



CONSOLIDATED FINANCIAL STATEMENTS,
DETAILS OF CONSOLIDATION, AND OTHER
FINANCIAL INFORMATION

Methodist Health Services Corporation and Subsidiaries
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Methodist Health Services Corporation and Subsidiaries

Consolidated Financial Statements, Details of Consolidation,
and Other Financial Information

Years Ended December 31, 2010 and 2009

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Details of Consolidation	
Report of Independent Auditors on Details of Consolidation	46
Methodist Health Services Corporation and Subsidiaries	
Details of Consolidated Balance Sheet, December 31, 2010.....	47
Details of Consolidated Statement of Operations, Year Ended December 31, 2010	49
Methodist Health Services Corporation and Subsidiaries (Parent Only)	
Details of Consolidated Balance Sheet, December 31, 2010.....	50
Details of Consolidated Statement of Operations, Year Ended December 31, 2010	52
Other Financial Information	
Report of Independent Auditors on Other Financial Information	53
Statement of Operations of the Methodist College of Nursing.....	54

Report of Independent Auditors

The Board of Directors
Methodist Health Services Corporation and Subsidiaries
Peoria, Illinois

We have audited the accompanying consolidated balance sheets of Methodist Health Services Corporation and Subsidiaries (the Corporation) as of December 31, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the 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 Methodist Health Services Corporation and Subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 11, 2011

Methodist Health Services Corporation and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,657,000	\$ 41,779,436
Cash held by trustee as collateral	13,600,000	–
Short-term investments	133,590,977	118,239,103
Receivables:		
Patient accounts receivable, less allowances for uncollectible accounts (2010 – \$16,877,000; 2009 – \$16,255,000)	47,648,240	45,924,392
Inventory	3,438,072	3,602,300
Prepaid expenses	6,977,819	2,084,519
Other current assets	2,759,604	3,242,306
Total current assets	<u>240,671,712</u>	<u>214,872,056</u>
Assets held by trustee:		
Self-insurance trust	10,011,608	9,054,255
Deferred compensation	3,217,416	2,364,125
Total assets held by trustee	<u>13,229,024</u>	<u>11,418,380</u>
Property, plant, and equipment, net	258,384,046	242,207,869
Other long-term assets:		
Interest in trust	5,879,719	5,572,703
Investment in nonconsolidated affiliates	8,609,340	5,868,054
Deferred financing costs, net	979,596	935,846
Other	3,068,362	2,840,770
Total other long-term assets	<u>18,537,017</u>	<u>15,217,373</u>
	<u><u>\$ 530,821,799</u></u>	<u><u>\$ 483,715,678</u></u>

	December 31	
	2010	2009
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 47,160,302	\$ 45,750,079
Amounts due to third-party payors	25,666,897	23,814,592
Current portion of line of credit	12,000,000	6,000,000
Current portion of long-term debt	4,608,358	3,740,000
Total current liabilities	<u>89,435,557</u>	<u>79,304,671</u>
Noncurrent liabilities:		
Long-term debt, less current portion	87,557,285	84,619,999
Accrued pension cost	76,310,249	66,192,957
Estimated self-insurance liabilities	13,336,638	11,380,717
Amount due under interest rate swap agreements	23,125,102	8,962,950
Other liabilities	5,731,085	4,878,098
Total noncurrent liabilities	<u>206,060,359</u>	<u>176,034,721</u>
Total liabilities	<u>295,495,916</u>	<u>255,339,392</u>
Net assets:		
Unrestricted	221,895,738	215,482,294
Temporarily restricted	9,523,186	9,038,606
Permanently restricted	3,906,959	3,855,386
Total net assets	<u>235,325,883</u>	<u>228,376,286</u>
	<u><u>\$ 530,821,799</u></u>	<u><u>\$ 483,715,678</u></u>

See accompanying notes.

Methodist Health Services Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended December 31	
	2010	2009
Unrestricted revenues, gains, and other support		
Net patient service revenue	\$ 326,112,398	\$ 313,333,101
Medicaid assessment	21,485,528	20,809,612
	347,597,926	334,142,713
Other revenue:		
Other operating revenue	18,076,524	10,302,747
Unrestricted gifts and bequests	145,846	289,569
Net assets released from restrictions and used for operations	870,800	1,032,479
Total operating revenue	366,691,096	345,767,508
Expenses		
Salaries and benefits	179,244,568	167,353,792
Supplies and other	121,786,215	116,172,800
Depreciation and amortization	22,027,422	19,611,930
Interest	2,692,816	2,191,468
Provision for uncollectible accounts	22,287,526	20,527,644
Medicaid assessment	9,347,769	9,432,515
Total operating expenses	357,386,316	335,290,149
Operating income	9,304,780	10,477,359
Nonoperating income		
Investment income	13,796,578	16,247,283
Interest rate swap valuation	(13,606,427)	37,408,568
Total nonoperating income, net	190,151	53,655,851
Revenues in excess of expenses	9,494,931	64,133,210

Methodist Health Services Corporation and Subsidiaries

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

	Year Ended December 31	
	2010	2009
Unrestricted net assets		
Revenues in excess of expenses	\$ 9,494,931	\$ 64,133,210
Transfer from permanently restricted net assets	–	165,684
Net assets released from restrictions and used for capital purposes	509,447	113,553
Pension-related changes other than net periodic pension cost	(3,590,934)	3,060,723
Increase in unrestricted net assets	6,413,444	67,473,170
Temporarily restricted net assets		
Restricted contributions	885,167	866,543
Investment income	979,660	1,584,150
Net assets released from restrictions and used for operations	(870,800)	(1,032,479)
Net assets released from restrictions and used for capital purposes	(509,447)	(113,553)
Increase in temporarily restricted net assets	484,580	1,304,661
Permanently restricted net assets		
Transfer to unrestricted net assets	–	(165,684)
Investment income	29,422	207,139
Restricted contributions	22,151	21,215
Increase in permanently restricted net assets	51,573	62,670
Change in net assets	6,949,597	68,840,501
Net assets at beginning of year	228,376,286	159,535,785
Net assets at end of year	\$ 235,325,883	\$ 228,376,286

See accompanying notes.

Methodist Health Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2010	2009
Operating activities		
Change in net assets	\$ 6,949,597	\$ 68,840,501
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	3,590,934	(3,060,723)
Restricted contributions, investment income, and other, net of assets released from restrictions	(536,154)	(1,367,330)
Depreciation and amortization	22,027,422	19,611,930
Provision for uncollectible accounts	22,287,526	20,527,644
Interest rate swap valuation	13,606,427	(37,408,568)
Changes in operating assets and liabilities:		
Cash held by trustee as collateral	(13,600,000)	39,631,734
Patient accounts receivable	(24,011,374)	(10,966,940)
Inventory, prepaid expenses, and other current assets	(4,415,370)	12,281,002
Trading securities	(15,351,874)	(45,563,634)
Other assets	(1,620,527)	(5,909,458)
Amounts due to third-party payors	1,852,305	4,603,632
Accounts payable and accrued expenses	1,410,223	(7,842,155)
Accrued pension cost	6,526,358	7,002,585
Estimated self-insurance liabilities and other long-term liabilities	2,789,549	4,112,701
Net cash provided by operating activities	21,505,041	64,492,921
Investing activities		
Acquisition of property, plant, and equipment, net	(36,682,345)	(49,871,680)
Change in investments in nonconsolidated affiliates	(2,741,286)	(1,538,537)
Net cash used in investing activities	(39,423,631)	(51,410,217)
Financing activities		
Draws on long-term debt	-	400,000
Payments of long-term debt	(3,740,000)	(3,365,000)
Payment on line of credit	(4,000,000)	(30,500,000)
Draws on line of credit	16,000,000	36,000,000
Restricted contributions, investment income, and other, net of assets released from restrictions	536,154	1,367,330
Net cash provided by financing activities	8,796,154	3,902,330
(Decrease) increase in cash and cash equivalents	(9,122,436)	16,985,034
Cash and cash equivalents at beginning of year	41,779,436	24,794,402
Cash and cash equivalents at end of year	\$ 32,657,000	\$ 41,779,436
Supplemental disclosures of cash flow information		
Interest payments	\$ 4,259,483	\$ 3,914,468
Noncash additions to property, plant, and equipment	\$ 1,565,003	\$ -

See accompanying notes.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Years Ended December 31, 2010 and 2009

Our Mission

We are committed to delivering outstanding health care. Period.

1. Organization and Summary of Significant Accounting Policies

Methodist Health Services Corporation (MHSC)

Methodist Health Services Corporation (the Corporation or MHSC) is an integrated health care organization dedicated to providing comprehensive health care services, including inpatient, outpatient, emergency care services, and professional services, to residents of Peoria, Illinois, and surrounding communities. The Corporation is an Illinois not-for-profit, tax-exempt 501(c)(3) corporation that was incorporated to promote and encourage health and human services in the communities it serves.

The Corporation does not have employees or conduct active health care-related activities. It controls the activities of its subsidiaries through the appointment of its Board as the sole member of each of these organizations and delegation of certain responsibilities to each. MHSC has five subsidiaries as of December 31, 2010: The Methodist Medical Center of Illinois (the Medical Center or MMCI), The Methodist Medical Center Foundation (the Foundation or MMCF), Provider Resource Management Services, Inc., Heartland Home Health Care, Inc., and Methodist Services, Inc. Methodist Physician Services, Inc. is a subsidiary of Heartland Home HealthCare, Inc.

The Methodist Medical Center of Illinois (the Medical Center or MMCI)

The Methodist Medical Center of Illinois is a not-for-profit, tax-exempt 501(c)(3) Illinois corporation that provides inpatient, outpatient, emergency care, professional services, and nonacute health services for residents of Peoria and the surrounding communities.

The Methodist Medical Center Foundation (the Foundation or MMCF)

The Methodist Medical Center Foundation is a not-for-profit, tax-exempt organization established to solicit and manage gifts and bequests on behalf of MMCI.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Provider Resource Management Services, Inc. (PRM)

Provider Resource Management Services (d/b/a Methodist First Choice) is an Illinois for-profit corporation wholly owned by MHSC. Its purpose is to function as a physician hospital organization (PHO), entering into contracts with physician and institutional providers and representing those providers in patient care agreements with employers, insurance companies, and managed care organizations.

Heartland Home Health Care, Inc. (HHHC)

Heartland Home Health Care, Inc. is an Illinois for-profit corporation wholly owned by MHSC. Its purpose is to operate retail pharmacies located on the campuses of MMCI and an integrative medicine physician practice accompanied by a retail component. It has one subsidiary, Methodist Physician Services, Inc.

Methodist Services, Inc. (MSI)

Methodist Services, Inc. is an Illinois not-for-profit, tax-exempt corporation. Its purpose is to manage properties for the advancement of health care in Peoria and the surrounding communities.

Methodist Physician Services, Inc. (MPS)

Methodist Physician Services, Inc. is an Illinois for-profit corporation wholly owned by HHHC. Its purpose is to provide management services to physician offices.

Basis of Presentation

The consolidated financial statements include the accounts and transactions of all wholly owned and controlled subsidiaries, which include both taxable and tax-exempt entities. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where control is participatory with others or where ownership is 50% or less. All significant intercompany balances and transactions have been eliminated in consolidation.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of 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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time that the estimates are made, actual results could differ from the estimates recorded and/or disclosed.

Cash and Cash Equivalents

Investments in highly liquid instruments, which are not limited as to use, with a maturity of three months or less at the time of acquisition are reflected as cash equivalents.

Patient Accounts Receivable and Allowance for Uncollectible Accounts

The Corporation evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, payor class, historical collection experience of the payor, an assessment of business and economic conditions, and trends in health care coverage. The Corporation follows established guidelines for placing certain past-due patient balances with collection agencies. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible in accordance with the Corporation's collection policies.

Inventories

Inventories, consisting primarily of drugs and supplies, are stated at the lower of cost or market, and are determined by the first-in, first-out method.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Short-Term Investments

Substantially all short-term investments are invested and managed by professional investment managers and are held in custody by financial institutions. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Investment return (including realized and unrealized gains and losses on investments, interest, and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donors, in which case the investment return is recorded directly to either temporarily or permanently restricted net assets.

Investments in alternative investments, primarily hedge fund of funds, invest in marketable securities and derivative products. These investments are reported using the equity method. The values provided by the respective fund managers are based on historical costs, appraisals, and other estimates that require varying degrees of judgment. The financial statements of the hedge funds are audited annually. Equity earnings related to these alternative investments are included in nonoperating investment income in the accompanying consolidated statements of operations and changes in net assets.

Management designated the portfolio as trading securities. Accordingly, under the trading securities designation, changes in unrestricted unrealized gains and losses in the fair value of such investments are included in revenues in excess of expenses in the accompanying consolidated statements of operations and changes in net assets.

Assets Held by Trustee

Assets held by trustee for the self-insurance trust are invested and managed by professional investment managers and are held in a trust by financial institutions. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Investment return (including realized gains and losses on investments, interest, and dividends) is included in investment income in the accompanying consolidated statements of operations and changes in net assets.

Management designated the portfolio as trading securities. Accordingly, under the trading securities designation, changes in unrestricted unrealized gains and losses in the fair value of such investments are included in revenues in excess of expenses in the accompanying consolidated statements of operations and changes in net assets.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Assets held by trustee for the deferred compensation agreements are investments that are invested and self-directed by the employee and are held in a trust by a financial institution. Investments in mutual funds are measured at fair value based on quoted market prices for those or similar investments. Investment return (including realized and unrealized gains and losses on investments, interest, and dividends) is included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Investment in Trust

Assets held by trustee for the Mary Barker trust are invested and managed by professional investment managers and are held in a trust by a financial institution. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices for those or similar investments. Investment return (including realized gains and losses on investments, interest, and dividends) is included in temporarily restricted net assets in the accompanying consolidated statements of operations and changes in net assets.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions and used for operations.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Restricted Net Assets

Temporarily restricted net assets are assets of which use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of amounts held in perpetuity as designated by donors. The Corporation's temporarily restricted net assets are primarily restricted for various programs related to the provisions of health care and pastoral care. The Corporation's permanently restricted net assets represent endowment funds for which the investments are to be held in perpetuity. In accordance with the donor's restrictions, a portion of the related investment income is temporarily restricted for specific purposes, and a portion is to be reinvested with the principal in perpetuity.

Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. Depreciation is provided over the estimated useful life of the assets, which ranges from 3 to 40 years and is computed using the straight-line method.

Asset Impairment

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating expenses at the time the impairment is identified. There was no impairment of long-lived assets in 2010 and 2009.

Deferred Financing Costs

Bond issuance costs are amortized over the period the bonds are outstanding, using the effective interest method. Amortization expense is included in depreciation and amortization expenses in the accompanying consolidated statements of operations and changes in net assets.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

As part of its Capital Management Strategy, the Corporation has entered into interest rate swap transactions. The Corporation accounts for its derivative instruments under Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*. ASC 815 requires that derivative instruments be recognized as either assets or liabilities in the consolidated financial statements at fair value. Management has not designated any of its interest rate swaps as hedging instruments. Accordingly, all changes in the fair value of the interest rate swaps are reflected as nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

Investment in Nonconsolidated Affiliates

The Corporation accounts for its investments in less than majority-owned and controlled affiliates using the equity method of accounting. Equity earnings on these investments were included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

General and Professional Liability Risks

The provision for self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from their 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. Retroactive adjustments are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Income Taxes

MHSC, MMCI, MMCF, and MSI are tax-exempt organizations as defined in Section 501(c)(3) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. PRM, HHHC, and MPS are for-profit corporations.

Revenues in Excess of Expenses

The consolidated statements of operations and changes in net assets include revenues in excess of expenses. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Transactions incidental to the provision of health care services are reported as nonoperating gains and losses. Items that are excluded from revenues in excess of expenses include certain changes in pension obligations and contributions of long-lived assets.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends ASC 820, *Fair Value Measurements and Disclosures*, to require a number of additional disclosures regarding fair value measurement. These disclosures include the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; the reasons for any transfer in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis as well as clarification on previously required reporting requirements. This new guidance is effective for the first reporting period, including interim periods, beginning after December 15, 2009, for all disclosures except the requirement to separately disclose purchases, sales, issuances, and settlements of recurring Level 3 measurements. The provision for reporting Level 3 measurements is effective for fiscal years beginning after December 15, 2010. The Corporation adopted the required components of this guidance and is evaluating the Level 3 disclosures.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

In April 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 164, *Not-for-Profit Entities: Mergers and Acquisitions – including an amendment of FASB Statement No. 142* (codified primarily in ASC 954-805, *Health Care Entities – Business Combinations*). This new guidance is effective for the Corporation beginning January 1, 2010, and fundamentally changes the accounting for mergers and acquisitions entered into by not-for-profit organizations. Under this guidance, most combinations will be accounted for under the acquisition method, and the acquired organization's assets and liabilities will be revalued to their fair values when recorded in the acquirer's financial statements. Additionally, under the new guidance, goodwill and indefinite-lived intangible assets will no longer be amortized but will be evaluated for potential impairment, as is the case with for-profit entities. The Corporation adopted the required components of this guidance.

In August 2010, the FASB issued ASU No. 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). The provisions of ASU 2010-23 are intended to reduce the diversity in how charity care is calculated for disclosures across health care entities that provide it. Charity care is required to be measured at cost, defined as the direct and indirect costs of providing the charity care. This new guidance is effective for fiscal years beginning after December 15, 2010, with early application permitted. The Corporation is currently evaluating the impact to the consolidated financial statement disclosures.

In August 2010, the FASB issued ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). The provisions of ASU 2010-24 are intended to address the current diversity in practice related to health care entities for medical malpractice claims and similar liabilities and their related anticipated insurance recoveries. ASU 2010-24 clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. This new guidance is effective for fiscal years beginning after December 15, 2010, with early application permitted. The Corporation is currently evaluating the impact to the consolidated financial statement disclosures.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Charity Care and Community Benefit

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The amount of charity care provided is determined based on qualifying criteria, as defined in the Corporation's charity care policy, and applications completed by patients and their families or beneficiaries. Charges forgone for services and supplies provided to the community by the Corporation for patients whose charity applications were approved were \$22,028,000 and \$19,762,000 in 2010 and 2009, respectively.

In addition, the Corporation is involved in many community benefit activities. These activities are wide-ranging and include health education, school health services, health screenings, and other sponsorships. These activities are conducted free of charge or below the cost of providing the service. The estimated costs of these activities were approximately \$4,068,000 and \$3,242,000 in 2010 and 2009, respectively.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, short-term investments, patient and other receivables, assets held by trustee, accounts payable and accrued expenses, amounts due to third-party payors, lines of credit, long-term debt, and interest rate swaps. The carrying values of cash and cash equivalents, patient accounts and other receivables, assets held by trustee, accounts payable and accrued expenses, and amounts due to third-party payors approximate their fair values as reported in the consolidated balance sheets and, in the opinion of management, represent highly liquid assets or short-term obligations not subject to being discounted. The fair values for short-term investments, assets held by trustees, lines of credit, long-term debt, and interest rate swaps are described in Notes 3, 5, and 6.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation. These reclassifications did not impact revenue in excess of expenses or net assets previously reported.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Contractual Arrangements With Third-Party Payors

The Corporation provides care to certain patients under payment arrangements with Medicare, Medicaid, Blue Cross, Employers, and various health maintenance and preferred provider organizations. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs, as defined. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment by the administering agencies. The results of these audits, as well as changes in Medicare and Medicaid programs and reduction of funding levels, could have an adverse effect on the future amounts recognized as net patient service revenue.

Provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the standard charges for services and actual or estimated payments. Changes in estimates that relate to prior years' payment arrangements resulted in an increase in net patient service revenue of \$1,963,000 in 2010 and resulted in a decrease in net patient service revenue of \$1,112,000 in 2009.

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements. Assignment of benefits payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies) is routinely obtained and consistent with industry practice.

Management views the Corporation's concentration of credit risk relating to accounts receivable to be limited due to the diversity of patients and payors. At December 31, 2010 and 2009, approximately 22% and 23%, respectively, of gross patient accounts receivable were due from the Medicare program. At December 31, 2010 and 2009, approximately 21% and 17%, respectively, of gross patient accounts receivable were due from the Medicaid program.

Laws and regulations governing the Medicare and Medicaid programs, which account for 63% and 64% of the Corporation's gross patient service charges in 2010 and 2009, respectively, 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 Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Contractual Arrangements With Third-Party Payors (continued)

from the Medicare and Medicaid programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with those laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation.

In 2008, the state of Illinois (the State) sought and received approval from the Centers for Medicare and Medicaid Services (CMS) to institute a hospital tax assessment program to be administered by the Illinois Department of Public Aid. The program was approved for the State's 2009–2013 fiscal years. This program supersedes the program that was in place for the State's 2006–2008 fiscal years. The Corporation receives an annual provider payment of \$20,810,000, and the Corporation remits \$9,138,000 back to the State in the form of an assessment tax as stipulated by the program for the 2009–2013 period. The program was extended in 2010 to cover the State's fiscal year 2014.

The Corporation recognized a gross amount of \$20,810,000 in both 2010 and 2009, as an increase in revenue, and \$9,348,000 and \$9,433,000 in 2010 and 2009, respectively, as an operating expense on the consolidated statements of operations and changes in net assets related to the program. In 2010, the Corporation received \$676,000 from the State for a Medicaid Stimulus payment, which is also included as revenue on the consolidated statement of operations and changes in net assets. The Corporation made a voluntary contribution of \$210,000 and \$295,000 in 2010 and 2009, respectively, to the Illinois Hospital Research and Educational Foundation to assist Illinois hospitals in addressing the disparate and negative effects of the Illinois Medicaid Program.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments (Including Assets Held by Trustee) and Other Financial Instruments

The composition of investments at December 31 is set forth in the following tables:

	<u>2010</u>	<u>2009</u>
Short-term investments:		
Equity securities	\$ 52,151,239	\$ 44,428,747
Fixed income	63,943,186	56,476,508
Hedge funds	17,314,757	17,126,588
Accrued interest	181,795	207,260
Total short-term investments	<u>\$ 133,590,977</u>	<u>\$ 118,239,103</u>
Assets held by trustee:		
Deferred compensation:		
Mutual funds	\$ 3,217,416	\$ 2,364,125
Self-insurance trust:		
Equity securities	3,302,150	2,811,550
Fixed income	5,450,999	4,994,742
Hedge funds	1,241,895	1,228,399
Accrued interest	16,564	19,564
	<u>10,011,608</u>	<u>9,054,255</u>
Total assets held by trustee	<u>\$ 13,229,024</u>	<u>\$ 11,418,380</u>

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**3. Investments (Including Assets Held by Trustee) and Other Financial Instruments
(continued)**

The composition of investment return on the Corporation's investment portfolio for the years ended December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 3,867,364	\$ 2,608,323
Net realized gains and losses	1,928,838	(2,027,453)
Net change in unrealized gains and losses on trading portfolio	9,330,854	17,264,105
Equity earnings/(losses) on alternative investments	201,665	458,143
Total investment return	<u>\$ 15,328,722</u>	<u>\$ 18,303,118</u>

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31 as follows:

	<u>2010</u>	<u>2009</u>
Other operating revenue	\$ 523,062	\$ 264,546
Nonoperating income – investment income	13,796,578	16,247,283
Temporarily restricted net assets – investment income	979,660	1,584,150
Permanently restricted net assets – investment income	29,422	207,139
	<u>\$ 15,328,722</u>	<u>\$ 18,303,118</u>

The carrying values of short-term investments and assets held by trustee approximate their fair values at December 31, 2010 and 2009. The Corporation has determined the estimated fair values using quoted market prices, or if quoted market prices are not available, fair values are based on quoted prices of comparable instruments.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Property, Plant, and Equipment

A summary of property, plant, and equipment at December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 36,657,544	\$ 35,443,799
Land improvements	10,098,709	3,333,039
Buildings and leasehold improvements	238,555,345	191,818,572
Fixed and major movable equipment	255,522,231	239,893,576
Construction-in-progress	9,883,559	47,960,164
Information technology assets	3,814,026	4,879,880
Information technology projects-in-progress	3,075,121	2,065,404
	<u>557,606,535</u>	<u>525,394,434</u>
Less accumulated depreciation	299,222,489	283,186,565
	<u>\$ 258,384,046</u>	<u>\$ 242,207,869</u>

Construction-in-progress represents several facility expansions and other projects. Information technology projects in progress relate to various upgrades and the replacement of certain hardware and software to enhance the Corporation's systems. At December 31, 2010, outstanding commitments related to these projects were approximately \$1,658,500. The Corporation capitalized interest of \$930,000 and \$1,255,000 in 2010 and 2009, respectively.

5. Long-Term Debt

On June 9, 1998, the Illinois Health Facilities Authority, on behalf of the Medical Center, issued \$86,960,000 of Illinois Health Facilities Authority Series 1998A Revenue Bonds (the Bonds) with an original issue premium of approximately \$735,000. The bond proceeds were used to pay off the 1990 Series Bonds and to advance refund the 1991A Series Bonds, 1991 Series Bonds, and 1985G Series Bonds. The Bonds bear interest, which is paid semiannually, at varying rates and are subject to redemption through November 15, 2021. Various agreements related to the long-term debt place restrictions on the Medical Center and require the Medical Center to maintain certain financial ratios.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

A summary of long-term debt at December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Fixed-rate revenue refunding bonds (Series 1998A), inclusive of unamortized premium of \$265,640 and \$284,999 at December 31, 2010 and 2009, respectively, with annual interest ranging from 4.35% to 5.50%, payable annually through November 2021; secured by municipal bond insurance	\$ 54,400,640	\$ 57,959,999
Fixed-rate promissory note, due in yearly installments through September 10, 2011; with interest of 7.0%; secured by real estate	200,000	400,000
Capital lease obligations	1,565,003	–
Lines of credit draws	48,000,000	36,000,000
	104,165,643	94,359,999
Less current capital lease obligations	668,358	–
Less current portion of lines of credit draws	12,000,000	6,000,000
Less current portion of debt	3,940,000	3,740,000
	\$ 87,557,285	\$ 84,619,999

Maturities of long-term debt for the next five years are as follows:

	Real Estate Loans	Line of Credit	Revenue Refunding Bonds	Capital Lease Obligations	Total
2011	\$ 200,000	\$ 12,000,000	\$ 3,740,000	\$ 668,358	\$ 16,608,358
2012	–	12,000,000	3,945,000	701,999	16,646,999
2013	–	12,000,000	4,165,000	194,646	16,359,646
2014	–	12,000,000	4,395,000	–	16,395,000
2015	–	–	4,630,000	–	4,630,000

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt (continued)

The estimated fair value of the Corporation's Series 1998A Bonds was \$54,100,000 and \$57,597,000 at December 31, 2010 and 2009, respectively. Fair value was estimated using quoted market prices based upon the Corporation's current borrowing rates for similar types of long-term securities.

The Corporation has established a line of credit of \$70,000,000 at December 31, 2010. The revolving credit commitment is permanently and automatically reduced to \$36,000,000 and \$24,000,000 on December 31, 2011 and 2012, respectively. In 2010, \$16,000,000 was drawn which was used to reimburse the Corporation for capital purchases. In 2010, \$4,000,000 was repaid on the line of credit. The Corporation has recorded \$36,000,000 in noncurrent liabilities and \$12,000,000 in current liabilities at December 31, 2010. The unused remaining amount totaled \$22,000,000 at December 31, 2010. The line of credit has a four-year term, which expires in 2014. There are two rate options available for the line of credit: (1) the Base Rate Option, which is a fluctuating rate per annum (computed on the basis of a year of 360 days and the actual days elapsed) equal to the Base Rate plus the applicable margin, and (2) the London Interbank Offered Rate (LIBOR) Option, which is a rate per annum (computed on the basis of a year of 360 days and the actual days elapsed) equal to LIBOR plus the applicable margin. At December 31, 2010, a balance of \$48,000,000 has an interest rate of 3.5%, which is based on the Base Rate Option.

6. Interest Rate and Basis Swaps

The Corporation has various derivative instruments to manage the exposure on interest rates and the Corporation's interest expense. Through the use of derivative financial instruments, the Corporation is exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of the derivative contract is positive, the counterparty owes the Corporation, which creates credit risk to the Corporation. When the fair value of the derivative contract is negative, the Corporation owes the counterparty, and there is no credit risk to the Corporation at that point in time. The Corporation minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of the fair value of the derivative contract. Market risk is the adverse effect on the value of the financial instrument that results from a change in interest rates. Swap management is meant to be long-term in nature, and any modifications to the program are reviewed for the long-term costs and benefits. Management also mitigates risk through periodic reviews of its derivative position in the context of its total blended cost of capital.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Interest Rate and Basis Swaps (continued)

Effective October 6, 2005, the Corporation entered into a fixed annuity basis interest rate swap agreement (the swap agreement) with an initial notional amount of \$90,000,000, which amortizes to zero, as adjusted on an annual basis, until termination of the swap agreement on November 15, 2030. Under the terms of the swap agreement, the Corporation receives quarterly payments based upon 68% of the variable LIBOR-BBA interest rate plus 59.2 fixed basis points and makes quarterly payments based upon 100% of the variable USD SIFMA Municipal Swap Index interest rate.

Effective April 27, 2010, the Corporation amended and restated the swap agreement that originated on October 6, 2005. Under the terms of the amendment, for the period from April 27, 2010 to November 15, 2014, the Corporation will receive fixed quarterly payments of \$186,158 in lieu of the floating rate options. The notional amount was reduced to \$60,000,000 under this agreement.

Effective December 20, 2007, the Corporation entered into another fixed annuity basis interest rate swap agreement with an initial notional amount of \$150,000,000, which amortizes to zero, as adjusted on an annual basis, until termination of the swap agreement on November 15, 2044.

Effective January 22, 2010, the Corporation amended the fixed annuity basis interest rate swap. The effective date of this future swap agreement is between January 22, 2010 and July 1, 2011. Under the terms of the amended swap agreement, the Corporation will receive monthly payments based upon 68% of the variable LIBOR-BBA interest rate and will make monthly payments based upon the annual fixed rate of 3.9048%.

As of December 31, 2010, the mark to market valuation on the swap portfolio exceeded the required collateral posting threshold of \$10,000,000 with the counterparty, which resulted in the payment of \$13,600,000 in 2010.

As of December 31, 2009, the mark to market valuation on the swap portfolio was below the required collateral posting threshold of \$10,000,000 with the counterparty, which resulted in the return of \$39,632,000 in 2009.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Interest Rate and Basis Swaps (continued)

The following is a summary of the outstanding fixed annuity basis interest rate swaps as of December 31, 2010:

<u>Origination Date</u>	<u>Notional Amounts</u>	<u>Swap Position</u>	<u>Maturity Date</u>
October 2005	60,000,000	\$ 555,725	November 15, 2030
December 2007	150,000,000	(23,125,102)	November 15, 2044
Net position		<u>\$ (22,569,377)</u>	

The following is a summary of the outstanding fixed annuity basis interest rate swaps as of December 31, 2009:

<u>Origination Date</u>	<u>Notional Amounts</u>	<u>Swap Position</u>	<u>Maturity Date</u>
October 2005	90,000,000	\$ 3,133,273	November 15, 2030
December 2007	150,000,000	(12,096,223)	November 15, 2044
Net position		<u>\$ (8,962,950)</u>	

Net interest paid or received under the above swap agreements is included in interest expense. The net differential for the Corporation as a result of the swap agreements amounted to receipt of \$637,000 and \$468,000 for the years ended December 31, 2010 and 2009, respectively, and is reflected as a reduction to interest expense. The swap agreements do not qualify for hedge accounting; therefore, the change in the fair value of the swap agreements is recorded as an unrealized nonoperating loss of \$(13,606,000) and a nonoperating gain of \$37,409,000 for the years ended December 31, 2010 and 2009, respectively.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Interest Rate and Basis Swaps (continued)

The fair value of derivative instruments at December 31 is as follows:

		Asset Derivatives	
		Balance Sheet	
		Location	
		2010	2009
Derivatives not designated as hedging instruments: Interest rate contracts	Other long-term assets	\$ 555,725	\$ —
		Liability Derivatives	
		Balance Sheet	
		Location	
		2010	2009
Derivatives not designated as hedging instruments: Interest rate contracts	Amount due under interest rate swap agreement	\$ 23,125,102	\$ 8,962,950

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Interest Rate and Basis Swaps (continued)

The effects of the derivative instruments on the consolidated statements of operations and changes in net assets for the years ended December 31 are as follows:

	Financial Statement Location	2010	2009
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest expense	<u>\$ (637,000)</u>	<u>\$ (468,000)</u>
	Interest rate swap valuation	<u>\$ (13,606,000)</u>	<u>\$ 37,409,000</u>

The Corporation's derivative instruments contain provisions that require the Corporation's and the counterparties' debt to maintain an investment-grade credit rating from certain major credit rating agencies. If the Corporation's or the counterparties' credit rating falls below investment grade, this would be in violation of these provisions, and collateralization on derivative instruments in net liability positions would be required by either the Corporation or the counterparties. The aggregate fair value (unadjusted for collateral posted of \$13,600,000 and \$0 for December 31, 2010 and 2009, respectively) of all derivative instruments with credit risk-related contingent features that are in a liability position at December 31, 2010 and 2009, is \$(22,569,000) and \$(8,963,000), respectively. If the credit risk-related contingent features underlying these agreements were triggered on December 31, 2010, the Corporation would be required to post additional collateral up to the net value of assets and liabilities at December 31, 2010, which would have been \$9,000,000.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan

The Corporation offers retirement benefits through a defined-benefit plan and a defined-contribution plan. Defined-benefit pension benefits are based on years of service and compensation of employees (as defined) and are actuarially determined. The funding policy is to annually contribute the contribution required to comply with ERISA regulations.

The Corporation froze the defined-benefit pension plan for new participants and began offering a 401(a) defined-contribution plan as of January 1, 2007. Curtailment costs associated with the plan freeze were reported during 2006. In addition, active employees as of January 1, 2007, were given a choice of remaining in the current plan or freezing their participation in the defined-benefit plan and enrolling in the new defined-contribution plan. The defined-contribution plan is a retirement plan that is employer-only funded based on service time. The percentage contributed by the Corporation ranges from 2.5% to 9% of the employee's annual earnings based on years of service. The Corporation recorded defined-contribution expenses of \$2,141,000 and \$1,800,000 in 2010 and 2009, respectively. The contribution is funded in the first quarter of the following year.

The following table sets forth the changes in the projected benefit obligation and plan assets and the resulting funded status of the Corporation's defined-benefit pension plan as of and for the years ended December 31, 2010 and 2009. The date of data collection was January 1, 2010 and 2009 (rolled forward to year-end and adjusted for changes in employment status). A measurement date of December 31 is utilized.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

	<u>2010</u>	<u>2009</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 175,226,560	\$ 155,375,758
Service cost	4,468,644	4,119,550
Interest cost	10,366,841	9,821,258
Actuarial gains	10,750,809	10,518,605
Benefits paid	(5,030,518)	(4,608,611)
Projected benefit obligation at end of year	<u>\$ 195,782,336</u>	<u>\$ 175,226,560</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 109,033,603	\$ 93,124,663
Actual return on plan assets	12,027,967	16,923,251
Employer contributions	3,441,035	3,594,300
Benefits paid	(5,030,518)	(4,608,611)
Fair value of plan assets at end of year	<u>\$ 119,472,087</u>	<u>\$ 109,033,603</u>
	<u>2010</u>	<u>2009</u>
Funded status at December 31	<u>\$ (76,310,249)</u>	<u>\$ (66,192,957)</u>
Accumulated adjustments to unrestricted net assets:		
Net actuarial loss	\$ 63,772,098	\$ 60,081,720
Prior service cost	253,980	353,424
Net accumulated difference between historical contributions and net pension expense	<u>\$ 64,026,078</u>	<u>\$ 60,435,144</u>

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

The accumulated benefit obligation as of December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Accumulated benefit obligation	<u>\$ (174,268,305)</u>	<u>\$ (155,368,152)</u>
Accumulated benefit obligation in excess of fair value of plan assets	<u>\$ (54,796,218)</u>	<u>\$ (46,334,549)</u>

The prior service costs and actuarial losses included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ended December 31, 2011, are \$99,000 and \$5,268,000, respectively.

Employer contributions were paid from employer assets for both years presented. All benefits paid under the defined-benefit pension plan were paid from plan assets.

	<u>2010</u>	<u>2009</u>
Net pension expense comprises the following:		
Service cost	\$ 4,468,644	\$ 4,119,550
Interest cost	10,366,841	9,821,258
Expected return on plan assets	(9,178,465)	(7,867,562)
Amortization of:		
Unrecognized net actuarial loss	4,210,929	4,424,216
Unrecognized prior service cost	99,444	99,444
	<u>\$ 9,967,393</u>	<u>\$ 10,596,906</u>

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

Weighted-average assumptions used to determine net periodic benefit costs for the fiscal year ended December 31 are as follows:

	2010	2009
Assumptions as of December 31:		
Discount rate	6.00%	6.50%
Expected return on plan assets	8.50	8.50
Weighted-average rate of compensation increase	3.25	3.25

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

	2010	2009
Discount rate	5.75%	6.00%
Expected return on plan assets	8.50	8.50
Weighted-average rate of compensation increase	3.25	3.25

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

The Corporation's target and actual pension asset allocation are as follows:

Asset Category	Strategic Target	Actual Asset Allocation at December 31	
		2010	2009
Equities			
Midcap value	7%	7%	9%
International	12%	13%	13%
Large cap	26%	27%	31%
Total equities	45%	47%	53%
Alternative investment	25%	22%	22%
Fixed income			
Fixed income	30%	31%	25%
Total investments	100%	100%	100%

Certain expected cash flows:

Expected employer contributions in 2011	\$ 8,617,022
Expected employee benefit payments:	
2011	5,367,441
2012	5,798,743
2013	6,155,824
2014	6,954,912
2015	7,831,085
2016–2020	56,888,943

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

Effective August 5, 2001, the Corporation began sponsoring a 401(k) defined-contribution plan. The Corporation matches 1/2 of 1% for each 1% up to 3% contributed by the employee. Effective April 1, 2009, the Corporation temporarily suspended the corporate match. Amounts contributed by the Corporation approximated \$0 and \$216,000 in 2010 and 2009, respectively, and are included in salaries and benefits expenses on the consolidated statements of operations and changes in net assets.

ASC 715, *Compensation – Retirement Benefits*, establishes a three-level valuation hierarchy for disclosure of fair value measurements of pension plan assets. Refer to Note 14 for additional descriptions of levels. The following table presents the financial instruments carried at fair value as of December 31, 2010, by caption, by the ASC 715 valuation hierarchy defined above (in thousands).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Pension plan assets:				
Mutual funds:				
Fixed income	\$ 35,772	\$ –	\$ –	\$ 35,772
International equities	15,634	–	–	15,634
Domestic equities	42,177	–	–	42,177
Total mutual funds	<u>93,583</u>	–	–	<u>93,583</u>
Hedge fund investments:				
Special situations fund	–	–	10,562	10,562
Common collective trust fund			15,327	15,327
Total assets at fair value	<u>\$ 93,583</u>	<u>\$ –</u>	<u>\$ 25,889</u>	<u>\$ 119,472</u>

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

The following table presents the financial instruments carried at fair value as of December 31, 2009, by caption, by the ASC 715 valuation hierarchy defined above (in thousands).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Pension plan assets:				
Mutual funds:				
Fixed income	\$ 27,100	\$ –	\$ –	\$ 27,100
International equities	14,196	–	–	14,196
Domestic equities	43,463	–	–	43,463
Total mutual funds	<u>84,759</u>	<u>–</u>	<u>–</u>	<u>84,759</u>
Hedge fund investments:				
Common collective trust fund	–	–	24,275	24,275
Total assets at fair value	<u>\$ 84,759</u>	<u>\$ –</u>	<u>\$ 24,275</u>	<u>\$ 109,034</u>

Equity securities – A substantial portion of the Corporation’s investment portfolio comprises equity securities for which identical quotes exist on active exchanges. These securities are classified as Level 1.

Fixed income – A substantial portion of the Corporation’s investment portfolio comprises fixed income investments for which identical quotes exist on active exchanges. These securities are classified as Level 1.

Common collective trust fund and special situations fund – A substantial portion of the Corporation’s pension investment portfolio comprises investments, some of which are valued on active indexes and some of which are calculated based on changes in assets. These securities are classified as Level 3.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

The table below sets forth a summary of changes in the fair value of the Corporation's Level 3 assets for the year ended December 31, 2010 (in thousands):

	<u>Level 3 Assets</u>
Balance, beginning of year	\$ 24,275
Total gain/loss, net	<u>1,614</u>
Balance, end of year	<u>\$ 25,889</u>

8. Professional Liability Insurance

The Corporation is self-insured for the purpose of providing professional and general liability insurance. The self-insurance program combines various levels of self-insured retention with excess commercial insurance coverage. The Corporation is an owner of American Excess Insurance Exchange (AEIX), an entity sponsored by Premier, Inc., to provide excess professional liability insurance coverage to Premier's hospital owners. Professional insurance consultants have been retained to determine funding requirements, as well as to assist in the estimation of outstanding professional liabilities. The amounts funded have been placed in an irrevocable self-insurance trust account, which is being administered by a trustee. The self-insurance trust account is reported in assets held by trustee in the accompanying consolidated balance sheets.

The Corporation is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Corporation and are currently in various stages of litigation. Although the outcome of the litigation cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's financial condition. The Corporation accrues for the ultimate cost of malpractice claims, including estimates for claims incurred, but not reported. The accrual for estimated malpractice losses calculated by outside consulting actuaries (using trend factors for number of claims of 0% and 0% for 2010 and 2009, severity of claims of 6% and 6% for 2010 and 2009, and an annual discount rate of 5.50% and 5.75% at December 31, 2010 and 2009, respectively) amounted to \$13,336,638 and \$11,380,717 at December 31, 2010 and 2009, respectively. The discount rate resulted in a discount of \$2,500,000 and \$2,300,000 at December 31, 2010 and 2009, respectively. The accrual is reported net of estimated excess insurance coverage recoveries. These amounts are included as a component of noncurrent liabilities in the accompanying consolidated balance sheets.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31:

	<u>2010</u>	<u>2009</u>
Net assets available for future periods:		
Purchases of equipment	\$ 531,905	\$ 827,273
Medical education and other health care programs	8,991,281	8,211,333
	<u>\$ 9,523,186</u>	<u>\$ 9,038,606</u>

Permanently restricted net assets generate investment income, which is used to benefit the following purposes or periods at December 31:

	<u>2010</u>	<u>2009</u>
Purchases of equipment	\$ 361,345	\$ 347,422
Medical education and other health care programs	3,545,614	3,507,964
	<u>\$ 3,906,959</u>	<u>\$ 3,855,386</u>

10. Group Health Insurance Program

The Corporation, on January 1, 2009, began offering a self-insured employee group health insurance coverage plan as its sole option for employees. The Corporation has recorded a reserve for open claims and claims incurred, but not reported.

During the years ended December 31, 2010 and 2009, employee health insurance expense totaled approximately \$12,123,000 and \$10,252,000, respectively. The Corporation recorded a reserve for open claims and claims incurred, but not reported, which amounted to \$1,800,000 and \$1,825,000 at December 31, 2010 and 2009, respectively.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies

Operating Leases

The Corporation has various operating lease agreements for the lease of clinical and information technology equipment. Total lease expense under these leases totaled \$1,999,000 in 2010 and \$2,159,000 in 2009. Certain of these operating leases contain purchase options. Future minimum lease commitments for all noncancelable operating leases with original terms of more than one year are as follows at December 31, 2010:

2011	\$ 1,952,000
2012	1,862,000
2013	1,557,000
2014	1,007,000
2015	865,000
Total	<u>\$ 7,243,000</u>

Legal Matters

The Corporation is involved in professional liability and other litigation arising in the normal course of business. In the opinion of management, the ultimate disposition of claims incurred to date will not have a material adverse effect on the financial position or operations of the Corporation.

Guarantee

The Medical Center is co-guarantor on two loans with an unaffiliated business for the debt of a nonconsolidated affiliate, Central Illinois Cancer Care Center (CICCC). The portion of the debt guaranteed by the Medical Center amounted to \$2,023,000 at December 31, 2010.

The Medical Center is co-guarantor on a line of credit with an unaffiliated business for the debt of a non-consolidated affiliate, Central Illinois Endoscopy Center (CIEC). The portion of the debt guaranteed by the Medical Center amounted to \$1,241,000 at December 31, 2010.

No amounts have been paid or accrued pursuant to these guarantees as of December 31, 2010 or 2009.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Investments in Nonconsolidated Affiliates

Included in the investments in nonconsolidated affiliates disclosure are certain investments that the Corporation accounts for under the equity method of accounting.

A subsidiary of the Corporation owns an interest in the following nonconsolidated affiliates: Rehabilitation Therapy Services (RTS), Central Illinois Work Injury Resource Center Corporation (CIWIRC), Greater Peoria Specialty Hospital (GPSH), Central Illinois Endoscopy Center (CIEC), and CIGCC. RTS provides inpatient and outpatient therapy services. CIWIRC provides a comprehensive range of workers' compensation and employer-related occupational health and related services. GPSH operates a 50-bed long-term care hospital in Peoria. CIEC provides an ambulatory surgery center and health care related to the specialty of gastroenterology. CIGCC operates a radiation therapy facility.

Summarized financial information relating to these equity investments as of December 31, 2010, is as follows:

<u>Affiliate</u>	<u>Percentage Interest</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Income</u>
RTS	50%	\$ 2,532,589	\$ 462,797	\$ 588,534
CIWIRC	49%	1,676,594	288,588	471,913
GPSH	49%	10,505,030	2,779,064	931,972
CIEC	49%	4,459,418	3,255,078	3,782,000
CIGCC	50%	4,699,195	4,163,853	2,642,322

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Investments in Nonconsolidated Affiliates

Summarized financial information relating to these equity investments as of December 31, 2009, is as follows:

Affiliate	Percentage Interest	Assets	Liabilities	Net Income (Loss)
RTS	50%	\$ 2,594,887	\$ 413,628	\$ 316,991
CIWIRC	49%	1,614,304	474,391	600,000
GPSH	49%	3,442,174	1,417,172	(2,883,245)
CIEC	49%	3,617,823	2,854,404	563,419
CICCC	50%	2,063,285	2,070,265	873,020

13. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to this and general and administrative functions are as follows:

	2010	2009
Health care services	\$ 316,953,825	\$ 300,631,598
General and administrative	40,432,491	34,658,551
	\$ 357,386,316	\$ 335,290,149

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Fair Value of Financial Instruments

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments carried at fair value as of December 31, 2010, by caption, on the consolidated balance sheet by the ASC 820 valuation hierarchy defined above (in thousands).

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Fair Value of Financial Instruments (continued)

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents	\$ 32,657	\$ —	\$ —	\$ 32,657
Cash held by trustee as collateral	13,600	—	—	13,600
Short-term investments:				
Mutual funds:				
Fixed income	64,125	—	—	64,125
U.S. equity	42,150	—	—	42,150
International equity	10,001	—	—	10,001
Total mutual funds	116,276	—	—	116,276
Self-insurance trust:				
Mutual funds:				
Fixed income	5,468	—	—	5,468
U.S. equity	2,823	—	—	2,823
International equity	479	—	—	479
Total mutual funds	8,770	—	—	8,770
Interest in trust:				
Cash and cash equivalents	220	—	—	220
Equity securities	2,001	—	—	2,001
Mutual funds:				
U.S. equity	1,048	—	—	1,048
International equity	729	—	—	729
Total mutual funds	1,777	—	—	1,777
Government agency	908	—	—	908
Corporate bonds	974	—	—	974
Deferred compensation:				
Mutual funds	3,217	—	—	3,217
Interest rate swaps	—	—	555	555
Total assets at fair value	\$ 180,440	\$ —	\$ 555	\$ 180,955
Liabilities				
Interest rate swaps	\$ —	\$ —	\$ 23,125	\$ 23,125
Total liabilities at fair value	\$ —	\$ —	\$ 23,125	\$ 23,125

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Fair Value of Financial Instruments (continued)

The following table presents the financial instruments carried at fair value as of December 31, 2009, by caption, on the consolidated balance sheet by the ASC 820 valuation hierarchy defined above (in thousands).

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents	\$ 41,779	\$ —	\$ —	\$ 41,779
Short-term investments:				
Mutual funds:				
Fixed income	56,701	—	—	56,701
U.S. equity	35,882	—	—	35,882
International equity	8,546	—	—	8,546
Total mutual funds	101,129	—	—	101,129
Self-insurance trust:				
Mutual funds:				
Fixed income	5,014	—	—	5,014
U.S. equity	2,389	—	—	2,389
International equity	423	—	—	423
Total mutual funds	7,826	—	—	7,826
Interest in trust:				
Cash and cash equivalents	197	—	—	197
Equity securities	1,831	—	—	1,831
Mutual funds:				
U.S. equity	1,014	—	—	1,014
International equity	636	—	—	636
Total mutual funds	1,650	—	—	1,650
Government agency	1,252	—	—	1,252
Corporate bonds	642	—	—	642
Deferred compensation:				
Mutual funds	2,364	—	—	2,364
Total assets at fair value	\$ 158,670	\$ —	\$ —	\$ 158,670
Liabilities				
Interest rate swaps	\$ —	\$ 8,963	\$ —	\$ 8,963
Total liabilities at fair value	\$ —	\$ 8,963	\$ —	\$ 8,963

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Fair Value of Financial Instruments (continued)

Cash and cash equivalents – A majority of the Corporation's cash equivalents are bank and sweep accounts. The fair value is equal to the account balances. The cash and cash equivalents are classified as Level 1.

Cash held by trustee as collateral – The total of cash held by trustee as collateral is cash held in an interest bearing account. The fair value is equal to the account balance. The cash held by trustee as collateral is classified as Level 1.

Equity securities – A substantial portion of the Corporation's investment portfolio comprises equity securities for which identical quotes exist on active exchanges. These securities are classified as Level 1.

Fixed income – A substantial portion of the Corporation's investment portfolio comprises fixed income investments for which identical quotes exist on active exchanges. These securities are classified as Level 1.

Mutual funds – A portion of the interest in the trust comprises mutual fund investments for which identical quotes exist on active exchanges. These securities are classified as Level 1.

Interest rate swaps – Derivative financial instruments consist solely of interest rate swap agreements with interest rate terms that are observable based upon forward interest rate curves and are therefore considered Level 2 inputs. The valuation also includes a credit spread adjustment that is derived from how other comparable entities bonds price and trade in the market. As the credit spread adjustment is a significant component of the swap valuation at December 31, 2010, and it is an unobservable input, the swaps have been classified as Level 3 at December 31, 2010.

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Endowments

The Corporation's endowment consists of approximately nine individual funds established for a variety of purposes. The endowments include donor-restricted endowment funds.

At December 31, 2010 and 2009, the endowment net asset composition by type of fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ –	\$ –	\$ 3,906,959	\$ 3,906,959
Total funds at December 31, 2010	\$ –	\$ –	\$ 3,906,959	\$ 3,906,959
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ –	\$ –	\$ 3,855,386	\$ 3,855,386
Total funds at December 31, 2009	\$ –	\$ –	\$ 3,855,386	\$ 3,855,386

Methodist Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Endowments (continued)

Changes in endowment net assets for the years ended December 31, 2010 and 2009, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at January 1, 2009	\$ —	\$ —	\$ 3,792,716	\$ 3,792,716
Total investment return	—	—	207,139	207,139
Transfers from unrestricted assets	—	—	(165,684)	(165,684)
Contributions	—	—	21,215	21,215
Endowment net assets at December 31, 2009	—	—	3,855,386	3,855,386
Total investment return	—	—	29,422	29,422
Transfers from unrestricted assets	—	—	—	—
Contributions	—	—	22,151	22,151
Endowment net assets at December 31, 2010	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,906,959</u>	<u>\$ 3,906,959</u>

16. Subsequent Events

The Corporation evaluated subsequent events and transactions occurring subsequent to December 31, 2010 through April 11, 2011, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. However, the following subsequent events are disclosed.

On March 29, 2011, the Corporation signed a non-binding letter of intent with Iowa Health System to explore a strategic partnership between the two parties.

On Friday, April 8, 2011, the Corporation received approval from the Illinois Finance Authority to issue up to \$133,000,000 of bonds, and expects to issue the bonds in May 2011. These bonds will be used to refinance certain taxable indebtedness, pay or reimburse the Corporation, refund all or a portion of the Series 1998A bonds, pay all or a portion of the termination costs in connection with an interest rate swap agreement, pay a portion of the interest on the bonds, fund one or more debt service reserve funds, if needed, for the benefit of the bonds, provide working capital, if deemed necessary or advisable by the Corporation, and pay certain expenses incurred in connection with the issuance of the bonds.

Details of Consolidation

Report of Independent Auditors on Details of Consolidation

The Board of Directors
Methodist Health Services Corporation and Subsidiaries
Peoria, Illinois

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying details of consolidation are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

April 11, 2011

Methodist Health Services Corporation and Subsidiaries

Details of Consolidated Balance Sheet

December 31, 2010

	Methodist Health Services Corporation (Parent Consolidated)	The Methodist Medical Center of Illinois	Methodist Services, Inc.	The Methodist Medical Center Foundation	Eliminations	Consolidated Totals
Assets						
Current assets:						
Cash and cash equivalents	\$ 2,842,999	\$ 29,170,818	\$ 19,270	\$ 623,913	\$ -	\$ 32,657,000
Cash held by trustee as collateral	-	13,600,000	-	-	-	13,600,000
Short-term investments	-	118,301,249	-	15,289,728	-	133,590,977
Receivables:						
Patient accounts receivable, net	158,296	47,489,944	-	-	-	47,648,240
Inventory	511,449	2,926,623	-	-	-	3,438,072
Prepaid expenses	21,028	6,949,637	-	7,154	-	6,977,819
Due from affiliates	-	15,076,763	-	-	(15,062,290)	14,473
Other	162,432	1,978,635	588,659	15,405	-	2,745,131
Total current assets	3,696,204	235,493,669	607,929	15,936,200	(15,062,290)	240,671,712
Assets held by trustee:						
Self-insurance trust	-	10,011,608	-	-	-	10,011,608
Deferred compensation	-	3,217,416	-	-	-	3,217,416
Total assets held by trustee	-	13,229,024	-	-	-	13,229,024
Property, plant, and equipment, net	211,800	181,458,106	76,714,140	-	-	258,384,046
Other long-term assets:						
Interest in trust	-	5,879,719	-	-	-	5,879,719
Investment in nonconsolidated affiliates	516,190	8,093,150	-	-	-	8,609,340
Deferred financing costs, net	-	979,596	-	-	-	979,596
Other	201,029	2,714,950	-	152,383	-	3,068,362
Investment in foundation	-	15,715,009	-	-	(15,715,009)	-
Total other long-term assets	717,219	33,382,424	-	152,383	(15,715,009)	18,537,017
\$ 4,625,223	\$ 463,563,223	\$ 77,322,069	\$ 16,088,583	\$ (30,777,299)	\$ -	\$ 530,821,799

Methodist Health Services Corporation and Subsidiaries

Details of Consolidated Balance Sheet (continued)

	Methodist Health Services Corporation (Parent Consolidated)	The Methodist Medical Center of Illinois	Methodist Services, Inc.	The Methodist Medical Center Foundation	Eliminations	Consolidated Totals
Liabilities and net assets						
Current liabilities:						
Accounts payable and accrued expenses	\$ 491,874	\$ 45,731,267	\$ 791,050	\$ 83,585	\$ -	\$ 47,097,776
Due to affiliates	1,817,125	62,525	13,245,166	-	(15,062,290)	62,526
Amounts due to third-party payors	-	25,666,897	-	-	-	25,666,897
Current portion of line of credit	-	12,000,000	-	-	-	12,000,000
Current portion of long-term debt	-	4,408,358	200,000	-	-	4,608,358
Total current liabilities	2,308,999	87,869,047	14,236,216	83,585	(15,062,290)	89,435,557
Noncurrent liabilities:						
Long-term debt, less current portion	-	87,557,285	-	-	-	87,557,285
Accrued pension cost	-	76,310,249	-	-	-	76,310,249
Estimated self-insurance liabilities	-	13,336,638	-	-	-	13,336,638
Amount due under interest rate swap agreements	-	23,125,102	-	-	-	23,125,102
Other liabilities	-	5,441,096	-	289,989	-	5,731,085
Total noncurrent liabilities	-	205,770,370	-	289,989	-	206,060,359
Total liabilities	2,308,999	293,639,417	14,236,216	373,574	(15,062,290)	295,495,916
Net assets:						
Unrestricted	2,316,224	156,493,661	63,085,853	8,214,508	(8,214,508)	221,895,738
Temporarily restricted	-	9,523,186	-	3,613,542	(3,613,542)	9,523,186
Permanently restricted	-	3,906,959	-	3,886,959	(3,886,959)	3,906,959
Total net assets	2,316,224	169,923,806	63,085,853	15,715,009	(15,715,009)	235,325,883
	\$ 4,625,223	\$ 463,563,223	\$ 77,322,069	\$ 16,088,583	\$ (30,777,299)	\$ 530,821,799

Methodist Health Services Corporation and Subsidiaries

Details of Consolidated Statement of Operations

Year Ended December 31, 2010

	Methodist Health Services Corporation (Parent Consolidated)	The Methodist Medical Center of Illinois	Methodist Services, Inc.	The Methodist Medical Center Foundation	Eliminations	Consolidated Totals
Unrestricted revenues, gains, and other support						
Net patient service revenue	\$ 644,041	\$ 326,860,709	\$ -	\$ -	\$ (1,392,352)	\$ 326,112,398
Medicaid assessment	-	21,485,528	-	-	-	21,485,528
	644,041	348,346,237	-	-	(1,392,352)	347,597,926
Other revenue:						
Other operating revenue	10,574,882	17,206,318	6,572,634	266,534	(16,543,844)	18,076,524
Unrestricted gifts and bequests	-	13,010	-	132,836	-	145,846
Net assets released from restrictions and used for operations	-	461,485	-	409,315	-	870,800
Total operating revenue	11,218,923	366,027,050	6,572,634	808,685	(17,936,196)	366,691,096
Expenses						
Salaries and benefits	11,131,875	168,175,767	-	245,388	(308,462)	179,244,568
Supplies and other	1,410,966	132,432,933	4,914,652	655,398	(17,627,734)	121,786,215
Depreciation and amortization	21,035	19,317,141	2,689,246	-	-	22,027,422
Interest	-	2,663,282	29,534	-	-	2,692,816
Provision for uncollectible accounts	-	22,287,526	-	-	-	22,287,526
Medicaid assessment	-	9,347,769	-	-	-	9,347,769
Total expenses	12,563,876	354,224,418	7,633,432	900,786	(17,936,196)	357,386,316
Operating (loss) income	(1,344,953)	11,802,632	(1,060,798)	(92,101)	-	9,304,780
Nonoperating income						
Investment income	413,995	12,682,903	-	699,680	-	13,796,578
Interest rate swap valuation	-	(13,606,427)	-	-	-	(13,606,427)
Total nonoperating income, net	413,995	(923,524)	-	699,680	-	190,151
Revenues in excess of (less than) expenses	\$ (930,958)	\$ 10,879,108	\$ (1,060,798)	\$ 607,579	\$ -	\$ 9,494,931

Methodist Health Services Corporation and Subsidiaries (Parent Only)

Details of Consolidated Balance Sheet

December 31, 2010

		Methodist Health Services Corporation (Parent Only)	Provider Resource Management Services, Inc.	Heartland Home Health Care, Inc.	Methodist Physicians Services, Inc.	Eliminations	Consolidating Totals
Assets							
Current assets:							
Cash and cash equivalents	\$	510,416	\$ 15,261	\$ 1,504,252	\$ 813,070	\$ -	\$ 2,842,999
Receivables:							
Patient accounts receivable, net		-	-	158,296	-	-	158,296
Inventory		-	-	511,449	-	-	511,449
Other		-	-	183,460	-	-	183,460
Total current assets		510,416	15,261	2,357,457	813,070	-	3,696,204
Property, plant, and equipment, net		-	-	211,800	-	-	211,800
Other long-term assets:							
Investment in nonconsolidated affiliates		275,000	49,940	191,250	-	-	516,190
Investments		2,833,487	-	73,042	-	(2,906,529)	-
Other		-	-	79,327	121,702	-	201,029
Total other long-term assets		3,108,487	49,940	343,619	121,702	(2,906,529)	717,219
	\$	3,618,903	\$ 65,201	\$ 2,912,876	\$ 934,772	\$ (2,906,529)	\$ 4,625,223

Methodist Health Services Corporation and Subsidiaries (Parent Only)

Details of Consolidated Balance Sheet (continued)

	Methodist Health Services Corporation (Parent Only)	Provider Resource Management Services, Inc.	Heartland Home Health Care, Inc.	Methodist Physicians Services, Inc.	Eliminations	Consolidating Totals
Liabilities and net assets/stockholders' equity						
Current liabilities:						
Accounts payable and accrued expenses	\$ -	\$ -	\$ 104,734	\$ 387,140	\$ -	\$ 491,874
Due to affiliates	1,302,679	-	39,857	474,589	-	1,817,125
Total current liabilities	1,302,679	-	144,591	861,729	-	2,308,999
Total liabilities	1,302,679	-	144,591	861,729	-	2,308,999
Stockholders' equity:						
Common stock	-	292,395	354,492	100	(646,987)	-
Retained (deficit) earnings	-	(227,194)	2,413,793	72,943	(2,259,542)	-
Total stockholders' equity	-	65,201	2,768,285	73,043	(2,906,529)	-
Net assets:						
Unrestricted	2,316,224	-	-	-	-	2,316,224
Total net assets	2,316,224	-	-	-	-	2,316,224
	\$ 3,618,903	\$ 65,201	\$ 2,912,876	\$ 934,772	\$ (2,906,529)	\$ 4,625,223

Methodist Health Services Corporation and Subsidiaries (Parent Only)

Details of Consolidated Statement of Operations

Year Ended December 31, 2010

	Methodist Health Services Corporation (Parent Only)	Provider Resource Management Services, Inc.	Heartland Home Health Care, Inc.	Methodist Physicians Services, Inc.	Eliminations	Consolidating Totals
Unrestricted revenues, gains, and other support						
Net patient service revenue	\$ -	\$ -	\$ 644,041	\$ -	\$ -	\$ 644,041
Other revenue:						
Other operating revenue	-	-	18,468	10,556,414	-	10,574,882
Total operating revenue	-	-	662,509	10,556,414	-	11,218,923
Expenses						
Salaries and benefits	-	-	594,353	10,537,522	-	11,131,875
Supplies and other	885,429	9,221	497,408	18,908	-	1,410,966
Depreciation and amortization	-	-	21,035	-	-	21,035
Total expenses	885,429	9,221	1,112,796	10,556,430	-	12,563,876
Operating (loss) income	(885,429)	(9,221)	(450,287)	(16)	-	(1,344,953)
Nonoperating income						
Investment income	413,995	-	-	-	-	413,995
Other nonoperating (losses) gains	(459,524)	-	(16)	-	459,540	-
	(45,529)	-	(16)	-	459,540	413,995
Revenues in excess of (less than) expenses	\$ (930,958)	\$ (9,221)	\$ (450,303)	\$ (16)	\$ 459,540	\$ (930,958)

Other Financial Information

Report of Independent Auditors on Other Financial Information

The Board of Directors
Methodist Health Services Corporation and Subsidiaries
Peoria, Illinois

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following other financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

April 11, 2011

Methodist Health Services Corporation and Subsidiaries

Statement of Operations of the Methodist College of Nursing

Year Ended December 31, 2010

Operating revenues

Student revenue	\$ 629,454
Tuition	4,753,503
Foundation grants	<u>20,926</u>
Total operating revenues	<u>5,403,883</u>

Operating expenses

Salaries and wages	2,793,417
Employee benefits	193,449
Supplies and other expenses	505,451
Purchased services and professional fees	409,903
Depreciation and amortization	<u>135,929</u>
	<u>4,038,149</u>
Revenues in excess of expenses	<u><u>\$ 1,365,734</u></u>

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

