DMH Health Systems and Affiliated Organizations

Consolidated Financial Statements with Supplemental Consolidating Information
September 30, 2010 and 2009

DMH Health Systems and Affiliated Organizations
Index
September 30, 2010 and 2009

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Report of Independent Auditors

To the Board of Directors of
DMH Health Systems and Affiliated Organizations

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and of cash flows present fairly, in all material respects, the financial position of DMH Health Systems and Affiliated Organizations (the "System") at September 30, 2010 and 2009, and the results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in Note 8 to the consolidated financial statements, the System revised its net asset classification of endowment funds to conform with the authoritative guidance on endowments of not-for-profit organization in fiscal year 2009.

PricewaterhouseCoopers LLP

January 7, 2011

DMH Health Systems and Affiliated Organizations
Consolidated Balance Sheets
September 30, 2010 and 2009

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 25,899,734	$ 26,339,649
Short-term investments	14,000,000	16,000,000
Patient accounts receivable, net of allowance for doubtful accounts of approximately $12,150,000 in 2010 and $7,879,000 in 2009	39,891,935	37,369,325
Inventories of supplies	3,427,292	3,741,398
Prepaid expenses	6,602,984	3,005,205
Other	245,385	76,103
Total current assets	90,067,330	86,531,680
Assets limited as to use		
Restricted assets		
Funds held in trust	29,198,672	27,756,577
Investments and other	12,930,062	12,478,119
Total restricted assets	42,128,734	40,234,696
Assets held by trustee - cash and cash equivalents	2,990,940	3,002,224
Total assets limited as to use	45,119,674	43,236,920
Investments	135,917,763	121,372,577
Farmland	9,933,845	9,933,845
Property, plant and equipment, net	131,676,737	118,957,319
Other assets	4,714,097	4,307,200
Total assets	$ 417,429,446	$ 384,339,541
Liabilities and net assets		
Current liabilities		
Current portion of long-term debt	$ 3,122,192	$ 1,977,944
Accounts payable and withheld taxes	5,313,358	8,026,150
Accrued expenses	16,318,951	14,473,922
Estimated third-party payor settlements and advances	17,101,084	13,825,501
Deferred revenue	5,071,135	-
Total current liabilities	46,926,720	38,303,517
Long-term debt, net of current portion	66,719,688	61,195,450
Deferred gain on sale of property	2,770,553	3,026,316
Other liabilities	10,992,143	9,094,989
Total liabilities	127,409,104	111,620,272
Net assets		
Unrestricted	247,891,608	232,484,573
Temporarily restricted	28,813,274	27,685,257
Permanently restricted	13,315,460	12,549,439
Total net assets	290,020,342	272,719,269
Total liabilities and net assets	$ 417,429,446	$ 384,339,541

The accompanying notes are an integral part of the consolidated financial statements.

DMH Health Systems and Affiliated Organizations
Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Unrestricted revenue, gains and other support		
Net patient service revenue	$ 281,125,913	$ 276,003,835
Other revenue	9,157,232	10,022,659
Net assets released from restrictions used for operations	882,694	589,325
Trust distributions	3,356,038	1,180,180
Total revenue, gains and other support	294,521,877	287,795,999
Expenses		
Salaries and wages	106,850,236	106,609,494
Employee benefits	23,140,982	24,000,494
Professional fees	2,179,883	1,986,402
Purchased services	14,112,542	12,853,788
Supplies	47,687,125	44,847,563
Other	43,766,316	43,256,190
Provision for doubtful accounts	28,133,114	18,611,394
Interest expense	3,865,368	3,789,591
Depreciation and amortization	21,954,507	23,391,695
Total expenses	291,690,073	279,346,611
Operating income	2,831,804	8,449,388
Other income		
Investment income	12,259,496	8,468,120
Gain in earnings of investment in affiliate	283,252	246,331
Amortization on deferred gain on sale of property	255,763	-
Loss on sale of plant, property, and equipment	(664,421)	(489,332)
Total other income	12,134,090	8,225,119
Excess of revenues over expenses	14,965,894	16,674,507

The accompanying notes are an integral part of the consolidated financial statements.

DMH Health Systems and Affiliated Organizations
Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Unrestricted net assets		
Excess of revenues over expenses	14,965,894	16,674,507
Change in pension liability	(428,277)	(773,113)
Net assets released from restrictions used for the purchase of property, plant and equipment	869,418	857,602
Increase in unrestricted net assets	15,407,035	16,758,996
Temporarily restricted net assets		
Contributions	1,040,488	1,267,248
Net assets released from restrictions	(1,752,113)	(1,446,925)
Investment income and trust distributions	475,041	466,144
Transfer from permanently restricted net assets	345,847	-
Net realized gains and losses on sales of investments	688,527	-
Change in value of funds held in trust	330,227	(146,560)
Net asset reclassification based on change in law	-	6,888,756
Increase in temporarily restricted net assets	1,128,017	7,028,663
Permanently restricted net assets		
Net realized gains and losses on sales of investments	-	74,065
Transfer to temporarily restricted net assets	(345,847)	-
Change in value of funds held in trust	1,111,868	20,528
Net asset reclassification based on change in law	-	(6,888,756)
Increase in permanently restricted net assets	766,021	(6,794,163)
Increase in net assets	17,301,073	16,993,496
Net assets		
Beginning of year	272,719,269	255,725,773
End of year	$ 290,020,342	$ 272,719,269

The accompanying notes are an integral part of the consolidated financial statements.

DMH Health Systems and Affiliated Organizations
Consolidated Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Increase in net assets	$ 17,301,073	$ 16,993,496
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	21,954,507	23,522,033
Amortization of deferred financing costs	109,697	117,017
Amortization of deferred gain on sale of property	(255,763)	-
Net investment gains	(8,769,836)	(3,827,272)
Gain in earnings of investment in affiliate	(283,252)	(246,331)
Loss on sale of assets	664,421	489,331
Provision for doubtful accounts	28,133,114	18,611,394
Restricted contributions	(1,515,529)	(1,733,392)
Change in pension liability	428,277	773,113
(Increase) decrease in operating assets		
Patient accounts receivable	(30,655,724)	(16,780,389)
Inventories of supplies	314,106	(1,738,524)
Other assets and prepaid expenses	(4,508,865)	(739,290)
Increase (decrease) in operating liabilities		
Accounts payable and withheld taxes	(2,712,792)	(486,528)
Other liabilities	6,540,012	854,999
Estimated third-party payor settlements	3,275,583	(943,543)
Accrued expenses	1,845,029	(219,694)
Net cash provided by operating activities	31,864,058	34,646,420
Cash flows from investing activities		
Purchases of investments	(63,490,002)	(63,793,738)
Proceeds from sales and maturities of investments	59,026,125	30,191,808
Purchases of restricted assets	(3,213,080)	(2,972,615)
Proceeds from sales and maturities of restricted assets	2,007,569	2,812,180
Decrease (increase) in assets held by trustee	11,284	(103,177)
Distribution from investment in affiliate	425,000	400,000
Purchase of property, plant and equipment	(26,532,874)	(31,582,311)
Proceeds from sales of property, plant and equipment, net	-	28,862,544
Net cash used in investing activities	(31,765,978)	(36,185,309)
Cash flows from financing activities		
Principal payments on long-term debt	(22,677,945)	(1,844,520)
Issuance of long-term debt	20,700,000	-
Extinguishment of debt	-	(7,443,107)
Principal payments on capital lease obligations	(75,579)	-
Restricted contributions	1,515,529	1,733,392
Net cash used in financing activities	(537,995)	(7,554,235)
Net decrease in cash and cash equivalents	(439,915)	(9,093,124)
Cash and cash equivalents		
Beginning of year	26,339,649	35,432,773
End of year	$ 25,899,734	$ 26,339,649
Supplemental disclosure of noncash investing and financing activities		
Cash payments for interest	$ 3,257,993	$ 3,612,663
Acquisition of equipment in exchange for capital lease obligations	$ 8,675,134	$ -

The accompanying notes are an integral part of the consolidated financial statements.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

DMH Health Systems (the "Parent" or "DMHHS") considers all majority owned or controlled entities as affiliated organizations for financial statement reporting purposes. The accompanying consolidated financial statements of the Parent include the accounts of the following affiliated organizations (collectively referred to herein as the "System"): Decatur Memorial Hospital (the "Hospital"), Decatur Memorial Health Foundation (the "Foundation"), DMH World Wide, Ltd ("DMH World Wide"), and Central Illinois Surgery Center, LLC, ("CISC") which houses an Ambulatory Surgery Treatment Center. The System moved CISC operating activities on July 15, 2010, to the Hospital and merged the CISC entity into the Hospital on October 1, 2010. DMHHS formed DMH World Wide in January 2010. DMH World Wide owns 100% of DMH International, Ltd, ("DMH International") which was also formed in January 2010. DMH World Wide's mission is to pursue international consulting opportunities while DMH International exclusively pursues consulting opportunities with the United Arab Emirates. The Hospital continues to own 50% of the Decatur Digestive Disease Center, LLC, ("DDDC") which houses an Ambulatory Surgery Treatment Center that is limited to endoscopy. DDDC is accounted for under the equity method. DDDC is included in other long-term assets in the consolidated balance sheets, and the related equity in earnings of DDDC is included in nonoperating other revenue in the consolidated statements of operations and changes in net assets. DDDC provides or supports the provision of health care services in the Hospital's service area. All significant intercompany balances and transactions have been eliminated in consolidation.

The Parent, the Hospital, and the Foundation are not-for-profit corporations. CISC, DMH World Wide, and DMH International are limited liability corporations. The primary purpose of the System is to support and encourage health care related services by providing financial and management assistance to its affiliated organizations. The primary purpose of the Hospital is to provide general acute care services on an inpatient and outpatient basis to the service area in which it operates. The primary purpose of the Foundation is to promote the interests of the Hospital and to hold real estate which supports the Hospital's charitable purpose. The primary purpose of CISC is to provide ambulatory surgery services on an outpatient basis to the service area in which it operates. The primary purpose of DMH World Wide is to provide health care consulting to other countries.

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements.

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. The System considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances and third-party payor settlements; provisions for bad debt; reserves for losses and expenses related to health care professional and general liabilities; and risks and assumptions for measurement of pension liabilities. Management relies on historical experience, on other assumptions believed to be reasonable under the circumstances, and recommendations made by the System's external advisors and actuaries in making its judgments and estimates. Actual results could differ from those estimates.

Risks and Uncertainties
Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term would materially affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations.

Cash and Cash Equivalents
Cash and cash equivalents include certain investments in highly liquid debt instruments with purchased maturities of three months or less. Assets limited as to use or restricted are excluded. The carrying amount of cash and cash equivalents approximates fair value due to short maturities of these investments. A portion of the System's cash and cash equivalents are held by various financial institutions in denomination in excess of federally insured limits.

Inventories of Supplies
Inventories of supplies are stated at the lower of cost or market. Cost is primarily determined on the basis of current cost. Inventory is expensed as it is consumed. In July 1998, the Hospital entered into an agreement to buy back drugs previously on consignment. Payments for drugs repurchased under this arrangement have not been properly recognized in inventory over time until fiscal year 2009. As of September 30, 2009, the Hospital recognized drug inventory and reduced supplies expense for $1,854,000, of which $1,683,000 related to prior years.

Investments
Highly liquid investments maturing more than three months from the purchase date are considered short-term investments. Short-term investments consist primarily of highly rated bank deposits and are stated at cost which approximates fair value. Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value is estimated based on quoted market prices, except for alternative investments for which quoted market prices are not available. The System has adopted a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data and unobservable inputs reflect the System's own assumptions about how market participants would value an asset based on the best information available. Cash and cash equivalents are carried at cost, which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest, dividends and unrealized gains and losses on trading securities) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Investment income restricted for specific purposes by donor or legal requirements is recorded as temporarily or permanently restricted on the consolidated statements of changes in net assets.

Investments and assets limited as to use are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks and the near term may affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations and changes in net assets.

Assets Limited as to Use

Assets limited as to use primarily include assets held at fair value by trustees under bond indenture and assets restricted by donors for a specific time period or purpose. Amounts required to meet current liabilities of the System have been reclassified as current assets in the consolidated balance sheets.

Farmland and farmland held in trusts

Various farmland in central Illinois has been purchased by or donated, without restrictions, to the System. In addition, the System is beneficiary to various trusts which include farmland. Farmland is recorded at cost, or if donated, at the fair value at the date of donation or receipt of trust.

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost, or if donated, at the fair value at the date of donation. Costs of maintenance and repairs are charged to expenses when incurred; costs of betterments are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statement of operations. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method over the estimated useful lives ranging from 3 to 40 years.

Gifts of long-lived assets such as farmland, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and 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, expirations of donor restriction are reported when the donated or acquired long-lived assets are placed in service.

The System records impairments of its property, plant and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated lives. Impairments are recorded to reduce the carrying value of the assets to their net realizable values determined by management based on facts and circumstances at the time of the determination.

Goodwill

The excess of acquisition costs over the fair value of acquired net assets is recorded as goodwill and amortized on a straight line basis over a period of ten years. The System reviews the carrying value of its goodwill whenever events or circumstances indicate that the carrying amount may not be recoverable. When such factors indicate that goodwill should be evaluated for possible impairment, the System performs an analysis using an estimate of the related business segment's undiscounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. No impairment losses were recorded in 2010 or 2009.

Donor-Restricted Gifts

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Bond Issuance Costs

Costs incurred in issuing all bonds are being amortized based on the effective interest method.

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and the change in pension liability.

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from 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 amount from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursable agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Changes to prior year third-party settlement estimates increased net patient service revenue and excess of revenues over expenses by approximately $850,000 and $1,600,000 for the years ended September 30, 2010 and 2009, respectively.

Charity Care

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

Estimated Malpractice Costs

The Hospital is insured above specified deductible amounts through a commercial insurance carrier for professional and patient care liability under the terms of claims-made policies. A claims-made policy covers the Hospital only for those claims reported to the insurance carrier within reporting periods as defined in the policy. In connection with its insurance program, the Hospital has engaged the services of a professional consultant for actuarial evaluations of the liability for the ultimate cost of estimated professional and patient care liability claims for incurred but not reported incidents, which have occurred prior to September 30, 2010 but have not been reported to the insurance carriers. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the policy term but reported subsequently will be uninsured.

Income Taxes

The Parent, the Hospital, and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code. CISC is a limited liability corporation that is exempt from Federal income taxes effective September 1, 2008. DMH World Wide and DMH International are limited corporations that are subject to federal, state, and international income taxes. In addition, the Hospital is subject to federal and state income tax on its unrelated business income under Section 512 of the Code. The System had no uncertain positions in income tax liabilities or expenses.

Subsequent Events
The System has evaluated subsequent events through January 7, 2011, which coincides with the release of the financial statements.

Reclassifications
Certain prior year amounts have been reclassified to conform to the current year presentation.

Adoption of New Accounting Standards
In August 2008, the FASB issued authoritative guidance on endowments of not-for-profit organization. The guidance relates to net asset classification donor-restricted endowment funds that are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The guidance also requires enhanced disclosures about an organization's endowment funds, which include both donor-restricted and board-designated endowment funds. The System has adopted this guidance in the year ended September 30, 2009 as discussed in Note 8.

In May 2009, the FASB issued authoritative guidance related to mergers and acquisitions for not-for-profit entities. Among other things, this new standard ceases the amortization of goodwill and indefinite-lived intangible assets acquired in a business combination, including those recorded from prior acquisitions. The standard requires that the book value of existing goodwill be tested for impairment within six months of adoption of the standard and at least annually thereafter. The new standard, which is effective for the System on October 1, 2010, eliminates further amortization of goodwill. Goodwill amortization was $130,338 in 2010 and 2009.

2. Net Patient Service Revenue, Patient Accounts Receivable and Concentration of Credit Risk

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

- *Medicaid* - Inpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospectively determined rates-per-discharge and outpatient services are reimbursed on a fee for service basis, as defined.

  In December 2008, the Centers for Medicare and Medicaid Services ("CMS") approved a five year Hospital Assessment Program beginning July 1, 2008 and running through June 30, 2013. The Hospital records the assessment and payment monthly. For the year ended September 30, 2010, the System recorded a net benefit of $5,068,000. For the year ended September 30, 2009, the System recorded a net benefit of $6,335,000, of which $1,267,000 related to fiscal year 2008. The State of Illinois made advance payments in the first four months of their fiscal year. The Hospital deferred two quarters of state payments and prepaid Illinois provider tax as of September 30, 2010, in the amounts of $5,071,135 and $2,537,028, respectively.

- *Blue Cross* - The Hospital is reimbursed at a tentative reimbursement rate of actual charges for substantially all services rendered to inpatient Blue Cross program beneficiaries. A final settlement is determined after the submission of an annual cost report by the Hospital and review by Blue Cross.

Reported costs and services provided under the reimbursement arrangements with Medicare, Medicaid and Blue Cross are subject to retroactive audit and adjustments. Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and estimated total payments to be received from third-party payors. Management believes that adjustments, if any, which ultimately may result from final determination of amounts to be received under these contracts should not have a material effect on the consolidated financial statements.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

For the years ended September 30, 2010 and 2009, approximately 94% and 95%, respectively, of gross patient service revenue was subject to the provisions of third-party payor contracts.

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

	2010	2009
Medicare	29 %	31 %
Medicaid	16	15
Blue Cross	2	2
Commercial insurance	11	11
Other third-party payors	26	26
Patients	16	15
	100 %	100 %

3. Charity Care

The Hospital is a not-for-profit healthcare provider established to meet the healthcare needs of area residents, and is legally required to provide emergency services before determining the source of payment. Further, the Hospital provides care to patients who meet certain criteria under a charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charity care provided based on the Hospital's foregone charges during the years ended September 30, 2010 and 2009 approximated $18,068,100 and $16,709,000, respectively.

4. Investments and Assets Limited As to Use

Investments

Investments stated at fair value at September 30, 2010 and 2009 consist of the following:

	2010	2009
Short-term investments	$ 16,600,573	$ 17,351,947
U.S. Treasury and government obligations	14,291,191	13,069,131
Corporate bonds	14,821,877	18,016,961
Mutual funds	77,271,921	63,772,161
Marketable equity securities	9,511,283	8,177,847
Other	3,420,918	984,530
Total investments	$ 135,917,763	$ 121,372,577

Assets Limited as to Use

The composition of assets limited as to use stated at fair value at September 30, 2010 and 2009 consist of the following:

	2010	2009
Restricted assets		
Short-term investments	$ 3,925,404	$ 4,405,248
U.S. Treasury and government obligations	1,636,786	1,675,989
Corporate bonds	1,129,349	1,174,147
Mutual funds	5,334,820	4,450,541
Marketable equity securities	903,703	772,194
Funds held in trust (Note 11)	29,198,672	27,756,577
Total restricted assets	42,128,734	40,234,696
Assets held by trustee		
Short-term investments	2,990,940	3,002,224
Total assets limited as to use	$ 45,119,674	$ 43,236,920

Investment income and realized gains or losses are comprised of the following for the years ended September 30, 2010 and 2009:

	2010	2009
Interest and dividend income (including trust distributions), net of fees	$ 8,009,344	$ 6,361,237
Net realized gains (losses) on sales of investments	535,964	(3,611,041)
Change in net unrealized investment gains and losses	8,233,794	7,438,313
	$ 16,779,102	$ 10,188,509

Investment income, realized gains or losses of investments and assets limited as to use are included in the consolidated statements of operations and changes in net assets for the years ended September 30, 2010 and 2009 as follows:

	2010	2009
Unrestricted revenue, gains and other support		
Trust distributions	$ 3,356,038	$ 1,180,180
Other income		
Investment income	12,259,496	8,468,120
Changes in temporarily and permanently restricted net assets		
Investment income and trust distributions	475,041	466,144
Net realized losses on sales of investments	(57,504)	(487,675)
Change in net unrealized investment gains on permanently restricted investments	746,031	561,740
	$ 16,779,102	$ 10,188,509

5. Fair Value Measurements

Authoritative guidance on fair value establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under the authoritative guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the System for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- *Level 1* - Quoted prices in active markets for identical assets.
- *Level 2* - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets.
- *Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

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 is a description of the valuation methodologies used for assets at fair value:

- *Short-term investments:* Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. Short-term investments include cash and cash equivalents, certificates of deposits and money market funds

- *Marketable equity securities:* Valued at the closing price reported in the active market in which the individual securities are traded.
- *Corporate bonds*: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds traded in the over-the-counter market and listed securities for which no sale was reported on the last business day of the fiscal year are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, a fair value is established based on yields currently available on comparable securities of issuers with similar credit ratings.
- *U.S. treasury and government obligations*: Certain securities are valued at the closing price reported in the active market in which the individual security is traded. For certain securities that do not have an established fair value, a fair value is established based on yields currently available on comparable securities.
- *Mutual funds*: Valued at the net asset value (NAV) of shares held by the System at year end.
- *Interests held in trusts:* Valued at the NAV of the System's interests at year end based upon current market value of the underlying assets.

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

The following table presents the financial instruments carried at fair value as of September 30, 2010, by category on the statement of financial position in accordance with the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
Assets				
Short-term investments	$ 23,516,917	$ -	$ -	$ 23,516,917
U.S. Treasury and government obligations	5,312,154	10,615,822	-	15,927,976
Corporate bonds	-	15,944,263	-	15,944,263
Mutual funds	82,606,741	-	-	82,606,741
Marketable equity securities	10,414,986	6,964	-	10,421,950
Interests held in trust, excluding farmland	8,505,190	5,294,280	-	- 13,799,470
Other	-	-	3,420,918	3,420,918
	$ 130,355,988	$ 31,861,329	$ 3,420,918	$ 165,638,235

The following table presents the changes in amounts included in the statement of financial position for financial instruments classified by the System within Level 3:

	Level 3 Assets
Fair value on October 1, 2009	$ -
Purchases	3,435,855
Unrealized loss	(14,937)
Fair value on September 30, 2010	$ 3,420,918

The following table presents the financial instruments carried at fair value as of September 30, 2009, by category on the statement of financial position in accordance with the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
Assets				
Short-term investments	$ 29,141,454	$ -	$ -	$ 29,141,454
U.S. Treasury and government obligations	5,114,194	9,630,926	-	14,745,120
Corporate bonds	15,404,825	19,191,108	-	34,595,933
Mutual funds	68,222,702	-	-	68,222,702
Marketable equity securities	8,973,254	-	-	8,973,254
Interests held in trust, excluding			-	-
farmland	8,982,355	4,664,559	-	13,646,914
Other	-	984,530	-	984,530
	$ 135,838,784	$ 34,471,123	$ -	$ 170,309,907

The System had made investments that have limited ability to initiate redemptions due to notice periods and maturities. Details on typical redemption terms by asset class are provided below:

	Remaining Life	Redemption Terms	Redemption Restrictions and Terms	Redemption Restrictions in Place at Year End
Investments				
Cash and cash equivalents	N/A	Daily	None	None
Certificates of deposit	0 to 15 years	At maturity	Interest penatly	None
U.S. Treasury and government obligations	0 to 29 years	Daily	None	None
Corporate bonds	0 to 39 years	Daily	None	None
Mutual funds	N/A	Daily	None	None
Marketable equity securities	N/A	Daily	None	None
Interests held in trust	N/A	N/A	N/A	N/A
Other	N/A	Quarterly to annually with varying notice periods	None	None

6. Property, Plant and Equipment, Net

Property, plant and equipment at September 30, 2010 and 2009 consist of the following:

	2010	2009
Land	$ 4,255,774	$ 4,582,445
Land improvements	11,722,540	13,765,669
Buildings	162,582,234	142,483,425
Fixed and major movable equipment	166,224,965	162,339,608
Building under capital lease obligation	8,675,134	-
Automotive equipment	1,123,688	1,227,834
Construction-in-process	540,516	14,127,822
	355,124,851	338,526,803
Less accumulated depreciation	223,448,114	219,569,484
Total property, plant and equipment, net	$ 131,676,737	$ 118,957,319

Cost and the related accumulated depreciation for equipment under capital lease obligations were $8,675,134 and $289,171, respectively, at September 30, 2010.

7. Long-Term Debt and Capital Lease Obligations

During 1996, the Illinois Health Finance Authority issued $21,865,000 of Revenue Refunding Bonds, Series 1996B dated November 1, 1996 for the Hospital. Approximately $20,640,000 of the 1996B Series bonds were used to purchase Government securities which were deposited in a trust fund administered for the Hospital. The principal of these securities, together with the interest earned thereon, is sufficient to pay the principal and interest on $18,990,000 of the Series 1991B bonds, in accordance with the First Supplemental Bond Trust Indenture, dated November 1, 1996. The outstanding principal of the 1991B defeased bonds is $14,215,000 at September 30, 2010. The remaining proceeds of the Series 1996B bonds were used to pay for expenses related to the issuance of the Series 1996B bonds.

During 2001, the Illinois Health Facilities Authority issued $32,815,000 of Revenue Bonds, Series 2001 dated July 1, 2001 for the Hospital. Approximately $7,226,000 of the 2001 bonds were used to early extinguish the Series 1991A bonds. The remainder of the Series 2001 bonds was used to reimburse the Hospital for the costs of constructing, remodeling and equipping certain of the Hospital facilities and to pay for the expenses incurred in connection with the issuance of the Series 2001 bonds.

The Series 1996B and 2001 bonds are limited obligations of the Illinois Health Facilities Authority and are payable solely out of the revenues and receipts derived for or on behalf of the operation of the Hospital. Accordingly, the bonds have been recorded in the accompanying consolidated financial statements as an obligation of the Hospital.

A summary of long-term debt at September 30, 2010 and 2009 is as follows:

	2010	2009
Illinois Health Facilities Authority, Revenue Refunding bonds, Series 1996B, at an interest rate of 5.375%, through 2021; collateralized by unrestricted receivables of the Hospital as evidenced by a direct obligation note	$ 15,120,000	$ 16,005,000
Illinois Health Facilities Authority, Revenue Bonds, Series 2001, at interest rates between 5.500% and 5.75%, depending on maturity, through 2024; collateralized by unrestricted receivables of the Hospital as evidenced by a direct obligation note	24,830,000	25,885,000
Note payable with an interest rate of 6.05%, collateralized by certificates of deposit, payable in monthly principal installments of $3,362 plus accrued interest, with remaining principal and interest payable in September 2011	1,061,388	1,099,332
Line of credit with an interest rate of 5.01%, collateralized by a lien on certain securities, interest paid in monthly installments; paid off in July 2010	-	20,700,000
Bridge loan with an interest rate floating at prime (3.25%) collateralized by a lien on certain securities, interest payable in quarterly installments; with a balloon payment due at maturity in July 2020	20,700,000	-
Capital lease obligation, at imputed interest of 4.5%, with an amortized cost of $8,385,963	8,599,555	-
Total	70,310,943	63,689,332
Less		
Current portion of long-term debt	3,122,192	1,977,944
Unamortized bond discount	469,063	515,938
Long-term debt	$ 66,719,688	$ 61,195,450

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending September 30,	Long-Term Debt	Capital Lease Obligations
2011	$ 3,041,388	$ 434,032
2012	2,130,000	482,959
2013	2,195,000	482,959
2014	2,350,000	492,619
2015	2,420,000	492,619
Thereafter	49,575,000	13,478,352
	$ 61,711,388	$ 15,863,540
Less amount representing interest and service charges under capital lease obligations		7,263,985
		$ 8,599,555

Bond issuance costs and original issue discount are being amortized using the effective interest method. Such amortization amounted to $109,697 and $117,017 for the years ended September 30, 2010 and 2009, respectively.

The trust indentures provide for, among other things, the establishment of a Revenue Fund used by the bond trustee to record Hospital deposits and transfer monies to other funds, an Interest Fund and Bond Sinking Fund to pay interest and principal on the bonds as they become due, and a Project Fund. These funds are reflected in the accompanying consolidated financial statements as assets held by trustee.

Long-term debt has an aggregate fair value based on quoted market values of approximately $62,078,933 and $64,171,445 at September 30, 2010 and 2009, respectively.

Line of Credit Obligation

On July 25, 2008, the Hospital entered a line of credit obligation with Busey Bank for $20,700,000. Under the line of credit obligation, the Hospital paid interest monthly at a fixed rate of 5.01% with the balloon payment of $20,700,000 paid in July 2010. The line of credit was collateralized with bond securities. Management replaced this obligation with a 10 year bridge loan.

Bridge Loan

On July 25, 2010, the Hospital entered into a bridge loan with Hickory Point Bank for $20,700,000. Under the bridge loan, the Hospital pays interest quarterly and principal at maturity in July 2020. The interest rate is floating at prime which is currently 3.25%. The bridge loan is collateralized with certain securities.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets restricted by purpose or by time at September 30, 2010 and 2009 consist of the following:

	2010	2009
Health care services		
Purchase of equipment	$ 6,622,951	$ 6,063,868
Indigent care	200,469	258,670
Health education	1,583,480	2,549,091
Various specific health care programs	1,088,950	1,524,378
Funds held in trust to be received:		
September 30, 2013	984,200	-
September 30, 2018	6,253,355	6,052,163
September 30, 2026	11,366,122	11,237,087
Other	713,747	-
	$ 28,813,274	$ 27,685,257

Permanently restricted net assets at September 30, 2010 and 2009 are restricted to:

	2010	2009
Assets to be invested in perpetuity, the income from which is expendable to support operations and other health care services	$ 13,315,460	$ 12,549,439

During fiscal 2010 and 2009, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of indigent care, health care education and various specific health care programs in the amount of $882,694 and $589,325, respectively. During fiscal 2010 and 2009, net assets were released from donor restrictions and used for the purchase of property, plant and equipment in the amount of $869,418 and $857,602, respectively.

The System's endowment fund consists of individual donor-restricted endowment funds and funds designated by its Board to function as endowments. The net assets associated with endowment funds, as all of which are donor restricted endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective June 30, 2009, Illinois enacted UPMIFA. The System has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the donor intent and standard of prudence prescribed by UPMIFA. Where the Board designates unrestricted funds to function as endowments they are classified as unrestricted net assets.

The Board of Directors has determined that donor-restricted endowment funds will be governed by specific policies, which assure that the original gift shall be protected to perpetuity as the endowed corpus and distribution shall not be made if it were to bring the value below that threshold; which explain the calculation used to determine funds available for expenditure, and which govern the process for expenditure of funds, in accordance with donor restrictions. The Investment Policy adopted by the Board of Directors reiterates these basic principles for donor-restricted funds and defines the return objectives and risk parameters for all System investments.

The System had the following donor-restricted endowment balances during the year ended September 30, 2010:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 10,396,007	$ 2,082,112	$ 12,478,119
Investment return				
Investment income	-	235,432	-	235,432
Net appreciation (realized and unrealized)	-	688,527	-	688,527
Total investment return	-	923,959	-	923,959
Contributions	-	1,280,946	-	1,280,946
Transfer to permanently restricted funds	-	(1,352,100)	1,352,100	-
Appropriation of endowment assets for expenditure	-	(1,752,962)	-	(1,752,962)
Endowment net assets, end of year	$ -	$ 9,495,850	$ 3,434,212	$ 12,930,062

The System had the following donor-restricted endowment balances during the year ended September 30, 2009:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 3,220,784	$ 8,896,803	$ 12,117,587
Investment return				
Investment income	-	304,265	-	304,265
Net appreciation (realized and unrealized)	-	-	74,065	74,065
Total investment return	-	304,265	74,065	378,330
Contributions	-	1,478,107	-	1,478,107
Appropriation of endowment assets for expenditure	-	(1,495,905)	-	(1,495,905)
Net asset reclassification based on change in law	-	6,888,756	(6,888,756)	-
Endowment net assets, end of year	$ -	$ 10,396,007	$ 2,082,112	$ 12,478,119

Temporarily restricted and permanently restricted net assets (endowments only) at September 30, 2010 are invested for the following purposes:

	Temporarily Restricted	Permanently Restricted	Total
Health care services			
Purchase of equipment	$ 6,622,951	$ 1,356,579	$ 7,979,530
Indigent care	200,469	59,937	260,406
Health education	1,583,480	1,853,696	3,437,176
Various specific health care programs	1,088,950	164,000	1,252,950
	$ 9,495,850	$ 3,434,212	$ 12,930,062

Temporarily restricted and permanently restricted net assets (endowments only) at September 30, 2009 are invested for the following purposes:

	Temporarily Restricted	Permanently Restricted	Total
Health care services			
Purchase of equipment	$ 6,063,868	$ 1,356,579	$ 7,420,447
Indigent care	258,670	59,937	318,607
Health education	2,549,091	665,596	3,214,687
Various specific health care programs	1,524,378	-	1,524,378
	$ 10,396,007	$ 2,082,112	$ 12,478,119

9. Pension Plans

The Hospital has a noncontributory defined benefit pension plan (the "Plan") covering certain employees of the Hospital and affiliated entities. The benefits were based on years of service and participant compensation, as defined. At December 31, 1995, this Plan was frozen so that no future employees would be eligible to participate in the Plan and no further benefits would accrue to current Plan participants. These amendments to the Plan have been considered in the determination of the actuarial present value of accumulated plan benefits and related assumptions for 2010 and 2009.

The amortization of any unrecognized net loss is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive the benefits under the Plan.

The following tables set forth the funded status of the Plan as well as the components of net periodic benefit cost and the weighted-average assumptions at September 30:

	2010	2009
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 14,608,275	$ 14,173,471
Interest cost	826,414	840,118
Actuarial (gain) loss	364,153	294,467
Change in discount rate	776,844	452,094
Benefit payments	(1,037,033)	(1,151,875)
Projected benefit obligation at end of year	15,538,653	14,608,275
Change in plan assets		
Fair value of plan assets at beginning of year	12,128,578	11,824,599
Actual return on plan assets	1,134,026	455,854
Employer contribution	425,000	1,000,000
Benefit payments	(1,037,033)	(1,151,875)
Fair value of plan assets at end of year	12,650,571	12,128,578
Funded status	$ (2,888,082)	$ (2,479,697)
Components of net periodic benefit cost		
Interest cost	$ 826,414	$ 840,118
Return on plan assets		
Expected return	(962,784)	(957,529)
Asset (gain) loss	(171,242)	501,675
Amortization of		
Unrecognized net loss	541,477	475,123
Asset gain (loss)	171,242	(501,675)
Net periodic pension (income) cost	405,107	357,712
Accumulated benefit obligation at end of year	$ 15,538,653	$ 14,608,275
Amounts recognized in unrestricted net assets		
Unrecognized net actuarial loss	$ 8,498,310	$ 8,070,032
Weighted-average assumptions		
Discount rate	5.25 %	5.75 %
Expected long-term rate of return on plan assets	8.00 %	8.00 %

The projected benefit payments (excluding lump sums) under the Plan for each of the five fiscal years subsequent to September 30, 2010 are as follows: $781,793 in 2011; $809,876 in 2012, $822,677 in 2013, $823,691 in 2014 and $829,039 in 2015. Projected aggregate benefit payments under the Plan for the five-year period ended September 30, 2020 are $4,589,765. The Hospital contributed $425,000 and $1,000,000 for the Plan year ending September 30, 2010 and 2009, respectively. The Hospital's estimated contribution to the Plan for the year subsequent to September 30, 2010 is $160,000.

The assets of the Plan are invested in a manner that is intended to achieve a rate of return of 8.0 percent, which is the Plan's assumed long-term rate of return.

The investment portfolio of the Plan is diversified in a manner that is intended to achieve the return objective and reduce the volatility of returns. The Plan relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) over a long-term time horizon. Third party managers invest the Plan's assets.

The following table presents the pension plan financial instruments carried at fair value as of September 30, 2010, by category in accordance with the valuation hierarchy defined in Note 5 "Fair Value Measurements":

	Level 1	Level 2	Level 3	Total
Pension Assets				
Cash and cash equivalents	$ 909,047	$ -	$ -	$ 909,047
U.S. Treasury and government obligations	-	2,007,611	-	2,007,611
Corporate bonds	-	1,573,032	-	1,573,032
Mutual funds	6,951,613	-	-	6,951,613
Marketable equity securities	1,209,268	-	-	1,209,268
	$ 9,069,928	$ 3,580,643	$ -	$ 12,650,571

Actual and targeted allocations of the Plan's assets by investment category were as follows at September 30:

	2010	2009	Target
Short-term investments	7 %	8 %	10 %
Equity securities	57	52	50
Debt securities	36	40	40
	100 %	100 %	100 %

The Hospital also sponsors a 403(b) Plan. The Hospital contributed 2% of each participant's annual compensation in fiscal year 2009 and 0% in fiscal year 2010, plus 50% of the first 3% contributed by each participant who contributed to the DMH Health Systems 403(b) Plan, after eligibility requirements and one year of service were met for fiscal years 2010 and 2009. The Hospital contributions to the DMH Health Systems 403(b) Plan totaled $1,502,600 and $3,073,200 for the years ended September 30, 2010 and 2009, respectively.

The Hospital also sponsors a 457(b) Plan for certain key employees. All contributions to the Plan are from participants. Due to Internal Revenue Service requirements surrounding 457(b) Plans, the assets of the Plan are considered Hospital assets. The Hospital's Other Asset and Other Liability accounts include $2,827,500 and $2,140,000 at September 30, 2010 and 2009, respectively, representing the value of the Plan's assets.

10. Other Benefit Plans

The Hospital sponsors a postretirement medical benefits plan to certain employees and retired employees. The Retiree Supplement Plan is contributory. The plan was amended in 1995 to no longer accept new entrants. Retirees who had previously met the eligibility requirements were allowed to maintain coverage based upon the provisions of the plan and their continued compliance. The plan is unfunded and the accrued postretirement benefit cost is recorded as a component of accrued expenses in the accompanying consolidated balance sheets at September 30, 2010 and 2009.

The Hospital also sponsors a partially self-insured medical and health program funded by contributions from the Hospital and its eligible employees, which is further discussed in Note 12.

The following tables set forth the accumulated benefit obligation of the retiree supplement plan as well as the components of net periodic benefit cost and the weighted-average assumptions at September 30:

	2010	2009
Change in benefit obligation		
Accumulated postretirement benefit obligation at beginning of year	$ 800,201	$ 817,773
Interest cost	41,648	45,294
Benefit payments	(60,767)	(68,874)
Plan participant contributions	4,267	4,785
Administrative cost	(7,427)	(7,708)
Loss (gain) attributable to other charges	50,859	8,931
Accumulated postretirement benefit obligation end of year	$ 828,781	$ 800,201
Funded status	$ (828,781)	$ (800,201)
Accrued liability for postretirement benefits	$ (828,781)	$ (800,201)
Components of net periodic benefit cost		
Interest cost	$ 41,648	$ 45,294
Net periodic benefit cost	$ 41,648	$ 45,294
Weighted-average assumptions		
Discount rate	4.50 %	5.25 %
Health care cost trend rate (grading to 6.00% in 2016)	7.00 %	7.00 %

A one-percentage-point increase in the assumed health care cost trend rate would have increased aggregate service and interest costs and the APBO by approximately $3,404 and $64,399, respectively. Likewise, a one-percentage-point decrease in the assumed health care cost trend rate, would have decreased aggregate service and interest costs and the APBO by approximately $(3,064) and $(57,725), respectively.

The projected benefit payments under the plan for each of the five fiscal years subsequent to September 30, 2010 are as follows: $61,222 in 2011; $64,044 in 2012, $65,706 in 2013, $67,065 in 2014 and $67,706 in 2015. Projected aggregate benefit payments under the plan for the five-year period ended September 30, 2020 are $331,710.

11. Restricted Funds Held in Trust Administered by Third Parties

The System is the income beneficiary of several perpetual trusts. The corpus of these trusts is not controlled by the System, but is administered by third parties appointed by the donors. The trusts include cash, equities, fixed income securities and land. The estimated value of the trusts' corpus amounted to approximately $11,579,000 and $10,467,000 at September 30, 2010 and 2009, respectively. The estimated value of the trusts is reflected as a component of restricted funds held in trust in the accompanying consolidated balance sheets. The System received trust distributions that are included in the accompanying consolidated statement of operations and changes in net assets amounting to approximately $2,971,000 and $681,000 for the years ended September 30, 2010 and 2009, respectively. The System also received unrestricted trust distributions which are included in temporarily restricted net assets amounting to approximately $192,700 and $106,700 for the years ended September 30, 2010 and 2009, respectively.

The System is also the beneficiary of two trusts that revert to System after 50-years which are administered and controlled by third parties appointed by the donors. The trusts include cash, equities, fixed income securities and land. The estimated value of the trusts' corpus amounted to approximately $17,619,500 and $17,289,000 at September 30, 2010 and 2009, respectively. The estimated value of the trusts is reflected as a component of restricted funds held in trust in the accompanying consolidated balance sheets. The System received unrestricted trust distributions amounting to approximately $385,000 and $498,700 for the years ended September 30, 2010 and 2009, respectively.

12. Insurance

The Hospital is self-insured for employee group health insurance coverage for substantially all of its employees. The Hospital pays for claims on a current basis. In addition, the Hospital has purchased stop-loss insurance coverage which limits the amount of potential self-insurance loss to $230,000 in aggregate claims per individual per year and $1,770,000 per individual per lifetime. The liability for estimated incurred but not reported self-insured health claims amounts are approximately $2,336,800 and $1,666,400 at September 30, 2010 and 2009, respectively, and was recorded as a component of accrued expenses in the accompanying consolidated balance sheets. Claims expense of approximately $10,897,000 and $10,842,000 for the years ended September 30, 2010 and 2009, respectively, is recorded as a component of employee benefits in the accompanying consolidated statements of operations and changes in net assets.

The Hospital has a commercial insurance policy related to its professional liability coverage which has a deductible of $1,000,000 for 2010 and 2009. The estimated liability for its self-insured portion, which is included in other liabilities, amounts to $4,805,000 and $4,475,000 at September 30, 2010 and 2009, respectively.

CISC purchased employee group health insurance coverage for substantially all of its employees from a third party insurance carrier through December 2009. In January 2010 CISC employees joined the Hospital's self-insured plan. CISC pays premiums or self-insured contributions on a monthly basis. Premium expense of approximately $132,900 and $140,500 for the year ended September 30, 2010 and 2009, respectively, is recorded as a component of employee benefits in the accompanying consolidated statements of operations and changes in net assets.

13. Commitments

The Hospital has entered into a lease agreement with the Decatur YMCA dated August 17, 1999 for a certain parcel of real estate not subject to the Hospital's Master Indenture. The land lease which has a nominal rent and is for a period of 50 years is being used by the YMCA to house their facility. The Hospital has also entered into a non-recourse guarantee with the bank providing a mortgage to the YMCA that can only be satisfied from the specific real estate under lease.

In 2009, the Foundation completed the sale of several parcels of land and buildings (collectively, the "properties") for $30,400,000. As part of the transaction, the Hospital leased back certain space in many of these properties for periods ranging from 5 to 20 years, with no option to extend. The leases for all properties leased back qualify as operating leases. The Foundation realized a gain on the sale of the properties of $3,026,316, which has been deferred and is being amortized within "other income" in the consolidated statements of operations ratably over the leaseback period. The Foundation recognized $255,763 of this gain in the year ended September 30, 2010, as other expense. The cash proceeds from the transaction were used to repay $7,443,107 of debt and $1,380,925 of other incidental fees. The System reinvested the remaining $21 million of net proceeds into long-term investments. Under general operating lease agreements, the System rents medical and office equipment. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases.

Total rental expense for all operating leases was $3,476,900 and $3,897,500 at September 30, 2010 and 2009, respectively.

Minimum lease payments under operating leases expiring after September 30, 2010, are as follows: 2011 - $3,912,000, 2012 - $3,195,000, 2013 - $2,726,000, 2014 - $1,938,000, 2015 $1,668,000 and $11,515,000 thereafter.

14. Contingencies

In January 2005, the Hospital was served with a subpoena by the civil division of The Office of the U.S. Attorney for the Central Division of Illinois, acting under the Medicare laws contained within the Social Security Act. In the years following 2005, supplemental subpoenas were received. The System complied with all of the agency's requests. The ultimate outcome of the investigation did not result in a civil action against the System. The investigation was completed in 2010.

In November 2008, the Internal Revenue Service requested information pertaining to the Hospital and the Foundation's Fiscal Year 2006 income tax filings. The System complied with all of the agency's requests. The ultimate outcome of the audit did not result in a material liability. The audit was completed in 2010 with final IRS review expected by June 2011.

15. Functional Expenses

The System provides general health care services to residents within its service area. Expenses related to providing these services for the years ended September 30, 2010 and 2009 are as follows:

	2010	2009
Health care services	$ 262,646,757	$ 250,005,688
General and administrative	29,043,316	29,340,923
	$ 291,690,073	$ 279,346,611

16. Related Parties

Certain members of the System's board of directors hold key management positions at financial institutions with which the System transacts business on a regular basis. See Note 7 related to the line of credit and bridge loan. These board members recuse themselves from voting on board resolutions involving banking matters.

SUPPLEMENTAL CONSOLIDATING INFORMATION

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Report of Independent Auditors on Supplemental Consolidating Information

To the Board of Directors of
DMH Health Systems and Affiliated Organizations

The report on our audits of the basic financial statements of DMH Health Systems and Affiliated Organizations at September 30, 2010 and 2009 and for the years then ended appears on page 1 of this document. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

January 7, 2011

DMH Health Systems and Affiliated Organizations
Supplemental Schedule – Consolidating Balance Sheet
September 30, 2010

	Decatur Memorial Hospital	Central Illinois Surgery Center	Decatur Memorial Health Foundation	DMH World Wide and Affiliate	DMH Health Systems	Total	Eliminations	Consolidated
Assets								
Current assets								
Cash and cash equivalents	$ 22,426,468	$ 1,380,726	$ 1,191,820	$ 299,990	$ 600,730	$ 25,899,734	$ -	$ 25,899,734
Short-term investments	14,000,000	-	-	-	-	14,000,000	-	14,000,000
Patient accounts receivable, net of allowance for doubtful accounts of approximately $12,150,000	39,868,320	23,615	-	-	-	39,891,935	-	39,891,935
Inventories of supplies	3,427,292	-	-	-	-	3,427,292	-	3,427,292
Prepaid expenses	6,524,454	10,386	68,144	-	-	6,602,984	-	6,602,984
Due from affiliates	671,110	370,673	-	-	-	1,041,783	(1,041,783)	-
Other	145,138	-	100,247	-	-	245,385	-	245,385
Total current assets	87,062,782	1,785,400	1,360,211	299,990	600,730	91,109,113	(1,041,783)	90,067,330
Assets limited as to use								
Restricted assets								
Funds held in trust	27,500,725	-	1,697,947	-	-	29,198,672	-	29,198,672
Investments and other	10,406,912	-	2,523,150	-	-	12,930,062	-	12,930,062
Total restricted assets	37,907,637	-	4,221,097	-	-	42,128,734	-	42,128,734
Assets held by trustee - cash and cash equivalents	2,990,940	-	-	-	-	2,990,940		2,990,940
Total assets limited as to use	40,898,577	-	4,221,097	-	-	45,119,674	-	45,119,674
Investments	129,688,029	-	6,329,734	-	-	136,017,763	(100,000)	135,917,763
Farmland	-	-	9,933,845	-	-	9,933,845	-	9,933,845
Property, plant and equipment, net	127,020,676	-	4,656,061	-	-	131,676,737	-	131,676,737
Other assets	5,516,466	-	-	-	-	5,516,466	(802,369)	4,714,097
Total assets	$ 390,186,530	$ 1,785,400	$ 26,500,948	$ 299,990	$ 600,730	$ 419,373,598	$ (1,944,152)	$ 417,429,446

DMH Health Systems and Affiliated Organizations
Supplemental Schedule – Consolidating Balance Sheet
September 30, 2010

	Decatur Memorial Hospital	Central Illinois Surgery Center	Decatur Memorial Health Foundation	DMH World Wide and Affiliate	DMH Health Systems	Total	Eliminations	Consolidated
Liabilities and Net Assets								
Current liabilities								
Current portion of long-term debt	$ 1,980,000	$ -	$ 1,061,388	$ -	$ -	$ 3,041,388	$ -	$ 3,041,388
Current portion of obligations under capital leases	80,804	-	-	-	-	80,804	-	80,804
Accounts payable and withheld taxes	5,313,358	-	-	-	-	5,313,358	-	5,313,358
Accrued expenses	16,101,367	-	217,584	-	-	16,318,951	-	16,318,951
Estimated third-party payor settlements	17,089,391	11,693	-	-	-	17,101,084	-	17,101,084
Other liabilities	5,071,135	-	-	-	-	5,071,135	-	5,071,135
Due to affiliates	370,673	-	46,046	625,064	-	1,041,783	(1,041,783)	-
Total current liabilities	46,006,728	11,693	1,325,018	625,064	-	47,968,503	(1,041,783)	46,926,720
Long-term debt, net of current portion	58,200,937	-	-	-	-	58,200,937	-	58,200,937
Obligations under capital leases, net of current portion	8,518,751	-	-	-	-	8,518,751	-	8,518,751
Deferred gain on sale of property	-	-	2,770,553	-	-	2,770,553	-	2,770,553
Other liabilities	10,992,143	-	-	-	-	10,992,143	-	10,992,143
Total liabilities	123,718,559	11,693	4,095,571	625,064	-	128,450,887	(1,041,783)	127,409,104
Net assets								
Unrestricted	228,560,334	1,773,707	18,184,280	(325,074)	600,730	248,793,977	(902,369)	247,891,608
Temporarily restricted	25,944,277	-	2,868,997	-	-	28,813,274	-	28,813,274
Permanently restricted	11,963,360	-	1,352,100	-	-	13,315,460	-	13,315,460
Total net assets	266,467,971	1,773,707	22,405,377	(325,074)	600,730	290,922,711	(902,369)	290,020,342
Total liabilities and net assets	$ 390,186,530	$ 1,785,400	$ 26,500,948	$ 299,990	$ 600,730	$ 419,373,598	$ (1,944,152)	$ 417,429,446

DMH Health Systems and Affiliated Organizations
Supplemental Schedule – Consolidating Balance Sheet
September 30, 2009

	Decatur Memorial Hospital	Central Illinois Surgery Center	Decatur Memorial Health Foundation	DMH Health Systems	Total	Eliminations	Consolidated
Assets							
Current assets							
Cash and cash equivalents	$ 23,377,437	$ 1,243,640	$ 1,602,994	$ 115,578	$ 26,339,649	$ -	$ 26,339,649
Short-term investments	16,000,000	-	-	-	16,000,000	-	16,000,000
Patient accounts receivable, net of allowance for doubtful accounts of approximately $7,879,000	37,028,585	340,740	-	-	37,369,325	-	37,369,325
Inventories of supplies	3,692,177	49,221	-	-	3,741,398	-	3,741,398
Prepaid expenses	2,917,982	19,744	67,479	-	3,005,205	-	3,005,205
Due from affiliates	30,276	-	-	-	30,276	(30,276)	-
Other	61,986	-	14,117	-	76,103	-	76,103
Total current assets	83,108,443	1,653,345	1,684,590	115,578	86,561,956	(30,276)	86,531,680
Assets limited as to use							
Restricted assets							
Funds held in trust	26,117,879	-	1,638,698	-	27,756,577	-	27,756,577
Investments and other	9,982,777	-	2,495,342	-	12,478,119	-	12,478,119
Total restricted assets	36,100,656	-	4,134,040	-	40,234,696	-	40,234,696
Assets held by trustee - cash and cash equivalents	3,002,224	-	-	-	3,002,224	-	3,002,224
Total assets limited as to use	39,102,880	-	4,134,040	-	43,236,920	-	43,236,920
Investments	118,436,407	-	2,936,170	-	121,372,577	-	121,372,577
Farmland	-	-	9,933,845	-	9,933,845	-	9,933,845
Property, plant and equipment, net	112,963,833	405,677	4,828,599	759,210	118,957,319	-	118,957,319
Other assets	5,109,569	-	-	-	5,109,569	(802,369)	4,307,200
Total assets	$ 358,721,132	$ 2,059,022	$ 23,517,244	$ 874,788	$ 385,172,186	$ (832,645)	$ 384,339,541

DMH Health Systems and Affiliated Organizations
Supplemental Schedule – Consolidating Balance Sheet
September 30, 2009

	Decatur Memorial Hospital	Central Illinois Surgery Center	Decatur Memorial Health Foundation	DMH Health Systems	Total	Eliminations	Consolidated
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term debt	$ 1,940,000	$ -	$ 37,944	$ -	$ 1,977,944	$ -	$ 1,977,944
Accounts payable and withheld taxes	7,995,844	30,306	-	-	8,026,150	-	8,026,150
Accrued expenses	14,129,176	95,557	249,189	-	14,473,922	-	14,473,922
Estimated third-party payor settlements	13,666,832	158,669	-	-	13,825,501	-	13,825,501
Due to affiliates	-	-	30,276	-	30,276	(30,276)	-
Total current liabilities	37,731,852	284,532	317,409	-	38,333,793	(30,276)	38,303,517
Long-term debt, net of current portion	60,134,062	-	1,061,388	-	61,195,450	-	61,195,450
Deferred gain on sale of property	-	-	3,026,316	-	3,026,316	-	3,026,316
Other liabilities	9,094,989	-	-	-	9,094,989	-	9,094,989
Total liabilities	106,960,903	284,532	4,405,113	-	111,650,548	(30,276)	111,620,272
Net assets							
Unrestricted	215,659,573	1,774,490	14,978,091	874,788	233,286,942	(802,369)	232,484,573
Temporarily restricted	25,189,915	-	2,495,342	-	27,685,257	-	27,685,257
Permanently restricted	10,910,741	-	1,638,698	-	12,549,439	-	12,549,439
Total net assets	251,760,229	1,774,490	19,112,131	874,788	273,521,638	(802,369)	272,719,269
Total liabilities and net assets	$ 358,721,132	$ 2,059,022	$ 23,517,244	$ 874,788	$ 385,172,186	$ (832,645)	$ 384,339,541

DMH Health Systems and Affiliated Organizations
Supplemental Schedule – Consolidating Statements of Operations
Year Ended September 30, 2010

	Decatur Memorial Hospital	Central Illinois Surgery Center	Decatur Memorial Health Foundation	DMH World Wide and Affiliate	DMH Health Systems	Total	Eliminations	Consolidated
Unrestricted revenues, gains and other support								
Net patient service revenue	$ 279,160,753	$ 1,965,160	$ -	$ -	$ -	$ 281,125,913	$ -	$ 281,125,913
Other revenue	9,122,183	-	1,745,549	200,000	-	11,067,732	(1,910,500)	9,157,232
Net assets released from restrictions used								
for operations	349,001	-	534,543	-	-	883,544	(850)	882,694
Trust distributions	674,507	-	2,681,531	-	-	3,356,038	-	3,356,038
Total revenues, gains and other support	289,306,444	1,965,160	4,961,623	200,000	-	296,433,227	(1,911,350)	294,521,877
Expenses								
Salaries and wages	106,316,603	638,280	249,183	319,198	-	107,523,264	(673,028)	106,850,236
Employee benefits	22,865,752	200,713	74,517	-	-	23,140,982	-	23,140,982
Professional fees	2,179,883	-	-	-	-	2,179,883	-	2,179,883
Purchased services	13,494,628	76,831	456,947	84,136	-	14,112,542	-	14,112,542
Supplies	47,109,522	535,601	42,002	-	-	47,687,125	-	47,687,125
Other	42,460,490	382,921	1,914,640	221,740	24,847	45,004,638	(1,238,322)	43,766,316
Provision for doubtful accounts	28,084,856	48,258	-	-	-	28,133,114	-	28,133,114
Interest expense (including amortization								
of $109,697)	3,799,004	-	66,364	-	-	3,865,368	-	3,865,368
Depreciation and amortization	21,618,725	95,664	230,036	-	10,082	21,954,507	-	21,954,507
Total expenses	287,929,463	1,978,268	3,033,689	625,074	34,929	293,601,423	(1,911,350)	291,690,073
Operating income (loss)	1,376,981	(13,108)	1,927,934	(425,074)	(34,929)	2,831,804	-	2,831,804
Other income								
Investment income	11,246,391	12,325	1,000,780	-	-	12,259,496	-	12,259,496
Gain in earnings of investment in affiliate	283,252	-	-	-	-	283,252	-	283,252
Amortization on deferred gain on sale of property	-	-	255,763	-	-	255,763	-	255,763
Gain (loss) on sale of plant, property, & equipment	(425,292)	-	-	-	(239,129)	(664,421)	-	(664,421)
Total other income (expense)	11,104,351	12,325	1,256,543	-	(239,129)	12,134,090	-	12,134,090
Excess (deficit) of revenues over expenses	12,481,332	(783)	3,184,477	(425,074)	(274,058)	14,965,894	-	14,965,894
Change in minimum pension liability	(428,277)	-	-	-	-	(428,277)	-	(428,277)
Transfers among affiliates	227,085	-	(227,085)	-	-	-	-	-
Net assets released from restrictions used for								
the purchase of property, plant and equipment	620,621	-	248,797	-	-	869,418	-	869,418
Increase (decrease) in unrestricted net assets	$ 12,900,761	$ (783)	$ 3,206,189	$ (425,074)	$ (274,058)	$ 15,407,035	$ -	$ 15,407,035

DMH Health Systems and Affiliated Organizations
Supplemental Schedule – Consolidating Statements of Operations
Year Ended September 30, 2009

	Decatur Memorial Hospital	Central Illinois Surgery Center	Decatur Memorial Health Foundation	DMH Health Systems	Total	Eliminations	Consolidated
Unrestricted revenues, gains and other support							
Net patient service revenue	$ 273,222,461	$ 2,781,374	$ -	$ -	$ 276,003,835	$ -	$ 276,003,835
Other revenue	8,455,703	-	2,925,494	68,730	11,449,927	(1,427,268)	10,022,659
Net assets released from restrictions used for operations	156,420	-	481,886	-	638,306	(48,981)	589,325
Trust distributions	750,578	-	429,602	-	1,180,180	-	1,180,180
Total revenues, gains and other support	282,585,162	2,781,374	3,836,982	68,730	289,272,248	(1,476,249)	287,795,999
Expenses							
Salaries and wages	105,727,313	838,709	308,669	-	106,874,691	(265,197)	106,609,494
Employee benefits	23,645,440	211,722	143,332	-	24,000,494	-	24,000,494
Professional fees	1,986,402	-	-	-	1,986,402	-	1,986,402
Purchased services	12,101,787	139,305	612,696	-	12,853,788	-	12,853,788
Supplies	43,950,318	733,531	163,714	-	44,847,563	-	44,847,563
Other	41,688,166	510,354	2,255,177	13,545	44,467,242	(1,211,052)	43,256,190
Provision for doubtful accounts	18,537,957	73,437	-	-	18,611,394	-	18,611,394
Interest expense (including amortization of $117,017)	3,563,606	-	225,985	-	3,789,591	-	3,789,591
Depreciation and amortization	21,946,863	484,312	926,313	34,207	23,391,695	-	23,391,695
Total expenses	273,147,852	2,991,370	4,635,886	47,752	280,822,860	(1,476,249)	279,346,611
Operating income (loss)	9,437,310	(209,996)	(798,904)	20,978	8,449,388	-	8,449,388
Other income (expense)							
Investment income	7,610,873	13,210	844,037	-	8,468,120	-	8,468,120
Gain in earnings of investment in affiliate	246,331	-	-	-	246,331	-	246,331
Loss on sale of real estate	-	-	(489,332)	-	(489,332)	-	(489,332)
Total other income (expense)	7,857,204	13,210	354,705	-	8,225,119	-	8,225,119
Excess (deficit) of revenues over expenses	17,294,514	(196,786)	(444,199)	20,978	16,674,507	-	16,674,507
Change in minimum pension liability	(773,113)	-	-	-	(773,113)	-	(773,113)
Transfers among affiliates	21,164,602	-	(21,364,602)	200,000	-	-	-
Net assets released from restrictions used for the purchase of property, plant and equipment	852,325	-	5,277	-	857,602	-	857,602
Increase (decrease) in unrestricted net assets	$ 38,538,328	$ (196,786)	$ (21,803,524)	$ 220,978	$ 16,758,996	$ -	$ 16,758,996