The Methodist Hospitals, Inc.

Financial Report

December 31, 2010

The Methodist Hospitals, Inc.

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Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report

To the Board of Directors
The Methodist Hospitals, Inc.

We have audited the accompanying balance sheet of The Methodist Hospitals, Inc. (the "Hospital") as of December 31, 2010 and 2009 and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Methodist Hospitals, Inc. at December 31, 2010 and 2009 and the results of its operations, changes in net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

April 20, 2011

The Methodist Hospitals, Inc.

Balance Sheet

	December 31, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	$ 34,156,290	$ 12,679,241
Short-term investments (Note 5)	3,185,112	10,975,330
Accounts receivable (Note 2)	18,322,824	19,650,533
Cost report settlements receivable (Note 3)	-	21,153,622
Current portion of assets limited as to use (Note 5)	640,061	546,843
Other current assets (Note 7)	11,321,558	11,010,588
Total current assets	67,625,845	76,016,157
Assets Limited as to Use - Net of current portion (Note 5)	141,458,199	125,653,204
Property and Equipment - Net (Note 8)	126,101,815	126,551,225
Other Assets	1,503,010	2,287,085
Total assets	**$ 336,688,869**	**$ 330,507,671**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 10)	$ 3,518,507	$ 3,313,843
Accounts payable	7,375,155	9,610,235
Cost report settlements payable (Note 3)	7,785,462	6,000,000
Accrued liabilities and other (Note 9)	15,129,645	13,431,228
Total current liabilities	33,808,769	32,355,306
Long-term Debt - Net of current portion (Note 10)	89,658,798	93,186,071
Other Liabilities (Note 11)	33,383,468	38,591,749
Total liabilities	156,851,035	164,133,126
Net Assets		
Unrestricted	179,299,546	165,848,145
Temporarily restricted	513,288	501,400
Permanently restricted	25,000	25,000
Total net assets	179,837,834	166,374,545
Total liabilities and net assets	**$ 336,688,869**	**$ 330,507,671**

The Methodist Hospitals, Inc.

Statement of Operations

	Year Ended December 31, 2010	Year Ended December 31, 2009
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 244,922,776	$ 242,464,748
Investment income (Note 5)	9,637,565	14,017,492
Other revenue	3,248,761	5,098,023
Medicaid disproportionate share revenue	32,000,000	40,027,122
Net assets released from restrictions used for operations	86,007	142,307
Total unrestricted revenue, gains, and other support	289,895,109	301,749,692
Expenses		
Salaries and wages	107,500,017	103,859,841
Employee benefits and payroll taxes	23,362,225	26,162,299
Supplies	47,011,395	45,832,633
Outside services	42,122,095	45,860,178
Professional and other liability costs	2,424,601	1,706,859
Depreciation and amortization	18,703,323	23,029,650
Provision for bad debts	6,810,700	12,056,667
Interest expense	6,478,999	6,565,183
Loss on impairment (Note 8)	-	1,077,617
Other	20,417,445	19,831,102
Total expenses (Note 16)	274,830,800	285,982,029
Excess of Revenue Over Expenses	15,064,309	15,767,663
Pension-related Changes Other than Net Periodic Cost	(1,612,908)	5,201,015
Net Assets Released from Restriction	-	170,250
Increase in Unrestricted Net Assets	**$ 13,451,401**	**$ 21,138,928**

The Methodist Hospitals, Inc.

Statement of Changes in Net Assets

	Year Ended December 31, 2010	Year Ended December 31, 2009
Unrestricted Net Assets		
Excess of revenue over expenses	$ 15,064,309	$ 15,767,663
Pension-related changes other than net periodic cost	(1,612,908)	5,201,015
Net assets released from restriction	-	170,250
Increase in Unrestricted Net Assets	13,451,401	21,138,928
Temporarily Restricted Net Assets		
Restricted contributions	97,895	106,066
Net assets released from restriction	(86,007)	(312,557)
Increase (Decrease) in Temporarily Restricted Net Assets	11,888	(206,491)
Increase in Net Assets	13,463,289	20,932,437
Net Assets - Beginning of year	166,374,545	145,442,108
Net Assets - End of year	**$ 179,837,834**	**$ 166,374,545**

Statement of Cash Flows

	Year Ended December 31, 2010	Year Ended December 31, 2009
Cash Flows from Operating Activities		
Increase in net assets	$ 13,463,289	$ 20,932,437
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	18,703,323	23,029,650
Net change in unrealized net gains on investments	(5,235,605)	(9,788,958)
Realized gains on investments	(300,097)	(454,749)
Pension-related changes other than net periodic costs	1,612,908	(5,201,015)
Loss on disposal of property and equipment	219,892	400
Abandonment of software costs	-	1,077,617
Temporarily restricted contributions	(86,007)	(106,066)
Provision for bad debts	6,810,700	12,056,667
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(5,482,991)	(6,868,049)
Other current assets	(310,970)	(1,807,308)
Cost report settlements receivable	21,153,622	595,656
Other assets	784,075	56,290
Accounts payable	(2,235,080)	(8,244,004)
Accrued liabilities	1,698,417	1,277,951
Cost report settlements payable	1,785,462	(2,691,667)
Other liabilities	(6,821,189)	(5,173,530)
Net cash provided by operating activities	45,759,749	18,691,322
Cash Flows from Investing Activities		
Purchase of property and equipment	(18,473,805)	(4,630,932)
Net change in assets limited as to use and investments	(2,572,293)	(3,205,626)
Net cash used in investing activities	(21,046,098)	(7,836,558)
Cash Flows from Financing Activities		
Principal payment on long-term debt	(3,145,000)	(2,735,000)
Payments on capital lease obligations	(177,609)	(407,243)
Temporarily restricted contributions	86,007	106,066
Net cash used in financing activities	(3,236,602)	(3,036,177)
Net Increase in Cash and Cash Equivalents	21,477,049	7,818,587
Cash and Cash Equivalents - Beginning of year	12,679,241	4,860,654
Cash and Cash Equivalents - End of year	**$ 34,156,290**	**$ 12,679,241**
Supplemental Cash Flow Information - Cash paid for interest	**$ 6,427,122**	**$ 6,950,464**

See Notes to Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization - The Methodist Hospitals, Inc. (the "Hospital") is an Indiana nonprofit corporation operating a 302-bed general acute-care facility in Gary, Indiana (Northlake Campus), and a 313-bed general acute-care facility in Merrillville, Indiana (Southlake Campus). The Hospital also provides physician services to patients through the following wholly owned limited liability companies: Methodist Cardiographics, LLC, Methodist Anesthesia, LLC, and Methodist Pathology, LLC.

During 2009, the Hospital established The Methodist Hospitals Health Services Foundation, Inc. (the "Foundation") to support and benefit the Hospital. The Foundation has been accounted for within the Hospital's financial statements.

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use. The Hospital's cash balances are only insured up to the FDIC limit. As of December 31, 2010, there was approximately $30 million of uninsured cash.

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Inventories - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis or market.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Assets Limited as to Use - Assets limited as to use include assets set aside by the governing board for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes, assets held by trustees under bond indenture agreements, and assets held in self-insurance trust arrangements. Restricted foundation investments consist of assets whose use by the Hospital has been restricted by the donor.

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Classification of Net Assets - Net assets of the Hospital are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Hospital's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Excess of Revenue Over Expenses - The statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets and pension-related changes other than periodic benefit costs.

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Contributions - The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of changes in net assets as net assets released from restrictions.

The Hospital reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

Professional and Other Liability Insurance - The Hospital accrues an estimate of the ultimate expense, including litigation and settlement expense, net of applicable reinsurance coverage, for incidents of potential improper professional service and other liability claims occurring during the year as well as for those claims that have not been reported at year end.

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

Tax Status - The Hospital is a nonprofit, tax-exempt organization; accordingly, no tax provision is reflected in the financial statements.

Accounting for Conditional Asset Retirement Obligation - Management has considered its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. Over the past 20 years, management has systematically renovated, replaced, or constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management has calculated the present value of the retirement obligation and the amount has been recognized as a liability on the balance sheet.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements - During 2010, the Financial Accounting Standards Board (FASB) adopted new accounting guidance that will impact how health care organizations account for claims liabilities and charity care. The new guidance requires the accrued liability for malpractice claims and similar liabilities and the related insurance recovery receivable be presented separately on the balance sheet on a gross basis. Prior guidance allowed the liability to be reported net of the estimated insurance recovery receivable. This new standard will be effective for the first annual period beginning after December 15, 2010.

New guidance has also been adopted on how to measure the amount of charity care provided to patients. The new guidance requires costs to be used as the measurement basis for charity care disclosure purposes and the cost be identified as the direct and indirect costs of providing the charity care. No other measurement basis should be used. Prior guidance did not dictate how charity care should be measured. This new standard will be effective for the first annual period beginning after December 15, 2010 and should be applied retrospectively to all prior periods presented.

The Hospital is currently assessing the impact these new standards will have on its financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 20, 2011, which is the date the financial statements were available to be issued.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2010	2009
Patient accounts receivable	$ 92,140,380	$ 108,920,058
Less allowance for uncollectible accounts	(19,430,369)	(40,732,477)
Less allowance for contractual adjustments	(54,387,187)	(48,538,173)
Net patient accounts receivable	18,322,824	19,649,408
Other	-	1,125
Total accounts receivable	$ 18,322,824	$ 19,650,533

Note 2 - Patient Accounts Receivable (Continued)

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	Percentage	
	2010	2009
Medicare	29	29
Commercial and managed care	36	28
Medicaid	13	17
Self-pay	22	26
Total	100	100

Note 3 - Cost Report Settlements

A significant portion of the Hospital's net patient service revenue is received from the Medicare and Medicaid programs. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.
- **Medicaid** - Inpatient and outpatient services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge or per procedure.
- **Other Third-party Payors** - The Hospital has also entered into agreements with certain commercial carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement to the Hospital under these agreements is discounts from established charges, prospectively determined rates per discharge, and prospectively determined daily rates.

The Hospital qualifies as a Medicaid Disproportionate Share (DSH) provider under Indiana law and, as such, is eligible to receive DSH payments linked to the State of Indiana's fiscal year, which is June 30. The Hospital records DSH program revenue and receivables when the related amounts are determinable and when collectibility is reasonably assured.

Note 3 - Cost Report Settlements (Continued)

At December 31, 2010 and 2009, the Hospital recorded approximately $0 and $21.2 million, respectively, in amounts due from the State of Indiana under the DSH program. These amounts are included as part of third-party payor settlements. The amounts recorded represent estimated reimbursement due to the Hospital for services provided through the State fiscal year 2010. During the years ended December 31, 2010 and 2009, approximately $55 million and $40 million, respectively, was received in cash related to the DSH program.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare and Medicaid programs that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. The Hospital is unable to determine the extent of liability for overpayments, if any.

Note 4 - Charity Care

In support of its mission, the Hospital's policy is to treat patients in need of medical services without regard to their ability to pay for such services. Charity care covers services provided to persons who cannot afford to pay. Charity care is determined based on established policies, using patient income and assets to determine payment ability. During 2009, the Hospital updated its policy relating to charity care and the requirements relating to patient income and assets. The following is a summary of the Hospital's charity care for the years ended December 31, 2010 and 2009:

	2010	2009
Traditional charity care - Charges forgone	$ 43,830,870	$ 47,790,329

In addition, the Hospital performs many activities of community benefit, including programs provided to persons with inadequate healthcare resources or for other groups within the community that need special services and support. Examples include programs related to the poor, elderly, substance abuse, child abuse, and others with specific particular healthcare needs. They also include broader populations who benefit from health community initiatives such as health promotion, education, and health screening.

Note 4 - Charity Care (Continued)

The Hospital also participates in the Medicare and Medicaid programs. At present, the reimbursement rates for both programs do not fully cover the cost of providing care to these patients. This represents the estimated "shortfall" created when a facility receives payments below the costs of treating Medicare and Medicaid beneficiaries. These uncompensated costs are not included above.

Note 5 - Assets Limited as to Use

The details of assets limited as to use are summarized in the following schedule:

	2010	2009
Funds held by trustees under bond indenture	$ 8,475,812	$ 9,581,879
Funds held in trust for payment of professional and other liability claims	7,741,532	8,003,377
Funds held by board for future capital improvements	125,855,916	108,589,791
Funds held by donors for specific purposes	25,000	25,000
Subtotal	142,098,260	126,200,047
Less amount for payment of current liabilities	(640,061)	(546,843)
Total assets limited as to use and permanently or temporarily restricted	$ 141,458,199	$ 125,653,204

Investments, including short-term investments, consist of the following:

	2010	2009
Money market investments	$ 16,591,962	$ 36,052,522
Government securities	28,616,522	13,921,800
Mutual funds	44,245,740	39,189,621
Corporate bonds	51,261,914	44,391,646
Pooled funds	4,567,234	3,619,788
Total	$ 145,283,372	$ 137,175,377

Classified as:

	2010	2009
Short-term investments	$ 3,185,112	$ 10,975,330
Current portion of assets limited as to use	640,061	546,843
Noncurrent portion of assets limited as to use	141,458,199	125,653,204
Total	$ 145,283,372	$ 137,175,377

Note 5 - Assets Limited as to Use (Continued)

Funds held by the trustee under bond indenture are held for the purpose of making future bond principal and interest payments. Investment income accrues to the funds as earned.

Investment income and gains and losses are comprised of the following for the years ended December 31, 2010 and 2009:

	2010	2009
Interest and dividends	$ 4,101,863	$ 3,773,785
Change in net unrealized gains and losses on investments	5,235,605	9,788,958
Realized gains and losses - Net	300,097	454,749
Total	$ 9,637,565	$ 14,017,492

Note 6 - Fair Value Measurements

Accounting standards require certain assets and liabilities to be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Hospital's assets measured at fair value on a recurring basis at December 31, 2010 and 2009 and the valuation techniques used by the Hospital to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 6 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2010
Short-term Investments -				
Money market investments	$ 3,185,112	$ -	$ -	$ 3,185,112
Assets Limited as to Use				
Money market investments	12,649,649	-	-	12,649,649
Mutual funds:				
U.S. companies	23,122,603	-	-	23,122,603
International companies	17,485,079	-	-	17,485,079
Fixed income	3,638,057	-	-	3,638,057
Fixed income:				
U.S. Treasuries	-	26,660,459	-	26,660,459
Governmental agency bonds	-	1,956,063	-	1,956,063
Pooled funds	-	4,567,234	-	4,567,234
Asset-backed securities	-	18,517,076	-	18,517,076
Mortgage-backed securities	-	13,876,756	-	13,876,756
Corporate - Domestic	-	15,001,580	-	15,001,580
Corporate - International	-	3,866,502	-	3,866,502
Total assets limited as to use	56,895,388	84,445,670	-	141,341,058
Total	$ 60,080,500	$ 84,445,670	$ -	$ 144,526,170

The assets limited as to use and short term investments included in the balance sheet at December 31, 2010 included cash and cash equivalents of $757,202, which are not measured at fair value on a recurring basis and therefore, are not in the table above.

Note 6 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2009

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2009
Short-term Investments -				
Money market investments	$ 10,975,330	$ -	$ -	$ 10,975,330
Assets Limited as to Use				
Money market investments	24,767,699	-	-	24,767,699
Mutual funds:				
U.S. companies	19,687,858	-	-	19,687,858
International companies	15,982,039	-	-	15,982,039
Fixed income	3,519,724	-	-	3,519,724
Fixed income:				
U.S. Treasuries	-	4,888,205	-	4,888,205
Governmental agency bonds	-	9,033,595	-	9,033,595
Pooled funds	-	3,619,788	-	3,619,788
Asset-backed securities	-	15,924,775	-	15,924,775
Mortgage-backed securities	-	12,896,197	-	12,896,197
Corporate - Domestic	-	13,039,134	-	13,039,134
Corporate - International	-	2,531,541	-	2,531,541
Total assets limited as to use	63,957,320	61,933,235	-	125,890,555
Total	$ 74,932,650	$ 61,933,235	$ -	$ 136,865,885

The assets limited as to use and short-term investments included in the balance sheet at December 31, 2009 included cash and cash equivalents of $309,492, which are not measured at fair value on a recurring basis and therefore are not in the table above.

Note 7 - Other Current Assets

The details of other assets at December 31, 2010 and 2009 are as follows:

	2010	2009
Prepaid expenses	$ 2,907,315	$ 2,481,172
Inventory	7,544,392	7,134,941
Other	869,851	1,394,475
Total	$ 11,321,558	$ 11,010,588

Note 8 - Property and Equipment

The cost of property, plant, and equipment and depreciable lives are summarized as follows:

	2010	2009	Depreciable Life - Years
Land	$ 3,745,499	$ 3,747,447	-
Buildings	237,442,311	236,722,653	2-40
Equipment	195,403,510	181,608,746	3-5
Construction in progress	3,582,359	4,613,776	-
Total cost	440,173,679	426,692,622	
Accumulated depreciation	(314,071,864)	(300,141,397)	
Net property and equipment	$ 126,101,815	$ 126,551,225	

Depreciation and amortization expense on property and equipment totaled approximately $18,659,000 and $22,986,000 in 2010 and 2009, respectively. The Hospital holds buildings and equipment under capital leases with an original cost of approximately $24,400,000. Accumulated amortization for buildings and equipment under capital lease obligations was approximately $9,587,000 and $8,154,000 at December 31, 2010 and 2009, respectively.

Construction in progress consists primarily of costs incurred for the installation and implementation of software systems and installation of various clinical equipment. Remaining costs to complete the project are approximately $3,800,000 as of December 31, 2010.

During 2008, the Hospital began evaluating whether the information technology system for both clinical and financial applications that was in process of being installed was in fact going to be the long-term solution for the Hospital. During 2009, the Hospital concluded that the current system would not meet its needs and transitioned to a new system.

Because of the decision to abandon the information technology system, the Hospital has recognized a loss on the impairment of the assets related to the information technology system for approximately $0 and $1.1 million for the years ended December 31, 2010 and 2009, respectively.

Note 9 - Accrued Liabilities and Other

The details of accrued liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
Payroll and related items	$ 7,143,529	$ 6,202,288
Compensated absences	6,814,896	6,021,423
Interest	1,118,886	1,170,763
Other	52,334	36,754
Total accrued liabilities	$ 15,129,645	$ 13,431,228

Note 10 - Long-term Debt

A summary of long-term debt and capital lease obligations at December 31, 2010 and 2009 follows:

	2010	2009
Indiana Health Facility Financing Authority Revenue Bonds, Series 1996, interest at 6.00 percent, due in installments through 2016	$ 12,585,000	$ 14,285,000
Indiana Health Facility Financing Authority Revenue Bonds, Series 2001, interest ranging from 4.30 percent to 5.50 percent, due in installments through 2031	56,690,000	58,135,000
Urgent care and ambulatory surgery center capital lease obligation, expires June 30, 2030, collateralized by the leased buildings	2,219,737	2,239,178
Urgent care building capital lease obligation, expires October 31, 2020, collateralized by the leased building	1,402,483	1,461,280
Medical office building capital lease obligations, expires December 31, 2045, collateralized by leased medical office buildings	20,082,166	20,179,776
Total - Before unamortized discount	92,979,386	96,300,234
Less original issue discount	(197,919)	(199,680)
Less current portion	3,518,507	3,313,843
Long-term portion	$ 89,658,798	$ 93,186,071

Note 10 - Long-term Debt (Continued)

The Indiana Health Facility Financing Authority (the IHFFA) has issued bonds on behalf of The Methodist Hospitals, Inc. Obligated Group (the "Obligated Group") and has loaned the proceeds to the Obligated Group under the terms of the master indenture.

Hospital Obligated Group Bonds Payable, Series 1996 consist of hospital revenue bonds issued by the IHFFA. The bonds consist of term bonds payable in annual installments beginning in 2011 through 2016, ranging from $1,805,000 to $2,415,000 at an interest rate of 6 percent.

Hospital Obligated Group Bonds Payable, Series 2001 consist of hospital revenue bonds issued by the IHFFA. The bonds consist of serial bonds payable in annual installments ranging from $1,525,000 in 2011 to $1,685,000 in 2013, at interest rates ranging from 4.30 percent to 4.98 percent, and term bonds payable in annual installments beginning in 2014 through 2031, ranging from $1,775,000 to $4,365,000 at interest rates ranging from 5.375 percent to 5.50 percent.

The Series 1996 and 2001 Bonds have been issued under a master trust indenture and are secured by the gross revenue of the Hospital. In connection with the bond indenture and loan agreements, the Obligated Group is subject to certain financial covenants related to, among others, transfer of assets, restrictions on additional indebtedness, and maintenance of certain financial covenants, including a minimum debt service coverage ratio and minimum debt service reserve funds.

The Hospital has entered into a series of capital lease arrangements for a medical office building on the Merrillville hospital campus. The Hospital is leasing the underlying land to the developer under terms of a ground lease. The medical office building houses physician offices, laboratory and diagnostic facilities, and an ambulatory surgery center. The lease agreements have terms from 25 to 40 years.

Subsequent to December 31, 2010, one of the capital leases was terminated. As of April 1, 2011, the Hospital was released from further obligations related to the capital lease. Approximately $400,000 was transferred upon termination in relation to accrued taxes. Due to the nature of the subsequent event, depreciation on the related assets was accelerated during 2010. Additional depreciation for 2010 was approximately $1,525,000 based on the change in estimate of the asset's useful life.

Note 10 - Long-term Debt (Continued)

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows as of December 31, 2010:

Years Ending December 31	Long-term Debt	Capital Lease Obligations
2011	$ 3,330,000	$ 2,444,496
2012	3,510,000	2,444,496
2013	3,710,000	2,444,496
2014	3,925,000	2,444,496
2015	4,150,000	2,444,496
Thereafter	50,650,000	59,674,414
Total	69,275,000	71,896,894
Less amount representing interest under capital lease obligations	-	(48,192,508)
Total debt and present value of minimum lease payments	$ 69,275,000	$ 23,704,386

Note 11 - Other Liabilities

The detail of other liabilities is shown below:

	2010	2009
Accrued pension cost (Note 14)	$ 25,304,918	$ 28,546,231
Accrued professional and other liability claims (Note 15)	6,867,887	7,144,940
Other	1,210,663	2,900,578
Total other liabilities	$ 33,383,468	$ 38,591,749

Note 12 - Operating Leases

The Hospital is obligated under certain operating leases, primarily for facilities and equipment. Total rent expense under these leases was approximately $1,459,000 and $1,666,000 for the years ended December 31, 2010 and 2009, respectively.

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Years Ending December 31	Amount
2011	$ 1,279,311
2012	1,024,979
2013	532,116
2014	192,071
2015	31,754
Total	$ 3,060,231

Note 13 - Defined Contribution Plan

The Hospital established a defined contribution pension plan effective January 1, 2006, which allows for employee contributions and requires a matching employer contribution of 50 percent of the first 6 percent of employees' earnings. In addition, the Hospital made a discretionary contribution of 3 percent of compensation earned through August 2009. Expense for the years ended December 31, 2010 and 2009 was approximately $1,150,000 and $2,980,000, respectively.

Note 14 - Pension and Other Postretirement Benefit Plans

The Methodist Hospitals, Inc. participates in a defined benefit pension plan covering certain employees.

The board of trustees of the Hospital elected to freeze the employees' participation in the future accrual of benefits under the existing defined benefit plan effective December 31, 2005.

Effective June 1, 2007, the plan was amended to provide early retirement window benefits to participants who had attained age 50 and completed 10 or more years of service on or before June 30, 2007. Under the terms of the amendment, eligible participants who elected to participate received three years of additional benefits accrual based on 2006 compensation, and the early retirement reduction was calculated assuming a participant was 50 years or older. Participants were allowed to take their full benefit as a lump sum. A significant portion of participants eligible for the early retirement program elected to participate in the program.

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

Obligations and Funded Status

	Pension Benefits	
	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 82,590,217	$ 78,238,744
Service cost	100,000	100,000
Interest cost	4,874,102	4,764,983
Actuarial loss	5,261,853	2,442,896
Benefits paid	(3,102,336)	(2,956,406)
Benefit obligation at end of year	89,723,836	82,590,217
Change in plan assets:		
Fair value of plan assets at beginning of year	54,043,986	41,116,924
Actual return on plan assets	7,777,268	10,783,468
Employer contributions	5,700,000	5,100,000
Benefits paid	(3,102,336)	(2,956,406)
Fair value of plan assets at end of year	64,418,918	54,043,986
Funded status at end of year	$ (25,304,918)	$ (28,546,231)

Components of net periodic benefit cost and other amounts recognized are as follows:

	Pension Benefits	
	2010	2009
Net Periodic Benefit Cost		
Service cost	$ 100,000	$ 100,000
Interest cost	4,874,102	4,764,983
Expected return on plan assets	(4,128,323)	(3,139,557)
Amortization of net loss	310,547	750,897
Total	$ 1,156,326	$ 2,476,323

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension cost:

	Pension Benefits	
	2010	2009
Net loss (gain)	$ 1,612,908	$ (5,201,015)

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

Assumptions

Weighted average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits	
	2010	2009
Discount rate	5.60 %	6.00 %

Weighted average assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

	Pension Benefits	
	2010	2009
Discount rate	6.00 %	6.25 %
Expected long-term return on plan assets	7.40	7.40

In selecting the expected long-term rate of return on assets, the Hospital considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this plan. This included considering the allocation of trust assets and the expected returns likely to be earned over the life of the plan.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Hospital, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits. Pension funds are invested in growth-oriented securities up to 62 percent in equities, including international equities.

The target allocation range of percentages for plan assets is 61 and 62 percent equity securities and 39 and 38 percent debt securities as of December 31, 2010 and 2009, respectively.

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

The fair values of the Hospital's pension plan assets at December 31, 2010 by major asset categories are as follows:

Fair Value Measurements at December 31, 2010

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Equity securities:				
U.S. companies	$ 24,628,725	$ 24,628,725	$ -	$ -
International companies	17,060,615	17,060,615	-	-
Debt securities	19,932,481	-	19,932,481	-
Fixed income - Pooled funds	2,782,561	-	2,782,561	-
Total	$ 64,404,382	$ 41,689,340	$ 22,715,042	$ -

Fair Value Measurements at December 31, 2009

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Equity securities:				
U.S. companies	$ 20,707,438	$ 20,707,438	$ -	$ -
International companies	13,988,044	13,988,044	-	-
Debt securities	17,127,127	-	17,127,127	-
Fixed income - Pooled funds	2,205,335	-	2,205,335	-
Total	$ 54,027,944	$ 34,695,482	$ 19,332,462	$ -

The pension plan assets shown above included cash and cash equivalents of $14,536 and $16,042 at December 31, 2010 and 2009, respectively. Cash and cash equivalents are not measured at fair value on a recurring basis and therefore are not included in the table above.

The above tables present information about the pension and postretirement benefit plan assets measured at fair value at December 31, 2010 and 2009 and the valuation techniques used by the Hospital to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Hospital has the ability to access.

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Cash Flow

Contributions

The Hospital expects to contribute $5.6 million to the pension plan in 2010.

Estimated Future Benefit Payments

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

Years Ending December 31	Pension Benefits
2011	$ 3,192,351
2012	3,316,525
2013	3,495,330
2014	3,680,820
2015	3,850,283
2016-2019	23,385,666

Note 15 - Professional Liability Self-insurance

On April 2, 1983, the Hospital became qualified under the Indiana Medical Malpractice Act (the "Act") to adopt the policy of self-insuring its professional liability risks for individual losses up to $250,000 per claim and $7,500,000 annually. In addition, the self-insurance plan has specified annual aggregate limits. The Hospital carries commercial insurance coverage for incidents that would exceed coverages specified by the self-insurance program. Prior to April 2, 1983, the Hospital carried commercial insurance for professional liability risks on an occurrence basis. The Hospital's liability for medical malpractice self-insurance is actuarially determined based upon the Hospital's estimated claims reserves and various assumptions, and includes an estimate for claims incurred but not yet reported.

In connection with the self-insurance program, the Hospital established a trust. Under the trust agreement, the trust assets can only be used for payment of professional liability losses, related expenses, and the costs of administering the trust. The assets of the trust are included in unrestricted funds and income from the trust assets and administrative costs are included in the statement of operations.

Note 16 - Functional Expenses

The Hospital provides general healthcare services to residents within its geographical location.

Expenses related to providing these services are as follows:

	2010	2009
Healthcare services	$ 244,604,094	$ 253,561,212
General and administrative	30,226,706	32,420,817
Total	$ 274,830,800	$ 285,982,029

Note 17 - Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents - The carrying amount approximates fair value because of the short maturity of those instruments.

Investments - Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices.

Note 17 - Fair Value of Financial Instruments (Continued)

Accounts Receivable, Accounts Payable, and Accrued Liabilities - The carrying amount reported in the balance sheet for accounts receivable, accounts payable, and accrued liabilities approximates its fair value.

Estimated Third-party Payor Settlements - Net - The carrying amount reported in the balance sheet for estimated third-party payor settlements - net approximates its fair value.

Long-term Debt - The fair value of the Hospital's bonds is estimated based on current traded value. The fair value of the Hospital's remaining debt is estimated using discounted cash flow analysis, based on current investment borrowing rates for similar types of borrowing arrangements.

The estimated fair value of the Hospital's long-term debt is as follows:

	Carrying Amount	Fair Value
2010 - Long-term debt	$ 93,177,000	$ 86,105,000
2009 - Long-term debt	$ 96,500,000	$ 86,740,000