		
Long-term debt, less current portion *(Note 8)*	**611,399**	596,091
Interest rate swaps *(Note 9)*	**85,450**	46,390
Accrued pension obligations *(Note 10)*	**57,544**	11,205
Other	**16,268**	13,359
	770,661	667,045
Net assets:		
Parkview Health System, Inc.	**743,146**	802,315
Noncontrolling interest in subsidiaries	**14,264**	14,926
Total unrestricted net assets	**757,410**	817,241
Temporarily restricted net assets	**4,346**	4,020
Permanently restricted net assets	**902**	777
Total net assets	**762,658**	822,038
Total liabilities and net assets	**$ 1,700,099**	$ 1,651,159

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended December 31	
	2011	**2010**
Revenues:		
Patient service revenue (net of contractual allowances and discounts)	**$ 954,907**	$ 808,283
Provision for bad debts	**(84,618)**	(55,701)
Net patient service revenue, less provision for bad debts	**870,289**	752,582
Other revenue	**52,193**	23,466
	922,482	776,048
Expenses:		
Salaries and benefits	**489,685**	413,898
Supplies	**121,989**	115,524
Purchased services	**119,535**	97,446
Utilities, repairs, and maintenance	**39,463**	35,242
Depreciation and amortization	**49,864**	50,556
Other	**31,759**	30,584
	852,295	743,250
Operating income before impairment charges	**70,187**	32,798
Write-down of asset due to impairment *(Note 7)*	**(7,736)**	(4,385)
Operating income	**62,451**	28,413
Nonoperating income (expense):		
Interest, dividends, and realized gains on sales of investments, net *(Note 6)*	**11,864**	16,588
Unrealized (losses) gains on investments, net *(Note 6)*	**(23,040)**	27,381
Interest expense	**(10,155)**	(21,606)
Realized and unrealized losses on interest rate swaps, net	**(39,787)**	(17,880)
Other *(Note 2)*	**(3,823)**	(878)
(Deficit) excess of revenues over expenses	**(2,490)**	32,018
Excess of revenues over expenses attributable to noncontrolling interest in subsidiaries	**9,556**	8,623
(Deficit) excess of revenues over expenses attributable to Parkview Health System, Inc. and subsidiaries	**$ (12,046)**	$ 23,395

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

	Year Ended December 31, 2011		
	Total	Controlling Interest	Noncontrolling Interest
Unrestricted net assets			
(Deficit) excess of revenues over expenses	$ (2,490)	$ (12,046)	$ 9,556
Distributions to noncontrolling interests	(10,218)	–	(10,218)
Pension-related changes other than net periodic pension cost	(46,714)	(46,714)	–
Other	(409)	(409)	–
Decrease in unrestricted net assets	(59,831)	(59,169)	(662)
Temporarily restricted net assets			
Contributions	705	705	–
Investment income	40	40	–
Net assets released from restrictions	(707)	(707)	–
Other	288	288	–
Increase in temporarily restricted net assets	326	326	–
Permanently restricted net assets			
Contributions	125	125	–
Increase in permanently restricted net assets	125	125	–
Decrease in net assets	(59,380)	(58,718)	(662)
Net assets at beginning of year	822,038	807,112	14,926
Net assets at end of year	$ 762,658	$ 748,394	$ 14,264

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

	Year Ended December 31, 2010		
	Total	Controlling Interest	Noncontrolling Interest
Unrestricted net assets			
Excess of revenues over expenses	$ 32,018	$ 23,395	$ 8,623
Distributions to noncontrolling interests	(8,059)	–	(8,059)
Pension-related changes other than net periodic pension cost	3,309	3,309	–
Other	(2,044)	(2,056)	12
Increase in unrestricted net assets	25,224	24,648	576
Temporarily restricted net assets			
Contributions	508	508	–
Investment income	74	74	–
Net assets released from restrictions	(527)	(527)	–
Other	227	227	–
Increase in temporarily restricted net assets	282	282	–
Increase in net assets	25,506	24,930	576
Net assets at beginning of year	796,532	782,182	14,350
Net assets at end of year	$ 822,038	$ 807,112	$ 14,926

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2011	**2010**
Operating activities		
(Decrease) increase in net assets	**$ (59,380)**	$ 25,506
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Provision for bad debts	**84,618**	55,701
Depreciation and amortization	**49,864**	50,556
Unrealized loss on interest rate swaps	**39,660**	17,837
Amortization of deferred financing costs and discount	**468**	480
Loss from disposal of property and equipment	**442**	440
Write-down of assets due to impairment	**7,736**	4,385
Pension-related changes other than net periodic pension cost	**46,714**	(3,309)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(91,921)**	(40,528)
Inventories	**(1,380)**	82
Prepaid expenses and other current assets	**(2,243)**	14,438
Trading securities	**160,570**	153,423
Accounts payable, accrued expenses, and other current liabilities	**20,911**	3,900
Estimated third-party payor settlements	**305**	(164)
Accrued pension obligations	**(375)**	(8,774)
Collateral returned (posted) on swaps	**13,979**	(17,080)
Other	**6,797**	8,089
Net cash provided by operating activities	**276,765**	264,982
Investing activities		
Property and equipment additions, net	**(266,753)**	(280,701)
Business acquisitions	**(824)**	(16,972)
Proceeds from sale of property and equipment	**378**	195
Net cash used in investing activities	**(267,199)**	(297,478)
Financing activities		
Principal payments of long-term debt	**(11,961)**	(10,720)
Proceeds from issuance of long-term debt	**13,565**	29,337
Distributions to noncontrolling interests	**(10,218)**	(8,059)
Other	**(3,008)**	266
Net cash (used in) provided by financing activities	**(11,622)**	10,824
Decrease in cash and cash equivalents	**(2,056)**	(21,672)
Cash and cash equivalents at beginning of year	**21,209**	42,881
Cash and cash equivalents at end of year	**$ 19,153**	$ 21,209

Supplemental disclosures of cash flow information

The Corporation entered into capital lease obligations in the amounts of $370 and $32 for new equipment in 2011 and 2010, respectively.

See accompanying notes.

1. Organization

Nature of Operations

Parkview Health System, Inc., d/b/a Parkview Health (PH or the Corporation), is a health care system that provides services in northeast Indiana. PH's mission is to provide quality health care services to all who entrust their care to PH and to improve the health of the community. Services provided by PH include acute, nonacute, and tertiary care services on an inpatient, outpatient, and emergency basis; managed care contracting, health care diagnostics, and treatment services for individuals and families; home health care; and behavioral health care. The principal operating activities of PH are conducted by wholly owned or controlled affiliates and subsidiaries.

PH is the sole corporate member of Parkview Hospital, Inc. (PVH), which operates Parkview Hospital, a 512-bed acute care hospital located in Fort Wayne, Indiana. Until recently, PVH operated Parkview North Hospital, a 108-bed acute care hospital. Effective March 17, 2012, the new Parkview Regional Medical Center (PRMC) opened on the north campus. PRMC, including the existing Parkview North Hospital, now offers a total of 401 beds on the north campus. PH is the majority owner (60%) of the Orthopaedic Hospital at Parkview North LLC (ORTHO), which is a for-profit joint venture hospital with a large orthopaedic physician group. ORTHO operates the Orthopaedic Hospital, a 36-bed orthopaedic specialty hospital. In addition, PH is the sole corporate member of Huntington Memorial Hospital, Inc.; Whitley Memorial Hospital, Inc.; Community Hospital of Noble County, Inc.; and Community Hospital of LaGrange County, Inc., each of which operates an acute care community hospital and related facilities in the northeast region of Indiana. These hospitals are collectively the "Hospital Affiliates."

PH and PVH are the sole members of Managed Care Services, LLC, which provides third-party administrative services to PH's employee health plan, as well as a preferred provider organization network of providers to self-funded employers, and assumes risk on a capitated Medicaid program through MDwise.

1. Organization (continued)

Parkview Physicians Group (PPG), a division of PH, is a multidisciplinary group of employed physicians. PPG was developed to enhance the delivery of quality health care services in northeast Indiana and northwest Ohio. Disciplines represented in PPG include primary care, ob-gyn, orthopaedics, colon and rectal surgery, cardiovascular surgery, general surgery, hospitalists/intensivists, podiatry, psychiatry, urology, cardiology, pulmonology and critical care, gastroenterology, rheumotology, and physiatry. PPG is the largest physician group headquartered in northeast Indiana.

The legal entity names, marketing brand names, and the acronyms for each significant entity within PH are as follows:

Legal Name	Marketing Brand (d/b/a) Name	Acronym
Parkview Health System, Inc.	Parkview Health, including Parkview Physicians' Group	PH and PPG
Parkview Hospital, Inc.	Parkview Hospital	PVH
Orthopaedic Hospital at Parkview North, LLC	Parkview Ortho Hospital	ORTHO
Huntington Memorial Hospital	Parkview Huntington Hospital	PHH
Whitley Memorial Hospital, Inc.	Parkview Whitley Hospital	PWH
Community Hospital of Noble County, Inc.	Parkview Noble Hospital	PNH
Community Hospital of LaGrange County, Inc.	Parkview LaGrange Hospital	PLH
Managed Care Services, LLC	Managed Care Services	MCS
Parkview Foundation, Inc.	Parkview Foundation	PVHF
Whitley Memorial Hospital Foundation, Inc.	Parkview Whitley Hospital Foundation	PWHF
Community Hospital of Noble County Foundation, Inc.	Parkview Noble Hospital Foundation	PNHF
Huntington Memorial Hospital Foundation, Inc.	Parkview Huntington Hospital Foundation	PHHF

Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as net patient care service revenue. Other transactions are included with other revenue. Other revenue includes rentals of medical office buildings, capitation revenues, investment income from affiliated foundations, and equity income of unconsolidated subsidiaries and joint ventures.

Changes in Reporting Entity

During 2011 and 2010, PH acquired several physician groups for a total purchase price of $824 and $16,972, respectively. The groups are included in PPG.

1. Organization (continued)

Community Benefits and Charity Care

The Corporation provides programs and services to address the needs of those in the communities it serves with limited financial resources, generally at no, or low, cost to those being served. Additional services are provided to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) at substantial discounts from established rates and are considered part of the Corporation's benefit to the communities.

Assistance is also provided as needed 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 providing these programs and services are included in expenses.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Patients who meet certain criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided at the amount of standard charges foregone for services and supplies furnished. The cost of charity care provided in 2011 and 2010 approximates $17,673 and $21,529, respectively. The Corporation estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. Included in the Corporation's charity care policy is a discount for uninsured patients.

PVH and each of the community hospitals administer community benefit programs for the areas in which they serve. PVH targets $3,000 annually for community benefit, while the community hospitals each target 10% of their excess of revenues over expenses annually to be designated for community benefit in their respective communities. These funds are controlled by the hospitals, and contributions made as part of their community benefit program are under the direction of their respective Boards of Directors (the Boards). The hospitals have a long tradition of community involvement, and their community benefit programs reflect their commitment and support to their respective communities and counties.

1. Organization (continued)

The Corporation and its subsidiaries have a commitment to improving the health of the citizens of the communities served. In all locations, PH has made a concerted effort to identify opportunities to partner with local organizations and to develop initiatives to improve the health of these communities. Health fairs and screenings are common efforts to identify problems before they become serious or life-threatening. Affiliates often partner with local organizations for community education, including the Minority Health Coalition, American Lung Association, SuperShot, YMCA, YWCA, Health Information Link, and American Heart Association. PH provides subsidies for the emergency medical services of the counties where its four community hospitals reside. An association with Fort Wayne Community Schools has provided nursing services, dental care, and physicals to needy children. PH donations support nursing programs at Indiana University-Purdue University of Fort Wayne and the University of St. Francis. Efforts have helped provide health care to the medically underserved through support of the Neighborhood Health Clinic and Matthew 25. PH affiliates have supported homeless shelters, women's crisis shelters, safety councils, senior transportation programs, and poison control programs. Awareness and prevention programs dealing with safety, trauma, drugs, and alcohol are projects of PH.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of PH and all majority-owned or controlled subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where control or ownership is 20% to 50%. The Corporation does not have any investments in joint ventures, partnerships or companies with ownership less than 20%. For the years ended December 31, 2011 and 2010, PH's share of income recorded using the equity method approximated $2,145 and $1,895, respectively, and is recorded as other revenue in the consolidated statements of operations and changes in net assets.

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts classified with Board-designated investments, are considered cash equivalents. The Corporation routinely invests in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments that potentially subject the Corporation to concentrations of credit risk include the Corporation's cash and cash equivalents. The Corporation places its cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents may be in excess of government-provided insurance limits.

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

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payors (including insurers), and others for services rendered and include estimated retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are settled and are no longer subject to such audits, reviews, and investigations.

The Corporation grants credit to patients without requiring collateral or other security for the delivery of health care services. However, assignment of benefit payments payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies) is routinely obtained, consistent with industry practice.

2. Significant Accounting Policies (continued)

The Corporation's estimation of the allowance for doubtful accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of collection efforts. PH's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as charges are recorded. Accounts receivable balances are reviewed monthly as to the effectiveness of PH's reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following: historical write-off and collection experience using a hindsight, or look-back, approach; revenue and volume trends by payor, particularly the self-pay components; changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients; cash collections as a percentage of net patient revenue less bad debt expense; trending of days revenue in accounts receivable; and various allowance coverage statistics.

Inventories

Inventories consist primarily of drugs and supplies, are stated at the lesser of cost or market, and are valued using the average cost method.

Investments

Investments in equity and debt securities are measured at fair value. With respect to hedge funds, these investments are recorded under the equity method of accounting, based on information provided by the funds' managers. Generally, the net asset value (NAV) reflects the contributed capital, as well as an allocated share of the underlying limited partnership's realized and unrealized gains and losses. The fair value of underlying investments held by the limited partnerships is determined by the respective general partners.

Investment income or loss (including realized gains and losses on the sale of investments, unrealized gains and losses on investments, and changes in the carrying value of hedge funds), with the exception of investment income or loss, as defined, related to the various PH foundations, is reported as other nonoperating income (expense) unless the income is restricted by donor or law. Investment income or loss apportioned to the foundations is reported in other operating revenue. The cost of securities sold is based on the specific-identification method.

2. Significant Accounting Policies (continued)

Board-designated funds represent certain funds from operations and other sources designated by the Board to be used for future capital asset replacement, for the retirement of long-term debt, and for other purposes. The Board retains control over these investments and may, at its discretion, subsequently designate the use of these investments for other purposes. Funds are invested in accordance with Board-approved policies, which, among other matters, require diversification of the investment portfolio, establish credit risk parameters, and limit the investment in any single organization. Substantially all investment transactions are managed by professional investment managers and are held in custody at a financial institution. All Board-designated funds are classified as trading securities, with the exception of land held as an investment.

Investment securities purchased and sold are reported based on trade date. Due to the period lag between the trade and settlement date, PH reports receivables for securities sold but not settled and reports liabilities for securities purchased but not settled. These receivables and payables are settled from within the investment portfolio and are presented on a net basis within investments in the consolidated balance sheets.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at date of donation. Interest costs incurred as part of the related construction are capitalized during the period of construction. Depreciation is provided on a straight-line basis over the expected useful lives of the various classes of assets. Estimated useful lives range from 5 to 25 years for land improvements, 5 to 40 years for buildings, and 3 to 15 years for equipment. Amortization of capital leased assets is included within depreciation expense.

2. Significant Accounting Policies (continued)

Goodwill

PH records goodwill arising from a business combination as the excess of purchase price and related costs over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. PH annually reviews, as of the first day of the fourth quarter, the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed if an event occurs or circumstances change that would make it more likely than not that the fair value of a reporting unit is below its carrying amount. Management has determined that the Corporation is the reporting unit at which fair value is measured. If such circumstances suggest that the recorded amounts of goodwill cannot be recovered, the carrying value is reduced to fair value. If the carrying value of the goodwill is impaired, a material charge may be incurred to results of operations.

Intangible Assets

Costs allocated to customer relationships and other intangible assets are based on their fair value at the date of acquisition. The cost of intangible assets is amortized on a straight-line basis over the assets' estimated useful life ranging from 3 to 20 years.

Impairment

Fixed assets and amortizable intangible assets are reviewed for impairment whenever conditions indicate that the carrying amount may not be recoverable. In evaluating the recoverability of long-lived assets, such assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. Such impairment tests compare estimated undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its fair value, and a corresponding loss is recorded.

Derivative Financial Instruments

PH investment fund managers may use derivative financial instruments in the investment portfolio to moderate changes in value due to fluctuations in financial markets. PH has not designated its derivatives related to marketable securities as hedges, and the change in fair value of these derivatives is recognized as a component of unrealized gains (losses) on investments, net.

2. Significant Accounting Policies (continued)

As part of its debt management program, the Corporation has entered into several interest rate swap arrangements. Derivative instruments are recognized as either assets or liabilities in the consolidated balance sheets at fair value. The Corporation does not account for any of its interest rate swap agreements as hedges, and accordingly, changes in the fair value of interest rate swap agreements are recorded in the consolidated statements of operations and changes in net assets as nonoperating income (expense). Included in other nonoperating income (expense) in the consolidated statements of operations and changes in net assets are net settlement payments on interest rate swaps.

Pension Plans

PH's retirement program, called Trusted Choices Retirement Program, offers a defined contribution plan. Contributions to the defined contribution plan are based upon benefit service points and a combination of age and years of benefit service. Contributions are calculated as a percentage of eligible pay. In addition, active employees at December 31, 2004, were provided a one-time choice to remain in PH's defined benefit plan or freeze their defined benefit plan benefits and move to the employer funded defined contribution plan. Definitions of eligibility, pay, benefit service, and vesting under the defined benefit plan are the same as the defined contribution plan.

In addition to participation in the defined contribution plan and/or defined benefit plan, eligible employees are provided a voluntary opportunity to participate in a 403(b) or a 401(k) plan based upon the tax status of the employing corporation. The 403(b) and 401(k) plans have match provisions. Benefits for eligible employees are based on the employee's compensation.

Income Taxes

The Internal Revenue Service has determined that the Corporation and certain affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code. Certain subsidiaries of the Corporation are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

2. Significant Accounting Policies (continued)

Performance Indicator

Excess of revenues over expenses as reflected in the accompanying consolidated statements of operations and changes in net assets includes operating income and nonoperating income and expense. Contributions of long-lived assets, pension-related changes, net assets released from restriction, and distributions to noncontrolling interests are excluded from excess of revenues over expenses.

Operating and Nonoperating Income (Expense)

Activities directly associated with the furtherance of PH's mission are considered operating activities. Other activities that result in gains or losses peripheral to PH's primary mission are considered to be nonoperating. Nonoperating activities include interest, dividends, and realized gains (losses) on sales of investments, net; unrealized gains (losses) on investments, net; interest expense; realized and unrealized gains (losses) on interest rate swaps, net; and other.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Investment return is allocated to unrestricted and temporarily restricted net assets based on the respective net asset balances and the wishes of the donor. The net assets are generally restricted for indigent and other patient services, medical education and research programs, facilities, and medical supplies and equipment.

Reclassifications

Certain 2010 amounts were reclassified to conform to the 2011 presentation. Such reclassifications had no effect on previously reported excess of revenues over expenses or net assets.

2. Significant Accounting Policies (continued)

Distributions

Certain consolidated subsidiaries of PH have members who hold a noncontrolling ownership interest. Upon authorization for the Boards of those subsidiaries, cash available for distribution, or a portion thereof, arising from operations may be distributed to PH and the noncontrolling members ratably in accordance with the members' respective membership interests.

Adoption of New Accounting Standards

In January 2010, accounting guidance was issued to further expand disclosure requirements related to fair value measurements. Additional disclosures under this guidance include disclosing transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for those transfers, valuation techniques, and inputs used to measure Level 2 and Level 3 fair value measurements, and purchases, sales, issuances, and settlements separately within the Level 3 fair value measurements rollforward. PH adopted this guidance effective January 1, 2010, except for the disclosure of rollforward activities for Level 3 fair value measurements, which was adopted and effective January 1, 2011 (see Note 4).

In July 2011, accounting guidance was issued to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The guidance requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered, even though they do not assess the patient's ability to pay, to reclassify the provision for bad debts related to patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The standard also requires disclosures of patient service revenue by major payor source as well as qualitative and quantitative information about changes in the allowance for uncollectible accounts. PH early adopted the provisions of this standard as of and for the year ended December 31, 2011, and retrospectively applied the presentation requirements to all periods presented. The change in presentation and additional disclosures are reflected in the Corporation's consolidated statements of operations and changes in net assets and in Note 5. Adoption of the new guidance had no effect on previously reported excess of revenues over expenses or net assets.

2. Significant Accounting Policies (continued)

In August 2010, guidance was issued to minimize the diversity in practice that has developed on how health care entities account for malpractice claims or similar liabilities and related insurance recoveries and eliminates the practice of netting claim liabilities with expected insurance recoveries. Gross presentation reflects that the health care entity remains obligated for the claim and that the entity is exposed to credit risk from the insurer. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. PH adopted the provisions of this standard on January 1, 2011. The adoption had no effect on previously reported excess of revenues over expenses or net assets (see Note 11).

In August 2010, guidance was issued to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. Charity care has been measured both as a basis of cost and a function of revenue. This guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. The method used to identify or determine such costs is required to be disclosed. This guidance is effective for fiscal years beginning after December 15, 2010, and should be applied retrospectively. PH adopted the provisions of this standard on January 1, 2011, and retrospectively applied the provisions to all periods presented. As PH does not recognize revenue when charity care is provided, the adoption had no effect on previously reported excess of revenues over expenses or net assets (see Note 1 for the additional disclosures required).

In September 2011, guidance was issued that amends Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*, and permits entities to make a qualitative assessment of whether a reporting unit's fair value is, more likely than not, less than its carrying amount. If an entity concludes it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, the entity is not required to perform the two-step impairment test for that reporting unit. The update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. PH early adopted this guidance and concluded it is more likely than not that the fair value of the reporting units is greater than their carrying amount, and the entity was not required to perform the two-step impairment test.

(Dollars in Thousands)

3. Goodwill and Intangible Assets

The following tables summarize goodwill and other intangibles as of December 31, 2011 and 2010:

Goodwill balance at January 1, 2010	$	38,629
Acquisitions		4,339
Goodwill balance at December 31, 2010		42,968
Acquisitions		**1,468**
Goodwill balance at December 31, 2011	**$**	**44,436**

	December 31, 2011		**December 31, 2010**	
	Original Amount	**Accumulated Amortization**	**Original Amount**	**Accumulated Amortization**
Intangible assets	**$ 3,323**	**$ 586**	$ 3,178	$ 411

Amortization expense of $175 and $98 was recognized in 2011 and 2010, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

During the year ended December 31, 2010, PH acquired several physician groups. The business combinations were recorded using the purchase accounting method. Goodwill of $4,339 was recognized upon purchase, which represents the excess of purchase price over identifiable assets and liabilities. During the year ended December 31, 2011, PH acquired additional physician practices. The business combinations were recorded using the purchase accounting method. Goodwill of $255 was recognized upon purchase, which represents the excess of purchase price over identifiable assets and liabilities. In addition, goodwill of $1,213 was recognized as a result of a reassessment of the purchase accounting allocation of a prior year acquisition.

4. Fair Value Measurement

ASC 820, *Fair Value Measurement*, defines fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of PH's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market funds, fixed income and equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of inputs, management generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or in the aggregate, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

(Dollars in Thousands)

4. Fair Value Measurement (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2011:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Cash and short-term investments	$ 36,791	$ 36,791	$ –	$ –
U.S. government and agency obligations	49,460	31,150	18,310	–
Corporate bonds	57,849	–	57,849	–
Mortgage- and asset-backed securities	14,280	–	14,280	–
Domestic equities	68,218	58,966	9,252	–
International equities	19,376	–	19,376	–
Mutual funds:				
Equity type	119,644	119,644	–	–
Fixed income type	71,896	–	71,896	–
Total investments	437,514	246,551	190,963	–
Deferred compensation plan assets – mutual funds	9,826	9,826	–	–
Interest rate swaps	5,596	–	5,596	–
Collateral from securities lending program – cash and short-term investments	6,040	–	6,040	–
Total assets	$ 458,976	$ 256,377	$ 202,599	$ –
Liabilities				
Interest rate swaps	$ (85,450)	$ –	$ –	$ (85,450)
Total liabilities	$ (85,450)	$ –	$ –	$ (85,450)

(Dollars in Thousands)

4. Fair Value Measurement (continued)

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2010:

	Total	Level 1	Level 2	Level 3
Assets				
Investments:				
Cash and short-term investments	$ 22,683	$ 14,975	$ 7,708	$ –
U.S. government and agency obligations	119,503	116,490	3,013	–
Corporate bonds	44,820	–	44,820	–
Mortgage- and asset-backed securities	15,824	–	15,824	–
Domestic equities	63,063	58,149	4,914	–
International equities	29,597	–	29,597	–
Mutual funds:				
Equity type	126,441	126,441	–	–
Fixed income type	173,433	–	173,433	–
Total investments	595,364	316,055	279,309	–
Deferred compensation plan assets – mutual funds	7,198	7,198	–	–
Interest rate swaps	6,197	–	6,197	–
Collateral from securities lending program – cash and short-term investments	6,318	–	6,318	–
Total assets	$ 615,077	$ 323,253	$ 291,824	$ –
Liabilities				
Interest rate swaps	$ (46,390)	$ –	$ (46,390)	$ –
Total liabilities	$ (46,390)	$ –	$ (46,390)	$ –

4. Fair Value Measurement (continued)

Certain of PH's investments are made through alternative investments and private investment funds, primarily partnership trusts. PH accounts for its ownership in these funds under the equity method, and as a result, investments totaling $52,632 and $55,260 as of December 31, 2011 and 2010, respectively, are excluded from the fair value disclosure. Deferred compensation plan assets are included in other assets in the consolidated balance sheets.

PH held real estate for investment purposes of $20,415 and $23,655 as of December 31, 2011 and 2010, respectively, which are accounted for at cost and assessed for impairment when indicators exist. The real estate is written down to fair value as estimated by third-party valuation experts when impairment exists, with losses recorded in realized gains (losses) on investments in the consolidated statements of operations and changes in net assets. In 2011 and 2010, PH recorded realized losses related to its real estate investments of $1,016 and $114, which are nonrecurring fair value measurements using level 3 inputs.

Following is a description of the Corporation's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. The fair values of other fixed income securities included in Level 2 are based on quoted market prices for similar assets. The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the LIBOR discount curve in order to reflect the credit value adjustment for nonperformance risk. The credit spread adjustments for liability position interest rate swap contracts included in Level 3 are internally valued using other comparably rated entities' bonds priced in the market.

The carrying values for cash and cash equivalents, patient and other accounts receivable, accounts payable and accrued expenses, estimated third-party payor settlements, payable under securities lending agreements, and certain other current assets and liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

(Dollars in Thousands)

4. Fair Value Measurement (continued)

The carrying value of the Corporation's tax-exempt variable rate and other debt approximates fair value. The fair value of the fixed rate debt (all of which is tax-exempt) is estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements, and falls in Level 2 of the fair value hierarchy. The fair value of the Corporation's tax-exempt, fixed rate debt at December 31, 2011 and 2010, was $386,299 and $331,807, respectively, compared to book value of $303,550 and $312,930, respectively.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a rollforward of the consolidated balance sheet amounts for financial instruments classified by the Corporation within Level 3 of the valuation hierarchy defined above:

	Financial Liabilities – Interest Rate Swaps
Fair value at January 1, 2011	$ –
Transfers into Level 3	(85,450)
Purchases	–
Sales or retirements	–
Unrealized gains included in excess of revenue over expenses	–
Fair value at December 31, 2011	$ (85,450)

PH transfers assets and liabilities in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable.

5. Net Patient Service Revenue

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

> *Medicare:* Certain inpatient care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are reimbursed based upon established fee schedules. Outpatient services are reimbursed using prospectively determined rates.
>
> *Medicaid:* Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
>
> *Other:* Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Differences between established rates and payment under these agreements are reflected as contractual allowances.

Medicare and Medicaid revenue accounted for approximately 32% and 8%, respectively, of patient service revenue (net of contractual allowances and discounts) for the year ended December 31, 2011, and approximately 30% and 6%, respectively, for the year ended December 31, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with health care industry laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action,

(Dollars in Thousands)

5. Net Patient Service Revenue (continued)

including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimated settlements could change. It is also reasonably possible that recorded settlements could change by a material amount in the near term. PH received Medicare and Medicaid settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased net patient service revenue by $540 and $3,060 in 2011 and 2010, respectively.

The composition of patient service revenue (net of contractual allowances and discounts) by third-party payor for the year ended December 31 is as follows:

	2011	2010
Medicare	**$ 309,755**	$ 240,295
Medicaid	**78,601**	48,814
Managed care and other insurers	**467,280**	457,977
Uninsured	**67,424**	48,286
Other	**31,847**	12,911
	$ 954,907	$ 808,283

The allowance for doubtful accounts was approximately $37,171 and $28,868 as of December 31, 2011 and 2010, respectively. These balances as a percent of accounts receivable, net of contractual adjustments, were approximately 23% and 19% as of December 31, 2011 and 2010, respectively. On a same hospital basis, the combined allowance for doubtful accounts, uninsured discounts, and charity care covered approximately 73% and 61% of combined uninsured and self-pay after insurance accounts receivable as of December 31, 2011 and 2010, respectively. The increase in the allowance for doubtful accounts during the year ended December 31, 2011, was primarily the result of an increase in uninsured and self-pay after insurance accounts receivable from $61,960 of PH’s total accounts receivable as of December 31, 2010, to $65,768 as of December 31, 2011.

(Dollars in Thousands)

5. Net Patient Service Revenue (continued)

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Accounts Written Off, Net of Recoveries and Other	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2010	$ 33,737	$ 55,701	$ (60,570)	$ 28,868
Year ended December 31, 2011	**28,868**	**84,618**	**(76,315)**	**37,171**

Components of accounts receivable, net, at December 31, 2011 and 2010, include Medicare, 21% and 23%, respectively; Medicaid, 7% and 2%, respectively; commercial insurers, 58% and 63%, respectively; and other, 14% and 12%, respectively. One managed care payor represented 22% and 23%, respectively, of patient accounts receivable at December 31, 2011 and 2010.

(Dollars in Thousands)

6. Investments

The composition of investments is as follows:

	December 31 2011	December 31 2010
Cash and short-term investments	**$ 36,791**	$ 22,683
Fixed income securities:		
U.S. government and agency obligations	**49,460**	119,503
Corporate and other bonds	**57,849**	44,820
Mortgage- and asset-backed securities	**14,280**	15,824
Domestic equities	**68,218**	63,063
International equities	**19,376**	29,597
Mutual funds	**191,540**	299,874
Hedge funds	**52,632**	55,260
Real estate held for investment	**20,415**	23,655
Gross investment	**510,561**	674,279
Amounts due to brokers	**(28,264)**	(18,253)
Amounts due from brokers	**15,465**	2,305
Net investments	**$ 497,762**	$ 658,331

PH's investments are exposed to various kinds and levels of risk. Fixed income securities expose PH to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.

(Dollars in Thousands)

6. Investments (continued)

Equity securities expose PH to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for international equities and small capitalization equity companies.

Hedge funds are not necessarily readily marketable. The funds often employ complex strategies, including short sales on securities and trading on future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments, and the composition of the individual investments within these funds is not readily determinable. The hedge fund investments are partnership interests in limited partnerships. These investments are not publicly traded, and the NAV is based upon information provided by the fund manager. The hedge funds have restrictions on the timing of withdrawals ranging from one to three months, which may reduce liquidity.

The real estate investments are recorded at cost, less impairment charges recognized to date, and present valuation risks as they are not actively traded. Additionally, these investments present a concentration of risk, as they are held within the same geographic region, northeast Indiana.

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

	Year Ended December 31	
	2011	**2010**
Investment income:		
Unrealized (losses) gains on investments, net	**$ (23,352)**	$ 27,686
Dividend and interest income	**7,919**	11,547
Net realized gains on the sale of investments	**4,567**	6,026
Total investment return	**$ (10,866)**	$ 45,259
Included in other revenue	**$ 310**	$ 1,290
Included in interest, dividends, and realized gains on sales of investments, net	**11,864**	16,588
Included in unrealized (losses) gains on investments, net	**(23,040)**	27,381
Total investment return	$ **(10,866)**	$ 45,259

(Dollars in Thousands)

6. Investments (continued)

Securities Lending

The Corporation participates in securities lending transactions, whereby a portion of its investments are loaned to a broker in return for cash, letters of credit, or U.S. government securities from the broker as collateral for securities loaned. The Corporation participates in a program with its trustee to reinvest the cash collateral received in other short-term investments. The Corporation earns income on the collateral pledged while related securities are outstanding but has risk of loss on the collateral received due to the reinvestment program. In the accompanying consolidated balance sheets, the fair value of securities purchased with the cash collateral held for loaned marketable securities was $6,040 and $6,318 at December 31, 2011 and 2010, respectively, and is reported as a current asset. A payable for repayment of cash collateral received, upon settlement of the lending arrangement, is reported as other current liabilities of $7,482 and $7,835 at December 31, 2011 and 2010, respectively.

7. Property and Equipment

The costs of property and equipment consist of the following:

	December 31	
	2011	**2010**
Land and improvements	**$ 60,969**	$ 57,300
Buildings	**436,224**	412,245
Equipment	**436,121**	428,447
Construction-in-progress	**507,790**	325,964
	$ 1,441,104	$ 1,223,956

7. Property and Equipment (continued)

The cost of commitments to complete construction-in-progress projects is estimated to be $90,749 at December 31, 2011. Depreciation expense recorded in the consolidated statements of operations and changes in net assets was $45,547 and $47,074 at December 31, 2011 and 2010, respectively. Amortization expense on capital leases recorded in the consolidated statements of operations and changes in net assets was $4,142 and $3,384 at December 31, 2011 and 2010, respectively. Assets under capital leases at December 31, 2011 and 2010, were $19,200 and $21,065, respectively. Accumulated amortization on capital leases at December 31, 2011 and 2010, was $15,894 and $16,128, respectively.

During 2011, the Corporation committed to a plan of implementing an enterprise-wide electronic medical record system. It was determined that a condition of impairment existed at that time for certain systems, some of whose useful lives were greatly diminished and others not yet put into production. The total amount of impairment recognized during the year ended December 31, 2011, was $7,736.

In December, 2010, it was determined that a condition of impairment existed for certain fixed assets of Parkview Whitley Hospital. Operations at the old facility transferred to the new Parkview Whitley Hospital in October 2011, and plans are for the current hospital building to be razed. The total amount of impairment reported during the year ended December 31, 2010, was $4,385.

(Dollars in Thousands)

8. Long-Term Debt

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

		December 31	
Description	**Interest Rates**	**2011**	**2010**
Tax-exempt, variable rate demand bonds:			
Series 2010A due through 2040	1.32%	**$ 26,465**	$ 12,900
Series 2009BCD due through 2031	0.06%–0.08%	**223,665**	223,665
Series 2007 due through 2032	0.90%	**22,495**	23,145
Series 2001 due through 2031	0.12%–0.19%	**17,325**	18,400
Tax-exempt, fixed rate serial and term bonds:			
Series 2009A due through 2031	4.0%–5.88%	**249,395**	257,620
Series 1998 due through 2028	4.5%–5.4%	**54,155**	55,310
Various notes to banks	Various	**22,768**	24,286
Mortgages on real estate	Various	**12,219**	12,458
Other	Various	**303**	1,065
Capital leases	Various	**3,265**	4,811
		632,055	633,660
Less unamortized original issue discount		**4,917**	5,319
		627,138	628,341
Less current portion		**15,739**	32,250
		$ 611,399	$ 596,091

(Dollars in Thousands)

8. Long-Term Debt (continued)

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

Year ending December 31:	
2012	$ 15,739
2013	14,891
2014	14,392
2015	13,978
2016	14,905
Thereafter	558,150
	$ 632,055

Total interest paid was approximately $22,900 in 2011 and $24,164 in 2010. Interest cost of $12,745 in 2011 and $2,558 in 2010 was capitalized as part of the cost of construction.

Obligations Through Use of Master Indenture

PH and PVH have issued tax-exempt revenue, revenue refunding, and variable rate demand bonds through the use of a Master Indenture, as amended and supplemented. The various agreements require PH and PVH not to incur indebtedness secured by an encumbrance and not to mortgage certain facilities except under certain circumstances. The agreements require the maintenance of debt service coverage ratios and contain certain other restrictive covenants.

On May 4, 2010, PH arranged for the issuance of up to $30,000 of variable rate, tax-exempt private placement bonds using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds and certain other funds of PH will be used to finance the construction and furnishing of the new Parkview Whitley Hospital. The funds are being drawn as required through construction. The amounts drawn through December 31, 2011 and 2010 were $26,465 and $12,900, respectively. The bonds bear interest monthly, and interest is paid monthly.

8. Long-Term Debt (continued)

In August 2009, PH and PVH issued $265,530 of fixed rate, tax-exempt revenue bonds (the Series 2009A Bonds) and $223,665 of variable rate, tax-exempt revenue bonds (the Series 2009B Bonds, the Series 2009C Bonds, and the Series 2009D Bonds), using the Master Indenture and through the Indiana Finance Authority. The proceeds of the bonds were used to refund all but $19,425 of the outstanding Indiana Health Facility Financing Authority Revenue Bonds, Series 2001A, 2001B, and 2001C (collectively, the Series 2001 Bonds); refund all of the outstanding Indiana Health and Educational Facility Financing Authority Revenue Bonds, Series 2005A and 2005B (collectively, the Series 2005 Bonds); pay certain costs related to the termination of a portion of swaps related to the Series 2001 Bonds; pay costs of issuance and costs of refunding; and to finance, refinance, or reimburse certain costs for capital expenditures at the PVH facilities. Interest on the Series 2009A Bonds is paid semiannually. Interest on the Series 2009BCD Bonds bears interest weekly, and interest is paid monthly.

During 2011, the three direct-pay Letters of Credit enhancing the 2009BCD Bonds were replaced. PH entered into two direct-pay Letters of Credit agreements (the LOCs) issued by PNC Bank (Series 2009C Bonds) and Wells Fargo Bank (Series 2009B&D Bonds) to enhance the marketability of the bonds. Under the terms of the LOCs, if bonds are not successfully remarketed and thereby purchased by the banks, the principal maturities of the bonds purchased are accelerated over the subsequent three-year period commencing at least one year and one day from the draw on the LOC, and PH would pay a defined rate, based on a formula in the agreements, at a minimum rate of 8.0% for the first 90 days after bank purchase, 9.0% for days 91 through 180, and 10.0% thereafter. The current LOCs expire August 26, 2014. At December 31, 2011, all bonds had been successfully remarketed.

8. Long-Term Debt (continued)

On March 15, 2007, PLH issued $24,930 of adjustable rate, tax-exempt revenue bonds. The bonds were issued through the Indiana Health and Education Facility Financing Authority. The proceeds of the Series 2007 Bonds and certain other funds of PLH were used to finance the construction and furnishing of a new hospital facility and to pay financing costs. These Series 2007 Bonds bear interest at a weekly rate, and interest is paid monthly. The Series 2007 Bonds are secured by an irrevocable direct-pay LOC issued by PNC Bank that matures on August 26, 2014. This LOC has a maximum rate of 15%. At December 31, 2011, all bonds had been successfully remarketed. The borrower's obligations under the bond documents are secured by a security interest in and lien upon all of the borrower's real and personal property.

In November 2001, PH and PVH issued $220,000 of variable rate, tax-exempt auction revenue bonds (the Series 2001 Bonds) using the Master Indenture and through the Indiana Health Facility Financing Authority. These Series 2001 Bonds auction every 28 days. The bonds have a maximum rate of 15%. Beginning in February 2008 and continuing through December 31, 2011, PH's Series 2001 Bonds failed to attract sufficient bids to be remarketed. As a result of the failed auctions, interest rates are set based upon a formula contained in the bond documents. The interest rate formula is based upon the 7-day AA Composite Commercial Paper rate times a factor. This factor can vary from 125% to 225%, depending upon the credit rating of the bond. The bond rating is equal to the rating of either the insurer of the debt or the issuer, whichever is higher. At December 31, 2011 and 2010, the factor was 175%. The Series 2001 Bonds are secured by a financial guaranty insurance policy provided by Ambac Assurance Corporation (Ambac). Ambac is rated Caa2 by Moody's, while PH has retained its Moody's rating of A1.

In November 1998, PH and PVH issued $144,610 of fixed rate, tax-exempt revenue bonds (the Series 1998 Bonds) using the Master Indenture through the Hospital Authority of the City of Fort Wayne, Indiana. The Series 1998 Bonds consist of serial and term bonds and require annual principal or mandatory sinking fund redemption, with interest payable semiannually.

8. Long-Term Debt (continued)

Debt Guarantee

At December 31, 2011, the Corporation had guaranteed approximately $3,016 of certain outstanding debt obligations of unconsolidated entities. If the unconsolidated entities default on their debt obligation, the Corporation would then be responsible for the obligation. At December 31, 2011, the Corporation has no amounts accrued related to these guarantees.

9. Interest Rate Swaps and Other Derivatives

PH uses a combination of interest rate swap agreements with the objective to mitigate the impact interest rate fluctuations have on its interest payments. PH uses fixed payor, fixed spread basis, fixed receiver, and forward fixed payor contracts entered into with various third parties. Interest rate swap contracts between PH and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. This is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for PH's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. PH does not anticipate nonperformance by its counterparties. The fair value of the certain fixed payor and fixed spread basis swaps obligations exceeded contractual thresholds and triggered the necessity of PH to post collateral with the counterparties. Collateral required to be posted by PH totaled $6,407 and $20,386 at December 31, 2011 and 2010, respectively, and is included with other assets in the consolidated balance sheets. PH's policy is to present the collateral on a gross basis in the consolidated balance sheets.

(Dollars in Thousands)

9. Interest Rate Swaps and Other Derivatives (continued)

The following table is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2011 and 2010:

Expiration Date		PH Pays	PH Receives	Notional Amount December 31 2011	2010
2020–2031	(1)	3.47%–3.71%	67% of one-month LIBOR	**$ 38,475**	$ 39,550
2028–2033	(1)	3.26%–3.49%	62.4% of one-month LIBOR + 0.29% margin	**100,340**	104,175
2028–2033	(2)	3.26%–3.49%	62.4% of one-month LIBOR + 0.29% margin	**75,000**	75,000
2011–2016	(2)	BMA/SIFMA Index	3.61%–4.0%	**60,000**	90,000
2037	(1)	3.81%	61.8% of one-month LIBOR + 0.31% margin	**148,850**	149,530
2014–2025	(3)	BMA/SIFMA Index	68% of one-month LIBOR + 0.37%–0.52% margin	**180,000**	180,000
				$ 602,665	$ 638,255

(1) The objective of these interest rate swaps is to mitigate interest rate fluctuations and synthetically fix certain variable rate exposure.

(2) The objective of these interest rate swaps is to create a basis swap.

(3) The objective of this interest rate swap is to take advantage of yield curve differences and mitigate risk on future bond offerings. This interest rate swap is not associated with outstanding debt.

(Dollars in Thousands)

9. Interest Rate Swaps and Other Derivatives (continued)

The fair value of derivative instruments is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Classification	December 31 2011	December 31 2010
Interest rate swap	Other assets	**$ 5,596**	$ 6,197
Interest rate swap	Other liabilities	**(85,450)**	(46,390)
Total derivatives		**$ (79,854)**	$ (40,193)

The effects of derivative instruments on the consolidated statements of operations and changes in net assets are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain or Loss on Derivatives Recognized in Excess of Revenues Over Expenses	Amount of Gain or Loss on Derivatives Recognized in Excess of Revenue Over Expenses — December 31 2011	December 31 2010
Interest rate swap – unrealized gains (losses)	Realized and unrealized losses on interest rate swaps, net	**$ (39,787)**	$ (17,880)
Interest rate swap – net cash payments	Other – nonoperating	**(3,104)**	(1,466)
Investments	Interest, dividends, and realized gains on sales of investments, net	**–**	403
Total derivatives		**$ (42,891)**	$ (18,943)

Interest rate swap settlement payments, net were $8,204 and $7,670 in 2011 and 2010, respectively, of which $5,100 and $6,204 was capitalized as part of the cost of construction in 2011 and 2010, respectively.

(Dollars in Thousands)

10. Pension Plans

Defined Benefit Pension Plan

The Corporation sponsors a noncontributory, defined benefit pension plan (the Plan) covering eligible employees employed prior to January 2005. Plan benefits are based on years of service and an employee's compensation during a consecutive five-year term of employment within the 10 years prior to benefit determination, which results in the highest earnings. An employee became a plan participant upon reaching age 21 and completing at least one year of eligible service. A year of eligible service is credited to an employee upon the completion of at least 1,000 hours of service in a calendar year. The following table sets forth the funded status of the Plan and accrued pension obligation as of December 31, as actuarially determined:

	December 31	
	2011	**2010**
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 293,733**	$ 259,842
Service cost	**8,415**	7,605
Interest cost	**16,474**	15,836
Actuarial loss	**32,231**	17,427
Benefits paid	**(7,979)**	(6,977)
Projected benefit obligation at end of year	**342,874**	293,733
Change in plan assets		
Plan assets at fair value at beginning of year	**282,528**	236,554
Actual return on plan assets	**2,181**	32,651
Corporation and subsidiary contributions	**8,600**	20,300
Benefits paid	**(7,979)**	(6,977)
Plan assets at fair value at end of year	**285,330**	282,528
Funded status of the Plan	**$ (57,544)**	$ (11,205)

(Dollars in Thousands)

10. Pension Plans (continued)

	Year Ended December 31	
	2011	**2010**
Items not yet recognized as a component of net periodic pension cost		
Net actuarial loss	**$ 116,158**	$ 69,268
Prior service cost	**276**	452
	$ 116,434	$ 69,720

Changes in plan assets and benefit obligation recognized in unrestricted net assets during 2011 and 2010 include:

	Year Ended December 31	
	2011	**2010**
Unrecognized actuarial loss	**$ 52,153**	$ 3,067
Amortization of actuarial loss	**(5,263)**	(6,200)
Amortization of prior service cost	**(176)**	(176)
	$ 46,714	$ (3,309)

The actuarial loss and prior service cost included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ended December 31, 2012, total $8,222 and $176, respectively.

(Dollars in Thousands)

10. Pension Plans (continued)

	Year Ended December 31 2011	2010
Periodic benefit cost		
Service cost	**$ 8,415**	$ 7,605
Interest cost	**16,474**	15,836
Expected return on plan assets	**(22,123)**	(18,271)
Amortization of unrecognized net loss	**5,263**	6,200
Amortization of unrecognized prior service cost	**176**	176
Net periodic benefit cost	**$ 8,205**	$ 11,546

	December 31 2011	2010
Accumulated benefit obligation	**$ 314,800**	$ 267,476
Plan assets at fair value	**285,330**	282,528
Funded status (based on accumulated benefit obligation)	**$ (29,470)**	$ 15,052

The weighted-average assumptions used to determine benefit obligations at December 31 and net periodic benefit costs for the years then ended are as follows:

	2011	2010
Assumptions – benefit obligations:		
Discount rate	**4.98%**	5.69%
Expected return on plan assets	**8.00**	8.00
Rate of compensation increase	**3.50**	3.50
Assumptions – net periodic benefit cost:		
Discount rate	**5.69%**	6.18%
Expected return on plan assets	**8.00**	8.00
Rate of compensation increase	**3.50**	3.50

(Dollars in Thousands)

10. Pension Plans (continued)

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan. The reduction in the discount rate between years resulted in an increase in the projected benefit obligation of $33,012.

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

The Plan's weighted-average asset allocations at December 31, 2011 and 2010, by asset category, are as follows:

	2011	**2010**
Equity securities	**57%**	59%
Debt securities	**40**	39
Short-term investments	**3**	2
Total	**100%**	100%

The Corporation's policy on investment allocation for the Plan consists of an allocation of 40% to 70% for growth investments and 30% to 60% for fixed income investments. Within the growth investment classification, the Plan's asset strategy encompasses equity and equity-like instruments that are of both public and private market investments. These equity and equity-like instruments are public equity securities that are well diversified and invested in U.S. and international companies.

(Dollars in Thousands)

10. Pension Plans (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2011:

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Mutual funds:				
Equities	**$ 163,186**	**$ 135,003**	**$ 28,183**	**$ –**
Fixed income	**114,626**	**114,626**	**–**	**–**
Guaranteed investment contract	**7,518**	**–**	**–**	**7,518**
	$ 285,330	**$ 249,629**	**$ 28,183**	**$ 7,518**

Fair value methodologies for Level 1 and Level 2 investments are consistent with the inputs described in Note 3. The fair value of the Level 3 interest in the guaranteed investment contract (GIC) is based on information reported by the issuer of the GIC at year-end.

The fair value of pension plan assets was determined using the following inputs at December 31, 2010:

		Fair Value Measurements Using		
	Fair Value	**Level 1**	**Level 2**	**Level 3**
Mutual funds:				
Equities	$ 165,468	$ 124,898	$ 40,570	$ –
Fixed income	110,123	110,123	–	–
Guaranteed investment contract	6,937	–	–	6,937
	$ 282,528	$ 235,021	$ 40,570	$ 6,937

(Dollars in Thousands)

10. Pension Plans (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy:

	Financial Assets – GIC
Fair value at January 1, 2010	$ 8,612
Purchases, issuances, and settlements	(2,003)
Actual return on plan assets	328
Fair value at December 31, 2010	6,937
Purchases, issuances, and settlements	**293**
Actual return on plan assets	**288**
Fair value at December 31, 2011	**$ 7,518**
Estimated future benefit payments:	
2012	$ 9,510
2013	10,664
2014	11,902
2015	13,373
2016	14,845
2017–2019	101,255

The Corporation expects to contribute $10,000 to its defined benefit pension plan in 2012.

10. Pension Plans (continued)

Defined Contribution and Other Pension Plans

Eligible employees hired after December 31, 2004, and employees who were active at December 31, 2004, and elected at that time to participate in the defined contribution plan and freeze their benefits in the defined benefit plan, participate in the defined contribution plan. The accrued liability for the defined contribution pension plan is $11,047 and $9,915 at December 31, 2011 and 2010, respectively, and is recorded as a current liability on the consolidated balance sheets. During 2011 and 2010, expense for this plan totaled $11,054 and $9,005, respectively, and is reported as salaries and benefits.

Contributions to the tax-sheltered annuity and 401(k) plans are based on a percentage of eligible employee salaries, as defined. The contributions for the tax-sheltered annuity and 401(k) plans were $6,932 and $5,741 in 2011 and 2010, respectively, and were reported as salaries and benefits.

11. Malpractice Insurance

The Corporation and its affiliates are subject to pending and threatened legal actions that arise in the normal course of their activities. Medical malpractice coverage is provided through a program of self-insurance and commercial insurance and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (the Act). The Act limits the amount of individual claims to $1,250 (effective July 1, 1999), of which $1,000 would be paid by the State of Indiana Patient Compensation Fund and $250 by the Corporation or by its commercial insurer, The Medical Protective Company.

Malpractice claims for incidents that may give rise to litigation have been asserted against the Corporation by various claimants. The claims are in various stages of resolution, and some may ultimately be brought to trial. There are also reported incidents that have occurred through December 31, 2011, that may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients. The reserve for medical malpractice includes amounts for claims and related legal expenses for these incurred

11. Malpractice Insurance (continued)

but not reported incidents. This reserve is actuarially determined by combining industry data and the Corporation's historical experience. Accrued malpractice losses and insurance recovery receivable have been discounted at 5% in both 2011 and 2010 and, in management's opinion, provide adequate reserve for loss contingencies. In December 2011, the Corporation adopted new accounting guidance that requires expected claim losses and related expenses be estimated without consideration of insurance recovery. In conjunction with the new guidance, the Corporation recorded receivable balances to reflect the expected recovery from commercial insurance coverage. In accordance with this adopted guidance, the Corporation is reporting $323 and $295 in prepaid expenses and other current assets at December 31, 2011 and 2010, respectively, and $961 and $926 in other assets at December 31, 2011 and 2010, respectively. The Corporation has recorded $1,358 and $895 in accounts payable and accrued expenses as of December 31, 2011 and 2010, respectively, and $4,787 and $4,235 at December 31, 2011 and 2010, respectively, are reported as other liabilities in the consolidated balance sheets.

The Corporation established a revocable, restricted trust for claims not covered by commercial insurance for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The balance of the trust was $3,131 and $4,120 at December 31, 2011 and 2010, respectively. The trust is included in Board-designated debt reserve and capital replacement funds in the accompanying consolidated balance sheets.

(Dollars in Thousands)

12. Commitments and Contingencies

Certain property and equipment are leased using noncancelable operating lease arrangements. Rental expense associated with the operating leases was $20,977 and $16,234 for the years ended December 31, 2011 and 2010, respectively. The leases expire in various years through 2020. Future minimum lease payments required under noncancelable operating leases for property and equipment as of December 31, 2011, are as follows:

Year Ending December 31	Operating Leases	Capital Leases
2012	$ 6,206	$ 1,339
2013	5,662	1,284
2014	5,283	745
2015	5,197	90
2016	3,640	69
Thereafter	17,685	–
Total minimum lease payments	$ 43,673	3,527
Less amount representing interest		301
Present value of net minimum lease payments		$ 3,226

13. Functional Expenses

The Corporation, as an integrated health care delivery system, provides and manages the health care needs of its patients and members. Aggregate direct expenses for these services as a percent of total expenses were approximately 89% and 87% for the years ended December 31, 2011 and 2010, respectively.

14. Indiana Medicaid Disproportionate Share

Under Indiana law (IC 12-15-16 (1-3)), health care providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH providers) are eligible to receive Indiana Medicaid Disproportionate Share (State DSH) payments. The amount of these additional State DSH funds is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. State DSH payments are paid according to the fiscal year of the State, which ends on June 30 of each year, and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the State fiscal year.

In 2011, PH recognized income of $2,877 from Indiana Supplemental Partial Payment to Privately Owned Hospitals payments, which pertained to state fiscal year 2011. PH recorded a favorable change in estimate of $1,298 in 2011.

In 2010, PH recognized income of $2,353 from Indiana Supplemental Partial Payment to Privately Owned Hospitals payments, which pertained to state fiscal year 2010. PH recorded a favorable change in estimate of $1,442 in 2010.

At December 31, 2011 and 2010, PH recorded State DSH payments receivable of $0.

15. Subsequent Events

PH evaluated events and transactions occurring subsequent to December 31, 2011 through April 19, 2012, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Parkview is in the process of refinancing the Series 1998 and 2009A fixed rate bonds. Closing is anticipated by the end of the second quarter of 2012.

Supplementary Information

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Balance Sheet

December 31, 2011
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Assets														
Current assets:														
Cash and cash equivalents	$ (28)	$ 18,208	$ 81	$ 69	$ 368	$ (17)	$ –	$ 21	$ 234	$ 45	$ 56	$ 116	$ –	$ 19,153
Patient accounts receivable, net	75,322	30,707	5,816	5,989	5,513	3,532	–	1,167	–	–	–	–	–	128,046
Inventories	9,257	2,441	158	104	171	164	–	–	–	–	–	–	–	12,295
Prepaid expenses and other current assets	95,186	(62,995)	7,004	(24,008)	4,205	850	4,515	854	(57)	(450)	35	(28)	(1,921)	23,190
Collateral from securities lending agreement	–	6,040	–	–	–	–	–	–	–	–	–	–	–	6,040
Total current assets	179,737	(5,599)	13,059	(17,846)	10,257	4,529	4,515	2,042	177	(405)	91	88	(1,921)	188,724
Investments:														
Board-designated debt reserve and capital replacement funds	16,656	395,399	25,831	37,491	–	–	–	–	12,038	1,134	1,386	390	–	490,325
Securities pledged	–	7,304	–	–	–	–	–	–	–	–	–	–	–	7,304
Other investments	–	–	–	–	–	–	–	–	–	133	–	–	–	133
	16,656	402,703	25,831	37,491	–	–	–	–	12,038	1,267	1,386	390	–	497,762
Property and equipment:														
Cost	445,174	914,844	13,844	20,163	14,964	29,986	790	1,138	190	6	5	–	–	1,441,104
Less accumulated depreciation and amortization	287,231	178,054	9,802	11,873	9,971	7,773	691	957	150	6	2	–	–	506,510
	157,943	736,790	4,042	8,290	4,993	22,213	99	181	40	–	3	–	–	934,594
Other assets:														
Interest rate swaps	–	5,596	–	–	–	–	–	–	–	–	–	–	–	5,596
Deferred financing costs	–	2,808	–	–	–	136	–	–	–	–	–	–	–	2,944
Investment in joint ventures	1,419	1,344	–	–	–	–	–	–	–	–	–	–	–	2,763
Goodwill and intangible assets, net	1,543	39,776	–	–	843	5,011	–	–	–	–	–	–	–	47,173
Other assets	1,159	29,845	41	71	25	1	–	–	(2)	(1)	–	–	(10,596)	20,543
	4,121	79,369	41	71	868	5,148	–	–	(2)	(1)	–	–	(10,596)	79,019
Total assets	$ 358,457	$ 1,213,263	$ 42,973	$ 28,006	$ 16,118	$ 31,890	$ 4,614	$ 2,223	$ 12,253	$ 861	$ 1,480	$ 478	$ (12,517)	$ 1,700,099
Liabilities and net assets														
Current liabilities:														
Accounts payable and accrued expenses	$ 27,638	$ 39,449	$ 500	$ 1,076	$ 617	$ 333	$ 3,539	$ 93	$ –	$ 4	$ 2	$ –	$ –	$ 73,251
Salaries, wages, and related liabilities	9,718	48,072	621	791	673	436	112	242	–	–	–	–	–	60,665
Accrued interest	–	3,124	–	–	–	6	–	–	–	–	–	–	–	3,130
Estimated third-party payor settlements	4,421	145	772	130	825	220	–	–	–	–	–	–	–	6,513
Payable under securities lending agreement	–	7,482	–	–	–	–	–	–	–	–	–	–	–	7,482
Current portion of long-term debt	931	15,574	292	68	64	731	–	–	–	–	–	–	(1,921)	15,739
Total current liabilities	42,708	113,846	2,185	2,065	2,179	1,726	3,651	335	–	4	2	–	(1,921)	166,780
Noncurrent liabilities:														
Long-term debt, less current portion	1,482	587,429	248	285	104	21,851	–	–	–	–	–	–	–	611,399
Interest rate swaps	–	85,450	–	–	–	–	–	–	–	–	–	–	–	85,450
Accrued pension obligations	–	57,544	–	–	–	–	–	–	–	–	–	–	–	57,544
Other	490	14,976	40	732	20	10,596	–	–	11	(1)	–	–	(10,596)	16,268
	1,972	745,399	288	1,017	124	32,447	–	–	11	(1)	–	–	(10,596)	770,661
Net assets:														
Parkview Health System, Inc.	313,777	339,768	40,486	24,924	13,815	(2,283)	963	1,888	8,003	547	1,005	253	–	743,146
Noncontrolling interest in subsidiaries	–	14,250	14	–	–	–	–	–	–	–	–	–	–	14,264
Total unrestricted net assets	313,777	354,018	40,500	24,924	13,815	(2,283)	963	1,888	8,003	547	1,005	253	–	757,410
Temporarily restricted net assets	–	–	–	–	–	–	–	–	3,428	220	473	225	-	4,346
Permanently restricted net assets	–	–	–	–	–	–	–	–	811	91	–	–	–	902
Total net assets	313,777	354,018	40,500	24,924	13,815	(2,283)	963	1,888	12,242	858	1,478	478	–	762,658
Total liabilities and net assets	$ 358,457	$ 1,213,263	$ 42,973	$ 28,006	$ 16,118	$ 31,890	$ 4,614	$ 2,223	$ 12,253	$ 861	$ 1,480	$ 478	$ (12,517)	$ 1,700,099

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Balance Sheet

December 31, 2010
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Assets														
Current assets:														
Cash and cash equivalents	$ 807	$ 19,859	$ 86	$ (14)	$ 75	$ 12	$ 1	$ (41)	$ 230	$ 45	$ 48	$ 101	$ –	$ 21,209
Patient accounts receivable, net	73,097	28,413	5,260	4,791	5,112	3,014	–	1,056	–	–	–	–	–	120,743
Inventories	9,194	1,030	187	127	197	180	–	–	–	–	–	–	–	10,915
Prepaid expenses and other current assets	86,212	(99,882)	8,380	1,370	22,150	678	1,459	211	(11)	(26)	17	8	–	20,566
Collateral from securities lending agreement	–	6,318	–	–	–	–	–	–	–	–	–	–	–	6,318
Total current assets	169,310	(44,262)	13,913	6,274	27,534	3,884	1,460	1,226	219	19	65	109	–	179,751
Investments:														
Board-designated debt reserve and capital replacement funds	16,940	554,208	26,252	38,129	–	–	–	–	12,236	1,106	1,278	400	–	650,549
Securities pledged	–	7,660	–	–	–	–	–	–	–	–	–	–	–	7,660
Other investments	–	–	–	–	–	–	–	–	–	122	–	–	–	122
	16,940	561,868	26,252	38,129	–	–	–	–	12,236	1,228	1,278	400	–	658,331
Property and equipment:														
Cost	441,903	682,913	13,081	39,650	13,996	30,343	742	1,127	190	6	5	–	–	1,223,956
Less accumulated depreciation and amortization	274,877	166,957	8,776	33,071	8,950	6,299	681	914	109	6	2	–	–	500,642
	167,026	515,956	4,305	6,579	5,046	24,044	61	213	81	–	3	–	–	723,314
Other assets:														
Interest rate swaps	–	6,197	–	–	–	–	–	–	–	–	–	–	–	6,197
Deferred financing costs	–	2,981	–	–	–	165	–	–	–	–	–	–	–	3,146
Investment in joint ventures	1,433	1,907	2	2	892	1	–	–	–	–	–	–	–	4,237
Goodwill and intangible assets, net	1,543	39,180	–	–	–	5,012	–	–	–	–	–	–	–	45,735
Other assets	1,035	39,878	33	85	13	–	–	–	–	–	–	–	(10,596)	30,448
	4,011	90,143	35	87	905	5,178	–	–	–	–	–	–	(10,596)	89,763
Total assets	$ 357,287	$ 1,123,705	$ 44,505	$ 51,069	$ 33,485	$ 33,106	$ 1,521	$ 1,439	$ 12,536	$ 1,247	$ 1,346	$ 509	$ (10,596)	$ 1,651,159
Liabilities and net assets														
Current liabilities:														
Accounts payable and accrued expenses	$ 27,327	$ 40,411	$ 530	$ 2,202	$ 439	$ 413	$ 45	$ 57	$ –	$ –	$ –	$ –	$ –	$ 71,424
Salaries, wages, and related liabilities	9,914	28,611	627	742	688	435	117	281	–	–	–	–	–	41,415
Accrued interest	–	2,938	–	–	–	6	–	–	–	–	–	–	–	2,944
Estimated third-party payor settlements	3,594	57	2,090	42	699	(274)	–	–	–	–	–	–	–	6,208
Payable under securities lending agreement	–	7,835	–	–	–	–	–	–	–	–	–	–	–	7,835
Current portion of long-term debt	1,445	29,577	378	73	67	710	–	–	–	–	–	–	–	32,250
Total current liabilities	42,280	109,429	3,625	3,059	1,893	1,290	162	338	–	–	–	–	–	162,076
Noncurrent liabilities:														
Long-term debt, less current portion	2,408	569,537	341	184	169	23,452	–	–	–	–	–	–	–	596,091
Interest rate swaps	–	46,390	–	–	–	–	–	–	–	–	–	–	–	46,390
Accrued pension obligations	–	11,205	–	–	–	–	–	–	–	–	–	–	–	11,205
Other	331	12,125	33	840	15	10,597	–	2	12	–	–	–	(10,596)	13,359
	2,739	639,257	374	1,024	184	34,049	–	2	12	–	–	–	(10,596)	667,045
Net assets:														
Parkview Health System, Inc.	312,268	360,112	40,487	46,986	31,408	(2,233)	1,359	1,099	8,578	965	968	318	–	802,315
Noncontrolling interest in subsidiaries	–	14,907	19	–	–	–	–	–	–	–	–	–	–	14,926
Total unrestricted net assets	312,268	375,019	40,506	46,986	31,408	(2,233)	1,359	1,099	8,578	965	968	318	–	817,241
Temporarily restricted net assets	–	–	–	–	–	–	–	–	3,260	191	378	191	–	4,020
Permanently restricted net assets	–	–	–	–	–	–	–	–	686	91	–	–	–	777
Total net assets	312,268	375,019	40,506	46,986	31,408	(2,233)	1,359	1,099	12,524	1,247	1,346	509	–	822,038
Total liabilities and net assets	$ 357,287	$ 1,123,705	$ 44,505	$ 51,069	$ 33,485	$ 33,106	$ 1,521	$ 1,439	$ 12,536	$ 1,247	$ 1,346	$ 509	$ (10,596)	$ 1,651,159

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended December 31, 2011
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Revenues:														
Patient service revenue (net of contractual allowances and discounts)	$ 601,257	$ 219,515	$ 52,086	$ 42,662	$ 49,854	$ 27,421	$ –	$ 6,828	$ –	$ –	$ –	$ –	$ (44,716)	$ 954,907
Provision for bad debts	(56,847)	(8,741)	(6,330)	(3,819)	(5,943)	(2,927)	–	(11)	–	–	–	–	–	(84,618)
Net patient service revenue less provision for bad debts	544,410	210,774	45,756	38,843	43,911	24,494	–	6,817	–	–	–	–	(44,716)	870,289
Other revenue	18,416	38,196	836	1,626	667	612	30,327	1,798	1,755	238	327	180	(42,785)	52,193
	562,826	248,970	46,592	40,469	44,578	25,106	30,327	8,615	1,755	238	327	180	(87,501)	922,482
Expenses:														
Salaries and benefits	197,062	244,701	14,519	16,103	14,994	10,050	3,041	4,841	405	53	90	82	(16,256)	489,685
Supplies	74,843	33,663	4,076	3,439	3,405	2,049	47	448	17	1	1	–	–	121,989
Purchased services	79,478	32,915	5,700	5,896	5,805	4,137	27,085	1,792	430	–	–	–	(43,703)	119,535
Utilities, repairs, and maintenance	13,364	20,802	1,232	1,731	1,558	1,054	61	105	2	–	–	1	(447)	39,463
Depreciation and amortization	20,924	23,191	1,121	1,539	1,120	1,879	11	38	41	–	–	–	–	49,864
Other	109,607	(82,711)	8,152	6,998	8,968	4,814	479	602	1,140	573	104	128	(27,095)	31,759
	495,278	272,561	34,800	35,706	35,850	23,983	30,724	7,826	2,035	627	195	211	(87,501)	852,295
Operating income (loss) before impairment charges	67,548	(23,591)	11,792	4,763	8,728	1,123	(397)	789	(280)	(389)	132	(31)	–	70,187
Write-down of asset due to impairment *(Note 4)*	–	(7,736)	–	–	–	–	–	–	–	–	–	–	–	(7,736)
Operating income (loss)	67,548	(31,327)	11,792	4,763	8,728	1,123	(397)	789	(280)	(389)	132	(31)	–	62,451
Nonoperating income (expense):														
Interest, dividends, and realized gains (losses) on sales of investments, net	765	8,358	1,161	1,635	2	(1)	–	–	–	–	–	–	(56)	11,864
Unrealized losses on investments, net	(1,036)	(18,090)	(1,581)	(2,333)	–	–	–	–	–	–	–	–	–	(23,040)
Interest expense	(237)	(9,611)	(33)	(12)	(11)	(306)	–	–	(1)	–	–	–	56	(10,155)
Realized and unrealized losses on interest rate swaps	–	(39,787)	–	–	–	–	–	–	–	–	–	–	–	(39,787)
Other	68	(3,579)	1	(345)	29	3	–	–	–	–	–	–	–	(3,823)
Excess (deficit) of revenues over expenses	$ 67,108,000	$ (94,036,000)	$ 11,340,000	$ 3,708,000	$ 8,748,000	$ 819,000	$ (397,000)	$ 789,000	$ (281,000)	$ (389,000)	$ 132,000	$ (31,000)	$ –	$ (2,490,000)
Excess (deficit) of revenues over expenses attributable to:														
Noncontrolling interest in subsidiaries	$ –	$ 9,514,000	$ 42,000	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 9,556,000
Parkview Health System, Inc. and subsidiaries	67,108	(103,550)	11,298	3,708	8,748	819	(397)	789	(281)	(389)	132	(31)	–	(12,046)
Other changes in net assets attributable to:														
Noncontrolling interest in subsidiaries	–	(10,172)	(46)	–	–	–	–	–	–	–	–	–	–	(10,218)
Parkview Health System, Inc. and subsidiaries	(65,599)	83,207	(11,300)	(25,770)	(26,341)	(869)	1	–	(1)	–	–	–	–	(46,672)
Increase (decrease) in net assets	1,509	(21,001)	(6)	(22,062)	(17,593)	(50)	(396)	789	(282)	(389)	132	(31)	–	(59,380)
Net assets at beginning of year	312,268	375,019	40,506	46,986	31,408	(2,233)	1,359	1,099	12,524	1,247	1,346	509	–	822,038
Net assets at end of year	$ 313,777	$ 354,018	$ 40,500	$ 24,924	$ 13,815	$ (2,283)	$ 963	$ 1,888	$ 12,242	$ 858	$ 1,478	$ 478	$ –	$ 762,658

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended December 31, 2010
(In Thousands)

	Parkview Hospital	Parkview Health System, Inc.	Parkview Huntington Hospital	Parkview Whitley Hospital	Parkview Noble Hospital	Parkview LaGrange Hospital	Managed Care Services	Parkview Occupational Health	Parkview Hospital Foundation	Parkview Whitley Hospital Foundation	Parkview Noble Hospital Foundation	Parkview Huntington Hospital Foundation	Eliminations	Consolidated
Revenues:														
Patient service revenue (net of contractual allowances and discounts)	$ 510,803	$ 168,020	$ 44,545	$ 37,014	$ 42,953	$ 26,775	$ –	$ 6,233	$ –	$ –	$ –	$ –	$ (28,060)	$ 808,283
Provision for bad debts	(32,812)	(7,217)	(4,689)	(3,825)	(4,823)	(2,327)	–	(8)	–	–	–	–	–	(55,701)
Net patient service revenue less provision for bad debts	477,991	160,803	39,856	33,189	38,130	24,448	–	6,225	–	–	–	–	(28,060)	752,582
Other revenue	15,815	10,607	901	1,750	438	599	4,552	1,727	2,103	295	316	175	(15,812)	23,466
	493,806	171,410	40,757	34,939	38,568	25,047	4,552	7,952	2,103	295	316	175	(43,872)	776,048
Expenses:														
Salaries and benefits	196,093	165,061	14,558	15,971	15,290	10,257	2,566	5,002	412	82	91	83	(11,568)	413,898
Supplies	71,503	30,757	4,051	3,126	3,241	2,281	57	490	16	1	–	1	–	115,524
Purchased services	66,092	27,875	3,092	3,602	3,581	3,022	1,003	1,355	154	74	–	–	(12,404)	97,446
Utilities, repairs, and maintenance	13,023	17,145	1,209	1,682	1,423	1,039	72	104	2	–	–	–	(457)	35,242
Depreciation and amortization	22,052	21,305	1,176	1,740	2,183	1,984	13	45	57	–	1	–	–	50,556
Other	110,016	(97,474)	10,909	9,341	9,182	5,874	588	545	828	99	71	48	(19,443)	30,584
	478,779	164,669	34,995	35,462	34,900	24,457	4,299	7,541	1,469	256	163	132	(43,872)	743,250
Operating income (loss) before impairment charges	15,027	6,741	5,762	(523)	3,668	590	253	411	634	39	153	43	–	32,798
Write-down of asset due to impairment	–	–	–	(4,385)	–	–	–	–	–	–	–	–	–	(4,385)
Operating income (loss)	15,027	6,741	5,762	(4,908)	3,668	590	253	411	634	39	153	43	–	28,413
Nonoperating income (expense):														
Interest, dividends, and realized gains on sales of investments, net	687	13,958	1,041	1,455	27	3	–	–	–	–	–	–	(583)	16,588
Unrealized losses on investments, net	939	22,889	1,439	2,114	–	–	–	–	–	–	–	–	–	27,381
Interest expense	(299)	(20,955)	(57)	(16)	(15)	(845)	–	–	(2)	–	–	–	583	(21,606)
Realized and unrealized losses on interest rate swaps	–	(17,880)	–	–	–	–	–	–	–	–	–	–	–	(17,880)
Other	83	(902)	(88)	(6)	84	(46)	(2)	(1)	–	–	–	–	–	(878)
Excess (deficit) of revenues over expenses	$ 16,437,000	$ 3,851,000	$ 8,097,000	$ (1,361,000)	$ 3,764,000	$ (298,000)	$ 251,000	$ 410,000	$ 632,000	$ 39,000	$ 153,000	$ 43,000	$ –	$ 32,018,000
Excess of revenues over expenses attributable to:														
Noncontrolling interest in subsidiaries	$ –	$ 8,583,000	$ 40,000	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 8,623,000
Parkview Health System, Inc. and subsidiaries	16,437	(4,732)	8,057	(1,361)	3,764	(298)	251	410	632	39	153	43	–	23,395
Other changes in net assets attributable to:														
Noncontrolling interest in subsidiaries	–	(7,957)	(90)	–	–	–	–	–	–	–	–	–	–	(8,047)
Parkview Health System, Inc. and subsidiaries	(25,043)	42,981	(8,058)	(3,790)	(3,846)	(710)	–	–	1	(1)	1	–	–	1,535
(Decrease) increase in net assets	(8,606)	38,875	(51)	(5,151)	(82)	(1,008)	251	410	633	38	154	43	–	25,506
Net assets at beginning of year	320,874	336,144	40,557	52,137	31,490	(1,225)	1,108	689	11,891	1,209	1,192	466	–	796,532
Net assets at end of year	$ 312,268	$ 375,019	$ 40,506	$ 46,986	$ 31,408	$ (2,233)	$ 1,359	$ 1,099	$ 12,524	$ 1,247	$ 1,346	$ 509	$ –	$ 822,038

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