

ILLINOIS HEALTH FACILITIES PLANNING BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY JUN 10 2011

RECEIVED**ORIGINAL****HEALTH FACILITIES &
SERVICES REVIEW BOARD****1. INFORMATION FOR EXISTING FACILITY**Current Facility Name Methodist Medical Center of IllinoisAddress 221 Northeast Glen Oak AvenueCity PeoriaZip Code 61636County PeoriaName of current licensed entity for the facility Methodist Medical Center of IllinoisDoes the current licensee: own this facility ☒ OR lease this facility _____ (if leased, check if sublease ☐)

Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship

☒ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

_____ Limited Liability Company _____ Other, specify _____

Illinois State Senator for the district where the facility is located: Sen. David KoehlerState Senate District Number 46 Mailing address of the State Senator 13 S. Capitol Street Pekin, IL 61554Illinois State Representative for the district where the facility is located: Rep. Jehan GordonState Representative District Number 92 Mailing address of the State Representative 300 East War MemorialDrive Suite 303 Peoria, IL 61634

- 2. OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes ☐ No ☒. If yes, refer to Section 1130.520(f), and indicate the projects by Project #

- 3. FACILITY'S BED OR DIALYSIS STATION CAPACITY BY CATEGORY OF SERVICE** (Complete "APPENDIX A" attached to this application)

- 4. FACILITY'S OTHER CATEGORIES OF SERVICE AS DEFINED IN 77 IAC 1100** (Complete "APPENDIX A" attached to this application)

- 5. NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Iowa Health SystemAddress 1200 Pleasant StreetCity, State & Zip Code Des Moines, IA 50309

Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship

☒ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

_____ Limited Liability Company _____ Other, specify _____

- 6. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**

Exact Legal Name of Entity to be Licensed The Methodist Medical Center of IllinoisAddress 221 Northeast Glen Oak AvenueCity, State & Zip Code Peoria, IL 61636

Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship

☒ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

_____ Limited Liability Company _____ Other, specify _____

- 7. BUILDING/SITE OWNERSHIP.** NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY

Exact Legal Name of Entity That Will Own the Site Not Applicable

Address _____

City, State & Zip Code _____

Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship

_____ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

_____ Limited Liability Company _____ Other, specify _____

**ILLINOIS HEALTH FACILITIES PLANNING BOARD
APPLICATION FOR EXEMPTION FOR THE
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Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

Limited Liability Company _____ Other, specify _____
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State Senate District Number _____ Mailing address of the State Senator _____

Illinois State Representative for the district where the facility is located: Rep. _____
State Representative District Number _____ Mailing address of the State Representative _____

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5. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Methodist Health Services Corporation
Address 221 Northeast Glen Oak Avenue
City, State & Zip Code Peoria, IL 61636
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
☒ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

Limited Liability Company _____ Other, specify _____

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Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

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Exact Legal Name of Applicant The Methodist Medical Center of Illinois
Address 221 Northeast Glen Oak Avenue
City, State & Zip Code Peoria, IL 61636
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_____ Limited Liability Company _____ Other, specify _____

8. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:

2

- ☐ Purchase resulting in the issuance of a license to an entity different from current licensee;
 - ☐ Lease resulting in the issuance of a license to an entity different from current licensee;
 - ☐ Stock transfer resulting in the issuance of a license to a different entity from current licensee;
 - ☐ Stock transfer resulting in no change from current licensee;
 - ☐ Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
 - ☐ Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
 - ☒ Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
 - ☐ Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
 - ☐ Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
 - ☐ Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
 - ☐ Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"
9. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**
10. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**
11. **ANTICIPATED ACQUISITION PRICE:** See Attachment Response 11
12. **FAIR MARKET VALUE OF THE FACILITY:** See Attachment Response 12
(to determine fair market value, refer to 77 IAC 1130.140)
13. **DATE OF PROPOSED TRANSACTION:** See Attachment Response 13
14. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3.**
15. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Partnerships must provide the name and address of each partner and specify whether each is a general or limited partner. Append this information to the application as **ATTACHMENT #4.**
16. **TRANSACTION DOCUMENTS.** Provide a copy of the document(s) which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities Planning Board. Append this document(s) to the application as **ATTACHMENT #5.**
17. **FINANCIAL INFORMATION** (co-applicants must also provide this information). Per 77 IAC 1130.520(b)(3), an applicant must demonstrate it has sufficient funds to finance the acquisition and to operate the facility for 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch, Moody or Standard and Poor's rating agencies or evidence of compliance with the financial viability review criteria (as applicable) to the type of facility being acquired (as specified at 77 IAC 1120). Append as **ATTACHMENT #6.**
18. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Kevin E. Vermeer

Address: 1200 Pleasant Street

City, State & Zip Code: Des Moines, IA 50309

Telephone (515) 241-8215

Ext. _____

19. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant. 3

Name: Denny Drake, Vice President, General Counsel and Compliance Officer

Address: 1515 Linden Street, Suite 100

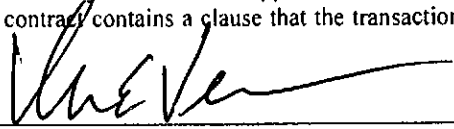
City, State & Zip Code: Des Moines, IA 50309

Telephone (515) 241-4655

Ext. _____

20. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer 

Typed or Printed Name of Authorized Officer Kevin E. Vermeer

Title of Authorized Officer: EVP/CFO

Address: 1200 Pleasant Street

City, State & Zip Code: Des Moines, IA 50309

Telephone (515) 241-8215

Date: June 9, 2011

NOTE: complete a separate signature page for each co-applicant and insert following this page.

19. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant. 3

Name: Brian S. Hucker

Address: McDermott Will & Emery LLP 227 W. Monroe Street, Suite 4700

City, State & Zip Code: Chicago, IL 60606

Telephone (312) 984-7732

Ext. _____

20. **CERTIFICATION**

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer

W. Michael Bryant

Typed or Printed Name of Authorized Officer W. Michael Bryant

Title of Authorized Officer: President and Chief Executive Officer of Methodist Health Services Corporation

Address: 221 Northeast Glen Oak Avenue

City, State & Zip Code: Peoria, IL 61636-0002

Telephone (309) 672-5599

Date: June 9, 2011

NOTE: complete a separate signature page for each co-applicant and insert following this page.

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Signature of Authorized Officer

W. Michael Bryant

Typed or Printed Name of Authorized Officer W. Michael Bryant

Title of Authorized Officer: President and Chief Executive Officer of The Methodist Medical Center of Illinois

Address: 221 Northeast Glen Oak Avenue

City, State & Zip Code: Peoria, IL 61636-0002

Telephone (309) 672-5599

Date: June 9, 2011

APPENDIX A
FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE

4

Complete the following for the facility for which the change of ownership is requested. The facility's bed and dialysis station capacity must be consistent with the State Board's Inventory of Health Care Facilities.

FACILITY NAME Methodist Medical Center of Illinois CITY: Peoria

1. Indicate (by placing an "X") the type of facility for which the change of ownership is requested:

☒ Hospital; ☐ Long-term Care Facility; ☐ Dialysis Facility; ☐ Ambulatory Surgical Treatment Center.

2. Provide the bed capacity by category of service:

SERVICE	# of Beds	SERVICE	# of Beds
Medical/Surgical	<u>168</u>	Nursing Care	<u>0</u>
Obstetrics	<u>16</u>	Shelter Care	<u>0</u>
Pediatrics	<u>12</u>	DD Adults*	<u>0</u>
Intensive Care	<u>26</u>	DD Children**	<u>0</u>
Acute Mental Illness	<u>68</u>	Chronic Mental Illness	<u>0</u>
Rehabilitation	<u>39</u>	Children's Medical Care	<u>0</u>
Neonatal Intensive Care	<u>0</u>	Children's Respite Care	<u>0</u>

*Includes ICF/DD 16 and fewer bed facilities; **Includes skilled pediatric 22 years and under

3. Chronic Renal Dialysis: Enter the number of ESRD stations: _____

4. Indicate (by placing an "X") those categories of service for which the facility is approved.

<u> X </u> Cardiac Catheterization	<u> X </u> Open Heart Surgery
<u> </u> Subacute Care Hospital Model	<u> </u> Kidney Transplantation
<u> </u> Selected Organ Transplantation	<u> </u> Postsurgical Recovery Care Center Model

5. Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers

Indicate (by placing an "X") if the facility is a ☐ limited or ☐ multi-specialty facility and indicate the surgical specialties provided.

<u> </u> Cardiovascular	<u> </u> Ophthalmology
<u> </u> Dermatology	<u> </u> Oral/Maxillofacial
<u> </u> Gastroenterology	<u> </u> Orthopedic
<u> </u> General/Other (includes any procedure that is not included in the other specialties)	<u> </u> Otolaryngology
<u> </u> Neurological	<u> </u> Plastic Surgery
<u> </u> Obstetrics/Gynecology	<u> </u> Podiatry
	<u> </u> Thoracic
	<u> </u> Urology

9. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1**.

10. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**.

NOT APPLICABLE

There is no acquisition price for this transaction (see Attachment Response 11), therefore there are no funds involved or associated with the affiliation. Both Iowa Health System and Methodist Health Services Corporation have "A or better" bond ratings (see Attachment #6).

11. ANTICIPATED ACQUISITION PRICE.

There is no acquisition price for this transaction. However, the Agreement provides that upon the Closing, IHS shall commit without contingencies of any nature or kind to Methodist Health Services Corporation ("MHSC") strategic capital projects identified therein and agrees to provide for MHSC's use, as proposed by MHSC, a minimum of One Hundred Seventy-Five Million Dollars (\$175,000,000) (the "Capital Commitment"), allocated during the first seven fiscal years after the Closing Date as follows: (i) One Hundred Forty-Five Million Dollars (\$145,000,000), to be used by MHSC (possibly within the context of a broader project) for the replacement or renovation of Methodist's emergency department, and its surgery and imaging facilities, on Methodist's main campus and (ii) Thirty Million Dollars (\$30,000,000), to be used by MHSC for strategic capital projects that the MHSC Board selects and approves after considering the mutually agreed upon joint recommendations of the IHS CEO and the MHSC President as submitted by them to the MHSC Board at its request. The parties' expectation is that MHSC shall service any debt associated with the Capital Commitment. Further, when the funds constituting the Capital Commitment are first dispersed, MHSC shall become a member of the IHS Obligated Group, unless the parties otherwise agree to the contrary.

12. FAIR MARKET VALUE OF FACILITY

(to determine fair market value, refer to 77 IAC 1130.140)

As previously noted, there is no acquisition price for this transaction. On the transaction date, Methodist Health Services Corporation and The Methodist Medical Center of Illinois will become a part of Iowa Health System. For purposes of valuing Methodist Health Services Corporation, the Applicants engaged Kaufman Hall. A business enterprise value range was determined using three valuation methodologies. The summary of the analysis is attached. Based upon an analysis the ranges of value provided, the applicants concluded that the fair market value of the transaction is \$232,000,000.

Independent Valuation of Methodist Medical Center of Illinois



Chicago, Illinois / June 7, 2011

KaufmanHall

Financial Strategies for Healthcare
5202 Old Orchard Road
Suite N700
Skokie, IL 60077
847.441.8780 phone
847.965.3511 fax
kaufmanhall.com

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Discounted Cash Flow Projection Assumptions

- Projected cash flows were unlevered for valuation purposes; therefore, both interest income and interest expense were *excluded* when calculating the value of Methodist
- Cash flows were tax-effected for valuation purposes
- Unlevered, after-tax cash flows were discounted to the present using a range of discount rates based upon the Hospital's estimated weighted average cost of capital. A range of discount rates of 10.0% to 14.0% was deemed appropriate.
- The value of Methodist beyond the projection period ("terminal value") was determined by applying an exit multiple to projected EBITDA at fiscal year end 2015. A range of exit multiples between 6.0x and 7.0x was selected. The terminal value was then discounted to the present and added to the present value of projected cash flows from fiscal 2011 to 2015.

Discounted Cash Flow Analysis

(\$ in 000's)

Projected Fiscal Year Ending December 31,

	2011	2012	2013	2014	2015
EBIT	\$16,955	\$18,200	\$19,408	\$16,325	\$17,269
Less: Taxes	6,782	7,280	7,763	6,530	6,908
Debt-Free Earnings	10,173	10,920	11,645	9,795	10,362
Less: Capital Expenditures	(23,379)	(23,500)	(23,500)	(23,500)	(23,500)
Less: Working Capital Requirements	7,525	1,321	501	868	275
Add: Depreciation and Amortization	24,364	24,183	24,371	24,413	24,331
Total Net Investment	8,511	2,004	1,372	1,781	1,105
Net Debt-Free Cash Flows:	\$18,683	\$12,924	\$13,016	\$11,577	\$11,467
Discount Period	0.50	1.50	2.50	3.50	4.50
Discount Factor @ 12.0%	0.94	0.84	0.75	0.67	0.60
Present Value of Net Debt-Free Cash Flows:	\$17,654	\$10,904	\$9,805	\$7,786	\$6,886

DCF Assumptions	
Discount Rate	12.0%
Tax Rate	40.0%

Terminal Value Assumptions	
Terminal EBITDA (2015)	\$41,600
Terminal Multiple	6.5x

Terminal Value	\$270,400
Discount Period	5.00
Discount Factor @ 12.0%	0.57
PV of Terminal Value	\$153,432

Discounted Cash Flow Valuation:

Sum of Net Debt-Free Cash Flow	\$53,035
Terminal Value	\$153,432
Enterprise Value (Rounded)	\$206,467

Distribution of Value	
Period Cash Flow	25.7%
Terminal Cash Flow	74.3%
Total	100.0%

Discounted Cash Flow Analysis

- The following tables summarize Enterprise Value conclusions derived using the discounted cash flow methodology:

Sensitivity Analysis: Enterprise Value

Discount Rate	Terminal Multiple			
	65X	60X	65X	75X
10.0%	\$197,101	\$210,016	\$222,931	\$248,761
11.0%	\$189,798	\$202,142	\$214,486	\$239,173
12.0%	\$182,862	\$194,665	\$206,467	\$230,072
13.0%	\$176,272	\$187,561	\$198,851	\$221,430
14.0%	\$170,006	\$180,809	\$191,612	\$213,218
<u>Selected Enterprise Value Range</u>		<u>\$188,000</u>	=	<u>\$227,000</u>

- Based on the discounted cash flow analysis, the concluded Enterprise Value range of Methodist is: **\$ 188 million - \$ 227 million**

Valuation – Public Market Comparables Analysis

Public Market Comparables Analysis

- Market capitalization and market value multiples were analyzed for publicly-traded acute care hospital management companies
- The following six publicly-traded companies were deemed sufficiently comparable to Methodist:

1. Community Health Systems, Inc. provides healthcare services through the operation of hospitals in the United States. The company offers a range of general and specialized hospital healthcare services, including general acute care services, emergency room services, general and specialty surgery, critical care, internal medicine, obstetrics, and diagnostic services. It also owns or partners with physicians, physician practices, imaging centers, and ambulatory surgery centers. In addition, the company provides management and consulting services to non-affiliated general acute care hospitals. As of December 31, 2009, it owned or leased 122 hospitals with an aggregate of 18,140 licensed beds in non-urban and selected urban markets in 29 states. The company also owned and operated four home care agencies. Community Health Systems, Inc. was founded in 1985 and is headquartered in Franklin, Tennessee.

Public Market Comparables Analysis (continued)

- Publicly traded companies (continued)

2. Health Management Associates, Inc., through its subsidiaries, engages in the operation of general acute care hospitals and other health care facilities in non-urban communities in the United States. Its hospitals provide services, including general surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, and pediatric services. The company also offers outpatient services, such as one-day surgery, laboratory, x-ray, respiratory therapy, cardiology, and physical therapy. In addition, its hospitals provide specialty services in cardiology, neuro-surgery, oncology, radiation therapy, computer-assisted tomography scanning, magnetic resonance imaging, lithotripsy, and full-service obstetrics. As of March 31, 2011, the company operated 59 hospitals with approximately 8,862 licensed beds in non-urban communities in Alabama, Arkansas, Florida, Georgia, Kentucky, Mississippi, Missouri, North Carolina, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Washington, and West Virginia. Health Management Associates was founded in 1977 and is based in Naples, Florida.

Public Market Comparables Analysis (continued)

- Publicly traded companies (continued)

3. LifePoint Hospitals Inc., through its subsidiaries, operates general acute care hospitals in non-urban communities in the United States. The company's hospitals provide a range of medical and surgical services comprising general surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, rehabilitation services, and pediatric services, as well as specialized services, such as open-heart surgery, skilled nursing, psychiatric care, and neuro-surgery. Its hospitals also offer outpatient services, including one-day surgery, laboratory, x-ray, respiratory therapy, imaging, sports medicine, and lithotripsy. As of December 31, 2009, LifePoint Hospitals owned or leased 47 hospitals with a total of 5,552 licensed beds in 17 states. The company was founded in 1997 and is headquartered in Brentwood, Tennessee. LifePoint Hospitals Inc. (NasdaqNM:LPNT) operates independently of HCA Inc. as of May 11, 1999.

Public Market Comparables Analysis (continued)

- Publicly traded companies continued

4. Tenet Healthcare Corporation, an investor-owned health care services company, operates general hospitals and related health care facilities. The company's general hospitals offer acute care services, radiology services, and respiratory therapy services, as well as operate operating and recovery rooms, and clinical laboratories and pharmacies. It also provides intensive care, critical care and/or coronary care units, and physical therapy; orthopedic, oncology, and outpatient services; tertiary care services, such as open-heart surgery, neonatal intensive care, and neurosciences; quaternary care in areas, including heart, lung, liver, and kidney transplants; gamma-knife brain surgery; cyberknife surgery for tumors and lesions in the brain, lung, neck, and spine; and bone marrow transplants. As of December 31, 2008, Tenet Healthcare Corporation operated 53 general hospitals; and a critical access hospital with a combined total of 14,352 licensed beds serving urban and rural communities. The company also operated various related health care facilities, including a rehabilitation hospital; a long-term acute care hospital; a skilled nursing facility; various medical office buildings; and physician practices, captive insurance companies, and other ancillary health care businesses, such as outpatient surgery centers, diagnostic imaging centers, and occupational and rural health care clinics, as well as owned interests in two health maintenance organizations. It has a joint venture agreement with MED3000 Inc. to provide services to physician practices. The company was founded in 1967 and is headquartered in Dallas, Texas with additional offices in Santa Ana, California; Coral Springs, Florida; and Philadelphia, Pennsylvania

Public Market Comparables Analysis (continued)

- Publicly traded companies continued
 5. Universal Health Services, Inc., through its subsidiaries, owns and operates acute care hospitals, behavioral health centers, surgical hospitals, ambulatory surgery centers, and radiation oncology centers. Its hospitals provide general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services, and behavioral health services. As of February 25, 2010, the company owned and/or operated 25 acute care hospitals and 102 behavioral health centers located in 32 states, as well as in Washington, D.C. and Puerto Rico; and manages and/or owned 7 surgical hospitals, and surgery and radiation oncology centers located in 5 states and Puerto Rico. Universal Health Services, Inc. was founded in 1978 and is headquartered in King of Prussia, Pennsylvania.

Public Market Comparables Analysis (continued)

- Publicly traded companies continued
- 6. HCA Holdings, Inc. offers health care services in the United States. It owns, manages, or operates hospitals, freestanding surgery centers, diagnostic and imaging centers, radiation and oncology therapy centers, rehabilitation and physical therapy centers, and various other facilities. The company's general acute care hospitals provide medical and surgical services, including inpatient care, intensive care, cardiac care, diagnostic services, and emergency services, as well as outpatient services, which include outpatient surgery, laboratory, radiology, respiratory therapy, cardiology, and physical therapy. Its psychiatric hospitals offer therapeutic programs, such as child, adolescent, and adult psychiatric care; and adult and adolescent alcohol, and drug abuse treatment and counseling. As of December 31, 2010, the company owned and operated 151 general, acute care hospitals with 38,321 licensed beds, and 7 general, acute care hospitals with 2,269 licensed beds through joint ventures, as well as 5 psychiatric hospitals with 506 licensed beds and 106 freestanding surgery centers in eastern, central, and western United States. It also operates six consolidating hospitals in England. HCA Holdings, Inc. is headquartered in Nashville, Tennessee.

Public Market Comparables Analysis (continued)

- Market capitalization and market value multiples were analyzed for publicly traded hospital management companies and mean and median multiples were developed

Numbers in millions except per share data

Company	Ticker	Current Price (5/20/11)	52 Week		52 Week		Market Value of Equity	Enterprise Value (1)	EV as a multiple of LTM:	
			High Price	Low Price	High Price	Low Price			Revenues	EBITDA
Community Health Systems, Inc.	CYH	\$28.23	\$42.50	\$22.33	\$2,618.4	\$11,937.7	0.9 x	7.1 x		
Health Management Associates Inc.	HMA	11.30	11.74	6.13	2,845.0	5,594.5	1.1 x	7.4 x		
Lifepoint Hospitals Inc.	LPNT	41.23	43.45	29.33	2,122.9	3,446.9	1.0 x	6.5 x		
Tenet Healthcare Corp.	THC	6.28	7.70	3.92	3,051.7	7,261.7	0.8 x	6.4 x		
Universal Health Services Inc.	UHS	53.50	56.46	30.51	5,214.9	9,285.2	1.5 x	10.1 x		
HCA, Inc.	HCA	34.63	35.24	30.36	17,841.6	47,113.6	1.5 x	7.8 x		

Median	1.0 x	7.2 x
Mean	1.1 x	7.5 x
High	1.5 x	10.1 x
Low	0.8 x	6.4 x

(1) EV - Enterprise Value is less cash & s.t. invest.

- The public market companies are trading at approximately 1.0x revenue and between 7.2x and 7.5x EBITDA based on current stock prices and latest 12 months performance as of May 20, 2011

Public Market Comparables Analysis (continued)

- Multiples of 2010 net patient revenue and EBITDA were developed for Methodist
- Adjustments to the publicly-traded multiples are made to account for differences in the size, risk, growth and control of Methodist, a single community hospital, and the public companies, which are multi-billion dollar corporations. The following additional factors are also considered:

Negative		Neutral		Positive	
Geographical Concentration		Service Area		Profitability	

Depth of Management

- Based on these factors, the median multiples are discounted by 10% - 20% to determine a value indication for Methodist:

(\$ in 000s)

	Rep. Level	Public Company Multiples		Selected Multiple Range		Enterprise Value Range	
		Mean	Median	Low	High		
2010 Revenue	\$347,598	1.1x	1.0x	0.8x	0.9x	\$290,212	\$326,489
2010 EBITDA	\$34,024	7.5x	7.2x	5.8x	6.5x	\$196,525	\$221,091
Selected Enterprise Value Range (rounded)							\$243,000 - \$274,000

- Based on the above, the Public Market Comparables Analysis results in an Enterprise Value range of: **\$ 243 million - \$ 274 million**

Valuation – Comparable Transactions

M&A Transactions Analysis

- Recent acquisitions of hospitals were analyzed for comparability and available financial information; Kaufman Hall reviewed over 300 acute care hospital transactions completed since January 1, 2000
- Data on purchase prices and financial information were obtained from the following sources:
 - *The Health Care M&A Report* published by Irving Levin Associates Inc.
 - Other publicly available information
- The tables on the following pages display recent transactions of stand-alone hospitals for which sufficient financial information was available to develop multiples of revenue

M&A Transactions Analysis – Comparable Revenues (continued)

Transaction Date	Target	Acquirer	Target State(s)	Reck	Enterprise Value (\$ millions)	Revenue (\$ millions)	EBITDA (\$ millions)	EV/Revenue	EV/EBITDA
March 2011	St. Joseph Medical Center (TX)	Icahn Healthcare	TX	792	165.0	245.0	NA	0.67x	NA
January 2011	Valley Medical Center (WA)	QW Medicine	WA	303	NA	372.7	NA	0.38x	NMF
October 2010	Long Island College Hospital (NY)	SUNY Downstate Medical Center	NY	506	110.0	288.7	(14.0)	0.38x	NMF
August 2010	Hennepin County Hospital (PA)	University of Pittsburgh Medical Center	PA	351	NA	315.2	NA	0.32x	6.50x
August 2010	Forum Health (OH)	Community Health Systems, Inc.	OH	712	123.7	384.5	19.0	0.32x	6.50x
July 2010	RMI Healthcare (VA)	Sentara Healthcare	VA	238	NA	264.8	26.8	NA	NA
July 2010	All Children's Hospital and Health System (FL)	Johns Hopkins Medicine	FL	259	NA	292.8	NA	0.56x	7.58x
June 2010	Regency Hospital Co. (CA)	Select Medical Holdings Corporation	Multiple	NA	210.0	374.9	27.7	0.56x	7.58x
June 2010	Mercy Hospital - Catholic Health East (FL)	HCA, Inc.	FL	473	NA	205.0	12.7	0.16x	1.37x
June 2010	Sibley Memorial Hospital (DC)	Johns Hopkins Medicine	DC	225	36.2	222.1	26.5	0.16x	1.37x
May 2010	Rockford Memorial Hospital (IL)	OSF Saint Anthony Medical Center	IL	400	NA	367.1	41.8	0.60x	11.72x
May 2010	Wuesthoff Memorial Health System (FL)	Health Management Associates	FL	406	170.0	284.0	44.5	0.60x	11.72x
April 2010	St. Joseph's Hospital (CA)	Piedmont Healthcare	CA	410	NA	345.9	NA	0.16x	NA
November 2009	Restoration/West Suburban Medical Center (IL)	Vanguard Health System	IL	333	45.4	279.4	NMF	0.16x	NA
August 2009	Sparks Health System (AR)	Health Management Associates	AR	303	136.2	232.0	(17.2)	0.66x	NMF
August 2009	Central Connecticut Health Alliance (CT)	Hartford Healthcare Corp.	CT	414	NA	341.2	18.3	NA	NA
July 2009	Catholic Medical Center (NH)	Dartmouth - Hitchcock	NH	222	NA	201.1	20.2	NA	NA
July 2009	Jewish Hospital (OH)	Catholic Healthcare Partners	OH	209	180.0	204.8	35.0	0.88x	5.14x
July 2009	Upper Chesapeake Health System (MD)	University of Maryland Medical System	MD	286	NA	273.9	27.4	NA	NA
May 2009	St. John's Regional Medical Center (MO)	Sisters of Mercy Health System	MO	NA	NA	260.7	NA	NA	NA
March 2009	University Hospitals - 50% interest in 2 Ohio Hospitals (OH)	Sisters of Charity Health System	OH	527	NA	344.4	27.6	NA	NA
December 2008	Rockford Health (IL)	Advocate Health Care, Inc.	IL	299	NA	290.5	47.8	NA	NA
November 2008	Lake Forest Hospital (IL)	Northwestern Memorial Healthcare	IL	137	400.0	222.0	1.80x	17.39x	NA
August 2008	Wyoming Valley Health Care System (PA)	Community Health Systems, Inc.	PA	429	179.1	227.7	22.6	0.79x	7.92x
July 2008	Our Lady of Mercy Medical Center (NY)	Montefiore Medical Center	NY	345	38.0	200.2	8.9	0.19x	4.26x
June 2008	St. Luke Hospital West and St. Luke Hospital East (KY)	St. Elizabeth Medical Center	KY	384	23.6	209.2	6.7	0.11x	3.52x
June 2008	Bloomington Hospital & Healthcare System (IN)	Clarian Health	IN	355	NA	253.5	23.8	NA	NA
May 2008	Condell Medical Center (IL)	Advocate Health Care, Inc.	IL	278	180.0	310.0	7.4	0.58x	24.32x
April 2008	7 hospitals in the Carolinas (Health Management Associates)	Novant Health	NC	802	1,111.1	387.8	104.1	2.87x	10.67x
April 2008	USC University Hospital (CA)	University of Southern California	CA	471	275.5	370.4	33.6	0.74x	8.20x
April 2008	Saint Clare's Health System (NJ)	Catholic Health Initiatives	NJ	655	145.8	334.0	(20.0)	0.44x	NMF
November 2007	St. Vincent Regional Medical Center (NM)	Christus Health	NM	180	NA	235.0	NA	NA	NA
July 2007	Eastern Health System (AL)	Ascension Health	AL	362	NA	224.0	8.3	NA	NA
June 2007	Two Carle Health Systems (NY)	Catholic Health East	NY	326	NA	214.3	6.3	NA	NA
June 2007	Empire Health Services (W.A.)	Community Health Systems, Inc.	W.A.	358	185.2	225.0	21.8	0.82x	8.50x
April 2007	St. Clare's Hospital (NY)	Ellis Hospital	NY	655	145.8	334.4	NA	0.44x	NA
February 2007	Northwest Memorial Hospital (NC)	Carrollus Healthcare System	NC	NA	NA	376.1	46.8	NA	NA
September 2006	Mercy Hospital (PA)	UPMC Health System	PA	350	120.0	262.1	20.0	0.46x	6.00x
September 2006	Southwest FL RMC and Gulf Coast Hospital (FL)	Lee Memorial Health System	FL	386	250.0	241.1	NA	1.04x	NA
June 2006	Four Rural Hospitals (VA and WV)	LifePoint Hospitals, Inc.	VA, WV	1,069	239.0	320.0	NA	0.75x	NA
October 2005	Monclair Baptist Medical Center	Triad Hospitals	VA, WV	560	178.5	205.9	NA	0.87x	NA
July 2005	Five HCA Hospitals (TN, OK, W.A., LA)	Capella Healthcare	TN, OK, W.A., LA	NA	260.0	262.6	38.6	0.99x	6.74x
July 2005	Danville Regional Medical Center (VA)	LifePoint Hospitals	VA	350	229.3	208.5	NA	1.10x	NA
February 2005	Three Bon Secours Hospitals (FL, VA)	Health Management Associates	FL, VA	NA	283.3	251.3	NA	1.13x	NA

Median	263.7	22.8	0.64x	7.58x
Mean	278.8	23.5	0.75x	8.66x
High	387.8	104.1	2.87x	24.32x
Low	200.2	(20.0)	0.11x	1.37x

The multiples displayed above represent hospital transactions that have occurred since 2005 with net revenues between \$200 and \$400 million

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M&A Transactions Analysis – Geographic Comparables (continued)

Transaction Date	Target	Acquiree	Target State(s)	Debt (\$Millions)	Enterprise Value (\$Millions)	Revenue (\$Millions)	EBITDA (\$Millions)	EV/Revenue	EV/EBITDA
April 2011	Alexian Brothers Health System (IL)	Ascension Health	IL	761	NA	930.3	NA	NA	NA
March 2011	Hoopston Regional Health Care (IL)	Cardle Foundation Hospital	IL	25	NA	NA	NA	NA	NA
March 2011	Loyola University Health System (IL)	Trinity Health	IL	820	NA	NA	NA	NA	NA
February 2011	Provena Health (IL)	Resurrection Health Care	IL	NA	NA	1,292.6	96.0	NA	NA
December 2010	Holy Cross Hospital (IL)	Vanguard Health System	IL	160	NA	100.8	19.5	NA	NA
October 2010	Deborah Hospital (IL)	Central DuPage Hospital	IL	159	NA	NA	NA	NA	NA
May 2010	Rockford Memorial Hospital (IL)	OSF Saint Anthony Medical Center	IL	400	NA	367.1	41.8	NA	NA
November 2009	Resurrection/West Suburban Medical Center (IL)	Vanguard Health System	IL	333	45.4	279.4	NMIF	0.16x	NA
June 2009	Midwest Medical Center (IL)	Regent Surgical Health	IL	25	NA	13.0	NA	NA	NA
January 2009	BroMenn Health Care (IL)	Advocate Health Care, Inc. (IL)	IL	213	NA	174.5	31.8	NA	NA
December 2008	Rockford Health (IL)	Advocate Health Care, Inc.	IL	299	NA	290.5	47.8	NA	NA
November 2008	Lake Forest Hospital (IL)	Northwestern Memorial Healthcare	IL	137	400.0	222.0	23.0	1.80x	17.39x
June 2008	Saint Anthony's Health System (IL)	Sisters of St. Francis Health Services	IL	191	NA	95.3	NA	NA	NA
May 2008	Condell Medical Center (IL)	Advocate Health Care, Inc.	IL	278	180.0	310.0	7.4	0.58x	24.32x
May 2008	Rush North Shore Medical Center (IL)	Evansston Northwestern Healthcare	IL	229	164.0	173.2	8.8	0.95x	18.64x
May 2008	St. Francis Hospital and Health Center (IL)	MSMC Investors	IL	410	NA	173.6	NA	NA	NA
January 2008	Gottlieb Memorial Hospital (IL)	Loyola University Health System	IL	250	90.0	143.3	NA	0.63x	NA
December 2006	Community Medical Center of Western Illinois (IL)	OSF Healthcare System	IL	68	10.0	21.9	2.2	0.46x	4.55x
October 2006	Vista Health (IL)	Community Health Systems	IL	237	131.6	141.7	NA	0.93x	NA
July 2006	Union County Hospital (IL)	Community Health Systems	IL	NA	9.0	11.4	NA	0.79x	NA

Median	173.6	23.0	0.71x	18.01x
Mean	278.9	30.9	0.79x	16.22x
High	1,292.6	96.0	1.80x	24.32x
Low	11.4	2.2	0.16x	4.55x

The multiples displayed above represent Illinois hospital transactions that have occurred since 2006

M&A Transactions Analysis – Capital Commitment (continued)

Transaction Date	Target	Acquirer	Discount Rate	Years	Target's Net Revenue	Assumed "Net Debt"	Capital Commitment	Present Value of Capital Commitment	Economic Value of Consideration	Capital Commitment As a % of Target Revenue	Ratio of Capital Commitment As a Multiple of Revenue
2011, Pending	Community Hospital, Eastern State ⁽¹⁾	Not for Profit Health System	12%	1	\$135.7	\$33.1	\$9.2	\$42.3	5.8%	6.8%	0.31x
2011, Pending	Community Hospital, Eastern State	Not for Profit Health System	12%	5	91.7	7.6	0.0	7.6	0.0%	0.0%	0.08x
2010	Community Hospital, Maryland ⁽²⁾	Not for Profit Health System	15%	9	110.2	(0.3)	53.0	52.7	78.3%	48.1%	0.48x
2009	Community Hospital, Louisiana	Not for Profit Hospital	12%	5	200.5	11.2	100.0	80.7	49.9%	40.2%	0.46x
2009	Potomac Hospital	Seneca Healthcare			170.7	66.0	202.0	163.1	118.3%	95.5%	1.34x
2009	Community Hospital in Virginia ⁽³⁾	Regional Health System	12%	1	199.8	18.2	240.0	173.0	120.1%	66.6%	0.96x
2009	Community Hospital in Pennsylvania	Community Hospital in Pennsylvania	12%	5	21.0	6.0	0.0	6.0	0.0%	0.0%	0.29x
2008	Community Hospital in North Carolina ⁽⁴⁾	Regional Medical Center	12%	2	53.0	8.1	26.0	24.6	49.1%	46.4%	0.62x
2008	Community Hospital in North Carolina	Regional Health System	12%	5	50.9	18.2	15.0	12.1	23.5%	23.6%	0.60x
2008	Community Hospital in Illinois	Regional Health System	12%	5	300.6	123.0	145.2	117.2	48.3%	39.0%	0.80x
2008	Griffith Memorial Hospital (IL)	Loyola University Health System	12%	5	134.3	60.0	90.0	72.7	67.0%	54.1%	0.99x
2007	Community Hospital in Georgia	Regional Health System	12%	5	95.0	23.0	75.0	60.6	78.9%	63.7%	0.88x
2007	Rowan Regional Medical Center (NC)	Novant Health	12%	5	183.2	91.7	255.0	205.9	139.2%	112.4%	1.62x
2007	Community Hospital in Nevada	National Health System	12%	5	356.7	40.1	66.0	53.3	18.5%	14.9%	0.26x
2006	Hospital in Washington	Regional Health System	12%	5	230.0	(22.0)	200.0	161.5	87.0%	70.2%	0.61x
2006	Mercy Hospital (PA)	UPMC Health System	12%	5	282.1	100.0	120.0	96.9	45.8%	37.0%	0.75x
2005	Community Hospital in Idaho ⁽⁵⁾	Regional Medical Center	12%	5	130.4	0.1	120.0	76.9	92.0%	59.0%	0.94x
2005	Community Hospital in Virginia	Regional Health System	12%	5	37.0	7.3	15.0	12.1	40.5%	32.7%	0.52x

(1) Assumed Net LT debt is debt assumed less unrestricted cash

(2) Capital commitment assumed over 5 years if not otherwise disclosed; discount rate is 12%

(3) Capital commitments for this transaction occur in years 1-2

(4) Capital commitments for this transaction occur in years 3-5; a \$45 million revisionary interest is included in the economic value of consideration

(5) Capital commitment based on achieving certain operating targets

(6) Capital commitment occurs in year 1

(7) Capital commitment occurs over 9 years

Average %	59.4%	46.1%	0.89x
Weighted Average	63.8%	49.6%	0.73x
Median	49.5%	43.4%	0.61x
High	139.2%	112.4%	1.62x
Low	0.0%	0.0%	0.08x

The multiples displayed above represent hospital transactions that have occurred since 2005 which included a capital commitment

M&A Transactions Analysis (continued)

(\$ in 000s)

Rep. Level	Precedent Transaction Multiples			Selected Multiple Range		Enterprise Value Range
	Mean	Median		Low	High	
2010 Revenue	0.7x	0.7x		0.7x	0.7x	\$252,255 - \$259,207
2010 EBITDA	N/A	N/A		N/A	N/A	N/A - N/A
Selected Enterprise Value Range (rounded) \$252,000 - \$259,000						

- From the previously discussed transactions, we determined the most appropriate multiple to be the median multiple for the transactions with a capital commitment, which yielded a weighted average Purchase Price to Revenues of 0.73x
- The resulting multiple is within the range of previously discussed transaction multiples
- Based on the above, the M&A transactions analysis results in an Enterprise Value range of:

\$ 252 million - \$ 259 million

Enterprise Value Conclusion

- The following summarizes the Enterprise Value Conclusions for Methodist:

(\$ in 000's)

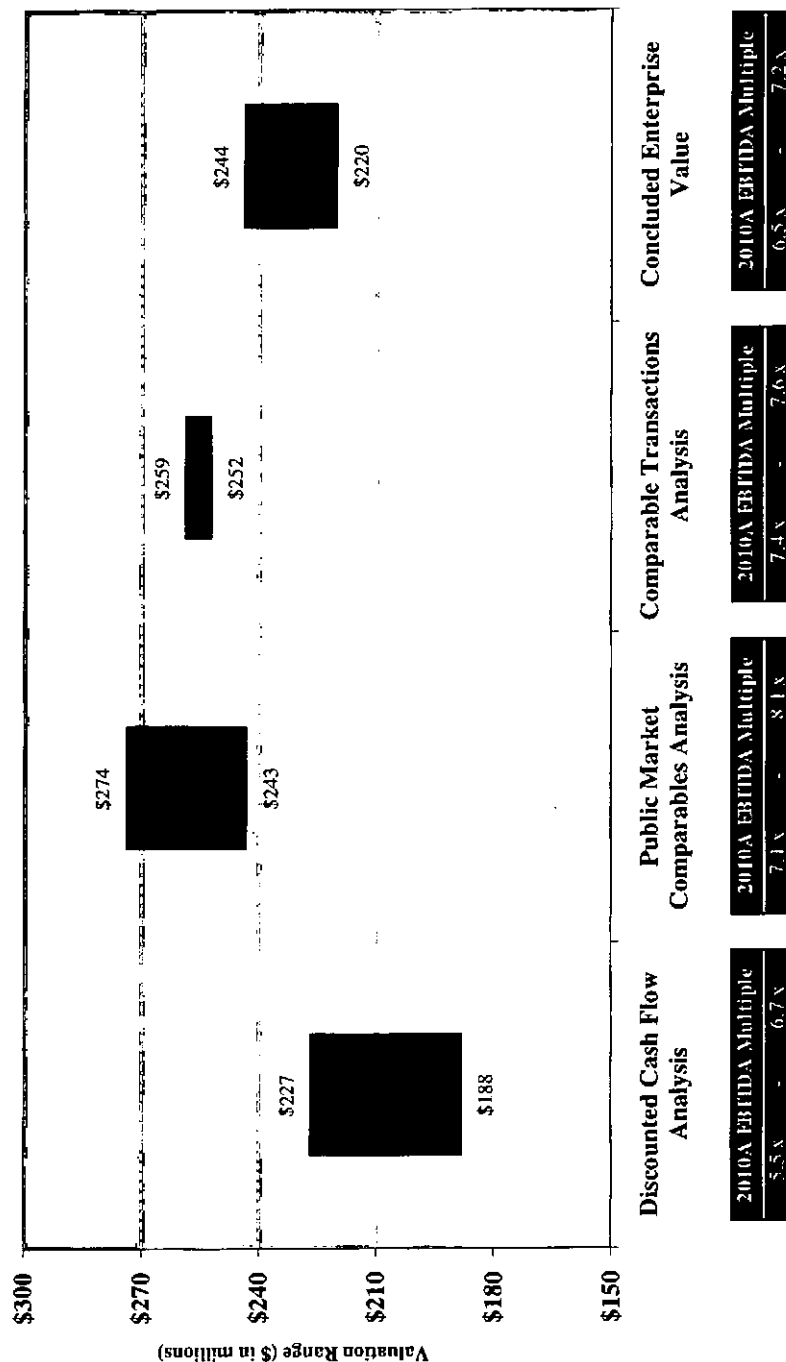
	<u>Concluded Value</u>		<u>Weighting</u>
	<u>Low</u>	<u>High</u>	
Discounted Cash Flow Analysis	\$188,000	\$227,000	50%
Public Market Comparables Analysis	\$243,000	\$274,000	5%
Comparable Transactions Analysis	\$252,000	\$259,000	45%

Concluded Enterprise Value Range	\$220,000	\$244,000
<i>Implied EV/Revenue Multiples</i>		
<i>FYE 2010A</i>	0.6x	0.7x
<i>Implied EV/EBITDA Multiples</i>		
<i>FYE 2010A</i>	6.5x	7.2x

- The M&A Transactions Approach was given a 45% weight since the transactions with capital commitments would be similar transactions to Methodist
- Based on the above, the Enterprise Value of Methodist is concluded to be in the range of:
\$ 220 million - \$ 244 million
- The Enterprise Value concluded above assumes the Hospital is delivered to the buyer with a reasonable level of working capital

Summary Valuation

- The exhibit below displays the range of implied enterprise values on the summary table in the previous slide



Statement of Limiting Conditions

Neither Kaufman Hall nor any of its employees has any present, prospective, direct or indirect interest in the property herein valued.

We have relied on the accuracy and completeness of all financial and other information (including, without limitation, projected revenues and expenses), by Methodist Medical Center of Illinois ("Methodist" or "the Hospital") and representations supplied or otherwise made available to us by Methodist or which are publicly available (all such information and representations are hereinafter referred to as "Information"), and we have not independently verified such Information. We have assumed that the Information furnished by Methodist has been reasonably prepared and reflects the best currently available estimates and judgment of Hospital management as to the historical and expected future performance of Methodist and have not undertaken any independent analysis to verify the reasonableness of such Information.

We have effected no independent review of permits, licenses, agreements, contracts or other legal documents related to Methodist operations and finances considered in conjunction with the valuation, and we have relied exclusively upon Methodist's representation either directly or through its legal counsel, that all such documents and the transactions to which they pertain are valid and enforceable under all applicable municipal, state and federal laws and regulations.

Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of Kaufman Hall and in any event only with the properly written qualification and only in its entirety.

We assume that there are no hidden or unexpected conditions affecting Methodist that would adversely impact value.

We have made no investigation of, and assume no responsibility for the titles to, or any liabilities against Methodist.

The fee for the report is not contingent upon the values reported.

The valuation contains forecasts of events to come. The forecasts are based on the Information available at the time of the valuation.

Kaufman Hall does not assume any responsibility for and makes no representation that actual conditions, performance or operating results will occur as forecasted. Changes in market conditions, management, business operations, economic environment or legal regulations may materially impact the conclusions set forth herein.

All opinions as to the market value are presented as Kaufman Hall's considered opinion based on the facts and data set forth in the report. Kaufman Hall does not make any representations concerning Methodist's ability to complete a transaction at the amounts set forth herein. Capital markets are dynamic as are Methodist earnings and any change in either may materially affect the conclusions reached.

Documentation of the premises and procedures used to prepare the valuation will be retained in Kaufman Hall's files. Any testimony or appearances in any forum is outside the initial scope of Kaufman Hall's engagement hereunder, but will be provided at Kaufman Hall's option, upon Methodist's request, for compensation at Kaufman Hall's per diem rate at the time such testimony or appearance is provided, plus any expenses (including reasonable fees and disbursements of counsel) incurred.

13. DATE OF PROPOSED TRANSACTION.

The Strategic Affiliation Agreement was executed June 9, 2011, contingent upon receipt of all necessary regulatory approvals (see Attachment 5- Affiliation Agreement, Articles 6 and 7). Closing will take place on the earlier of January 1, 2012, or a date mutually agreed upon by MHSC and IHS following receipt of necessary regulatory approvals.

14. NARRATIVE DESCRIPTION. Provide a narrative description explaining the transaction, and appended to the application as **ATTACHMENT #3.**

Iowa Health System ("IHS"), Methodist Health Services Corporation ("MHSC"), and The Methodist Medical Center of Illinois ("MMCI") seek approval of this Certificate of Exemption ("COE") to allow for an affiliation between IHS and MHSC.

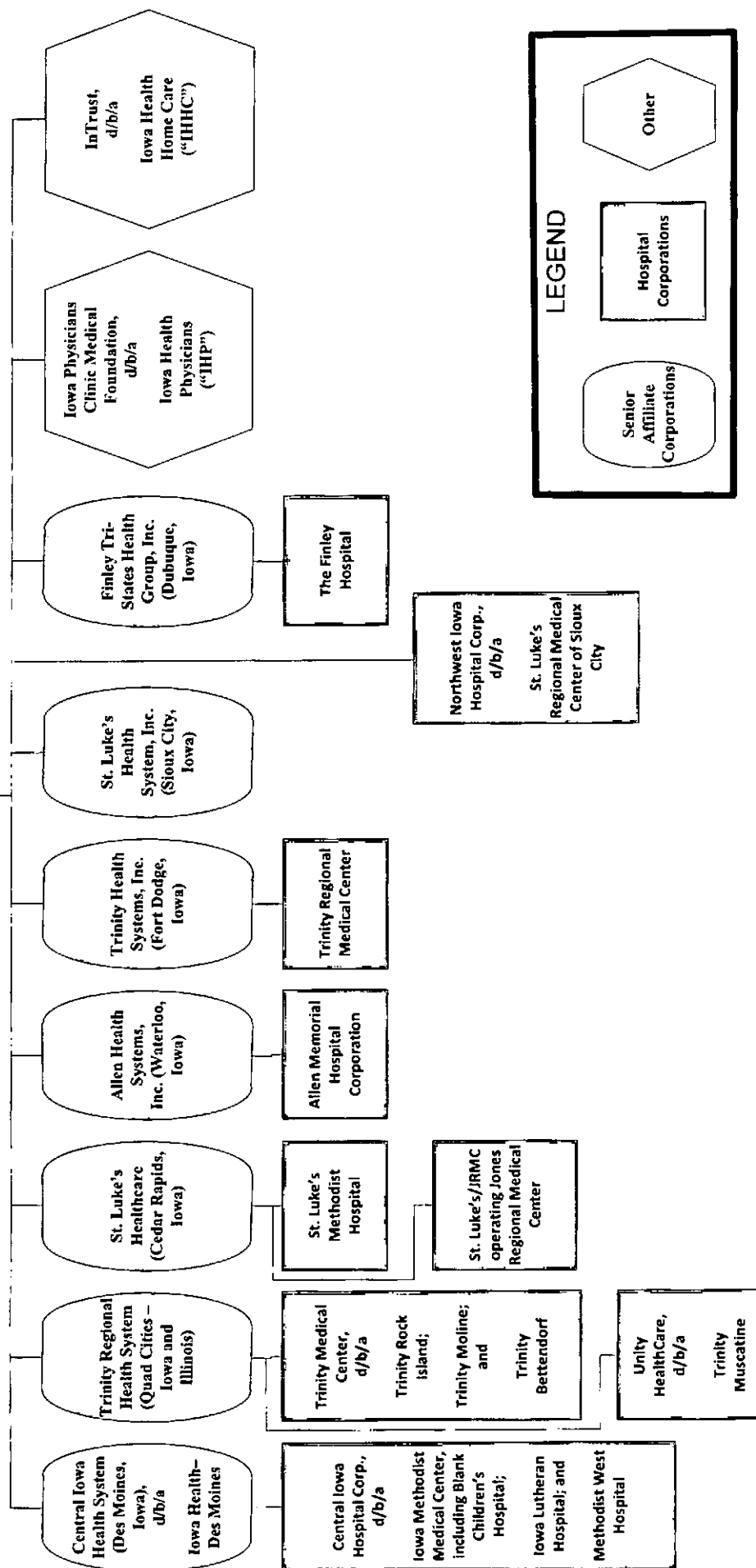
Under the terms of the Strategic Affiliation Agreement (the "Agreement") which is attached, IHS will become the sole corporate member of MHSC holding such reserved powers as are set forth in the Agreement. MHSC will continue to be the sole corporate member of MMCI. Upon closing, MMCI will remain the licensee of the hospital. Other than for IHS becoming the sole corporate member of MHSC, there will be no other change in the corporate structure of MHSC which will operate as a Senior Affiliate of IHS.

MMCI also is member in Central Illinois Endoscopy Center, LLC. which owns and operates an ambulatory surgical and treatment center and a member of Greater Peoria Specialty Hospital, LLC which owns and operates a long term acute care hospital. In each instance MMCI holds a 49% interest in the LLC. In each case the board and managers will not change as a result of the affiliation. Based upon discussions with the state board staff, no "change of control" resulting in a change of ownership will occur and no Certificate of Exemption is required either for Central Illinois Endoscopy Center, LLC. or for Greater Peoria Specialty Hospital, LLC as a result of this affiliation.

A copy of the pre and post closing organizational charts are included in this attachment along with letters of support for this affiliation.

PRE-CLOSING ORGANIZATIONAL CHARTS

IOWA HEALTH SYSTEM



LEGEND

Senior Affiliate Corporations

Hospital Corporations

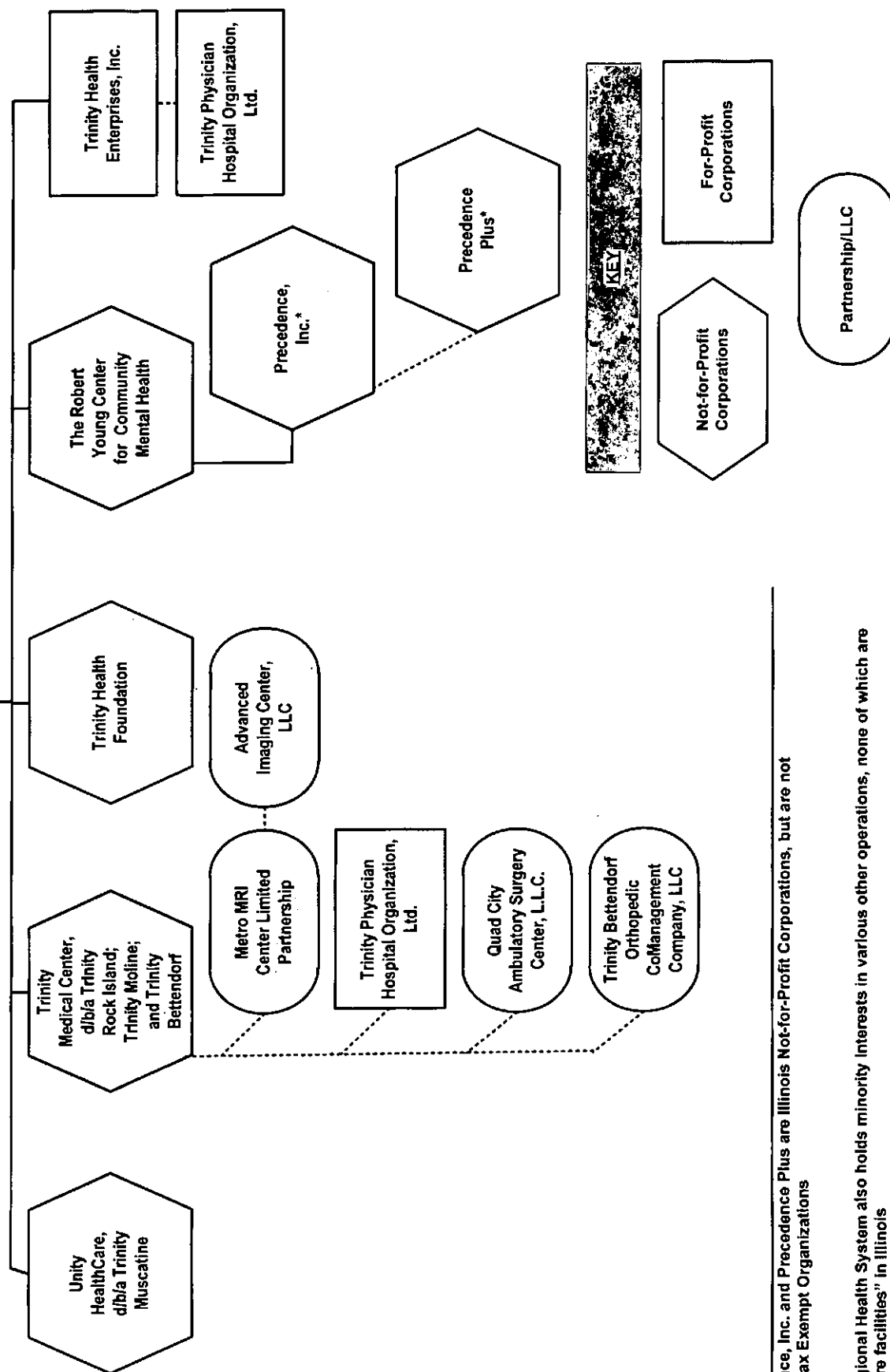
Other

Iowa Health System, each Senior Affiliate, IHP, IHHC and each Hospital, except Trinity Regional Health System and Trinity Medical Center, are Iowa nonprofit corporations exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), are organizations described in Section 501(c)(3) of the Code, and are not private foundations under Section 509(a) of the Code (a "Tax Exempt Organization"). Trinity Regional Health System and Trinity Medical Center are Illinois not-for-profit corporations and Tax Exempt Organizations.

Organizational structure reflects only the complete Trinity Regional Health System structure. The Chart does not reflect all Iowa Health System or non-Trinity Regional Health System Senior Affiliate controlled entities, including some entities that provide services in Illinois. None of the entities, that are not a part of Trinity Regional Health System, that provide services in Illinois are deemed to be "health care facilities" as that term is defined in the Planning Act.

SEE ATTACHED FOR COMPLETE
TRINITY REGIONAL HEALTH SYSTEM
CORPORATE ORGANIZATIONAL
CHART SHOWING ALL OPERATIONS

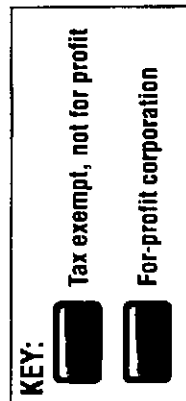
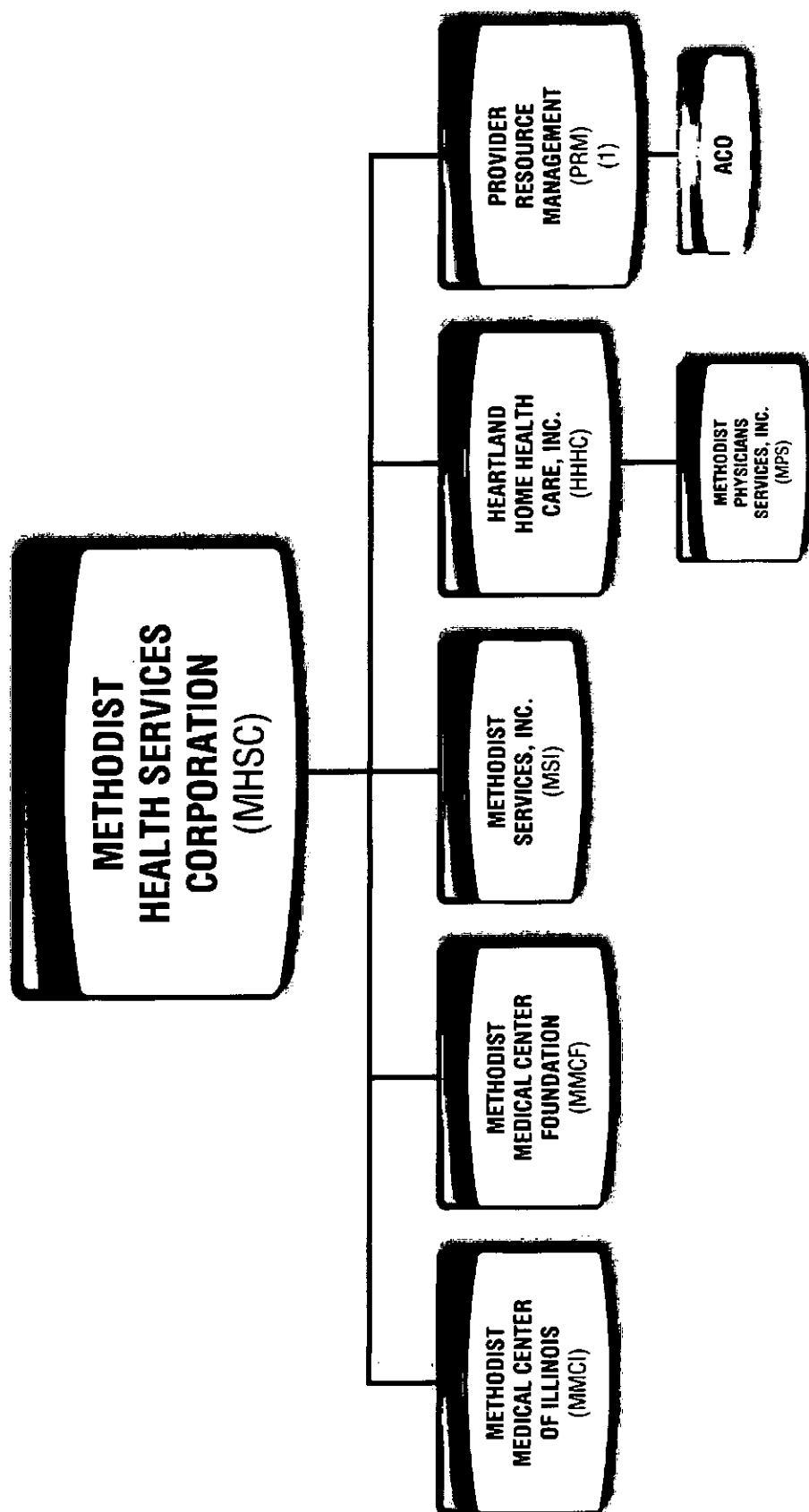
Trinity Regional Health System Corporate Organizational Chart



* Precedence, Inc. and Precedence Plus are Illinois Not-for-Profit Corporations, but are not federal Tax Exempt Organizations

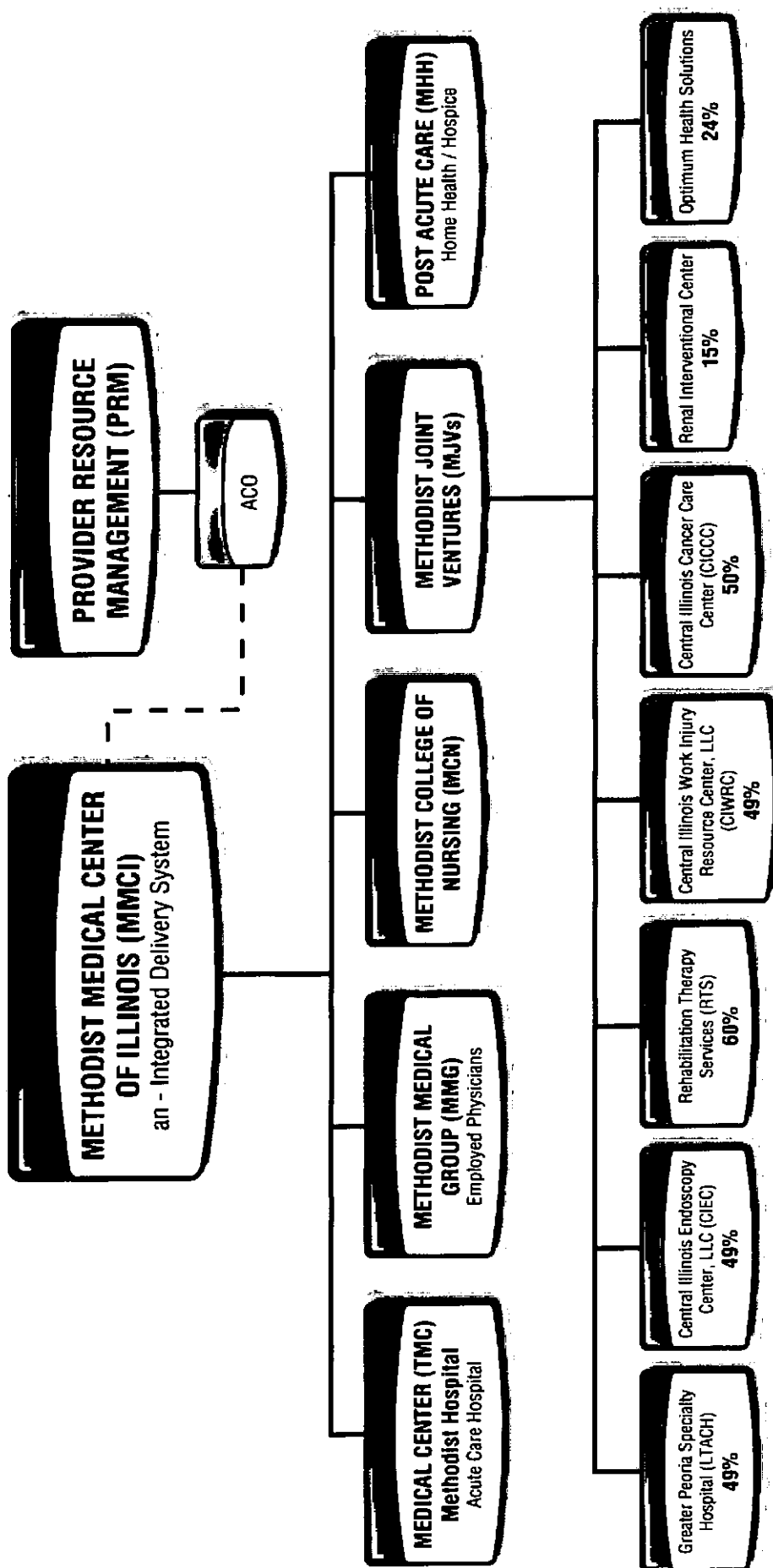
Trinity Regional Health System also holds minority interests in various other operations, none of which are "health care facilities" in Illinois

MAJOR CORPORATE ENTITIES



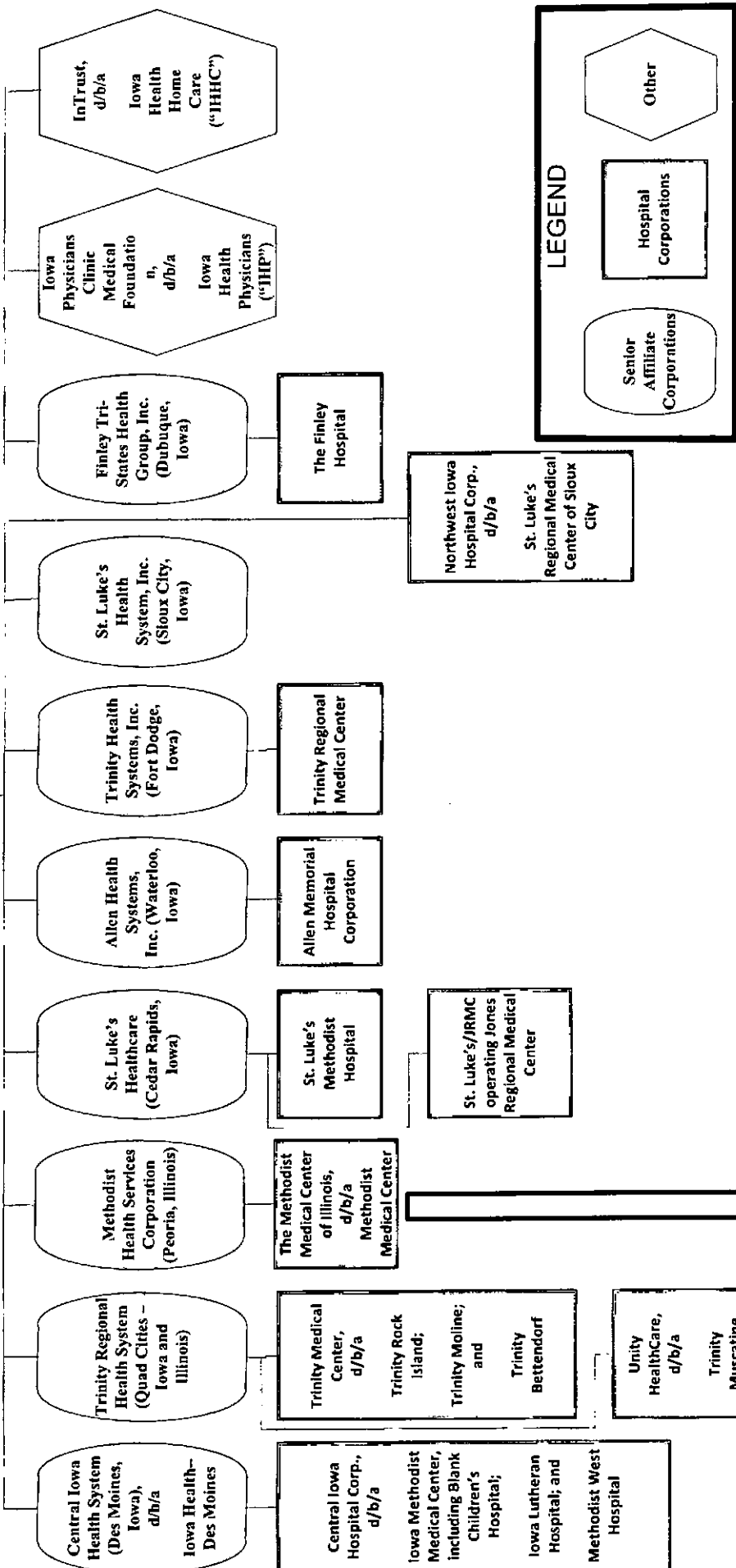
(1) Doing business as Methodist First Choice

METHODIST MEDICAL CENTER OF ILLINOIS OPERATING DIVISIONS



POST-CLOSING ORGANIZATIONAL CHARTS

IOWA HEALTH SYSTEM

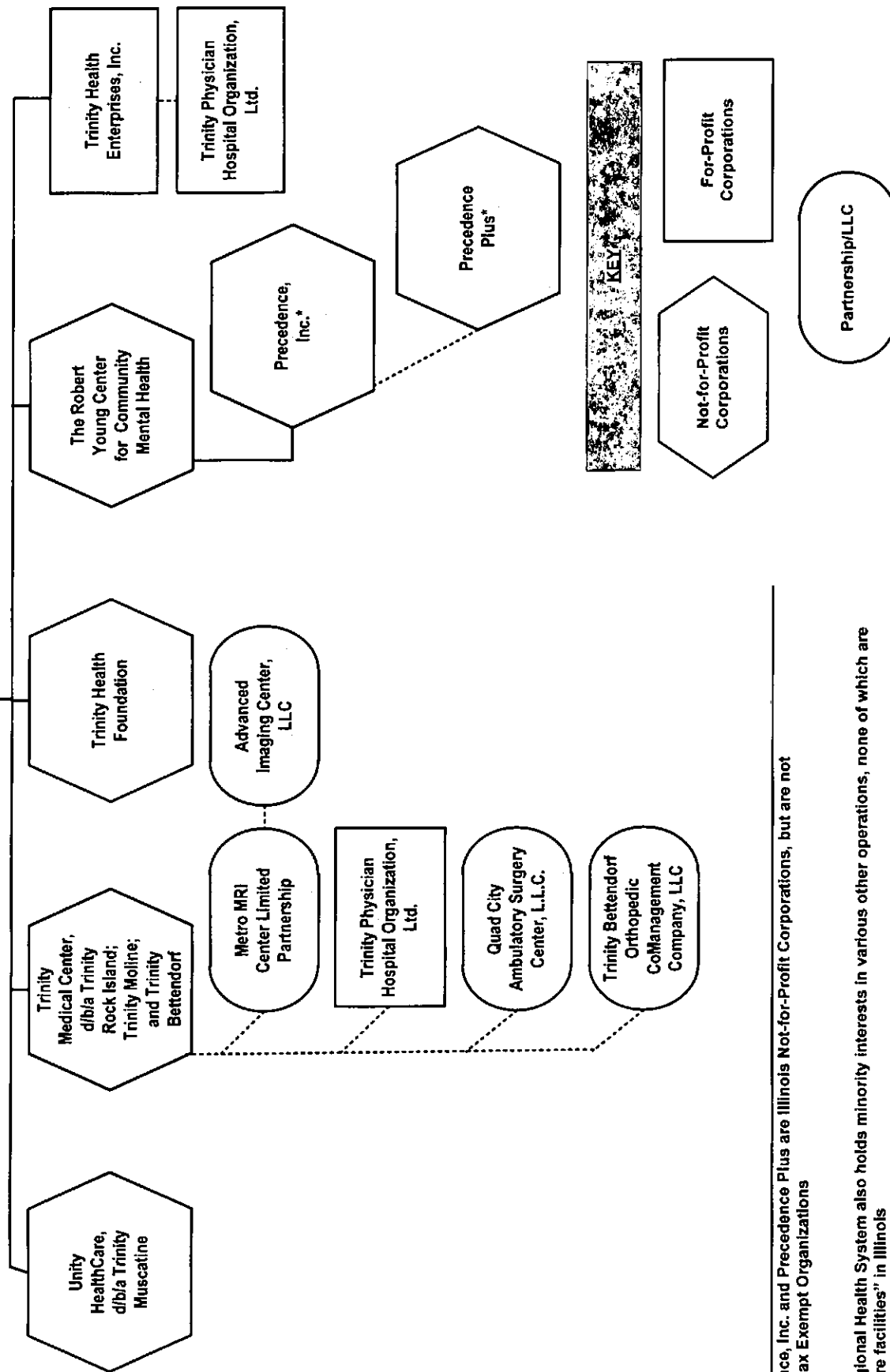


Iowa Health System, each Senior Affiliate, IHP, IHHC and each Hospital, except Trinity Regional Health System, Trinity Medical Center, Methodist Health Services Corporations, and Methodist Medical Center are Iowa nonprofit corporations exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), are organizations described in Section 501(c)(3) of the Code, and are not private foundations under Section 509(a) of the Code (a "Tax Exempt Organization"). Trinity Regional Health System, Trinity Medical Center, Methodist Health Services Corporations, and Methodist Medical Center are Illinois not-for-profit corporations and Tax Exempt Organizations.

Organizational structure reflects only the complete Trinity Regional Health System and Methodist Health Services Corporation structure. The Chart does not reflect all Iowa Health System, non-Trinity Regional Health System, or non-Methodist Health Services Corporation Senior Affiliate controlled entities, including some entities that provide services in Illinois. None of the entities, that are not a part of Trinity Regional Health System or Methodist Health Services Corporation, that provide services in Illinois are deemed to be "health care facilities" as that term is defined in the Planning Act.

SEE ATTACHED FOR COMPLETE
TRINITY REGIONAL HEALTH SYSTEM
AND METHODIST HEALTH SERVICES
CORPORATION CORPORATE
ORGANIZATIONAL CHARTS SHOWING
ALL OPERATIONS

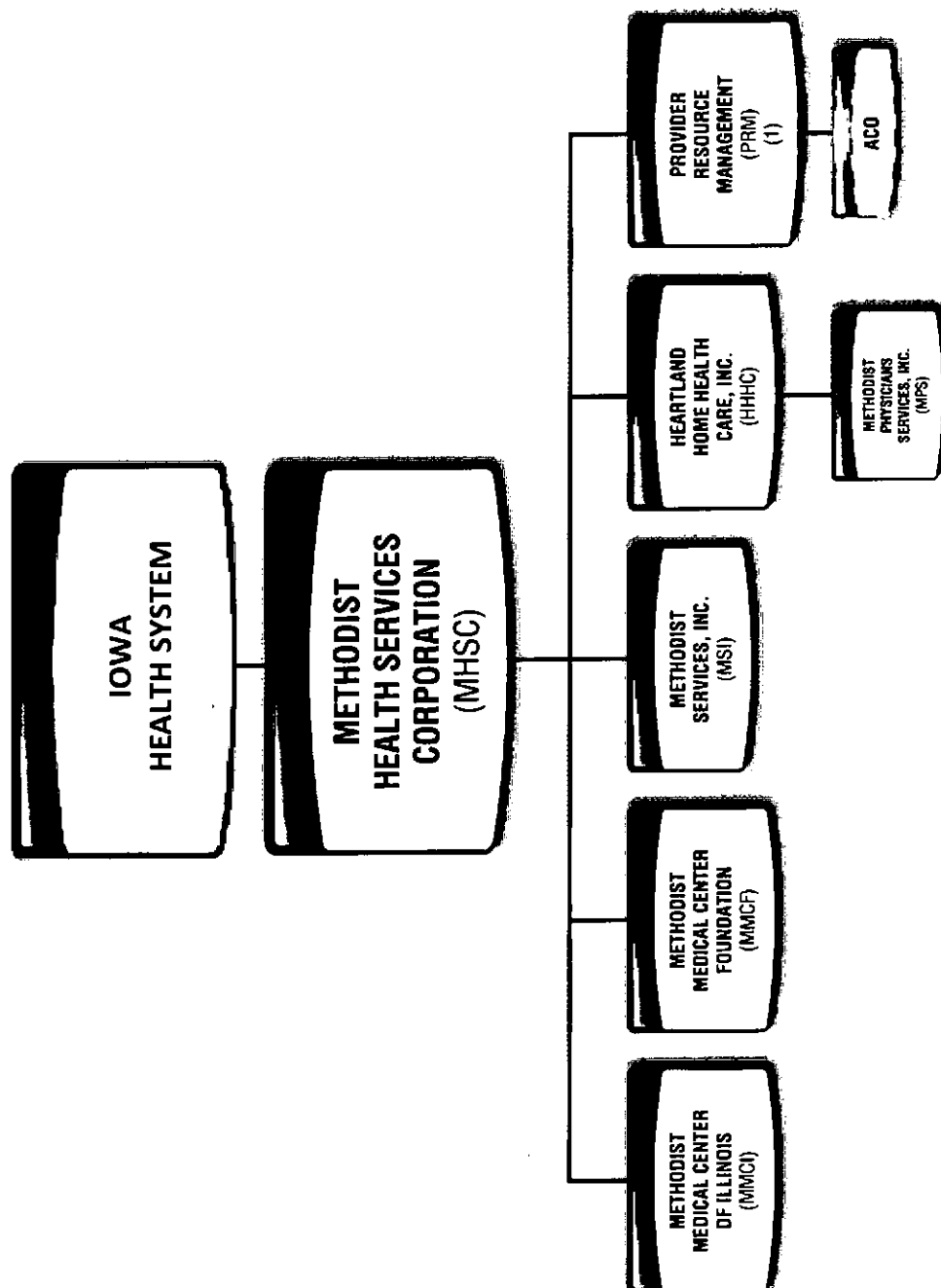
Trinity Regional Health System Corporate Organizational Chart



* Precedence, Inc. and Precedence Plus are Illinois Not-for-Profit Corporations, but are not federal Tax Exempt Organizations

Trinity Regional Health System also holds minority interests in various other operations, none of which are "health care facilities" in Illinois

MAJOR CORPORATE ENTITIES

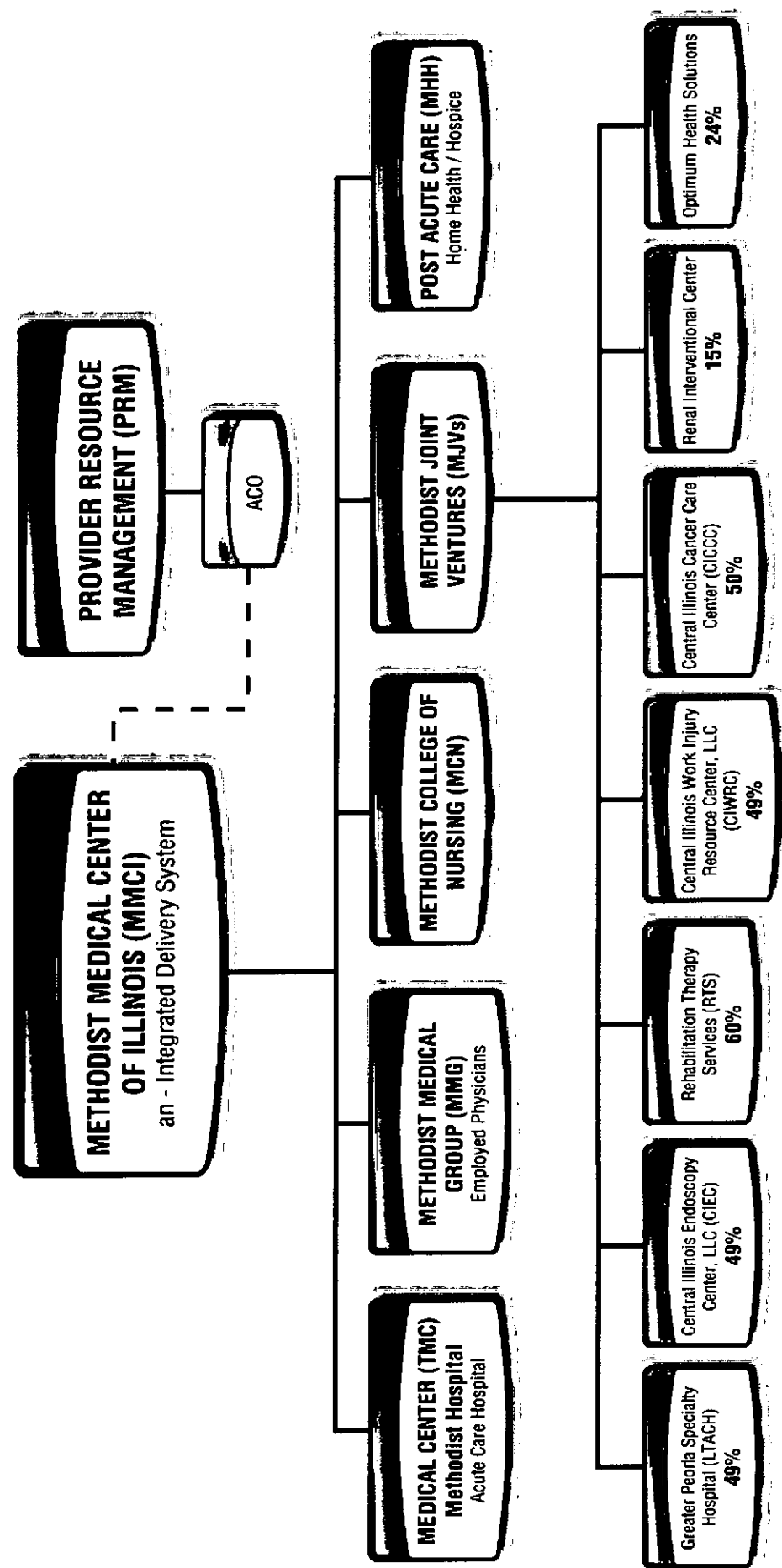


KEY:

	Tax exempt, not for profit
	For-profit corporation

(1) Doing business as Methodist First Choice

METHODIST MEDICAL CENTER OF ILLINOIS
OPERATING DIVISIONS





May 31, 2011

Ms. Courtney Avery, Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Letter of Support for Affiliation between Methodist Health Services Corporation and Iowa Health System

Dear Ms. Avery:

Please allow me to introduce myself, I am the Vice President of Human Resources of Keystone Steel & Wire Co. with offices located in Peoria County, Illinois. Keystone Steel & Wire Co. has been located in Peoria for more than 100 years and we currently have 860 employees. The purpose of my letter is to express my full support of the proposed affiliation between Methodist Health Services Corporation and Iowa Health System.

Keystone has enjoyed a positive business relationship with Methodist for a very long time. Iowa Health System enjoys a very positive reputation for the quality of care its hospitals and clinics provide. I believe an affiliation between these two entities will be good for Peoria.

More specifically, I am confident that this affiliation will directly benefit our employees and their families by positively impacting the cost-effectiveness of health care services provided throughout the area. I am also certain that an affiliation between Methodist and Iowa will result in an overall improvement in the quality and accessibility of health care throughout this geographic region.

Therefore, on behalf of Keystone Steel & Wire Co., I am offering our support and would respectfully encourage the Planning Board to approve the Certificate of Exemption for the affiliation between Methodist Health Services Corporation and Iowa Health System.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Notaro".

Ken Notaro
Vice President, Human Resources

Douglas S. Stewart

President Central Illinois

T 309-655-5387 F 309-655-5873 douglas.stewart@pnc.com



June 6, 2011

Ms. Courtney Avery, Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Dear Ms. Avery,

I am writing on behalf of PNC Bank where I serve as the Central Illinois Regional President. PNC and its predecessor banks have been located in Peoria, Illinois for over 125 years. We currently serve all of the major Central Illinois communities with over 400 employees. The purpose of my letter is to express my full support of the proposed affiliation between Methodist Health Services Corporation and Iowa Health System.

PNC has been the lead bank for Methodist for over 75 years. We have enjoyed an extraordinarily positive relationship on the business side and also have participated together in a number of community endeavors. Iowa Health System enjoys a very positive reputation for the quality of care its hospitals and clinics provide. I believe an affiliation between these two entities will be good for Peoria.

More specifically, I am confident that this affiliation will directly benefit our employees and their families by positively impacting the cost-effectiveness of health care services provided throughout the area. I am also certain that an affiliation between Methodist and Iowa will result in an overall improvement in the quality and accessibility of health care throughout this geographic region.

Therefore, on behalf of PNC Bank, I am offering our support and would respectfully encourage the Planning Board to approve the Certificate of Exemption for the affiliation between Methodist Health Services Corporation and Iowa Health System.

Sincerely,

A handwritten signature in black ink, appearing to read 'Doug Stewart', written in a cursive style.

The PNC Financial Services Group

301 SW Adams Street Peoria Illinois 61602



UNITED AUTOMOBILE • AEROSPACE • AGRICULTURAL IMPLEMENT WORKERS of AMERICA (UAW)

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President

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Bargaining Chair - Caterpillar

CURT MALOTT
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STEVE MITCHELL
Plantwide Safety Chairman

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Barry Parrott - TBU

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Melissa Bugg - Morton

Dale Riggen - Moxville BB

Loren Benson - Moxville DD

Rick Corbin - TSD

Harry Thompson - Skilled Trades

(Open Position) - SPBU

www.uawlocal974.org

AMALGAMATED LOCAL 974 • 3025 Springfield Road • East Peoria, Illinois 61611 • (309) 694-3151 • Fax (309) 694-3199

June 3, 2011

Ms. Courtney Avery, Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

Re: Letter of Support for Affiliation between Methodist Health Services Corporation and Iowa Health System

Dear Ms. Avery,

Please allow me to introduce myself, I am the Chairman of Insurance and Benefits of UAW Local 974 with offices located in Tazewell County, Illinois. UAW Local 974 has been located in East Peoria for more than 60 years and we currently have thousands of members, retired and active. The purpose of my letter is to express my full support of the proposed affiliation between Methodist Health Services Corporation and Iowa Health System.

Our Union has enjoyed a positive business relationship with Methodist for a very long time. Iowa Health System enjoys a very positive reputation for the quality of care its hospitals and clinics provide. I believe an affiliation between these two entities will be good for Peoria.

More specifically, I am confident that this affiliation will directly benefit our members and their families by positively impacting the cost-effectiveness of health care services provided throughout the area. I am also certain that an affiliation between Methodist and Iowa will result in an overall improvement in the quality and accessibility of health care throughout this geographic region.

Therefore, on behalf of, UAW Local 974 I am offering our support and would respectfully encourage the Planning Board to approve the Certificate of Exemption for the affiliation between Methodist Health Services Corporation and Iowa Health System.

Sincerely,

Jim Arrowood
Chairman of Insurance and Benefits
Email: benefits@uawlocal974.org

JAsdl/opeiu#9/aff-cio-dlc

15. **BACKGROUND OF APPLICANT.** Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Partnerships must provide the name and address of each partner and specify whether each is a general or limited partner. Append this information to the application as **ATTACHMENT #4**.

The parties have attached the following documents:

1. Iowa Secretary of State Certificate of Existence of Iowa Health System, dated May 25, 2011.
2. Illinois Secretary of State Certificate of Good Standing of Iowa Health System, dated May 25, 2011.
3. Illinois Secretary of State Certificate of Good Standing of Methodist Health Services Corporation, dated April 14, 2011.
4. Illinois Secretary of State Certificate of Good Standing of The Methodist Medical Center of Illinois, dated January 19, 2011.

**IOWA SECRETARY OF STATE
MATT SCHULTZ**



Date: 5/25/2011

CERTIFICATE OF EXISTENCE

Name: IOWA HEALTH SYSTEM (504RDN - 181348)

Date of Incorporation: 12/31/1994

Duration: PERPETUAL

I, Matt Schultz, Secretary of State of the State of Iowa, custodian of the records of incorporations, certify that the nonprofit corporation named on this certificate is in existence and was duly incorporated under the laws of Iowa, that all fees required by the Revised Iowa Nonprofit Corporation Act have been paid by the corporation, that the most recent biennial corporate report required has been filed by the Secretary of State, and that articles of dissolution have not been filed.

Certificate ID: CS54061

To validate certificates visit:

www.sos.state.ia.us/ValidateCertificate

A handwritten signature of Matt Schultz in black ink.

Matt Schultz
Iowa Secretary of State



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

IOWA HEALTH SYSTEM, INCORPORATED IN IOWA AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 15, 2010, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.



Authentication #: 1114500316

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 25TH day of MAY A.D. 2011 .

Jesse White

SECRETARY OF STATE



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

METHODIST HEALTH SERVICES CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 25, 1981, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1110401850

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of APRIL A.D. 2011 .

Jesse White

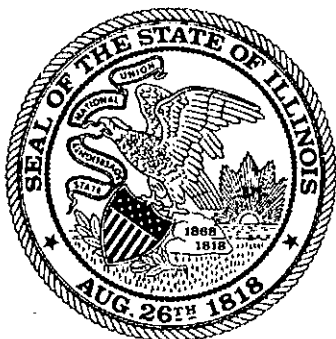
SECRETARY OF STATE



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

THE METHODIST MEDICAL CENTER OF ILLINOIS, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 28, 1898, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1101901402

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 19TH day of JANUARY A.D. 2011 .

Jesse White

SECRETARY OF STATE

16. **TRANSACTION DOCUMENTS.** Provide a copy of the document(s) which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc.). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities Planning Board. Append this document(s) to the application as **ATTACHMENT #5**.

The Strategic Affiliation Agreement by and between Iowa Health System and Methodist Health Services Corporation, executed June 9, 2011 is attached and contains the requisite contingency language as noted in Attachment Response 13.

STRATEGIC AFFILIATION AGREEMENT

BY AND BETWEEN

IOWA HEALTH SYSTEM

AND

METHODIST HEALTH SERVICES CORPORATION

JUNE 9, 2011

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Schedule 4.4(a)	Facts Having Material Adverse Change
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Schedule 4.12(c)	Investigations under the Medicare and Medicaid Programs
Schedule 4.15	Compliance Program Exceptions
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LIST OF EXHIBITS

Exhibit A	IHS Organizational Structure
Exhibit B	MHSC Organizational Structure
Exhibit C	IHS Articles of Incorporation
Exhibit D	IHS Bylaws
Exhibit E	MHSC Articles of Incorporation
Exhibit F	MHSC Bylaws
Exhibit G	Articles of Incorporation and Bylaws of The Methodist Medical Center of Illinois; Methodist Medical Center Foundation; Methodist Services, Inc.; Heartland Home Health Care, Inc.; Methodist Physician Services, Inc., and Provider Resource Management
Exhibit H	Plan of Finance
Exhibit I	Integration Plan
Exhibit J	IHS Mission and Vision Statement

STRATEGIC AFFILIATION AGREEMENT

This **STRATEGIC AFFILIATION AGREEMENT** (the “**Agreement**”) is made and entered into on June 9, 2011 (the “**Execution Date**”) by and between **IOWA HEALTH SYSTEM**, an Iowa nonprofit corporation (“**IHS**”), and **METHODIST HEALTH SERVICES CORPORATION**, an Illinois not for profit corporation (“**MHSC**”) (each, a “**Party**”, and, collectively, the “**Parties**”). Capitalized terms used in this Agreement shall have the meanings ascribed to them in the body of this Agreement or in Article 14 of this Agreement.

INTRODUCTION

A. IHS, as depicted on Exhibit A, is the parent organization of an integrated regional health care system serving the health care needs of the residents of Iowa and of western Illinois.

B. MHSC, as depicted on Exhibit B, is the parent organization of an integrated local health care system serving the health care needs of the residents of central Illinois.

C. The Parties share a common and unifying charitable mission to promote and improve access to health care and the health care status of the communities they serve and to provide high quality, affordable health care and health care-related services.

D. In 2010, the Parties entered into preliminary discussions to explore the possibility of establishing a long-term strategic relationship.

E. During their discussions and initial due diligence of each other, the Parties determined that they shared similar values, including, but not limited to, complementary missions, visions and values; a commitment to the importance of local involvement and participation in the governance and management of local providers; a commitment to clinical excellence; a dedication to community; a commitment to education and teaching; a commitment to being and remaining financially strong and self-sustaining, and to reinvesting community assets in the communities they serve; a belief in the benefits of technology; and a commitment to becoming, through service, innovation and growth, the first choice for affordable, high-quality health care in the communities they serve.

F. On March 28, 2011, the Parties signed a non-binding letter of intent (the “**Letter of Intent**”), pursuant to which they proposed to enter into a strategic affiliation structured as a member substitution, on the basis of the values they shared, which they recast as seven key principles that they used to guide and inform themselves in their efforts to reach agreement on the key terms and conditions of their proposed transaction.

G. After having considered a range of acceptable alternatives available to them, by entering into this Agreement, the Parties desire to set forth the full and complete terms and conditions of their proposed relationship.

H. In entering into this Agreement, the Parties also desire to reaffirm their commitment to the seven key principles they acknowledged in the Letter of Intent, by restating them as guiding principles, as set forth in Article 1, entitled “Guiding Principles.”

NOW, THEREFORE, for and in consideration of the commitments and understandings contained in the Introduction, which form a part of this Agreement, and the agreements, covenants, representations, and warranties hereinafter set forth and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged and confessed, the Parties agree as follows:

ARTICLE 1

GUIDING PRINCIPLES

The Parties enter into this Agreement on the basis of their joint determination that the foundation for their proposed strategic affiliation is and will continue to be the seven guiding principles identified in the Letter of Intent, to wit, (i) compatible missions, visions and values; (ii) a shared strategic vision of a multi-state system of regional providers that accommodates within its structure regional differences and preferences by recognizing the value and importance of meaningful local participation in governance and management at appropriate levels; (iii) within the context of IHS's willingness to commit its financial resources to support MHSC's strategic development plans, a shared commitment to fiscal prudence, to the re-investment of community assets in the communities served and to financial self-reliance; (iv) a joint recognition of the strategic and financial importance of enhancing local and regional providers' involvement in payer networks and in including them in system-wide payer contracts; (v) a joint recognition of the importance of growth in Illinois (and states contiguous to Iowa), and of creating the infrastructure and devoting the resources required to develop and implement plans for growth; (vi) within the context of IHS recognizing Methodist as being its principal provider of health care services in Methodist's Primary Service Area, a joint commitment to take all actions reasonably necessary to ensure that Methodist retains its position of prominence in its Service Area; and (vii) a mutual intent to enter into a permanent relationship.

ARTICLE 2

STRATEGIC AFFILIATION

2.1 Overview.

(a) On the Closing Date, as more fully described in this Article 2, the Parties shall enter into a strategic affiliation structured as a member substitution pursuant to which (i) IHS shall become the sole member of MHSC and the ultimate parent corporation of the MHSC Entities, thereby making MHSC the eighth Senior Affiliate of IHS, and (ii) IHS and MHSC shall adopt and institute a governance model comparable to the governance model of IHS's seven other Senior Affiliates, with such differences as the Parties have identified as necessary to reflect the unique needs of the MHSC local market. Provided, however, notwithstanding these differences, if any, the MHSC governance model will at all times embody the principles that IHS identifies as key principles in the IHS governance model, to wit, health care is local; local involvement in governance is critical; focus on the provision of services and value to communities served is essential; and proportionate responsibility is necessary and required (e.g., access to capital in accordance with performance criteria applied uniformly to all Senior Affiliates).

(b) Methodist shall retain its balance sheet as it exists prior to the affiliation, with Methodist continuing to own its assets and Methodist continuing to be responsible for its liabilities. For the avoidance of doubt, implementation of the affiliation shall not affect or alter the ownership, or result in the transfer or conveyance, of assets MHSC or the MHSC Entities own on or as of the Closing Date; and except as provided in the Plan of Finance referred to in Section 2.5(b), the implementation of the strategic affiliation shall not affect responsibility for the liabilities, indebtedness, commitments or other financial and operational obligations of MHSC or the MHSC Entities existing on or as of the Closing Date, whether known or unknown, fixed or contingent, or recorded or unrecorded.

2.2 IHS. On or before the Closing Date, but effective as of the Closing Date, IHS shall take all actions necessary and appropriate to amend and restate its Articles of Incorporation in the form attached hereto at Exhibit C, to amend and restate its Bylaws in the form attached hereto at Exhibit D, and to amend and restate its other governing documents, to ensure that it and its constituent parts adopt, incorporate and comply with the following commitments and understandings:

(a) IHS shall be the sole member of MHSC, and the IHS Board shall hold and have the right to exercise the powers expressly reserved to it in the Bylaws of MHSC, as set forth in Section 2.3(b) (the “**IHS Reserved Powers**”).

(b) MHSC shall be a Senior Affiliate of IHS, embodying all the rights and responsibilities of a Senior Affiliate as provided in the IHS governance model and related governance documents.

(c) On the Closing Date, and continuing thereafter, the MHSC Board shall appoint to the IHS Board one or more individuals, each of whom shall be a voting member of the IHS Board. Each MHSC appointee shall satisfy the qualifications for appointment to the MHSC Board as set forth in the MHSC Bylaws. Initially, and if and until the number of IHS directors with vote changes, the MHSC Board shall appoint three individuals to the IHS Board, each of whom shall assume office on the day following the Closing Date. If at a later time the number of IHS directors with vote changes, the IHS Board may change the number of IHS Board members the Senior Affiliates appoint, provided the IHS Board maintains proportional parity between and among the Senior Affiliates by providing that Senior Affiliates that are integrated delivery systems of the approximate same size (as measured by the Total Operating Revenues of the Senior Affiliates and other factors identified by the IHS Board to be uniformly applied among the Senior Affiliates) appoint the same number of IHS directors. Provided, however, from the Closing Date and continuing thereafter, the MHSC Board shall at all times appoint to the IHS Board at least one director.

(d) On the Closing Date, and continuing until successors or replacements need to be appointed, the MHSC Board shall consist of the individuals who hold office immediately prior to the Closing.

(e) After the Closing Date, if and when a successor or a replacement needs to be appointed, and continuing thereafter, the IHS Board shall appoint the members of the MHSC Board from nominations submitted to it by the MHSC Board. The IHS Board shall only appoint

nominees nominated by the MHSC Board. It shall not unreasonably reject nominees. If the IHS Board rejects a nominee of the MHSC Board, then the MHSC Board will continue to nominate candidates until the IHS Board appoints the number of MHSC Board nominees required to fill the number of vacancies being filled.

(f) The MHSC Board alone shall have the right to remove (i) an MHSC director on the IHS Board from office; or (ii) a director from the Methodist Boards.

(g) The MHSC Board Chair will be invited to attend all meetings of the IHS Board. Unless the person is an appointed IHS Board member, the person shall have no voting rights.

(h) On the Closing Date, and continuing thereafter for two years, IHS shall continuously appoint to the Executive Committee of the IHS Board at least one of the MHSC appointed IHS directors.

(i) On the Closing Date, and continuing thereafter, the Chair of the IHS Board shall appoint each of the MHSC appointed IHS directors to at least one standing committee of the IHS Board. The Chair of the IHS Board also shall extend to MHSC appointed IHS directors the same opportunities to participate on other committees of the IHS Board as he or she extends to other members of the IHS Board.

2.3 MHSC. On or before the Closing Date, but effective as of the Closing Date, MHSC shall take all actions necessary and appropriate to amend and restate its Articles of Incorporation in the form attached hereto at Exhibit E, to amend and restate its Bylaws in the form attached hereto at Exhibit F, and to amend and restate the governing documents of the MHSC Entities in the forms attached hereto at Exhibit G, to ensure that it and the MHSC Entities adopt, incorporate and comply with the following commitments and understandings:

(a) IHS shall be the sole member of MHSC, and the IHS Board shall hold and have the right to exercise the IHS Reserved Powers.

(b) On the Closing Date, and continuing thereafter, but subject to the terms of this Agreement, including the limitations on the authority of the IHS Board contained herein, the IHS Board shall have sole and final authority to take the actions described in this Section 2.3(b) and to require MHSC to comply with and to cause the MHSC Entities to comply with the directives of the IHS Board concerning:

(i) the review, adoption, approval, rejection or modification of the consolidated strategic plan of MHSC and the MHSC Entities.

(ii) the review, adoption, approval, rejection or modification of the consolidated business plans of MHSC and the MHSC Entities.

(iii) the review, adoption, approval, rejection or modification of the consolidated capital and operating budget of MHSC and the MHSC Entities.

(iv) the incurrence of long-term debt by MHSC and/or the MHSC Entities.

(v) the selection or removal of the President and CEO of MHSC (the "MHSC President").

(vi) the amendment to the Articles of Incorporation and Bylaws of MHSC and of the MHSC Entities, *provided*, the amendment is not inconsistent or in conflict with this Agreement or the amendment is not identified in this Agreement or in the Articles of Incorporation or Bylaws of MHSC or of the MHSC Entities as a term or provision that may not be amended without the approval of the MHSC Board.

(vii) the formulation of the managed care contracting strategy of IHS, *provided*, pursuant to Section 10.4, the IHS managed care contracting strategy is consistent with the role and responsibility of the MHSC managed care contracting staff to negotiate and sign contracts with local insurers and local self-insured employers, and to manage relationships between MHSC and local clients, including, but not limited to, Caterpillar, Inc., local self-insureds, local brokers and local clients of national and regional insurers.

(viii) *either* (A) the transfer, sale or closure of any facility, department or function of MHSC and/or of any MHSC Entity, *provided*, the transfer, sale or closure is structured as a fair market value transaction pursuant to which IHS or another Person pays MHSC fair market value consideration; *or* (B) the transfer of assets between MHSC and/or the MHSC Entities (on the one side) and IHS and the IHS Entities or an exempt organization (on the other side), *provided*, MHSC's obligation is proportionate or equitable to all Senior Affiliates as determined by the IHS Board after considering and applying uniformly all factors it deems relevant to the allocation; *provided, further*, in either situation (A) or (B), the following statements are deemed to be accurate and true: the transfer, sale or closure (i.e., the "action") does not pose a material risk of violating the Stark Law, the Anti-Kickback Statute or any federal or state "fraud and abuse" law or regulation, the action does not pose a material risk of loss of federal tax-exempt status for MHSC and/or any MHSC Entity, or the taxability of any tax-exempt bonds issued by or on behalf of MHSC or any MHSC Entity, the action does not result in the transfer or sale of assets to any organization that is not exempt from federal income taxation or is not under the control of IHS, the action does not result in the discontinuation of a service line by MHSC or a MHSC Entity that MHSC or a MHSC Entity offered on the Closing Date, the action would not significantly impact access to appropriate local health care delivery, the action does not result in the transfer of the partial or complete ownership, control or management of MHSC or any MHSC Entity, the action does not result in the merger, consolidation, acquisition, dissolution,

liquidation, or disposition of MHSC (or the sale, lease or divestiture of any material portion of its assets) or of any MHSC Entity (or the sale, lease or divestiture of any material portion of its assets), or the action does not result in MHSC or any MHSC Entity operating any facility, business, activity or service, as a Catholic facility, subject to the Ethical and Religious Directives of Catholic Healthcare.

(c) Without the prior written consent of the MHSC Board, the IHS Board shall not direct MHSC and/or the MHSC Entities to take any action described in this Subsection (c) if:

(i) in the opinion of Independent Legal Counsel, the action poses a material risk of violating the Stark Law, the Anti-Kickback Statute or any federal or state "fraud and abuse" law or regulation;

(ii) in the opinion of Independent Legal Counsel, the action poses a material risk of loss of federal tax-exempt status for MHSC and/or any MHSC Entity, or the taxability of any tax-exempt bonds issued by or on behalf of MHSC or any MHSC Entity;

(iii) the action is or results in the transfer or sale of assets to a non-exempt entity or to an unrelated exempt entity;

(iv) the action is or results in the discontinuation of a service line by MHSC or a MHSC Entity that MHSC or a MHSC Entity offered on the Closing Date;

(v) in the opinion of an Independent Health Care Consultant, the action would significantly impact access to appropriate local health care delivery;

(vi) the action is an amendment to the Articles of Incorporation or Bylaws of MHSC or a MHSC Entity, and in the opinion of Independent Legal Counsel, the amendment is inconsistent or in conflict with this Agreement or the amendment is identified in this Agreement or in the Articles of Incorporation or Bylaws of MHSC or of the MHSC Entities as a term or provision that may not be amended without the approval of MHSC;

(vii) the action changes the reporting relationship of the MHSC President to the President and Chief Executive Officer of IHS (the "IHS CEO");

(viii) the action is or results in the merger, consolidation, acquisition, dissolution, liquidation or disposition of MHSC (or the sale, lease, or divestiture of any material portion of its assets) or of any MHSC Entity (or the sale, lease or divestiture of any material portion of its assets);

(ix) the action results in MHSC or any MHSC Entity operating its facilities, businesses, activities or services as a Catholic facility, subject to the Ethical and Religious Directives for Catholic Health Care Services; or

(x) the action will result in the transfer of the partial or complete ownership, control or management of MHSC or any MHSC Entity.

(d) MHSC shall retain and continue to hold and exercise all of the rights, powers and authorities of a not-for-profit corporation organized under Illinois law other than the rights, powers and authorities expressly held by IHS in its position as sole member, as set forth in the Bylaws of MHSC, this Agreement or as required by law. By way of example and not limitation, the MHSC Board shall retain responsibility for local strategy and operations.

(e) MHSC shall be a Senior Affiliate of IHS, embodying all the rights and responsibilities of a Senior Affiliate as provided in the IHS governance model and related governance documents.

(f) On the Closing Date, and continuing thereafter, the MHSC Board shall appoint to the IHS Board one or more individuals, each of whom shall be a voting member of the IHS Board. Each MHSC appointee shall satisfy the qualifications for appointment to the MHSC Board as set forth in the MHSC Bylaws. Initially, and if and until the IHS Board amends the IHS Articles of Incorporation and the IHS Bylaws to change the number of IHS directors with vote, the MHSC Board shall appoint three individuals to the IHS Board, the first three of whom shall assume office on the day following the Closing Date. If the IHS Board changes the number of IHS directors with vote, the IHS Board may change the number of IHS Board members the Senior Affiliates appoint, provided the IHS Board maintains proportional parity between and among the Senior Affiliates by providing that Senior Affiliates that are integrated delivery systems of the approximate same size (as measured by the Total Operating Revenues of the Senior Affiliates and other factors identified by the IHS Board to be uniformly applied among the Senior Affiliates) appoint the same number of IHS directors. Provided further, however, from the Closing Date and continuing thereafter, the MHSC Board shall at all times appoint to the IHS Board at least one director.

(g) On the Closing Date, and continuing until successors or replacements need to be appointed, the MHSC Board shall consist of the individuals who hold office immediately prior to the Closing.

(h) After the Closing Date, if and when a successor or a replacement needs to be appointed, and continuing thereafter, the IHS Board shall appoint the members of the MHSC Board from nominations submitted to it by the MHSC Board. The IHS Board shall only appoint nominees nominated by the MHSC Board. It shall not unreasonably reject nominees. If the IHS Board rejects a nominee of the MHSC Board, then the MHSC Board will continue to nominate candidates until the IHS Board appoints the number of MHSC Board nominees required to fill the number of vacancies being filled.

(i) The MHSC Board alone shall have the right to remove (i) an MHSC director on the IHS Board from office; or (ii) a director from the Methodist Boards.

(j) The MHSC Board Chair shall be invited to attend all meetings of the IHS Board. Unless the person is an appointed IHS Board member, the person shall have no voting rights.

(k) On the Closing Date, and continuing thereafter for two years, IHS shall continuously appoint to the Executive Committee of the IHS Board at least one of the MHSC appointed IHS directors.

(l) On the Closing Date, and continuing thereafter, the Chair of the IHS Board shall appoint each of the MHSC appointed IHS directors to at least one standing committee of the IHS Board. The Chair of the IHS Board also shall extend to MHSC appointed IHS directors the same opportunities to participate on other committees of the IHS Board as he or she extends to other members of the IHS Board.

2.4 Executive Team; Employees.

(a) On the Closing Date, MHSC and the MHSC Entities shall retain as its Executive Team, the individuals who then comprise it, each of whom will be and remain an employee of MHSC and/or a MHSC Entity until he or she no longer holds the position qualifying the person for employment.

(b) On the Closing Date, MHSC and the MHSC Entities shall continue to employ the employees who they employed as of the Closing Date, in the same positions and locations, at the same pay rates and with the same employee benefits and seniority as they have on the Closing Date. Nothing herein shall prevent MHSC or an MHSC Entity from terminating an employee or engaging in staff reductions or consolidations following the Closing Date (to the extent such actions are consistent with Applicable Law, employment agreements, and then applicable policies and procedures.)

2.5 Capital Commitment.

(a) Upon the Closing, IHS shall commit without contingencies of any nature or kind to the MHSC strategic capital projects identified herein and agrees to provide for MHSC's use, as proposed by MHSC, a minimum of One Hundred Seventy-Five Million Dollars (\$175,000,000) (the "**Capital Commitment**"), allocated during the first seven fiscal years after the Closing Date as follows: (i) One Hundred Forty-Five Million Dollars (\$145,000,000), to be used by MHSC (possibly within the context of a broader project) for the replacement or renovation of Methodist's emergency department, and its surgery and imaging facilities, on Methodist's main campus and (ii) Thirty Million Dollars (\$30,000,000), to be used by MHSC for strategic capital projects that the MHSC Board selects and approves after considering the mutually agreed upon joint recommendations of the IHS CEO and the MHSC President as submitted by them to the MHSC Board at its request. The Parties' expectation is that MHSC shall service any debt associated with the Capital Commitment. Further, when the funds constituting the Capital Commitment are first dispersed, MHSC shall become a member of the IHS Obligated Group, unless the Parties otherwise agree to the contrary.

(b) On or before the Closing, the Parties shall agree upon a plan of finance, to be attached to this Agreement as Exhibit H (the "**Plan of Finance**"), and to be incorporated by this reference into this Agreement as a binding commitment of IHS and of MHSC.

(c) At the Closing, unless the Parties otherwise agree, IHS shall provide additional security for Methodist's then current debt by substituting an IHS obligation for Methodist's then current debt or by becoming obligated on Methodist's then current debt as a guarantor.

(d) IHS's Capital Commitment shall not limit MHSC's opportunities to pursue funding for additional strategic or routine capital projects. IHS shall evaluate MHSC's need for additional strategic and routine capital by using the same capital allocation process it applies consistently to its evaluation of the capital needs of the other Senior Affiliates (which process rewards Senior Affiliates having better financial performances with higher capital availability).

(e) The Parties shall deem the Capital Commitment an absolute obligation of IHS. IHS shall have no right to offset, reduce, delay or otherwise alter the amount, timing or nature of the Capital Commitment.

(f) Notwithstanding anything to the contrary in this Section 2.5, each Party acknowledges that the other Party's obligations hereunder are conditioned upon the appropriate party obtaining and maintaining all necessary governmental and third-party approvals, permits and licenses for the financing and construction of the applicable phase or portion of the project, including, without limitation, obtaining from the IHFSRB any certificate of exemption or certificate of need and maintaining any such certificates of exemption or certificates of need. Each Party shall use its best efforts to obtain and maintain all necessary approvals, permits and licenses.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF IHS

IHS represents and warrants to MHSC as of the Execution Date and as of the Closing Date, as follows:

3.1 Due Organization; Related Entities; Good Standing.

(a) IHS is a nonprofit corporation, duly organized, validly existing and in good standing under the laws of the state of Iowa. It is exempt from federal income taxation under Section 501(a) of the Code as an organization described in Code Section 501(c)(3) and is not a "private foundation" within the meaning of Section 509(a) of the Code.

(b) Schedule 3.1(b) identifies each IHS Entity and indicates its state of organization, its form of organization (i.e., corporation, either nonprofit or for-profit; partnership, either limited or general; or limited liability company) and its tax status (i.e., exempt or nonexempt). Each IHS Entity is duly organized, validly existing and in good standing (in jurisdictions that recognize the concept) under the laws of the state of its organization.

(c) IHS has delivered to MHSC true, correct and complete copies of the articles or certificates of incorporation (or equivalent documents) and bylaws (or equivalent documents) of IHS and each Senior Affiliate.

3.2 Authority; Validity; No Breach.

(a) IHS and each IHS Entity have the full corporate power and authority to (i) conduct their businesses in the manner in which their businesses are currently conducted; (ii) own or lease, and use or operate, their assets in the manner in which their assets are currently owned or leased, and used or operated; and (iii) perform their obligations under all agreements to which they are a party or by which they are bound that are material to them.

(b) IHS has all requisite power and authority to execute, deliver and carry out this Agreement and all documents necessary to give effect to this Agreement and to consummate the transactions contemplated hereby. IHS has duly and properly taken or will have duly and properly taken prior to the Closing Date all corporate and other actions required to be taken by IHS to authorize its execution, delivery and performance of this Agreement, all documents executed by it which are necessary to give effect to this Agreement, and all transactions contemplated hereby. Except as provided in this Agreement and as otherwise mutually agreed between the Parties, no other action on the part of IHS is or will be necessary to authorize the execution, delivery and performance of this Agreement, all documents necessary to give effect to this Agreement and all transactions contemplated hereby.

(c) This Agreement is, and the other documents to be delivered at the Closing will be, the lawful, valid and legally binding obligation of IHS, enforceable in accordance with their respective terms. IHS's execution and delivery of this Agreement and the other documents to be delivered at the Closing and its consummation of the transactions contemplated hereby will not: (i) violate or conflict with the articles of incorporation or bylaws of IHS or of any IHS Entity or any law, statute, rule or regulation to which IHS or any IHS Entity is subject; (ii) violate or conflict with any judgment, order, writ or decree of any court applicable to IHS or any IHS Entity; (iii) violate or conflict with any permit, license, approval or other commitment to which IHS or any IHS Entity is a party or is bound; or (vi) result in the breach or termination of any provision of, or create rights of acceleration or constitute a default under, the terms of any indenture, mortgage, deed of trust, contract, agreement or other instrument to which IHS or any IHS Entity is a party or by which any of them is bound or, except as may be provided in the documents described in the Plan of Finance, result in the creation or imposition of any material lien, privilege, charge or encumbrance upon any of the assets owned by any of them.

3.3 Financial Statements.

(a) IHS has delivered to MHSC true, correct and complete copies of the audited consolidated financial statements of IHS and the IHS Entities for the fiscal years ended December 31, 2008, 2009, and 2010 (collectively, the "**IHS Financial Statements**"). IHS also (i) has delivered to MHSC true, correct and complete copies of the unaudited interim financial statements of IHS and the IHS Entities for the three (3) months ended March 31, 2011 and (ii) shall deliver to MHSC as promptly as each becomes available prior to the Closing Date, true, correct and complete copies of all other interim financial statements of IHS and the IHS Entities

updated to within thirty (30) days prior to the Closing Date (collectively, the **"IHS Interim Financial Statements"**).

(b) The IHS Financial Statements and IHS Interim Financial Statements are and will be true, complete and correct in all material respects, present and will present fairly and accurately the financial condition and the results of operations of IHS and the IHS Entities as of the dates and for the periods indicated therein, and are and will be prepared in conformity with GAAP, applied consistently for the periods specified, except for the IHS Interim Financial Statements which lack footnotes and year-end audit adjustments.

(c) To the Knowledge of IHS, except as disclosed on Schedule 3.3(c), neither IHS nor any of the IHS Entities has incurred any liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise, and whether due or to become due) that has had or is reasonably likely to have, either individually or in the aggregate, a Material Adverse Change on IHS and the IHS Entities or their businesses and operations. **"Knowledge of IHS"**, as used in this Article 3, means the actual knowledge of the IHS President; Executive Vice President/Chief Financial Officer; Vice President, Finance; Vice President, Chief Medical Officer; and Vice President, General Counsel and Compliance Officer.

(d) To the Knowledge of IHS, all accounts receivable of the IHS Entities represent and constitute bona fide indebtedness owing to the IHS Entities for services actually performed or for goods or supplies actually provided in the amounts indicated on the IHS Financial Statements with no known set offs, deductions, compromises or reductions other than reasonable allowances for bad debts and contractual allowances in amounts consistent with historical policies and procedures of IHS and the IHS Entities that are taken into consideration in the preparation of IHS and the IHS Financial Statements.

3.4 Absence of Changes.

(a) Except as disclosed on Schedule 3.4(a), to the Knowledge of IHS, no facts or circumstances exist, or are likely to occur, which might reasonably be expected to have a Material Adverse Change on IHS and the IHS Entities or their businesses and operations.

(b) To the Knowledge of IHS, except as expressly contemplated herein, neither IHS nor any IHS Entity has at any time after December 31, 2010: (i) written off as uncollectible, or established any extraordinary reserve with respect to, any material account receivable or other material indebtedness of IHS or any IHS Entity; (ii) amended or restated, or approved the amendment or restatement of, the articles of incorporation (or equivalent document) or the bylaws (or equivalent document) of IHS or any IHS Senior Affiliate; (iii) made or changed any material tax election, entered into any settlement or compromise of any material tax liability or surrendered any right to claim a material tax refund; (iv) settled or compromised any pending or threatened legal proceeding, suit, action, claim, arbitration, mediation, inquiry or investigation, unless in connection with such settlement or compromise there was no finding or admission of any violation of any legal requirement and the sole relief provided was monetary damages not in excess of One Million Dollars (\$1,000,000) in the aggregate; (v) made any material capital expenditure or commitment for additions to property, plant or equipment or for any other purpose, except in the ordinary course of business; (vi) sold, transferred, leased,

optioned or otherwise disposed of any assets except in the ordinary course of business; (vii) granted or incurred any obligation for any increase in the compensation of any of the employees of IHS or the IHS Entities (including any increase pursuant to any bonus, pension, profit sharing, retirement, or other plan or commitment) except in the ordinary course of business; (viii) received any written notice from any Governmental Body of any liability, potential liability or claimed liability based on any violation of law; or (ix) agreed or committed to take any of the actions referred to in this Section 3.4(b).

3.5 Benefit Plans.

(a) IHS has delivered or made available to MHSC a true, correct and complete copy of (i) each IHS Benefit Plan and any trust, insurance, or annuity contracts maintained in connection therewith, including all amendments thereto; (ii) the most recently filed annual report (Form 5500), including all schedules and attachments and any financial statements required by Section 103(a)(3) of ERISA or, for each top-hat plan, a copy of all registration statements filed with the Department of Labor pursuant to 29 C.F.R. § 2520.104-23(b)(1); (iii) the most recent actuarial valuation report, if any; (iv) the most recent summary plan description and all modifications thereto; and (v) the most recent actuarial valuation, study, or estimate of the obligations under any retiree medical benefit plans or supplemental retirement benefits plans. Neither IHS nor any IHS Entity is in default under any IHS Benefit Plan, and each IHS Benefit Plan has been administered in accordance with its terms, and in accordance with the terms of all Applicable Laws, including, but not limited to, ERISA and the Code. **"IHS Benefit Plan"**, as used in this Article 3, means all "employee welfare benefit plans" (as defined in Section 3(1) of ERISA), "employee pension benefit plans" (as defined in Section 3(2) of ERISA), and all other employee benefit plan agreements and arrangements and employee benefit policies, whether funded or unfunded, qualified or nonqualified, subject to ERISA or not, maintained or contributed to (or required to be contributed to) by IHS or an IHS Entity.

(b) (i) IHS and the IHS Entities have fulfilled all of their obligations under the minimum funding standards of ERISA and the Code, with respect to each Employee Pension Benefit Plan (as defined in Section 3(2) of ERISA (a **"Plan"**)) applicable to employees of the IHS Entities, and are in compliance in all material respects with the applicable provisions of ERISA and the Code, and have not incurred any liability to the Pension Benefit Guaranty Corporation or a Plan in connection with the termination of a Plan applicable to employees of the IHS Entities under Title IV of ERISA, where such liability would have a Material Adverse Change on the financial condition of IHS or the IHS Entities; (ii) with respect to each Plan applicable to employees of the IHS Entities, there have been no prohibited transactions (as defined in Section 4975(c) of the Code and Section 406 of ERISA) or reportable events (as defined in Section 4043(b) of ERISA and the regulations thereunder); and (iii) each Plan applicable to employees of the IHS Entities which is intended to be a qualified plan under Section 401(a) of the Code has received a favorable determination letter from the IRS, and no withdrawal liability has been incurred by or asserted against IHS or the IHS Entities with respect to a withdrawal from any multiemployer pension plan applicable to employees of the IHS Entities. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein will accelerate vesting, increase any benefits otherwise payable, or result in any payment (whether severance pay, change-of-control benefits, or otherwise) under any IHS Benefit Plan.

3.6 Taxes.

(a) IHS and each IHS Entity have timely filed all federal, state and local tax returns required to be filed by them and have duly paid or made provisions for the payment of all taxes (including any interest or penalties and amounts due state unemployment authorities) that are due and payable to the appropriate tax authorities.

(b) Neither the IRS nor any applicable state revenue department (each a "Tax Authority") has instituted, or, to the Knowledge of IHS, has threatened to institute, an audit of any material tax return of IHS or any IHS Entity and no Tax Authority has asserted, or, to the Knowledge of IHS, has threatened to assert any tax deficiency against IHS or any IHS Entity.

3.7 Litigation or Claims.

(a) Schedule 3.7(a) sets forth a true, accurate and complete list (and a summary description) of all suits, actions, proceedings, investigations, arbitrations, mediations or other methods of settling disputes or disagreements to which IHS or an IHS Entity is, or to the Knowledge of IHS, is threatened to be made, a party that could reasonably be expected to have a Material Adverse Change on IHS or an IHS Entity, taken as a whole; or upon TRHS individually.

(b) Schedule 3.7(b) sets forth a true, accurate and complete list (and a summary description) of all outstanding decisions, rulings, orders, writs, injunctions or decrees of any court or governmental agency against IHS or an IHS Entity that has had, or that could reasonably be expected to have, a Material Adverse Change on IHS or an IHS Entity, taken as a whole; or upon TRHS individually.

3.8 Insurance.

(a) IHS and each IHS Entity maintain insurance (including self-insurance) coverages necessary to their businesses and operations as are consistent with acceptable industry practices. The policies and trusts referred to herein are in full force and effect and cover the property, business and operation of IHS and each IHS Entity in amounts and against losses and risks as are generally maintained for comparable businesses.

(b) No insured under the policies and trusts referred to in Section 3.8(a) ("IHS Insured") has received a notice of its failure to file in a due and timely manner, or a notice to present any claim under the insurance of which it is an insured. No IHS Insured has received any written notice or request from any insurance company identifying any defects in its application for insurance or otherwise that would adversely affect the insurability of its business and affairs, or its properties and operations. No IHS Insured has had its coverage denied or limited by an insurance carrier to which it has applied for insurance (other than a reservation of rights under the policy). No IHS Insured has received any notice of termination or cancellation or denial of coverage with respect to a claim under an insurance policy of which it is an insured. No IHS Insured has received a notice from an insurer alleging that it is delinquent in the payment of premiums thereunder or is in default or in breach of any provisions in such policies.

3.9 Licenses and Permits.

(a) IHS and each IHS Entity engaged in the delivery of health care services hold all material licenses, permits, registrations and approvals that they are required by law or regulation to hold in their name in order to own or lease their assets, as presently owned or leased, and to conduct and operate their facilities, businesses and services, as presently conducted and operated (collectively, the **"IHS Licenses and Permits"**).

(b) Neither IHS nor any IHS Entity has received a written communication from a Governmental Body revoking, terminating, suspending or limiting or threatening to revoke, terminate, suspend or limit any IHS License or Permit.

(c) IHS has delivered or made available to MHSC true, correct and complete copies of all federal, state and local licensing survey reports (and statements of deficiencies and plans of correction) that Governmental Bodies have sent to TRHS for each TRHS hospital within the last year in connection with their issuance, review for compliance, or renewal of IHS Licenses and Permits. TRHS has taken or is in the process of taking all reasonable steps to correct all deficiencies referred to in the survey reports.

3.10 Accreditation.

(a) IHS and each IHS Entity engaged in the delivery of health care services hold all material accreditations they are required by law or regulation or are expected by practice and/or industry standard to hold in their name (collectively, the **"IHS Accreditations"**).

(b) IHS has delivered or made available to MHSC true, correct and complete copies of the most recent accreditation survey reports, deficiency lists and plans of correction that accrediting bodies have sent to TRHS for each hospital within TRHS. TRHS has taken or is in the process of taking all reasonable steps to correct all deficiencies referred to in its most recent accreditation survey reports.

3.11 IHS Transaction Contracts. To the Knowledge of IHS, except as disclosed on Schedule 3.11, neither IHS nor an IHS Entity is a party to or bound by an IHS Transaction Contract. **"IHS Transaction Contract"**, as used herein, means a contract, agreement, mortgage note, bond indenture or other instrument or obligation of any nature, whether oral or written, to which IHS or an IHS Entity is a party or by which IHS or an IHS Entity is bound that includes terms and conditions that the consummation of the transactions contemplated herein shall effect or implicate, including, by way of example, terms and conditions that (i) grant the other party a right to declare a breach or default if the Parties consummate the transactions contemplated herein; (ii) grant the other party a right to exercise a put, a call or other form of an option if the Parties consummate the transactions contemplated herein; (iii) grant the other party a right to limit or restrict the business activities of IHS or an IHS Entity if the Parties consummate the transactions contemplated herein; and (iv) grant the other party a right to protect or expand its business activities if the Parties consummate the transactions contemplated herein.

3.12 Medicare and Medicaid.

(a) To the Knowledge of IHS, each IHS Entity facility that has received Medicare or Medicaid reimbursement at any time on or after January 1, 2008 is eligible to receive payment without restriction under Medicare and Medicaid and is a "provider" with valid and current provider agreements and one or more provider numbers under such programs.

(b) Each IHS Hospital is in compliance with the conditions of participation for the Medicare and Medicaid programs in all material respects.

(c) Except as disclosed in Schedule 3.12(c), no IHS Entity is the subject of any pending, or to the Knowledge of IHS, threatened, proceeding or investigation under the Medicare and Medicaid programs.

(d) IHS has delivered or made available to MHSC true, correct and complete copies of most recent Medicare and Medicaid certification survey report for each TRHS hospital, including any statements of deficiencies and plans of correction. TRHS has taken or is in the process of taking all reasonable steps to correct all deficiencies referred to in its most recent survey report.

3.13 Cost Reports.

(a) Each IHS Entity has timely filed or caused to be timely filed all cost reports and other reports of every kind whatsoever that it is required by law to file in connection with the purchase of its services by Government Programs (the "**IHS Cost Reports**").

(b) To the Knowledge of IHS, there are no material claims, actions or appeals pending before any commission, board or agency arising from or relating to any IHS Cost Reports.

(c) To the Knowledge of IHS, outside of routine and expected reviews or audits, no IHS Cost Report is being audited by any commission, board or agency. There are no known facts or circumstances that may reasonably be expected to give rise to any material adjustment or disallowance under the IHS Cost Reports.

3.14 Compliance with Law. To the Knowledge of IHS, IHS and each IHS Entity are in compliance in all material respects with all Applicable Laws, including, but not limited to, all Health Care Laws. Without limiting the generality of the foregoing, to the Knowledge of IHS, neither IHS nor any IHS Entity, and no director, officer or employee of IHS or an IHS Entity, has directly or indirectly: (i) offered, paid or received any remuneration, in cash or in kind, to, or made any financial arrangements with, any past, present or potential customers, past or present suppliers, patients, medical staff members, contractors or third party payors of an IHS Entity in order to obtain business or payments from such persons other than in the ordinary course of business; (ii) given or agreed to give, received or agreed to receive, or is aware that there has been made or that there is any agreement to make, any gift or gratuitous payment of any kind, nature or description (whether in money, property or services) to any customer or potential customer, supplier or potential supplier, contractor, third party payor or any other person other than in connection with promotional or entertainment activities in the ordinary course of

business; (iii) made or agreed to make, or is aware that there has been made or that there is any agreement to make, any contribution, payment or gift of funds or property to, or for the private use of, any governmental official, employee or agent where either the contribution, payment or gift or the purpose of such contribution, payment or gift is or was illegal under the laws of the United States or under the laws of any state or local governmental entity having jurisdiction over such payment, contribution or gift; (iv) established or maintained any unrecorded fund or asset for any purpose or made any misleading, false or artificial entries on any of its books or records for any reason; or (v) made, or agreed to make, or is aware that there has been made or that there is any agreement to make, any payment to any person with the intention or understanding that any part of such payment would be used for any purpose other than that described in the documents supporting such payment.

3.15 Compliance Program. IHS has delivered to MHSC a copy of its current Compliance Program materials. Except as set forth on Schedule 3.15, neither IHS nor an IHS Entity: (i) is a party to a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services; (ii) has any material reporting obligations pursuant to any settlement agreement entered into with any Federal, state or local government entity; (iii) to the Knowledge of IHS has been the subject of any material government payer program investigation conducted by any Federal or state enforcement agency within the past three years; (iv) has been a defendant in any unsealed qui tam/False Claims Act litigation within the past three years; (v) has been served with or received, within the past three years, any material search warrant, subpoena, civil investigative demand, contact letter, or, to the Knowledge of IHS, telephone or personal contact by or from any Federal or state enforcement agency (except in connection with medical services provided to third parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health care businesses conducted by the IHS Entities); and (vi) has received, to the Knowledge of IHS, any complaints within the past three years from employees, independent contractors, vendors, physicians, or any other person that resulted in a claim being filed with a Federal, state or local government entity alleging that IHS or an IHS Entity has violated any law or regulation that has had or is likely to have a Material Adverse Change on IHS or an IHS Entity.

3.16 Exclusion from Health Care Programs. IHS and each IHS Entity has a program in place to determine whether any of its employees, agents or independent contractors has been: (i) excluded from participating in any Federal Health Care Program (as defined in 42 U.S.C. § 1320a 7b(f)); (ii) subject to sanction or been indicted or convicted of a crime, or pled nolo contendere, in connection with any allegation of violation of any Federal Health Care Program requirement of any Health Care Law; (iii) debarred or suspended from any Federal or state procurement or nonprocurement program by any government agency; or (iv) designated a Specially Designated National or Blocked Person by the Office of Foreign Asset Control of the U.S. Department of Treasury.

3.17 Payment Programs. Except as set forth on Schedule 3.17:

(a) No IHS Entity is engaged in termination proceedings as to its participation in any Payment Program, nor has any IHS Entity received notice that its current participation in any Payment Program is subject to any contest, termination or suspension as a result of alleged violations or any noncompliance with participation requirements;

(b) No IHS Entity has taken or committed to take any action, entered into any agreement, contract or undertaking, or taken or omitted to take any other action of any nature whatsoever that was or is in violation of any applicable Payment Program condition of participation, contract, standard, policy, rule, regulation, procedure or other requirement, that individually or in the aggregate would result in a Material Adverse Change on the IHS Entity;

(c) All billing and collection practices of each IHS Entity and, of any billing and/or collection agent acting on behalf of any IHS Entity, are in compliance with all Health Care Laws and the conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements of all Payment Programs, except for noncompliance that would not result in a Material Adverse Change on its business and operations;

(d) No IHS Entity has taken any of the following actions, if any such action would result in a Material Adverse Change on its business and operations: submitted to any Payment Program any false, fraudulent, abusive or improper claim for payment, billed any Payment Program for any service not rendered or not rendered as claimed, or received and retained any payment or reimbursement from any Payment Program in excess of the proper amount followed by Applicable Law and applicable contracts or agreements with the Payment Programs;

(e) There is no audit, investigation, adverse action, or civil, administrative, or criminal proceeding pending or, to the Knowledge of IHS, threatened relating to participation in any Payment Program by any IHS Entity; and, to the Knowledge of IHS, there is no basis for any such adverse action by the Payment Program against any IHS Entity;

(f) No Payment Program has requested or, to the Knowledge of IHS, threatened any recoupment, refund, or set off from any IHS Entity, or imposed any fine, penalty or other sanction on any IHS Entity; and

(g) The IHS Entities have complied, or will comply, in a timely manner with any notice, approval, application, submission, filing or other requirements of the Payment Programs with respect to the transactions contemplated by this Agreement, including, without limitation, any transfer or change of ownership requirements.

3.18 IHS Policies and Procedures.

(a) IHS has delivered to MHSC a true, accurate and complete list and copies of all IHS corporate policies and procedures that IHS more likely than not will require or expect MHSC or the MHSC Entities to comply with and abide by.

(b) IHS has delivered to MHSC a true, correct and complete list and copies of all IHS documents and information describing and/or explaining the IHS capital allocation process, the IHS treasury function, the IHS methodology for establishing compensation for senior management, the IHS budgeting process for capital and operations, and the IHS position for allocating decision-making and authority between and among IHS and the IHS Entities.

3.19 IHS Programs and Services. IHS has delivered to MHSC a true, correct and complete list and description of all IHS corporate programs and services that IHS more likely than not will require or expect MHSC or the MHSC Entities to participate in.

3.20 Labor Matters.

(a) Except as disclosed on Schedule 3.20(a), neither IHS nor any IHS Entity is a party to, or has a duty to bargain for, any collective bargaining agreement with a labor organization representing employees of the IHS Entities. Except as disclosed on Schedule 3.20(a), there are no labor organizations representing or purporting to represent employees of the IHS Entities. There are no actual, pending, or, to the Knowledge of IHS, threatened, labor disputes, work stoppages, strikes, slowdowns, walkouts, lockouts, or other interruptions or disruptions of operations at any of the businesses of the IHS Entities resulting from labor disputes or grievances.

(b) Each of IHS and the IHS Entities is, and for the past three years has been, in compliance in all material respects with all Applicable Laws relating to the employment of employees of the IHS Entities, including, without limitation, all Applicable Laws relating to wages, hours, equal employment, occupational safety and health, workers' compensation, unemployment insurance, collective bargaining, immigration, affirmative action and the payment and withholding of social security and other taxes. IHS and the IHS Entities have withheld all amounts required by law or agreed to be withheld from the wages or salaries of employees of the IHS Entities, and are not liable for any material arrears of any tax penalties for failure to comply with the same.

3.21 No Untrue or Inaccurate Representations or Warranties. The representations and warranties of IHS contained in this Agreement, and in each exhibit, schedule, certificate or other written statement delivered pursuant to this Agreement, or in connection with the transactions contemplated hereby, do not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements and information contained therein not misleading. To the Knowledge of IHS, there is no fact that adversely affects or in the future may adversely affect the ability of IHS to perform fully this Agreement and the transactions contemplated hereby, or the businesses, operations, properties, prospects or condition, financial or otherwise, of the IHS Entities that has not been set forth and described in this Agreement or in a certificate, exhibit or other written statement furnished to MHSC pursuant to this Agreement.

3.22 Survival. None of the representations or warranties contained in this Article 3 shall survive the Closing.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF MHSC

MHSC represents and warrants to IHS as of the Execution Date and as of the Closing Date, as follows:

4.1 Due Organization; Related Entities; Good Standing.

(a) MHSC is a not for profit corporation, duly organized, validly existing and in good standing under the laws of the state of Illinois. It is exempt from federal income taxation under Section 501(a) of the Code as an organization described in Code Section 501(c)(3) and is not a "private foundation" within the meaning of Section 509(a) of the Code.

(b) Schedule 4.1(b) identifies each MHSC Entity and indicates its state of organization, its form or organization (i.e., corporation, either not for profit or for-profit; partnership, either limited or general; or limited liability company) and its tax status (i.e., exempt or nonexempt). Each MHSC Entity is duly organized, validly existing and in good standing (in jurisdictions that recognize the concept) under the laws of the state of its organization.

(c) MHSC has delivered to IHS true, correct and complete copies of the articles or certificates of incorporation (or equivalent documents) and bylaws (or equivalent documents) of MHSC and each MHSC Entity.

4.2 Authority; Validity; No Breach.

(a) MHSC and each MHSC Entity have the full corporate power and authority to (i) conduct their businesses in the manner in which their businesses are currently conducted; (ii) own or lease, and use or operate, their assets in the manner in which their assets are currently owned or leased, and used or operated; and (iii) perform their obligations under all agreements to which they are a party or by which they are bound that are material to them.

(b) MHSC has all requisite power and authority to execute, deliver and carry out this Agreement and all documents necessary to give effect to this Agreement and to consummate the transactions contemplated hereby. MHSC has duly and properly taken or will have duly and properly taken prior to the Closing Date all corporate and other actions required to be taken by MHSC to authorize its execution, delivery and performance of this Agreement, all documents executed by it which are necessary to give effect to this Agreement, and all transactions contemplated hereby. Except as provided in this Agreement and as otherwise mutually agreed between the Parties, no other action on the part of MHSC is or will be necessary to authorize the execution, delivery and performance of this Agreement, all documents necessary to give effect to this Agreement and all transactions contemplated hereby.

(c) This Agreement is, and the other documents to be delivered at the Closing will be, the lawful, valid and legally binding obligation of MHSC, enforceable in accordance with their respective terms. MHSC's execution and delivery of this Agreement and the other documents to be delivered by it at the Closing, and its consummation of the transactions contemplated hereby will not: (i) violate or conflict with the articles of incorporation or bylaws

of MHSC or of any MHSC Entity or any law, statute, rule or regulation to which MHSC or any MHSC Entity is subject; (ii) violate or conflict with any judgment, order, writ or decree of any court applicable to MHSC or any MHSC Entity; (iii) violate or conflict with any permit, license, approval or other commitment to which MHSC or any MHSC Entity is a party or is bound; or (iv) result in the breach or termination of any provision of, or create rights of acceleration or constitute a default under, the terms of any indenture, mortgage, deed of trust, contract, agreement or other instrument to which MHSC or any MHSC Entity is a party or by which any of them is bound or result in the creation or imposition of any material lien, privilege, charge or encumbrance upon any of the assets owned by any of them.

4.3 Financial Statements.

(a) MHSC has delivered to IHS true, correct and complete copies of the audited consolidated financial statements of MHSC and the MHSC Entities for the fiscal years ended December 31, 2008, 2009, and 2010 (collectively, the **"MHSC Financial Statements"**). MHSC also (i) has delivered to IHS true, correct and complete copies of the unaudited interim financial statements of MHSC and the MHSC Entities for the three (3) months ended March 31, 2011 and (ii) shall deliver to IHS as promptly as each becomes available prior to the Closing Date, true, correct and complete copies of all other interim financial statements of MHSC and the MHSC Entities updated to thirty (30) days prior to the Closing Date (collectively, the **"MHSC Interim Financial Statements"**).

(b) The MHSC Financial Statements and MHSC Interim Financial Statements are and will be true, complete and correct in all material respects, present and will present fairly and accurately the financial condition and the results of operation of MHSC and the MHSC Entities, as of the dates and for the periods indicated therein, and are and will be prepared in conformity with GAAP, applied consistently for the periods specified, except for the Interim Financial Statements which lack and will lack footnotes and year-end audit adjustments.

(c) To the Knowledge of MHSC, except as disclosed on Schedule 4.3(c), neither MHSC nor any MHSC Entity has incurred any liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise, and whether due or to become due) that has had or is reasonably likely to have, either individually or in the aggregate, a Material Adverse Change on MHSC and the MHSC Entities or their businesses and operations. **"Knowledge of MHSC"**, as used in this Article 4, means the actual knowledge of the MHSC President; Senior Vice President/Chief Financial Officer; Senior Vice President/Chief Operating Officer; and Vice President/Corporate Compliance Officer and In-House Counsel.

(d) To the Knowledge of MHSC, all accounts receivable of the MHSC Entities represent and constitute bona fide indebtedness owing to the MHSC Entities for services actually performed or for goods or supplies actually provided in the amounts indicated on the MHSC Financial Statements with no known set offs, deductions, compromises or reductions other than reasonable allowances for bad debts and contractual allowances in amounts consistent with historical policies and procedures of MHSC and the MHSC Entities that are taken into consideration in the preparation of MHSC and the MHSC Financial Statements.

4.4 Absence of Changes.

(a) Except as disclosed on Schedule 4.4(a), to the Knowledge of MHSC, no facts or circumstances exist, or are likely to occur, which might reasonably be expected to have a Material Adverse Change on MHSC and the MHSC Entities or their businesses and operations.

(b) To the Knowledge of MHSC, except as expressly contemplated herein, neither MHSC nor any MHSC Entity has at any time after December 31, 2010: (i) written off as uncollectible, or established any extraordinary reserve with respect to, any material account receivable or other material indebtedness of MHSC or any MHSC Entity; (ii) amended or restated, or approved the amendment or restatement of, the articles of incorporation (or equivalent document) or the bylaws (or equivalent document) of MHSC or any MHSC Entity; (iii) made or changed any material tax election, entered into any settlement or compromise of any material tax liability or surrendered any right to claim a material tax refund; (iv) settled or compromised any pending or threatened legal proceeding, suit, action, claim, arbitration, mediation, inquiry or investigation, unless in connection with such settlement or compromise there was no finding or admission of any violation of any legal requirement and the sole relief provided was monetary damages not in excess of One Millions Dollars (\$1,000,000) in the aggregate; (v) made any material capital expenditure or commitment for additions to property, plant or equipment or for any other purpose, except in the ordinary course of business; (vi) sold, transferred, leased, optioned or otherwise disposed of any assets owned by the MHSC Entities except in the ordinary course of business; (vii) granted or incurred any obligation for any increase in the compensation of any of the employees of the MHSC Entities (including any increase pursuant to any bonus, pension, profit sharing, retirement, or other plan or commitment) except in the ordinary course of business; (viii) received any written notice from any Governmental Body of any liability, potential liability or claimed liability based on any violation of law; or (ix) agreed or committed to take any of the actions referred to in this Section 4.4(b).

4.5 Benefit Plans.

(a) MHSC has delivered or made available to IHS a true, correct and complete copy of (i) each MHSC Benefit Plan and any trust, insurance, or annuity contracts maintained in connection therewith, including all amendments thereto; (ii) the most recently filed annual report (Form 5500), including all schedules and attachments and any financial statements required by Section 103(a)(3) of ERISA or, for each top-hat plan, a copy of all registration statements filed with the Department of Labor pursuant to 29 C.F.R. § 2520.104-23(b)(1); (iii) the most recent actuarial valuation report, if any; (iv) the most recent summary plan description and all modifications thereto; and (v) the most recent actuarial valuation, study, or estimate of the obligations under any retiree medical benefit plans or supplemental retirement benefits plans. Neither MHSC nor any MHSC Entity is in default under any MHSC Benefit Plan, and each MHSC Benefit Plan has been administered in accordance with its terms, and in accordance with the terms of all Applicable Laws, including, but not limited to, ERISA and the Code. “MHSC Benefit Plan”, as used in this Article 4, means all “employee welfare benefit plans” (as defined in Section 3(1) of ERISA), “employee pension benefit plans” (as defined in Section 3(2) of ERISA), and all other employee benefit plan agreements and arrangements and employee benefit policies, whether funded or unfunded, qualified or nonqualified, subject to

ERISA or not, maintained or contributed to (or required to be contributed to) by MHSC or a MHSC Entity.

(b) (i) MHSC and the MHSC Entities have fulfilled all of their obligations under the minimum funding standards of ERISA and the Code, with respect to each Plan applicable to employees of the MHSC Entities are in compliance in all material respects with the applicable provisions of ERISA and the Code, and have not incurred any liability to the Pension Benefit Guaranty Corporation or a Plan in connection with the termination of a Plan applicable to employees of the MHSC Entities under Title IV of ERISA, where such liability would have a Material Adverse Change on the financial condition of MHSC or the MHSC Entities; (ii) with respect to each Plan applicable to employees of the MHSC Entities, there have been no prohibited transactions (as defined in Section 4975(c) of the Code and Section 406 of ERISA) or reportable events (as defined in Section 4043(b) of ERISA and the regulations thereunder); and (iii) each Plan applicable to employees of the MHSC Entities which is intended to be a qualified plan under Section 401(a) of the Code has received a favorable determination letter from the IRS, and no withdrawal liability has been incurred by or asserted against MHSC or the MHSC Entities with respect to a withdrawal from any multiemployer pension plan applicable to employees of the MHSC Entities. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein will accelerate vesting, increase any benefits otherwise payable, or result in any payment (whether severance pay, change-of-control benefits, or otherwise) under any MHSC Benefit Plan.

4.6 Taxes.

(a) MHSC and each MHSC Entity have timely filed all federal, state and local tax returns required to be filed by them and have duly paid or made provisions for the payment of all taxes (including any interest or penalties and amounts due state unemployment authorities) that are due and payable to the appropriate tax authorities.

(b) No Tax Authority has instituted, or, to the Knowledge of MHSC, has threatened to institute, an audit of any material Tax Return of MHSC or any MHSC Entity and no Tax Authority has asserted, or, to the Knowledge of MHSC, has threatened to assert any tax deficiency against MHSC or any MHSC Entity.

4.7 Litigation or Claims.

(a) Schedule 4.7(a) sets forth a true, accurate and complete list (and a summary description) of all suits, actions, proceedings, investigations, arbitrations, mediations or other methods of settling disputes or disagreements to which MHSC or a MHSC Entity is, or to the Knowledge of MHSC, is threatened to be made, a party that could reasonably be expected to have a Material Adverse Change on MHSC or a MHSC Entity, taken as a whole.

(b) Schedule 4.7(b) sets forth a true, accurate and complete list (and a summary description) of all outstanding decisions, rulings, orders, writs, injunctions or decrees of any court or governmental agency against MHSC or a MHSC Entity that has had, or that could reasonably be expected to have, a Material Adverse Change on MHSC or a MHSC Entity, taken as a whole.

4.8 Insurance.

(a) MHSC and each MHSC Entity maintain insurance (including self-insurance) coverages necessary to their businesses and operations as are consistent with accepted industry practices. The policies and trusts referred to herein are in full force and effect and cover the property, business and operation of MHSC and each MHSC Entity in amounts and against losses and risks as are generally maintained for comparable businesses.

(b) No insured under the policies and trusts referred to in Section 4.8(a) ("MHSC Insured") has received a notice of its failure to file in a due and timely manner, or any notice to present any claim under the insurance of which it is an insured. No MHSC Insured has received any written notice from any insurance company identifying any defects in its application for insurance or otherwise that would adversely affect the insurability of its business and affairs, or its properties and operations. No MHSC Insured has had its coverage denied or limited by an insurance carrier to which it has applied for insurance (other than a reservation of rights under the policy). No MHSC Insured has received any notice of termination or cancellation or denial of coverage with respect to a claim under an insurance policy of which it is an insured. No MHSC Insured has received a notice from an insurer alleging that it is delinquent in the payment of premiums thereunder or is in default or in breach of any provisions in such policies.

4.9 Licenses and Permits.

(a) MHSC and each MHSC Entity engaged in the delivery of health care services hold all material licenses, permits, registrations and approvals that they are required by law or regulation to hold in their name in order to own or lease their assets, as presently owned or leased, and to conduct and operate their facilities, businesses and services, as presently conducted and operated (collectively, the "MHSC Licenses and Permits").

(b) Neither MHSC nor any MHSC Entity has received any notice or other communication from a Governmental Body revoking, terminating, suspending or limiting or threatening to revoke, terminate, suspend or limit any MHSC License or Permit.

(c) MHSC has delivered or made available to IHS true, correct and complete copies of all federal, state and local licensing survey reports (and statements of deficiencies and plans of correction) that Governmental Bodies have sent to MMCI within the last year in connection with their issuance, review for compliance, or renewal of MHSC Licenses and Permits. MMCI has taken or is in the process of taking all reasonable steps to correct all deficiencies referred to in the survey reports.

4.10 Accreditation.

(a) MHSC and each MHSC Entity engaged in the delivery of health care services hold all material accreditations they are required by law or regulation or are expected by practice and/or industry standard to hold in their name (collectively, the "MHSC Accreditations").

(b) MHSC has delivered or made available to IHS true, correct and complete copies of the most recent accreditation survey reports, deficiency lists and plans of correction that accrediting bodies have sent to MMCI for each MHSC Accreditation. MMCI has taken or is in the process of taking all reasonable steps to correct all deficiencies referred to in its most recent accreditation survey reports.

4.11 MHSC Transaction Contracts. To the Knowledge of MHSC, except as disclosed on Schedule 4.11, neither MHSC nor an MHSC Entity is a party to or bound by an MHSC Transaction Contract. "MHSC Transaction Contract", as used herein, means a contract, agreement, mortgage note, bond indenture or other instrument or obligation of any nature, whether oral or written, to which MHSC or an MHSC Entity is a party or by which MHSC or an MHSC Entity is bound that includes terms and conditions that the consummation of the transactions contemplated herein shall effect or implicate, including, by way of example, terms and conditions that (i) grant the other party a right to declare a breach or default if the Parties consummate the transactions contemplated herein; (ii) grant the other party a right to exercise a put, a call or some other form of an option if the Parties consummate the transactions contemplated herein; (iii) grant the other party a right to limit or restrict the business activities of MHSC or an MHSC Entity if the Parties consummate the transactions contemplated herein; and (iv) grant the other party a right to protect or expand its business activities if the Parties consummate the transactions contemplated herein.

4.12 Medicare and Medicaid.

(a) To the Knowledge of MHSC, each MHSC Entity that has received Medicare or Medicaid reimbursement at any time on or after January 1, 2008 is eligible to receive payment without restriction under Medicare and Medicaid and is a "provider" with valid and current provider agreements and one or more provider numbers under such programs.

(b) Methodist Medical Center is in compliance with the conditions of participation for the Medicare and Medicaid programs in all material respects.

(c) Except as disclosed in Schedule 4.12(c), no MHSC Entity is the subject of any pending, or to the Knowledge of MHSC, threatened, proceeding or investigation under the Medicare and Medicaid programs.

(d) MHSC has delivered or made available to IHS true, correct and complete copies of most recent Medicare and Medicaid certification survey report for MMCI, including any statements of deficiencies and plans of correction. MMCI has taken or is in the process of taking all reasonable steps to correct all deficiencies referred to in its most recent survey report.

4.13 Cost Reports.

(a) Each MHSC Entity has timely filed or caused to be timely filed all cost reports and other reports of every kind whatsoever that it is required by law to file in connection with the purchase of its services by Government Programs (the "MHSC Cost Reports").

(b) To the Knowledge of MHSC, there are no material claims, actions or appeals pending before any commission, board or agency arising from or relating to any MHSC Cost Reports.

(c) To the Knowledge of MHSC, outside of routine and expected reviews or audits, no MHSC Cost Report is being audited by any commission, board or agency. There are no known facts or circumstances that may reasonably be expected to give rise to any material adjustment or disallowance under the MHSC Cost Reports.

4.14 Compliance with Law. To the Knowledge of MHSC, MHSC and each MHSC Entity are in compliance in all material respects with all Applicable Laws, including, but not limited to, all Health Care Laws. Without limiting the generality of the foregoing, to the Knowledge of MHSC, neither MHSC nor any MHSC Entity, and no director, officer or employee of MHSC or a MHSC Entity, has directly or indirectly: (i) offered, paid or received any remuneration, in cash or in kind, to, or made any financial arrangements with, any past, present or potential customers, past or present suppliers, patients, medical staff members, contractors or third party payors of a MHSC Entity in order to obtain business or payments from such persons other than in the ordinary course of business; (ii) given or agreed to give, received or agreed to receive, or is aware that there has been made or that there is any agreement to make, any gift or gratuitous payment of any kind, nature or description (whether in money, property or services) to any customer or potential customer, supplier or potential supplier, contractor, third party payor or any other person other than in connection with promotional or entertainment activities in the ordinary course of business; (iii) made or agreed to make, or is aware that there has been made or that there is any agreement to make, any contribution, payment or gift of funds or property to, or for the private use of, any governmental official, employee or agent where either the contribution, payment or gift or the purpose of such contribution, payment or gift is or was illegal under the laws of the United States or under the laws of any state or local governmental entity having jurisdiction over such payment, contribution or gift; (iv) established or maintained any unrecorded fund or asset for any purpose or made any misleading, false or artificial entries on any of its books or records for any reason; or (v) made, or agreed to make, or is aware that there has been made or that there is any agreement to make, any payment to any person with the intention or understanding that any part of such payment would be used for any purpose other than that described in the documents supporting such payment.

4.15 Compliance Program. MHSC has delivered to IHS a copy of its current Compliance Program materials. Except as set forth on Schedule 4.15, neither MHSC nor an MHSC Entity: (i) is a party to a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services; (ii) has any material reporting obligations pursuant to any settlement agreement entered into with any Federal, state or local government entity; (iii) to the Knowledge of MHSC has been the subject of any material government payer program investigation conducted by any Federal or state enforcement agency within the past three years; (iv) has been a defendant in any unsealed qui tam/False Claims Act litigation within the past three years; (v) has been served with or received, within the past three years, any material search warrant, subpoena, civil investigative demand, contact letter, or, to the Knowledge of MHSC, telephone or personal contact by or from any Federal or state enforcement agency (except in connection with medical services provided to third parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health

care businesses conducted by the MHSC Entities); and (vi) has received, to the Knowledge of MHSC, any complaints within the past three years from employees, independent contractors, vendors, physicians, or any other person that resulted in a claim being filed with a Federal, state or local government entity alleging that MHSC or an MHSC Entity has violated any law or regulation that has had or is likely to have a Material Adverse Change on MHSC or an MHSC Entity.

4.16 Exclusion from Health Care Programs. MHSC and each MHSC Entity has a program in place to determine whether any of its employees, agents or independent contractors has been: (i) excluded from participating in any Federal Health Care Program (as defined in 42 U.S.C. § 1320a 7b(f)); (ii) subject to sanction or been indicted or convicted of a crime, or pled nolo contendere, in connection with any allegation of violation of any Federal Health Care Program requirement of any Health Care Law; (iii) debarred or suspended from any Federal or state procurement or nonprocurement program by any government agency; or (iv) designated a Specially Designated National or Blocked Person by the Office of Foreign Asset Control of the U.S. Department of Treasury.

4.17 Payment Programs. Except as set forth on Schedule 4.17:

(a) No MHSC Entity is engaged in termination proceedings as to its participation in any Payment Program, nor has any MHSC Entity received notice that its current participation in any Payment Program is subject to any contest, termination or suspension as a result of alleged violations or any noncompliance with participation requirements;

(b) No MHSC Entity has taken or committed to take any action, entered into any agreement, contract or undertaking, or taken or omitted to take any other action of any nature whatsoever that was or is in violation of any applicable Payment Program condition of participation, contract, standard, policy, rule, regulation, procedure or other requirement, that individually or in the aggregate would result in a Material Adverse Change on the MHSC Entity;

(c) All billing and collection practices of each MHSC Entity and, of any billing and/or collection agent acting on behalf of any MHSC Entity, are in compliance with all Health Care Laws and the conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements of all Payment Programs, except for noncompliance that would not result in a Material Adverse Change on its business and operations;

(d) No MHSC Entity has taken any of the following actions, if any such action would result in a Material Adverse Change on its business and operations: submitted to any Payment Program any false, fraudulent, abusive or improper claim for payment, billed any Payment Program for any service not rendered or not rendered as claimed, or received and retained any payment or reimbursement from any Payment Program in excess of the proper amount followed by Applicable Law and applicable contracts or agreements with the Payment Programs;

(e) There is no audit, investigation, adverse action, or civil, administrative, or criminal proceeding pending or, to the Knowledge of MHSC, threatened relating to participation

in any Payment Program by any MHSC Entity; and, to the Knowledge of any MHSC Entity, there is no basis for any such adverse action by the Payment Program against any MHSC Entity;

(f) No Payment Program has requested or, to the Knowledge of MHSC, threatened any recoupment, refund, or set off from any MHSC Entity, or imposed any fine, penalty or other sanction on any MHSC Entity; and

(g) The MHSC Entities have complied, or will comply, in a timely manner with any notice, approval, application, submission, filing or other requirements of the Payment Programs with respect to the transactions contemplated by this Agreement, including, without limitation, any transfer or change of ownership requirements.

4.18 Labor Matters.

(a) Except as disclosed on Schedule 4.18(a), neither MHSC nor a MHSC Entity is a party to, or has a duty to bargain for, any collective bargaining agreement with a labor organization representing employees of the MHSC Entities. There are no labor organizations representing or purporting to represent employees of the MHSC Entities. There are no actual, pending, or, to the Knowledge of MHSC, threatened, labor disputes, work stoppages, strikes, slowdowns, walkouts, lockouts, or other interruptions or disruptions of operations at any of the businesses of the MHSC Entities resulting from labor disputes or grievances.

(b) Each of MHSC and the MHSC Entities is, and for the past three years has been, in compliance in all material respects with all Applicable Laws relating to the employment of employees of the MHSC Entities, including, without limitation, all Applicable Laws relating to wages, hours, equal employment, occupational safety and health, workers' compensation, unemployment insurance, collective bargaining, immigration, affirmative action and the payment and withholding of social security and other taxes. MHSC and the MHSC Entities have withheld all amounts required by law or agreed to be withheld from the wages or salaries of employees of the MHSC Entities, and are not liable for any material arrears of any tax penalties for failure to comply with the same.

4.19 No Untrue or Inaccurate Representations or Warranties. The representations and warranties of MHSC contained in this Agreement, and in each exhibit, schedule, certificate or other written statement delivered pursuant to this Agreement, or in connection with the transactions contemplated hereby, do not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements and information contained therein not misleading. To the Knowledge of MHSC, there is no fact that adversely affects or in the future may adversely affect the ability of MHSC to perform fully this Agreement and the transactions contemplated hereby, or the businesses, operations, properties, prospects or condition, financial or otherwise, of the MHSC Entities that has not been set forth and described in this Agreement or in a certificate, exhibit or other written statement furnished to IHS pursuant to this Agreement.

4.20 Survival. None of the representations or warranties contained in this Article 4 shall survive the Closing.

ARTICLE 5

PRE-CLOSING COVENANTS OF THE PARTIES

During the period between the Execution Date and the Closing Date:

5.1 Access and Information. Each Party shall provide to the other Party upon reasonable notice, reasonable access during normal business hours to its and its Entities' personnel and to its and its Entities' books, records, work papers and other documents. Subject to applicable Antitrust Laws, each Party shall promptly provide to the other Party copies of any notice, report or other document that it files with or sends to any Governmental Body in connection with the transactions contemplated herein. The disclosing Party shall not be required to permit any inspection, or to disclose any information, that in its reasonable judgment could reasonably be expected to result in (i) the violation of any applicable legal requirement; (ii) the breach of the Confidentiality Agreement; (iii) the violation of any confidentiality obligation of the disclosing Party if the Party shall have used reasonable efforts to obtain the consent of the third party to which the obligation of confidentiality is owed; or (iv) the waiver of any applicable attorney-client privilege so long as the disclosing Party shall have taken reasonable steps to permit inspection of or to disclose information described in this clause (iv) on the basis that it does not compromise the attorney-client privilege with respect thereto. The Parties shall seek in good faith appropriate substitute disclosure arrangements under circumstances in which the immediately preceding sentence applies. No investigation by a Party shall limit or otherwise affect any of the representations, warranties, covenants or obligations of the other Party contained in this Agreement.

5.2 Operations.

(a) Except as expressly contemplated or as permitted or prohibited by this Agreement, each Party shall, in all material respects, conduct its business and operations in the ordinary course and in accordance with past practices. Further, except as expressly contemplated or as permitted or prohibited by this Agreement, each Party shall use its reasonable efforts to preserve substantially intact the business organizations of its Entities, and to maintain the relationships and goodwill of its Entities with their material customers, suppliers, distributors, creditors, lessors, lessees, employees, independent contractors, and business associates.

(b) Without limiting the generality of Section 5.2(a), except as expressly contemplated by this Agreement or as expressly permitted or prohibited by this Agreement, neither Party shall take nor permit its Entities to take any of the actions listed below without first giving the other Party written notice of the action: (i) amend or permit the adoption of any amendment to its articles of incorporation or bylaws, except this Section 5.2(b)(i) shall, as to IHS, apply only to IHS and Senior Affiliate Entities; (ii) authorize, permit or require the transfer of material funds or material assets from one Entity to either another Entity or a third party; (iii) make any pledge of its material assets or of the material assets of an Entity; (iv) hire for or on behalf of IHS or, as to IHS, a Senior Affiliate Entity, or for or on behalf of MHSC or, as to MHSC, a MHSC Entity, any employee at the level of president and/or chief executive officer; (v) change any of the methods of accounting or accounting practices of an Entity in any material respect except as required by concurrent changes in GAAP; (vi) settle or compromise any

pending or threatened legal proceeding, suit, action, claim, arbitration, mediation, inquiry or investigation (other than one founded on a claim of physician malpractice) unless in connection with such settlement or compromise there is no finding or admission of any violation of any legal requirement by the Entity; (vii) acquire or agree to acquire (by merger, consolidation, acquisition of stock, assets or membership interest or other business combination) any business or any corporation, partnership, association or other business organization or division thereof if such business transaction would be reasonably likely to (A) materially increase the likelihood of an action to prevent the consummation of the transactions contemplated by this Agreement under any Antitrust Law, (B) result in a material delay of the termination or expiration of any waiting period applicable to the transactions contemplated by this Agreement under the HSR Act, or (C) have a Material Adverse Change on the future business and operations of the Entities; (viii) sell, lease or otherwise dispose of or transfer any of the businesses, assets, properties, rights or claims of an Entity other than in the ordinary course of business; (ix) authorize or undertake any capital projects for or on behalf of an Entity other than projects approved in its capital budget; (x) incur any long-term indebtedness for or on behalf of an Entity other than in the ordinary course of business; or (xi) agree or commit to take any of the actions described in clauses (i) through (x) of this Section 5.2(b).

5.3 Efforts to Close. Each Party shall use reasonable efforts to satisfy in a timely manner all of the conditions precedent set forth in Articles 6 and 7 to its obligations or to the obligations of the other Party under this Agreement to the extent that its action or inaction can control or influence the satisfaction of such conditions. A Party's obligations hereunder shall not include an obligation to assume responsibility for costs and expenses for which the other Party is obligated to pay.

5.4 Regulatory Approvals and Related Matters.

(a) Each Party shall use reasonable efforts to prepare and file, as promptly as practicable after the Execution Date, all necessary notices, reports and other documents that it is required to file with any Governmental Body with respect to the transactions contemplated herein.

(b) Each Party shall promptly supply to the other Party any information that the other Party may require in order to effectuate any filings or applications pursuant to Section 5.4(a). Except where prohibited by applicable legal requirements, and subject to the Confidentiality Agreement, each Party shall consult with the other Party prior to taking a position with respect to any such filing, shall permit the other Party to review and discuss in advance, and shall consider in good faith the view of the other Party in connection with, any analyses, appearances, presentations, memoranda, briefs, white papers, arguments, opinions and proposals before making or submitting any of the foregoing to any Governmental Body, shall coordinate with the other Party in preparing and exchanging such information and shall promptly provide the other Party with copies of all filings, presentations or submissions made by it with any Governmental Body in connection with this Agreement or the transactions contemplated herein.

(c) Each Party shall notify the other Party promptly upon the receipt of:
(i) any comments from any Governmental Body in connection with any filings made pursuant

hereto, and (ii) any request by any Governmental Body for amendments or supplements to any filings made pursuant to, or information provided to comply in all material respects with, any applicable legal requirements. Whenever any event occurs that is required to be set forth in an amendment or supplement to any filing made pursuant to Section 5.4(a), each Party shall promptly inform the other Party of such occurrence and cooperate in filing with the applicable Governmental Body such amendment or supplement.

(d) Each Party shall use reasonable efforts to take all actions necessary, proper or advisable to consummate the transactions contemplated herein. Without limiting the generality of the foregoing, each Party: (i) shall prepare and make all filings (if any) and give all notices (if any) required to be made and given by it in connection with the transactions contemplated herein; and (ii) shall seek to obtain each consent (if any) required to be obtained (pursuant to any applicable legal requirement) by it in connection with the transactions contemplated herein.

(e) Notwithstanding anything to the contrary contained in this Section 5.4, if any action or proceeding is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement as violative of any Antitrust Law, the Parties (if but only for so long as they mutually agree) shall use their reasonable efforts to: (i) contest, resist or resolve any such proceeding or action and (ii) have vacated, lifted, reversed or overturned any injunction resulting from such proceeding or action.

5.5 Pre-closing Plans.

(a) The Parties shall meet regularly for the purpose of developing, as a condition precedent to the Closing, the Plan of Finance.

(b) The Parties shall meet regularly for the purpose of developing, as a condition precedent to the Closing, a comprehensive transition and integration plan identifying, describing and quantifying the actions the Parties will be required to take pre- and post-Closing to ensure the orderly consummation and implementation of the strategic affiliation (the "**Integration Plan**"). The Integration Plan will be attached to this Agreement as Exhibit I and (among other things) will assess the need to convert, and the cost of and timetable for converting, Methodist's services information technology system, its human relations functions, and its group purchasing activities.

ARTICLE 6

CONDITIONS PRECEDENT TO OBLIGATIONS OF IHS

IHS's obligations to close the transactions contemplated by this Agreement shall be, at the option of IHS, subject to the satisfaction of each of the following conditions (each of which IHS may waive specifically in writing in whole or in part to the extent permitted by law) at or prior to the Closing:

6.1 Accuracy of Representations. The representations and warranties of MHSC set forth in Article 4 shall be true and correct on the Execution Date and on the Closing Date.

6.2 Performance of Covenants. MHSC shall have complied with and performed at or prior to the Closing all of the covenants and obligations in this Agreement that it is required to comply with or perform at or prior to the Closing.

6.3 Consents, Approvals and Authorizations. MHSC shall have obtained all consents, approvals, permits, waivers, estoppels and authorizations of third parties that in the reasonable opinion of IHS are necessary for the valid execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein by MHSC.

6.4 Execution of Instruments. MHSC shall have executed all documents and instruments required to be executed by it pursuant to the provisions of this Agreement.

6.5 Exhibits and Schedules. MHSC shall have delivered to IHS in form and substance reasonably satisfactory to IHS all exhibits and schedules required to be delivered by it pursuant to this Agreement that have not been completed and attached to this Agreement on the Execution Date.

6.6 Unfavorable Action or Proceeding. On the Closing Date, no action or proceeding shall be pending or threatened wherein an unfavorable judgment, decree or order would, in IHS's reasonable opinion, prevent or make unfavorable the consummation of this Agreement, or would cause the transactions contemplated by this Agreement to be rescinded, or would require the Parties or either one of them to divest themselves of facilities, assets or services.

6.7 Due Diligence. IHS shall have completed its due diligence review of MHSC and the MHSC Entities, and shall have concluded in its reasonable opinion that the results of its review are acceptable.

6.8 Corporate and Governmental Approvals. IHS shall have obtained all corporate and governmental approvals required or necessary for IHS and the IHS Entities to consummate the transactions contemplated herein.

6.9 HSR Filings. The Parties shall have made all filings and given all notices required by the HSR Act, and shall have been advised by their respective legal counsel that the waiting period applicable to the consummation of the transactions contemplated herein shall have expired or terminated.

6.10 IHFSRB Filings. The Parties shall have obtained a certificate of exemption or certificate of need, as applicable, from the IHFSRB to consummate the transactions contemplated herein.

6.11 No Bankruptcy. No MHSC Entity shall: (i) be in receivership or dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its inability to pay its debts as they mature; (iv) have been adjudicated bankrupt; or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state; and nor shall any such petition have been filed against any MHSC Entity.

6.12 Plans. The Parties shall have approved and attached to this Agreement as Exhibits the Plan of Finance (Exhibit H) and the Integration Plan (Exhibit I).

ARTICLE 7

CONDITIONS PRECEDENT TO OBLIGATIONS OF MHSC

MHSC's obligations to close the transactions contemplated by this Agreement shall be, at the option of MHSC, subject to the satisfaction of each of the following conditions (each of which MHSC may waive specifically in writing in whole or in part to the extent permitted by law) at or prior to the Closing:

7.1 Accuracy of Representations. The representations and warranties of IHS set forth in Article 3 shall be true and correct on the Execution Date and on the Closing Date.

7.2 Performance of Covenants. IHS shall have complied with and performed at or prior to the Closing all of the covenants and obligations in this Agreement that it is required to comply with or perform at or prior to the Closing.

7.3 Consents, Approvals and Authorizations. IHS shall have obtained all consents, approvals, permits, waivers, estoppels, and authorizations of third parties that in the reasonable opinion of MHSC are necessary for the valid execution, delivery and performance of this Agreement and to the consummation of the transactions contemplated herein by IHS.

7.4 Execution of Instruments. IHS shall have executed all documents and instruments required to be executed by it pursuant to all of the provisions of this Agreement.

7.5 Exhibits and Schedules. IHS shall have delivered to MHSC in form and substance reasonably satisfactory to MHSC all exhibits and schedules required to be delivered by it pursuant to this Agreement that have not been completed and attached to this Agreement on the Execution Date.

7.6 Unfavorable Action or Proceeding. On the Closing Date, no action or proceeding shall be pending or threatened wherein an unfavorable judgment, decree or order would, in MHSC's reasonable opinion, prevent or make unfavorable the consummation of this Agreement, or would cause the transactions contemplated by this Agreement to be rescinded, or would require the Parties or either one of them to divest themselves of facilities, assets or services.

7.7 Due Diligence. MHSC shall have completed its due diligence review of IHS and the IHS Entities, and shall have concluded in its reasonable opinion that the results of its review are acceptable.

7.8 Corporate and Governmental Approvals. MHSC shall have obtained all corporate and governmental approvals required or necessary for MHSC to consummate the transactions contemplated herein.

7.9 HSR Filings. The Parties shall have made all filings and given all notices required by the HSR Act, and shall have been advised by their respective legal counsel that the waiting period applicable to the consummation of the transactions contemplated herein shall have expired or terminated.

7.10 IHFSRB Filings. The Parties shall have obtained a certificate of exemption or certificate of need, as applicable, from the IHFSRB to consummate the transactions contemplated herein.

7.11 No Bankruptcy. No IHS Entity shall: (i) be in receivership or dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its ability to pay its debts as they mature; (iv) have been adjudicated bankrupt; or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state; and nor shall any such petition have been filed against any IHS Entity.

7.12 Plans. The Parties shall have approved and attached to this Agreement as Exhibits the Plan of Finance (Exhibit H) and the Integration Plan (Exhibit I).

ARTICLE 8

TERMINATION

8.1 Termination. This Agreement may be terminated prior to the Closing:

(a) By written notice of IHS or MHSC, duly authorized by its board of directors; provided, however, if either Party terminates this Agreement pursuant to this Section 8.1(a), it shall promptly reimburse the other Party the other Party's documented costs and expenses which the other Party incurred between March 28, 2011 and the date of termination in connection with the drafting and negotiating of this Agreement and the documents attached to this Agreement, the conduct of due diligence, the preparation and filing of applications, consents and approvals, and the consummation of the transactions contemplated herein.

(b) By mutual written consent of IHS and MHSC, duly authorized by the boards of directors of IHS and MHSC.

(c) By written notice of IHS or MHSC if the Closing has not occurred by January 2, 2012 or such other date as otherwise agreed by the Parties.

(d) By written notice of IHS or MHSC if a Governmental Body or a court of competent jurisdiction shall have issued a final and nonappealable order permanently restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated herein.

(e) By written notice of IHS or MHSC if pursuant to Section 9.4 it rejects or fails to approve the updated document.

8.2 Effect of Termination. If this Agreement terminates pursuant to Section 8.1, this Agreement shall be of no further force or effect and there shall be no liability or obligation on the

part of the Parties or their respective officers or directors except for liabilities or obligations expressly identified herein as surviving termination.

ARTICLE 9

CLOSING

9.1 Closing. The consummation of the transactions contemplated by and described in this Agreement (the "**Closing**") shall take place at the offices of McDermott Will & Emery, LLP, 227 West Monroe Street, Suite 4700, Chicago, Illinois on the earlier of January 1, 2012, or a date to be mutually agreed upon by the Parties, which date shall be the first day of the month following, but no sooner than two (2) weeks from, the date of the satisfaction or waiver of the last to be satisfied or waived of the conditions set forth in Articles 6 and 7 (other than conditions that by their terms are to be satisfied on the date on which the Closing actually takes place (the "**Closing Date**")).

9.2 Deliverables of IHS at Closing. At the Closing, unless waived in writing by MHSC, IHS shall deliver to MHSC the documents and instruments listed below:

(a) A certificate of the IHS CEO, dated as of the Closing Date, certifying as to the continued accuracy and completeness of the representations and warranties of IHS, and its performance of the covenants and conditions precedent, set forth in this Agreement;

(b) A certificate of the Chief Financial Officer of IHS, dated as of the Closing Date, certifying as of the Closing Date, as to the accuracy of the financial representations and warranties of IHS set forth in this Agreement;

(c) A certificate of the Secretary of IHS, dated as of the Closing Date, certifying as to the due adoption and continued effectiveness of, and attaching a copy of, the resolutions of the IHS Board approving the actions and transactions required or contemplated by this Agreement;

(d) A copy of the Articles of Amendment to the Articles of Incorporation of IHS, in form and substance acceptable to MHSC, as filed as of a recent date with the Secretary of State of Iowa, to be effective as of the Closing Date;

(e) A copy of the Amended Bylaws of IHS, in form and substance acceptable to MHSC, to be effective as of the Closing Date; and

(f) Such other instruments and documents as may be reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

9.3 Deliverables of MHSC at Closing. At the Closing, unless waived in writing by IHS, MHSC shall deliver to IHS the documents and instruments listed below:

(a) A certificate of the MHSC President, dated as of the Closing Date, certifying as to the continued accuracy and completeness of the representations and warranties of

MHSC, and its performance of the covenants and conditions precedent, set forth in this Agreement;

(b) A certificate of the Chief Financial Officer of MHSC, dated as of the Closing Date, certifying as of the Closing Date, as to the accuracy of the financial representations and warranties of MHSC set forth in this Agreement;

(c) A certificate of the Secretary of MHSC, dated as of the Closing Date, certifying as to the due adoption and continued effectiveness of, and attaching a copy of, the resolutions of the MHSC Board approving the actions and transactions required or contemplated by this Agreement;

(d) A copy of the Articles of Amendment to the Articles of Incorporation of MHSC, in form and substance acceptable to IHS, as filed as of a recent date with the Secretary of State of Illinois, to be effective as of the Closing Date;

(e) A copy of the Amended Bylaws of MHSC, in form and substance acceptable to IHS, to be effective as of the Closing Date;

(f) A copy of the Articles of Amendment to the Articles of Incorporation of each MHSC Entity, in form and substance acceptable to IHS, to be effective as of the Closing Date;

(g) A copy of the Amended Bylaws of each MHSC Entity, in form and substance acceptable to IHS, to be effective as of the Closing Date; and

(h) Such other instruments and documents as may be reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

9.4 Modification of Schedules and Exhibits. During the period from the Execution Date until the Closing, either Party (an "**Amending Party**") may amend one or more of the Schedules or Exhibits delivered on the Execution Date by delivering an updated Schedule or Exhibit to the other. Upon receipt of the updated document, the other Party (the "**Receiving Party**") shall promptly review the document and either approve or disapprove it. If the Receiving Party approves the updated document, the approved document shall become the final Schedule or Exhibit. If the Receiving Party rejects or fails to approve the updated document, and the Parties are unable to resolve their disagreement, the Receiving Party may: (i) elect to close over the issue; or (ii) may elect to terminate this Agreement by providing notice to the Amending Party. If the Receiving Party elects to close over the issue, the updated document shall be deemed a modification to the Schedule or Exhibit delivered by the Amending Party prior to the Closing Date. Upon agreement of the Parties, either Party may set forth any disclosures required by a Schedule in a separate writing delivered to the other Party that specifically makes reference to the applicable Section of this Agreement and the required schedule thereto.

ARTICLE 10

AFFILIATION COVENANTS

From and after the Closing Date until the time set forth in Section 10.8:

10.1 Mission, Vision and Values.

(a) MHSC shall adhere to and support the IHS Mission and Vision Statements attached hereto at Exhibit J (which may be updated from time to time to reflect IHS's ongoing Mission and Values) and will hold them out as consistent with its own Mission, Vision and Values Statements.

(b) MHSC shall retain its own Mission, Vision and Values Statements as a reflection of IHS's commitment to "localness" and to local needs.

10.2 Executive Team.

(a) Except to the extent provided in the IHS Reserved Powers described in Section 2.3(b), IHS shall take no action requiring MHSC or the MHSC Entities to terminate one or more members of the MHSC Executive Team, to modify the employment status of one or more members of the MHSC Executive Team, or to change the conditions of employment of one or more members of the MHSC Executive Team.

(b) IHS will expect and shall require the MHSC President to have substantial involvement in the establishment of system-wide strategies, including, by way of example, the determination of strategic direction, appropriate operating and capital budgets and relationships with managed care payers, including terms and conditions relating to payer contracting, rates and contracting provisions. IHS also shall appoint the MHSC President to internal governing bodies, including the IHS CEO Forum, the IHS Core Management Team, the IHS Senior Leadership Group and other system-wide bodies on which multiple Senior Affiliate presidents serve.

(c) The IHS Board shall promptly appoint a replacement for the MHSC President when the position becomes vacant. It shall appoint a replacement only from candidates who the MHSC Board has interviewed, approved and recommended.

(d) The IHS Board shall have the sole and unilateral right to remove the MHSC President, who shall report to the IHS CEO and be accountable to the MHSC Board and who shall be subject to evaluation in a manner consistent with the standards and processes used in the evaluation of the presidents of other Senior Affiliates. The IHS CEO shall establish the compensation and benefits of the MHSC President, following the parameters of the IHS Compensation Philosophy, and shall inform the MHSC Board of the same.

(e) The MHSC Board shall delegate to the MHSC President the power and authority to select the members of the MHSC Executive Team, each of whom shall report to the MHSC President or the President's designee. The Parties shall not take any action that changes the reporting relationship of the members of the MHSC Executive Team unless seventy-five percent (75%) of the voting members of the IHS CEO Forum agree that such changes need to be

implemented system-wide. The MHSC President shall determine the compensation and benefits of the members of the Executive Team, following the parameters of the IHS Executive Compensation Philosophy.

10.3 Employees.

(a) IHS shall take no action requiring MHSC or the MHSC Entities to terminate Methodist employees, to reduce their employment status, or to change adversely their conditions of employment.

(b) Except as to the MHSC President, IHS shall not contest or challenge Methodist's right to hire, promote, discipline and fire Methodist employees.

(c) Except as to the MHSC President, IHS shall take no action requiring Methodist employees to become employees of IHS or an IHS Entity.

10.4 Managed Care Contracting.

(a) IHS shall provide to MHSC its full support in MHSC's efforts to become a provider in all managed care provider panels significant in and/or to the Service Area. By way of example, IHS, at MHSC's request, will meet with managed care companies in conjunction with MHSC to present and discuss the benefits to them of the strategic affiliation and other relevant matters.

(b) IHS shall provide to MHSC the opportunities to actively participate in and contribute to IHS's analysis, development and implementation of the IHS managed care contracting strategy.

(c) IHS shall provide to MHSC access to its expertise and experience in managed care contracting. However, notwithstanding IHS's commitment to provide access, IHS also shall support MHSC's intent and desire to continue to employ and assign locally MHSC's own managed care contracting staff, in numbers, with backgrounds and expertise and with roles and responsibilities that MHSC deems appropriate and necessary to its local circumstances. For so long as Methodist's managed care contracts and activity are consistent with IHS's overall managed care contracting strategy, the MHSC managed care contracting staff shall negotiate and sign contracts with local insurers and local self-insured employers and shall manage relationships between MHSC and local clients, including, but not limited to, Caterpillar, Inc., and local self-insureds, local brokers and local clients of national and regional insurers.

10.5 Regional Growth.

(a) IHS, with the support and assistance of MHSC, shall use its reasonable efforts to actively identify opportunities for growth in Illinois, and shall seek transactions which meet the strategic or mission objectives of IHS, including, but not limited to, improving the delivery and quality of health services, improving the overall efficiency or credit strength of IHS, producing operating efficiencies, and achieving cost reductions or reductions in the rate of cost increases.

(b) IHS shall take the actions it deems appropriate and necessary to support and assist MHSC in its efforts to enhance its reputation as a regional tertiary medical center in the Service Area.

(c) IHS shall delegate to MHSC responsibility for determining the forms its relationships may take with independent hospitals and physician groups located within the Service Area, and, subject to the approval of the IHS Board, for implementing and consummating transactions between MHSC and providers located within the Service Area.

10.6 Principal Provider.

(a) IHS shall recognize Methodist as its "principal provider" for future growth in the Primary Service Area and shall make Methodist aware of opportunities it learns of for growth in the Service Area.

(b) IHS shall commit the resources necessary to support Methodist Medical Center as a state-of-the-art, regional tertiary care hospital, and as a licensed acute care hospital, if and for so long as the operations of Methodist Medical Center are financially viable, are supported by the MHSC Board, and meet then current legal and regulatory requirements, as determined by Independent Legal Counsel (if there is a controversy). Methodist Medical Center operations will be considered financially viable for purposes of this Section unless they produce negative operating margins for three consecutive years.

(c) IHS shall assist MHSC to recruit physicians to the Service Area by taking actions designed to acquaint physicians to the opportunities available or offered to them within the Service Area. IHS shall provide MHSC representatives access to IHS operated residency programs, shall inform program participants of the opportunities available to them within the Service Area, shall support the expansion of academic and teaching programs to Methodist, shall encourage Methodist representatives to participate actively in the IHS physician recruitment affinity group, shall track for referral to MHSC physicians from the Service Area who graduate from medical school or complete residency training within the IHS service area, and shall permit MHSC to retain and use its own physician recruitment staff.

(d) IHS shall make available to MHSC the full array of physician alignment strategies IHS is considering within the context of its decision to move from a hospital-centric delivery system to an integrated care management organization that is physician-driven and patient-centered. MHSC shall give full consideration to the IHS alignment strategies presented to it, but, except with respect to Subsections (e) and (g) below, shall retain the sole right to determine whether and how to implement one or more of them.

(e) IHS shall enroll in its physician leadership academy MHSC affiliated physicians who MHSC nominates (subject to availability of room in the academy and capacity of the program).

(f) MHSC will consider the transfer of its employed physicians to an IHS system-wide physician employment organization (the "New Group"). If MHSC elects not to participate directly by transferring its employed physicians to the New Group, MHSC nonetheless shall in accordance with a jointly approved timetable: (i) participate in the IHS

clinical development committee; (ii) adopt and deploy system-wide clinical innovation practices that the New Group approves; (iii) adopt the quality and compliance initiatives of the New Group; (iv) conform its physician compensation methodology to the general physician compensation philosophy of the New Group; and (v) over time, work towards the provision of physician support services in the most efficient manner.

(g) MHSC shall participate, on a non-exclusive basis, in the IHS Integrated Care Organization, a clinically integrated network comprised of employed and independent physicians. MHSC agrees to become a participating provider in all IHS managed care arrangements which operate and do business in the Service Area, which do not limit or restrict the contracting activities of MHSC or a MHSC Entity, and which will not have a Material Adverse Change on MHSC or a MHSC Entity.

(h) Other than actions dictated to ensure legal and regulatory compliance, IHS shall take no action limiting or restricting Methodist's right to select, and to hire and fire, physicians; to assign physicians to specific practice site locations; to negotiate physician employment and independent contractor agreements; and to direct and manage physician relations. Methodist agrees that the exercise of its rights set forth in this Subsection should be consistent with the IHS overall physician philosophy.

(i) IHS shall take no action limiting or restricting the status of the Medical Staff of Methodist Medical Center as a separate medical staff. Methodist and the Medical Center's Medical Staff shall retain the right to amend or to otherwise change the bylaws, rules and regulations, and policies and procedures of Methodist Medical Center's Medical Staff.

(j) Except as otherwise provided in Sections 10.6(f), IHS shall take no action limiting or restricting the status of the Medical Staff of MMG as a separate medical staff. Methodist and the MMG Medical Staff shall retain the right to amend or to otherwise change the bylaws, rules and regulations, and policies and procedures of the MMG Medical Staff.

(k) IHS shall take no action limiting or restricting the right of Methodist to grant, deny, revoke or restrict medical staff membership and/or clinical privileges on the Medical Staffs of the Methodist Medical Center and/or MMG.

(l) Other than actions dictated to ensure legal and regulatory compliance, IHS shall take no action limiting or restricting the right of Methodist to select, and to appoint and remove, medical directors, medical staff officers and other physicians holding medico-administrative positions within Methodist.

10.7 Permanence of Strategic Affiliation.

(a) IHS shall not initiate, direct or approve the transfer of the partial or complete ownership, control or management of MHSC or any MHSC Entity to any Person without first obtaining the prior written consent of the MHSC Board.

(b) IHS shall not initiate, direct or approve the merger, consolidation, acquisition, dissolution, liquidation or disposition of MHSC (or the sale, lease or divestiture of any material portion of its assets) or of any MHSC Entity (or the sale, lease or divestiture of any

material portion of its assets) without first obtaining the prior written consent of the MHSC Board. In particular, but without limitation, Methodist Medical Center Foundation, an Illinois not for profit corporation ("**Methodist Foundation**"), shall continue as a separate corporate entity and shall continue to act exclusively as a supporting organization for MHSC and the MHSC Entities. The Parties shall honor all legal and ethical considerations regarding gifts to Methodist Foundation; and shall use all gifts to Methodist Foundation in accordance with documented donor intent and to support the programs specified. IHS shall not have the right, directly or indirectly, to allocate and transfer Methodist Foundation funds to any Person.

(c) IHS shall not: (i) initiate, direct or approve the taking of any action that would significantly impact access to appropriate local health care delivery without first obtaining the prior written consent of the MHSC Board; or (ii) initiate, direct or approve the taking of any action that discontinues any service line that exists as of the Closing Date without first obtaining the prior written consent of the MHSC Board.

(d) IHS shall not initiate, direct or approve the taking of any action that will cause MHSC or any MHSC Entity to operate its facilities, businesses, activities or services as a Catholic facility, subject to the Ethical and Religious Directives for Catholic Health Care Services, without first obtaining the prior written consent of the MHSC Board.

(e) MHSC and each MHSC Entity shall retain the right to use and include "Methodist" in its name and in the name of each facility, service, business and activity that it owns, operates or manages. IHS shall not require MHSC or any MHSC Entity to adopt and use the words "an Iowa Health System affiliate" or similar words on building identification, on stationery, in marketing materials or in or on other forms of media of or subject to widespread use without the prior written consent of the MHSC Board. MHSC, at the request of IHS, shall adopt and use, and cause each MHSC Entity to adopt and use, the IHS logo, and identifying or branding nomenclature, other than "an Iowa Health System affiliate" or similar nomenclature.

(f) This Agreement creates no contractual right for IHS to expel or remove MHSC and the MHSC Entities from the integrated health care system known as "Iowa Health System."

(g) IHS shall not change the status of MHSC as a Senior Affiliate, including all of the rights and responsibilities attendant to being a Senior Affiliate, as such term is consistently and uniformly applied within IHS.

(h) IHS shall not upstream any cash or cash-equivalents existing on the balance sheet of MHSC and the MHSC Entities as of the Closing Date, subject to applicable provisions of the Parties' respective debt instruments.

(i) IHS shall offer and make available to Methodist on the same terms and conditions, the same corporate services it offers and makes available to all other Senior Affiliates. The Parties shall identify in the Integration Plan the corporate services that Methodist will purchase on and/or after the Closing Date, IHS's prices (or the methodology for determining IHS's prices) for the services, and the approximate commencement dates for Methodist's purchase and use of the services (e.g., the Closing Date, 90 days after the Closing Date, etc.)

From and after the Closing Date, Methodist shall evaluate and make every reasonable attempt to purchase and use new and/or additional corporate services that IHS may offer and make available to the Senior Affiliates.

(j) IHS shall offer and make available to Methodist on the same terms and conditions, the group purchasing programs it offers and makes available to all other Senior Affiliates.

(k) IHS shall not restrict or limit the right or ability of Methodist to use local vendors, contractors and firms to purchase or otherwise obtain products and services if Methodist meets minimum purchase requirements through IHS's group purchasing programs.

(l) IHS shall not restrict or limit Methodist's right to sponsor community events and to operate community services that MHSC concludes have substantial community benefits.

(m) IHS shall not restrict or limit Methodist's right to control the use of all restricted and unrestricted bequests, gifts and funds donated to Methodist either before or after the Closing for its own benefit and use. MHSC agrees that all restricted gifts shall be used in a manner consistent with donor intent.

(n) For a period of two (2) years after the Closing, Methodist will not adopt a charity care policy that is more restrictive than the policy in effect during the year prior to Closing. Thereafter, Methodist will continue to provide care to the indigent and to the uninsured as is deemed appropriate by the MHSC Board, provided Methodist's provision of care remains consistent with all applicable legal requirements.

10.8 Survival of Post-Closing Covenants. The covenants and agreements contained in Sections 10.2(a), and 10.6(e) shall continue to be fully effective and enforceable for two years following the Closing Date. The covenants and agreements contained in Sections 10.1(a)-(b) shall continue to be fully effective and enforceable for five years following the Closing Date. The covenants and agreements contained in Sections 10.2(b)-(e), 10.3(a)-(c), 10.5(c), 10.6(d), 10.6(i)-(l) and 10.7(g)-(j) shall continue to be fully effective and enforceable following the Closing Date without any time limitation; provided, however, upon ninety (90) days prior written notice to MHSC, IHS may act in a manner inconsistent with or contrary to the covenants and agreements contained in Sections 10.2(b)-(e), 10.3(a)-(c), 10.5(c), 10.6(d), 10.6(i)-(l) and 10.7(g)-(j) if IHS is able to demonstrate that the action it is proposing to take is consistent with the actions it has or is taking in respect to the Senior Affiliates subject to the same action, uniformly and consistently applied by IHS. The covenants and agreements contained in Sections 10.4(a)-(c), 10.5(a)-(b), 10.6(a)-(c), 10.6(f)-(h), 10.7(a)-(b), 10.7(c)(i)-(ii), 10.7(d)-(f) and 10.7(k)-(n) shall continue to be fully effective and enforceable following the Closing Date without any time limitation.

10.9 Scope of Post-Closing Covenants. "IHS", when used in this Article 10, is intended to include both IHS and all IHS Entities.

ARTICLE 11

DISPUTE RESOLUTION

11.1 Dispute Resolution Procedures. The Parties acknowledge that, after the Closing, disputes may arise between them regarding their respective rights, responsibilities, obligations and liabilities under this Agreement and in any document delivered at the Closing. Except as otherwise expressly set forth in this Agreement, IHS and MHSC shall resolve any disputes exclusively in accordance with the process set forth in this Article 11.

11.2 Dispute Resolution Procedures.

(a) **Dispute Notice.** If a dispute arises between the Parties with respect to the interpretation of this Agreement or either of the Party's respective rights and obligations hereunder, either Party may send a notice to the other specifying in detail the nature of the dispute (a "**Dispute Notice**").

(b) **Initial Meeting; Selection of Dispute Resolution Procedures.** Not later than ten (10) days after either Party sends a Dispute Notice, the Chair of the IHS Board or his or her designee and the Chair of the MHSC Board or his or her designee shall meet and, within ten (10) days thereafter, either: (i) select a mutually-acceptable process to resolve the issue in dispute; or (ii) at the request of either, jointly appoint a mediator.

(c) **Implementation of Alternate Dispute Resolution Process.** If the Chairs of the IHS and the MHSC Boards agree upon a process other than mediation to resolve the dispute, the Parties shall implement and follow the agreed process.

(d) **Inability to Agree Upon a Mediator.** If the Chairs of the IHS and the MHSC Boards cannot agree upon a process other than mediation to resolve the dispute, and also cannot agree upon a mediator within ten (10) days following the meeting described in Section 11.2(b), then each shall appoint a mediator acceptable to such Chair within the following ten (10) days, and the two mediators shall jointly appoint, within ten (10) days after the date on which the second mediator is appointed, a third mediator who, together with the other two mediators, shall mediate the issue in dispute. The mediators shall conduct the mediation in accordance with the American Health Lawyer's Association Alternative Dispute Resolution Service Rules of Procedure for Mediation or such other nationally-recognized mediation program as may be agreed upon by the Parties.

(e) **Good Faith Efforts to Resolve Dispute.** The Parties shall engage in a good faith effort to resolve the issue in dispute following their joint adoption of dispute resolution procedures, or the appointment of one or more mediators, within a thirty (30) day period following delivery of the Dispute Notice.

(f) **Costs and Expenses.** The Parties shall share equally the fees and expenses of the mediator(s) and such other costs and expenses as they shall mutually agree upon.

(g) **Inability to Resolve Dispute.** If the Parties are unable to resolve the dispute within sixty (60) days following delivery of the Dispute Notice, either Party may exercise all other legal and equitable remedies available to it.

11.3 Equitable Relief. IHS and MHSC hereby acknowledge that the breach or threatened breach of this Agreement would cause it to suffer immediate and irreparable harm which could not be wholly remedied through the payment of monetary damages. Consequently, without regard to the dispute resolution process described in Section 11.1 and Section 11.2, each Party shall have the right to seek specific performance and/or preliminary or permanent injunctive or other equitable relief (either pending or following a trial on the merits) to restrain a breach or threatened breach of this Agreement by the other Party or to enforce the covenants contained in this Agreement, in each case without the need to post bond or other security. Such remedies shall be in addition to, and not in lieu of, any other remedies that may be available at law or in equity.

11.4 Attorney's Fees and Costs. In any actions between the Parties brought before a court, the substantially non-prevailing Party shall bear the other Party's attorneys' fees and court costs (including, without limitation, costs of appeal). For the sake of clarity, this provision shall not apply to disputes which are resolved by the Parties outside of court through the process and procedures described in Section 11.1 and Section 11.2.

ARTICLE 12

WITHDRAWAL RIGHT

12.1 Right to Withdraw.

(a) Upon the occurrence of a Withdrawal Event (as hereafter defined), MHSC shall have the right to cease to be a Senior Affiliate, to withdraw the Service Area Entities and Assets from IHS, and to establish the Service Area Entities and Assets either as independently-governed entities or as an organized integrated health care delivery system which has no membership relationship or other affiliation with IHS or the IHS Entities (a "**Withdrawal Transaction**"). As used herein, a "**Withdrawal Event**" shall be deemed to have occurred if: (i) at any time after the Closing, IHS, an IHS Entity or one of their subsidiaries, affiliates or successors enters into a transaction that requires it or any party to operate Methodist Medical Center or any other Methodist business, facility, activity, service or operation as a Catholic facility subject to the Ethical and Religious Directives for Catholic Health Care Services without prior MHSC Board approval; (ii) at any time within seven (7) years after the Closing, IHS breaches, and fails to cure a material breach of, the Capital Commitment described in Section 2.5(a); or (iii) at any time within two (2) years after the Closing, IHS breaches, and fails to cure a material breach of, any material express covenant or warranty that served as a substantial inducement for MHSC to enter into this Agreement (other than the commitments described in Sections 12.1(a)(i) and (ii)).

(b) If, upon the occurrence of a Withdrawal Event, MHSC desires to effect a Withdrawal Transaction, it shall send to IHS a notice describing the Withdrawal Event and its intent to effect a Withdrawal Transaction (a "**Withdrawal Notice**"). If IHS reasonably and in

good faith disputes that a Withdrawal Event has occurred, it shall provide MHSC a Dispute Notice within ten (10) days following its receipt of the Withdrawal Notice, and thereafter the Parties shall attempt to resolve the dispute utilizing the process and procedures described in Article 11, or at either Party's option, may seek declaratory relief from a court of competent jurisdiction to adjudicate whether a Withdrawal Event has occurred.

12.2 Withdrawal Process.

(a) If a Withdrawal Event has occurred and MHSC has sent a Withdrawal Notice, the Parties shall take such actions as may be necessary or appropriate to effect a Withdrawal Transaction within one hundred eighty (180) days following the Withdrawal Date (or such other date upon which the Parties may agree), utilizing the process described in this Section 12.2. As used herein, "**Withdrawal Date**" shall mean the date upon which MHSC sends a Withdrawal Notice or such later date on which any reasonable, good faith disputes described in Section 12.1(b) are resolved or adjudicated.

(b) Within fifteen (15) days following the Withdrawal Notice, MHSC shall appoint to a committee (the "**Withdrawal Committee**") three (3) members of MHSC's Board of Directors who do not serve on the IHS Board of Directors (the "**MHSC Members**") and IHS shall appoint to the Withdrawal Committee three (3) members of the IHS Board of Directors (the "**IHS Members**"). Within fifteen (15) days following its formation, the Withdrawal Committee shall select an Independent Restructuring Expert; provided, however, that if the Withdrawal Committee cannot agree upon an Independent Restructuring Expert within such timeframe, then the MHSC Members (acting as a group) and the IHS Members (acting as a group) each shall select a Restructuring Expert, and the two Restructuring Experts so selected shall agree upon a third Restructuring Expert (the three Restructuring Experts to comprise an "**Expert Panel**"). The Restructuring Expert (or Expert Panel, as applicable) shall assist the Withdrawal Committee to identify, agree upon and implement the actions that are necessary or appropriate to effect a Withdrawal Transaction within the time periods described herein, including, without limitation: (i) the equitable transfer of assets (including, without limitation, the equitable allocation of the ownership and financial obligations relating to Service Area Entities and Assets (with the assumption that no party will be allocated assets or entities as part of the Withdrawal Transaction unless it also is allocated the outstanding debt that was used for the acquisition of assets or entities or for capital improvements which relate exclusively to such assets or entities); cash; accounts receivable; investments, real estate and equipment); (ii) the transfer and equitable allocation of liabilities (including payroll, taxes and accounts payable); (iii) the refunding by MHSC of any Bonds issued to finance or refinance Methodist facilities (whether at higher interest rates or less favorable terms than such existing interest rates and terms) which are at the time secured by IHS Master Obligations or guarantees or the entering by MHSC into contractual obligations (reasonably acceptable to IHS) to reimburse IHS for any payments made to pay such Bonds or to make any other payments under the documents relating to such Bonds, and the allocation, assumption and/or refinancing of indebtedness and credit supports; (iv) the transfer of professional and non-professional employees and contractors; (v) the assignment, termination, renewal, amendment or renegotiation of material contracts; (vi) the maintenance of payor relationships; (vii) the creation of new corporate entities and the application for tax exempt status; (viii) the securing of licenses and regulatory approvals; (ix) the implementation of amendments to governance documents; (x) the removal of officers and directors and the

reconstitution of boards; (xi) the implementation of changes to signage, stationary and branding; (xii) the licensure of intellectual property rights; and (xiii) the provision of transition services to be valued at fair market value designed to replace centralized corporate services or functions that were consolidated at IHS, all for a sufficient period of time (but in no event more than one hundred eighty (180) days after the effective date of the Withdrawal Transaction) to allow MHSC to develop such services and functions independently.

(c) Within ninety (90) days following the Withdrawal Date, the Withdrawal Committee shall identify and agree upon the actions that are necessary or appropriate to effectuate a Withdrawal Transaction (including, without limitation, those set forth in Section 12.2(b)). If the Withdrawal Committee cannot identify or agree upon all actions necessary to effectuate the Withdrawal Transaction, the open action items shall be submitted to the Independent Restructuring Expert (or Expert Panel, as applicable) for resolution. Within thirty (30) days of submission, the Independent Restructuring Expert (or Expert Panel, as applicable) shall issue a report (the "**Withdrawal Report**") which: (i) restates any agreed findings of the Withdrawal Committee; (ii) describes in detail any other actions that are necessary or appropriate to effect the Withdrawal Transaction within the time frames described herein (and the parties responsible therefore); (iii) sets forth the Independent Restructuring Expert's (or Expert Panel's, as applicable) conclusions, recommendations and findings with respect to all such actions; and (iv) allocates as between the Parties the costs associated with effecting the Withdrawal Transaction. As used herein, "**Withdrawal Transaction Commencement Date**" shall mean the date on which the Withdrawal Committee identifies and agrees upon the actions that are necessary or appropriate to effectuate a Withdrawal Transaction, or if applicable, the date upon which the Independent Restructuring Expert or Expert Panel, as applicable, issues the Withdrawal Report. The Parties shall be bound by the conclusions, recommendations and findings in the Withdrawal Report and shall take such actions described therein in order to effect a Withdrawal Transaction in accordance with the time periods described herein. Without limiting any other remedies available to the Parties at law or in equity, either Party shall be entitled to enforce the conclusions, recommendations and findings within the Withdrawal Report in a court of competent jurisdiction.

(d) The costs of the Independent Withdrawal Expert (and, if applicable, the cost of the Expert Panel) shall be borne by IHS. The costs of the Withdrawal Transaction shall be allocated between the Parties as agreed upon by the Withdrawal Committee or as specified in the Withdrawal Report.

(e) Following the Withdrawal Date and until a Withdrawal Transaction is consummated, the Parties shall: (i) operate, and permit each other to operate, the Service Area Entities and Assets exclusively in the ordinary course of their business, consistent with past practices and the terms of this Agreement; and (ii) take such actions as may be necessary or appropriate to preserve the goodwill of the Service Area Entities and Assets, including their physician, employee and payor relationships.

(f) In the event that a Withdrawal Transaction otherwise approved pursuant to this Section 12.2 cannot be immediately effectuated by IHS because of the inability of the IHS Obligated Group to comply with the financial covenants specified in any IHS bond documents, including the IHS Master Trust Indenture, upon the completion of the Withdrawal Transaction,

IHS shall promptly restructure such IHS operations or repay or refinance such IHS debt as necessary to permit completion of the Withdrawal Transaction within no more than ninety (90) days of the Withdrawal Transaction Commencement Date; if the Withdrawal Transaction still cannot be completed, IHS shall provide full contractual operational control of the assets subject to the Withdrawal Transaction to MHSC, shall continue to take all action to pursue prompt remedy of the issue and completion of the Withdrawal Transaction and, if the completion of such Withdrawal Transaction cannot be completed within 24 months of the Withdrawal Transaction Commencement Date, shall pay to MHSC its actual damages arising from such delay. The Parties acknowledge the difficulty of fashioning a remedy in advance for such an event and agree that this remedy is reasonable for the possible anticipated circumstances in which it may become operative.

(g) In the event that a Withdrawal Transaction otherwise approved pursuant to this Section 12.2 cannot be effectuated by MHSC because of the inability of MHSC to refund any Bonds or other obligations issued or incurred to finance or refinance Methodist facilities which are at the time secured by IHS Master Obligations or guaranties within no more than ninety (90) days following the Withdrawal Date, IHS shall provide full contractual operational control of the assets subject to the Withdrawal Transaction to MHSC, and MHSC (i) shall take all action necessary to assume the obligations to pay such Bonds and other obligations (including but not limited to securing financing to pay or refund such Bonds and other obligations at higher interest rates or less favorable terms than such existing interest rates and terms), to enter into such contractual arrangements as may be reasonably required by IHS to secure its obligations to pay such Bonds and other obligations, including securing such payments under its financing documents by a first lien on the gross receipts, revenues and other assets of Methodist and MMCI (and their affiliates, successors and assigns) and to pay the debt service and other payments on such Bonds and other obligations as the same become due, and (ii) in the event completion of such Withdrawal Transaction cannot be completed within 24 months of the Withdrawal Transaction Commencement Date, shall pay to IHS its actual damages arising from such delay. The Parties acknowledge the difficulty of fashioning a remedy in advance for such an event and agree that this remedy is reasonable for the possible anticipated circumstances in which it may become operative.

12.3 Non-Interference.

(a) The MHSC Board shall have the right to select and retain legal counsel, consultants and advisors to evaluate and enforce its rights under this Agreement, including, but not limited to, the rights described in this Article 12.

(b) MHSC shall have the right to enforce its rights under this Agreement, including, but not limited to, the rights described in this Article 12.

(c) The IHS Board shall have the right to exclude the MHSC appointed directors from the portions of the IHS Board meetings in which matters relating to the Withdrawal Transaction or to a dispute of a nature and kind that triggers the process set forth in Article 11 are discussed.

ARTICLE 13

MISCELLANEOUS PROVISIONS

13.1 Survival of Covenants. Unless stated to the contrary elsewhere in this Agreement, all covenants and agreements contained in this Agreement shall be deemed to be material and to have been relied upon by the Parties, and shall continue to be fully effective and enforceable following the Closing Date without any time limitation. "Covenants" and "agreements", as used herein, shall not include or incorporate representations and warranties.

13.2 No-Shop Clause.

(a) Between the Execution Date and the earlier to occur of the Closing or the termination of this Agreement, MHSC shall not, without the written approval of IHS: (i) offer to sell, convey, transfer or lease, directly or indirectly, to any Person any ownership, membership or lease interest in Methodist or its assets (other than for non-material portions conveyed in the ordinary course of business), including by asset sale, membership substitution, merger, consolidation, lease or similar transaction (individually, a **"Conflicting Transaction"**); (ii) solicit offers to enter into a Conflicting Transaction; (iii) hold discussions or communications with any Person interested in a Conflicting Transaction; or (iv) enter into any agreement with any Person in respect to a Conflicting Transaction.

(b) Between the Execution Date and the earlier to occur of the Closing or the termination of this Agreement, IHS shall not participate in discussions or communications with any Person other than MHSC located or doing business in the Primary Service Area for the purpose or with the intent of entering into a transaction similar to the transaction contemplated herein.

13.3 Non-Solicitation. Between the Execution Date and the earliest to occur of the Closing, the first anniversary of the expiration or earlier termination of the Letter of Intent, neither Party shall directly through its own efforts or indirectly through the efforts of others acting on its behalf, knowingly solicit, induce or recruit the services of any employee or independent contractor of the other Party (or of an affiliate of the other Party) if the other Party (or an affiliate of the other Party) employed or retained such individual at any time between March 28, 2011 and the date on which the Letter of Intent expired or terminated. Notwithstanding anything to the contrary contained herein, general solicitations published in a journal, newspaper or other publication or posted on an internet job site and not specifically directed toward particular employees, contractors or physicians will not constitute a breach of the covenants in this Section 13.3.

13.4 Amendment. This Agreement may be amended before or after the Closing only by a written instrument signed by IHS and MHSC.

13.5 Entire Agreement; Counterparts; Exchanges by Facsimile or Electronic Delivery. This Agreement and the other agreements, exhibits and schedules referred to herein constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof; provided,

however, that the Confidentiality Agreement shall not be superseded and shall remain in full force and effect in accordance with its terms. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument. The exchange of a fully executed Agreement (in counterparts or otherwise) by facsimile or by electronic delivery in .pdf format shall be sufficient to bind the Parties to the terms and conditions of this Agreement.

13.6 Applicable Law; Jurisdiction; Waiver of Jury Trial. This Agreement shall be governed by, and construed in accordance with, the laws of the state of Illinois, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. In any action between the Parties arising out of or relating to this Agreement or any of the transactions contemplated herein, each Party irrevocably and unconditionally consents and submits to the exclusive jurisdiction and venue of the United States District Court for the Central District of Illinois. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, TO IT THAT SUCH OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, TO IT THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH PARTY MAKES THIS WAIVER VOLUNTARILY AND (iv) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 13.6.

13.7 Further Assurances and Cooperation. After consummation of the transactions contemplated herein, the Parties shall cooperate with each other and take all further actions as may be necessary or appropriate to effectuate, carry out and comply with all of the terms of this Agreement, the documents referred to in this Agreement and the transactions contemplated hereby. Without limiting the generality of the foregoing, each Party shall execute, acknowledge and deliver to the other Party any and all other assignments, consents, approvals, conveyances, assurances, documents and instruments reasonably requested by the other Party and shall take any and all other actions reasonably requested by the other Party for the purpose of consummating the transactions contemplated herein.

13.8 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the respective successors and assigns of the Parties.

13.9 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given or made as follows: (i) if sent by registered or certified mail in the United States return receipt requested, upon receipt; (ii) if sent designated for overnight delivery by nationally recognized overnight air

courier (such as DHL or Federal Express), one (1) business day after mailing; and (iii) if otherwise actually personally delivered, when delivered, provided that such notices, requests, demands and other communications are delivered to the address set forth below, or to such other address as one Party shall provide by like notice to the other Party:

If to IHS:

Iowa Health System
1200 Pleasant Street
Des Moines, Iowa 50309
Attention: President and Chief Executive Officer

With a simultaneous copy to:

General Counsel
Iowa Health System
1200 Pleasant Street
Des Moines, Iowa 50309

If to MHSC:

Methodist Health Services Corporation
221 Northeast Glen Oak Avenue
Peoria, IL 61636
Attention: President and Chief Executive Officer

With a simultaneous copy to:

Dean A. Kant
McDermott Will & Emery, LLP
227 West Monroe Street
Chicago, IL 60606

13.10 Specific Performance. The Parties shall be entitled to apply for an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof, it being agreed that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached.

13.11 Construction.

(a) For purposes of this Agreement, whenever the context requires: the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; the feminine gender shall include the masculine and neuter genders; and the neuter gender shall include masculine and feminine genders.

(b) As used in this Agreement, the words "include" and "including," and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words "without limitation."

(c) Except as otherwise indicated, all references in this Agreement to "Articles", "Sections," "Exhibits" and "Schedules" are intended to refer to Articles and Sections of this Agreement and Exhibits and Schedules to this Agreement.

13.12 Headings. The section and other headings contained in this Agreement and in the exhibits and schedules to this Agreement are included for the purpose of convenient reference only and shall not restrict, amplify, modify or otherwise affect in any way the meaning or interpretation of this Agreement or the exhibits and schedules hereto.

13.13 No Waiver. No Party shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of the Party.

13.14 Exhibits and Schedules. All exhibits and schedules referred to in this Agreement shall be attached hereto and are incorporated by reference herein; provided, however, that any exhibit or schedule which is not attached hereto on the Execution Date shall be incorporated by reference herein upon the mutual agreement of the Parties to later attach such exhibit or schedule in compliance with the provisions of this Agreement. From the Execution Date until the Closing, either Party may update any exhibit or schedule as necessary, subject to the terms of this Agreement, with the other Party's consent and approval.

13.15 Assignability. Neither Party may assign or delegate this Agreement or its rights and obligations hereunder without the prior written consent of the other Party, and either Party's attempted assignment or delegation of this Agreement or any of its duties or obligations without the prior written consent of the other Party shall be void and of no effect.

13.16 No Third Party Rights. This Agreement shall be binding upon, and shall be enforceable by and inure solely to the benefit of, the Parties and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended to or shall confer upon any Person (other than the Parties) any right, benefit, or remedy of any nature whatsoever under or by reason of this Agreement.

13.17 Attorneys' Fees. Except as provided in Section 11.4, if a Party elects to institute an action at law or suit in equity to enforce this Agreement or its rights hereunder, the prevailing Party in such action or suit shall be entitled to receive its reasonable and documented attorneys' fees and all other reasonable costs and expenses incurred in such action or suit.

13.18 Cost of Contemplated Transactions. Whether or not the transactions contemplated herein are consummated: (i) IHS shall pay the fees, expenses, and disbursements of IHS and of the IHS Entities, and its and their agents, representatives, accountants, and legal counsel incurred in connection with the subject matter hereof and any amendments hereto and (ii) MHSC shall pay the fees, expenses, and disbursements of MHSC and of the MHSC Parties, and its and their agents, representatives, accountants, and legal counsel incurred in connection

with the subject matter hereof and any amendments hereto. Provided, however, IHS shall bear the filing fees incurred when filing the HSR Report, when applying for and obtaining a certificate of exemption or certificate of need from the IHFSRB, and when obtaining a "Phase I" environmental survey or audit on the real property of Methodist.

13.19 Public Announcement. Neither Party shall release, publish, or otherwise make available to the public in any manner whatsoever any information or announcement regarding the transactions herein contemplated without the prior written consent of the other Party, except for information and filings reasonably necessary to be directed to governmental agencies to fully and lawfully effect the transactions herein contemplated or required to comply with any continuing disclosure obligation of a Party with respect to its outstanding debt.

ARTICLE 14

DEFINITIONS

Capitalized words used in this Agreement but not otherwise defined shall have the meanings set forth below unless the context or use indicates another or different meaning or intent.

"Applicable Law" means all applicable Federal, state and local laws, statutes, ordinances, rules, regulations, codes and any judgment, decree, order, writ or injunction of any court or regulatory authority.

"Antitrust Laws" means the HSR Act and any other legal requirement that is designed to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor internal revenue law.

"Confidentiality Agreement" means the Confidentiality Agreement dated February 1, 2011 by and between MHSC and IHS.

"Entities" means the MHSC Entities or the IHS Entities, as applicable.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Ethical and Religious Directives" means the Ethical and Religious Directives for Catholic Health Care Services, approved, issued and amended from time to time by the United States Conference of Catholic Bishops.

"Executive Team" means the MHSC President; Senior Vice President, Chief Operating Officer, and Chief Nursing Officer; Senior Vice President of Finance and Chief Financial Officer; Senior Vice President, President of Methodist Medical Group; Senior Vice President and Chief Medical Officer; Vice President of Methodist Foundation; Vice President of Patient Services; Vice President of Finance; Vice President of Corporate Development; Vice President

of Patient Services; Vice President of Planning and Decision Support; Chief Information Officer; and Service Line Director, Human Resource Services.

"GAAP" means generally accepted accounting principles.

"Governmental Body" means any federal, state, local or municipal government, any governmental or quasi-governmental authority of any nature (including any government agency, branch, board, department, official, instrumentality or entity) or any body exercising or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

"Health Care Laws" means all Federal, state and local laws, statutes, rules, regulations, ordinances and codes applicable to health care providers and facilities; Federal and state health care program conditions of participation, standards, policies, rules, procedures and other requirements; and accreditation standards of any applicable accrediting organization. Health Care Laws include, without limitation, the following laws: the Federal (Title XIX of the Social Security Act) and state Medicaid programs and their implementing regulations, the Medicare Program (Title XVIII of the Social Security Act) and its implementing regulations, the Federal False Claims Act (31 U.S.C. §§3729 et seq.), the Federal Health Care Program Anti Kickback Statute (42 U.S.C. §1320a 7b(b)), the Federal Physician Self Referral Law (42 U.S.C. §1395nn), the Federal Administrative False Claims Law (42 U.S.C. §1320a 7b(a)), HIPAA and the HIPAA Privacy Rule, the HIPAA Security Rule and the HIPAA Standards for Transactions and Code Sets (42 U.S.C. 1320d 1329d 8; 45 C.F.R. Parts 160 and 164), the Federal Confidentiality of Alcohol and Drug Abuse Patient Records Act (42 U.S.C. 290ee 3), the Rehabilitation Act, the Americans with Disabilities Act, the Occupational Safety and Health Administration statutes and regulations for blood borne pathogens and workplace risks, and any state and local laws that address the same or similar subject matter. Health Care Laws also include Federal, state and local laws applicable to health care provider and facilities, including, without limitation, laws related to: Federal and state health care program billing, cost reporting, revenue reporting, payment and reimbursement; Federal and state health care program fraud, abuse, theft or embezzlement; procurement of health care services, human and social services, and other health related services; employee background checks and credentialing of employees; credentialing and licensure of facilities or providers of such services; zoning, maintenance, safety and operations of group homes, residential facilities and day programs, and other building health and safety codes and ordinances; certificate of need laws; state law restrictions on the corporate practice of medicine (or the corporate practice of any other health related profession); eligibility for Federal and state health care program contracting, including any requirements limiting contracting to nonprofit or tax exempt entities; patient information and medical record confidentiality, including psychotherapy and mental health records; splitting of health care fees; patient brokering, patient solicitation, patient capping, and/or payment of inducements to recommend or refer, or to arrange for the recommendation or referral of, patients to health care providers or facilities; standards of care, quality assurance, risk management, utilization review, peer review, and/or mandated reporting of incidents, occurrences, diseases and events; advertising or marketing of health care services; and the enforceability of restrictive covenants on health care providers.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"IHFSRB" means the Illinois Health Facilities and Services Review Board.

"Independent Legal Counsel" means an attorney or firm of attorneys that: (i) is satisfactory to MHSC and IHS; (ii) is of nationally recognized standing in the relevant field of law; (iii) is not employed by MHSC, or a MHSC Entity, or IHS, or an IHS Entity; and (iv) has not historically provided legal or other services to MHSC or IHS on a regular basis.

"Independent Health Care Consultant" means a consultant or firm of consultants that: (i) is satisfactory to MHSC and IHS; (ii) is of nationally recognized standing in the relevant field; and (iii) has not historically provided consulting services to MHSC or IHS on a regular basis.

"Independent Restructuring Expert" means an independent consultant or firm of consultants of nationally recognized standing who/which has substantial experience in the restructuring of not for profit health care systems and who/which has not historically provided material consulting or other services to MHSC or IHS.

"IHS Entities" means IHS, Central Iowa Health System, an Iowa nonprofit corporation, Trinity Regional Health System, an Illinois not for profit corporation, St. Luke's Healthcare, an Iowa nonprofit corporation, Allen Health Systems, Inc., an Iowa nonprofit corporation, Trinity Health Systems, Inc., an Iowa nonprofit corporation, St. Luke's Health System, Inc., an Iowa nonprofit corporation, Finley Tri-States Health Group, Inc., an Iowa nonprofit corporation, Iowa Physicians Clinic Medical Foundation, an Iowa nonprofit corporation, InTrust, an Iowa nonprofit corporation, Integrated Care Organization, an Iowa nonprofit corporation, Central Iowa Hospital Corp., an Iowa nonprofit corporation, Trinity Medical Center, an Illinois not for profit corporation, Unity Healthcare, an Iowa nonprofit corporation, St. Luke's Methodist Hospital, an Iowa nonprofit corporation, Allen Memorial Hospital Corporation, an Iowa nonprofit corporation, Trinity Regional Medical Center, an Iowa nonprofit corporation, Northwest Iowa Hospital Corp., an Iowa nonprofit corporation, The Finley Hospital, an Iowa nonprofit corporation, each of their successors and assigns, and each of their wholly-controlled or wholly-owned affiliates.

"IHS Hospitals" means the general acute care hospitals owned or operated by IHS Entities.

"IRS" means the Internal Revenue Service.

"Material Adverse Change" means any condition, change, event, violation, inaccuracy, circumstance or effect that individually or in the aggregate, could reasonably be expected to result in: (i) uninsured liabilities or losses (including, without limitation, lost revenues and asset values) exceeding One Million Dollars (\$1,000,000) as to MHSC; and Five Million Dollars (\$5,000,000) as to IHS; (ii) the inability of MHSC or the MHSC Entities or IHS or the IHS Entities to maintain their respective Section 501(c)(3) status or the tax exempt status of their respective real property or bonds; (iii) the inability of any of the MHSC Entities or IHS Entities that operate as licensed health care facilities to continue to operate as such licensed health care facilities; (iv) the debarment or exclusion of any MHSC Entity or IHS Entity from participation

in the Medicare or Medicaid programs; (v) the imposition of criminal sanctions or penalties; (vi) the cancellation or revocation of insurance coverage; (vii) final loss of accreditation by Methodist Medical Center or an IHS Hospital from The Joint Commission or other accreditation body; (viii) an inability of MHSC or a MHSC Entity or IHS or an IHS Entity to materially perform their respective obligations under the Agreement; (ix) the insolvency of a MHSC Entity or IHS Entity; (x) the downgrading of the credit rating of MHSC or a MHSC Entity or IHS or an IHS Entity, as applicable; or (xi) the acceleration of obligations under tax-exempt bond indebtedness of MHSC or an MHSC Entity or IHS or an IHS Entity. Notwithstanding anything to the contrary, "Material Adverse Change" shall not include: (A) changes in the financial or operating performance due to or caused by seasonal changes; (B) changes or proposed changes to any Applicable Law, reimbursement rates or policies of governmental agencies or bodies that are generally applicable to hospitals or healthcare facilities and that do not disproportionately affect the applicable entities; (C) requirements, reimbursement rates, policies or procedures of third party payors or accreditation commissions or organizations that are generally applicable to hospitals or healthcare facilities and that do not disproportionately affect the applicable entities; (D) general business, industry or economic conditions, including such conditions related to the business of the MHSC Entities, taken as a whole, or the IHS Entities, taken as a whole, that do not disproportionately affect the applicable entities; (E) local, regional, national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack, that do not disproportionately affect the applicable entities; (F) changes in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index) that do not disproportionately affect the MHSC Entities or the IHS Entities taken as a whole and as compared to other similar health care businesses; or (G) changes in GAAP.

"Methodist" means MHSC and all MHSC Entities.

"Methodist Medical Center" means the general acute care hospital owned and operated by The Methodist Medical Center of Illinois, an Illinois not for profit corporation.

"MHSC Entities" means MMCI, Methodist Foundation, Methodist Services, Inc., an Illinois not for profit corporation, Heartland Home Health Care, Inc., an Illinois corporation, Provider Resource Management, Inc., an Illinois corporation, and Methodist Physician Services, Inc., an Illinois corporation, each of their successors and assigns, and each of their wholly-controlled or wholly-owned affiliates.

"MMCI" means The Methodist Medical Center of Illinois, an Illinois not for profit corporation.

"MMG" means Methodist Medical Group, an operating division of Methodist Medical Center.

"Payment Programs" means the private, commercial and governmental payment and procurement programs in which a Party and its Entities are participating providers (including, without limitation, Medicare and Medicaid).

"Person" means any individual, partnership, limited liability company, corporation, joint venture, trust, business trust, cooperative or other association, political or governmental entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such Person.

"Primary Service Area" means the Illinois counties of Peoria, Woodford, Tazwell and Fulton.

"Secondary Service Area" means the Illinois counties of Bureau, De Witt, Henry, Knox, La Salle, Livingston, Logan, Marshall, Mason, McDonough, McLean, Menard, Putnam, Stark and Warren.

"Senior Affiliate" means a regional nonprofit integrated healthcare delivery system wholly owned by IHS and designated as such by the IHS Board.

"Service Area" means the Primary Service Area and the Secondary Service Area.

"Service Area Entities and Assets" means (i) MHSC, the MHSC Entities and their subsidiaries, affiliates and successors as of the Withdrawal Date; (ii) any affiliate or subsidiary of IHS or the IHS Entities which, as of the Withdrawal Date, operates businesses, facilities and/or service lines primarily within the Service Area; (iii) the assets, businesses, facilities, service lines and operations of the foregoing entities; and (iv) the assets, businesses, facilities, service lines and operations of IHS and other IHS Affiliates which, as of the Withdrawal Date, are or historically have been operated or utilized primarily within the Service Area. However, as to Service Area Entities and Assets established after the Closing of the transactions described in this Agreement, MHSC (i) shall have the option to purchase the Service Area Entities or Assets if the Assets are not on Methodist's financial balance sheet, or (ii) if the Assets are on MHSC's financial balance sheet, pay to IHS any debt owed to IHS on the Service Area Entities and Assets.

"Tax Returns" means all federal, state, county, local and foreign tax returns and reports.

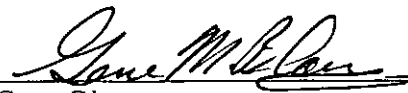
"Total Operating Revenue" means net patient revenue plus other operating revenue of the Senior Affiliate integrated delivery system.

"TRHS" means Trinity Regional Health System.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed on the date first above written.

(Signatures on Next Page)

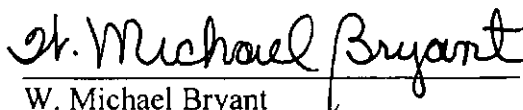
IOWA HEALTH SYSTEM

BY: 
Gene Blanc
Chair of the Board of Directors

BY: 
William Leaver
President and Chief Executive Officer

**METHODIST HEALTH SERVICES
CORPORATION**

BY: 
Karen Stumpe
Chair of the Board of Directors

BY: 
W. Michael Bryant
President and Chief Executive Officer

17. **FINANCIAL INFORMATION.** Per 77 IAC 1130.520(b)(3), an applicant must demonstrate it has sufficient funds to finance the acquisition and to operate the facility for 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch, Moody or Standard and Poor's rating agencies or evidence of compliance with the financial viability review criteria (as applicable) to the type of facility being acquired (as specified at 77 IAC 1120). Append as **ATTACHMENT #6**.

Iowa Health System and Methodist Health Services Corporation each currently holds a bond rating of "A" or better. The financial information for Iowa Health System and Methodist Health Services Corporation are attached as part of Attachment #6.

**New Issue: Iowa Health System**

MOODY'S ASSIGNS Aa3 RATING TO IOWA HEALTH SYSTEM'S \$50 MILLION OF SERIES 2009F-G BONDS; Aa3 AFFIRMED ON SERIES 2005A, SERIES 2008A BONDS WHICH ARE BEING CONVERTED TO FIXED RATE; OUTLOOK IS STABLE

IOWA HEALTH SYSTEM WILL HAVE A TOTAL OF \$673 MILLION OF RATED DEBT TO BE OUTSTANDING

Iowa Finance Authority
Health Care-Hospital
IA

Moody's Rating**ISSUE****RATING**

Series 2009F and G

Aa3

Sale Amount \$50,000,000

Expected Sale Date 07/23/09

Rating Description Health Care Revenue Bonds

Moody's Outlook Stable

Opinion

NEW YORK, Jul 13, 2009 -- Moody's Investors Service has assigned an Aa3 rating to Iowa Health System's (IHS) \$50 million of Series 2009F-G revenue bonds to be issued by the Iowa Finance Authority. The outlook is stable. The Series 2009F-G bonds will either be structured as fixed rate bonds or long-term mode bonds (although not less than a three-year mode). The structure will be determined at pricing. Concurrent with this financing, IHS will be converting the Series 2005A bonds (\$201.27 million) and Series 2008A (\$150 million) bonds to fixed rate from variable rate bonds. The Series 2005A and Series 2008A bonds are each insured by Assured Guaranty with various standby bond purchase agreements. The insurance policies will remain outstanding. Assured Guaranty is currently rated Aa2 and on Watchlist for possible downgrade. At this time, we are affirming our Aa3 underlying ratings on all of IHS' outstanding bonds (see RATED DEBT section below).

USE OF PROCEEDS: The bond proceeds along with an equity contribution will be used to: (1) provide \$50 million in funds for the West Des Moines new hospital project; and (2) pay the costs of issuance.

LEGAL SECURITY: The bonds will be secured by a joint and several obligation of the Obligated Group. The Obligated Group consists of the majority of the system, including Iowa Health System, Central Iowa Health System, Central Iowa Hospital Corporation d/b/a Iowa Methodist Medical Center and d/b/a Iowa Lutheran Hospital, Central Iowa Health Properties Corporation, St. Luke's Healthcare, St. Luke's Methodist Hospital, Allen Health Systems, Inc., Allen Memorial Hospital Corporation, St. Luke's Health Systems, Inc., Northwest Iowa Hospital Corp. d/b/a St. Luke's Regional Medical Center of Sioux City, St. Luke's Health Resources, Finley Tri-States Health Group, Inc., The Finley Hospital, Trinity Health Systems, Inc., Trinity Regional Medical Center of Fort Dodge, Iowa, Trinity Regional Health System, Trinity Medical Center d/b/a Trinity Medical Center - West, and d/b/a Trinity Medical Center - Terrace Park Campus, and d/b/a Trinity Medical Center - 7th Street Campus, In Trust, d/b/a Iowa Health Home Care and Iowa Physicians Clinic Medical Foundation d/b/a Iowa Health Physicians. The Obligated Group makes up over 90% of the system's total assets. Current Obligated Group Members may withdraw from the Obligated Group and other entities may become Obligated Group Members, all in accordance with the provisions of the Master Trust Indenture.

INTEREST RATE DERIVATIVES: IHS has entered into six interest rate swap agreements for hedging purposes on existing debt for an aggregate notional amount of \$595 million maturing in 2023 through 2037. The notional amount of each swap declines annually with a corresponding decline in principal outstanding, and IHS' obligations under the swap agreements are secured on parity with bonds issued under the Master Indenture. IHS has additional swap agreements that are not direct hedges against debt including \$81 million notional amount under which IHS pays a fixed rate and receives a variable rate, with the agreements maturing in 2010, and \$81 million notional amount under which IHS pays a variable rate based on SIFMA

and receives a fixed rate and matures in 2030. IHS has optional termination rights with respect to the swap agreements and the counterparties may terminate the swaps only if certain conditions are met. The total net market value of the swaps as of January 31, 2009 was a liability of \$110 million. As of May 31 2009, no collateral posting was required. IHS will not be terminating any of the swaps associated with the Series 2005A and Series 2008A bonds given their current mark-to-market value but may look to do so if rates improve.

STRENGTHS

*Largest health care system in Iowa with hospitals in seven markets resulting in strong geographic diversity; total operating revenues of \$2 billion in fiscal year (FY) 2008

*Strong market position in key urban markets across Iowa and bordering western Illinois with several leading or near leading market positions providing good contracting leverage with payers

*Favorable Moody's-adjusted maximum annual debt service coverage of over four times on FY 2008 results but below historical levels given the increase in debt and weaker FY 2008 performance

*System operating cash flow margin remains in the 8.9%-10.5% range in each of the past six years

*Operating profitability in all seven markets in both FY 2007 and FY 2008

*Less risky debt structure with this financing and conversion of some of the outstanding debt as variable rate debt will now represent 40% of total debt outstanding, a noted improvement from a nearly all-variable rate structure (before interest rate swaps) currently

CHALLENGES

*Two-thirds of system operating revenues derived from three urban markets operating with strong competitive pressures

*In the middle of a sizable capital investment strategy, with capital plans of \$500 million over the period 2008-2010 that includes expansion within the state as well as renovation and equipment upgrades at existing facilities, including a new hospital in West Des Moines under construction and scheduled to open in late 2009

*Weakened liquidity at the end of FY 2008 due to market challenges, driving cash to decline 20% to \$762 million (151 days cash) by fiscal yearend (FYE) 2008 from \$956 million (205 days cash) at FYE 2007; we note with favor that cash to variable rate debt will improve to a 295% from 118% at the end of FY 2008 with the upcoming conversions and issuance of \$50 million (assuming that the \$50 million is fixed rate debt and not long-term put bonds)

RECENT DEVELOPMENTS/RESULTS

Since our last report dated February 20, 2009, IHS' financial performance through the five months ending May 31, 2009 is showing improvement. The year-to-date operating margin has improved to 2.9% compared to 2.0% in full FY 2008 while the operating cash flow margin has reached 9.6% compared to 8.9%, respectively. However, inpatient volumes continue to show a material decline of -6.4% through the first five months of FY 2009 over the prior year comparable period which is unfavorable to management's forecast. All markets are showing lower inpatient volumes and are contributing to the current below average revenue growth rate of 3.8%. In contrast, outpatient activity has been strong and adjusted admissions are actually up 5.3% over the same period. Nonetheless, management expects to reach its FY 2009 budget through a number of expense reduction strategies and projects an operating cash flow margin of 9.6%. While reaching the FY 2009 budget will be an improvement over FY 2008, these levels are still somewhat lackluster for a system of this size and state-wide presence.

Leverage will increase by \$50 million with this financing. Earlier plans to make a \$50 million equity contribution to the new West Des Moines hospital will be replaced with this debt offering. Combined with the new debt issued in FY 2008, leverage will increase by 36% over FY 2007, warranting the need for an improvement in financial performance. With the conversion of the Series 2005A, Series 2008A variable rate bonds to fixed rate and the issuance of the Series 2009F-G bonds (either as fixed rate or long-term put bonds), the organization's debt structure is more palatable with a only 40% variable rate debt from nearly 100% variable rate debt (before interest rate swaps) as currently structured. Cash-to-variable rate debt improves to 295% (assuming the Series 2009F-G bonds are fixed rate) from a weaker 120%.

For more information on Iowa Health System, please see our report dated February 20, 2009.

Outlook

The stable outlook reflects our belief that IHS will improve operating performance and operating cash flow in FY 2009, and will strengthen its financial position and liquidity while supporting future capital plans.

What could change the rating--UP

Material strengthening of balance sheet metrics; sizable growth in operating cash flow to strengthen debt coverage measures further; strengthening of market positions in key markets

What could change the rating--DOWN

Decline in operating cash flow that weakens debt measures; material increase in debt load; further weakening of liquidity; material market share loss in key markets

RATED DEBT (debt outstanding as of May 31, 2009)

-Series 2009A and B (\$110.5 million outstanding), rated Aaa/VMIG1 reflecting letter of credit with JP Morgan Chase and Aa3 rating of IHS

-Series 2009C (\$31.75 million outstanding), rated Aaa/VMIG1 reflecting letter of credit with Wells Fargo and Aa3 rating of IHS

-Series 2009D-E (\$102.0 million outstanding), rated Aaa/VMIG1 reflecting letter of credit with Bank of America and Aa3 rating of IHS

-Series 2008A (\$150.0 million outstanding), rated Aa2/VMIG1, insurance by Assured Guaranty currently rated Aa2 on watchlist for downgrade, with standby bond purchase agreements from Landesbank Baden-Wuerttemberg (LBBW), with sub-series 1 (\$75 million) expiring May 19, 2011 and sub-series 2 (\$75 million) expiring May 19, 2010; Aa3 underlying long-term rating; to be converted to fixed rate

-Series 2005A (\$201.27 million outstanding), rated Aa2/VMIG1, insured by Assured Guaranty currently rated Aa2 on watchlist for downgrade, with standby bond purchase agreements from US Bank (sub-series A-1, expiring May 19, 2009), JPMorgan Chase Bank (sub-series A2, expiring May 19, 2011), and Wells Fargo Bank (sub-series A3, expiring May 19, 2011); each sub-series is originally for \$67.09 million; Aa3 underlying long-term rating; to be converted to fixed rate

-Series 2000 fixed rate bonds issued through Iowa Finance Authority (\$3.0 million outstanding), rated Aa3

-Series 2000 fixed rate bonds issued through Illinois Health Facilities Authority (\$1.4 million to outstanding), rated Aa3

-Series 1985B variable rate bonds supported by a bank letter of credit from Bank of New York Mellon (The) expiring March 23, 2011 (\$23.0 million outstanding), rated Aaa/VMIG1

CONTACTS

Obligor: Mr. Kevin Vermeer, Executive Vice President/Chief Financial Officer, Iowa Health System (515) 241-6550

Underwriter: Mr. Peter Reilly, Executive Director, J.P. Morgan (415) 315-7863

The last rating action was on February 20, 2009 when Iowa Health System's Aa3 rating was affirmed with a stable outlook.

The principal methodology used in rating Iowa Health System was Not-For-Profit Hospitals and Health Systems, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating Iowa Health System can also be found in the Credit Policy & Methodologies directory.

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Lisa Goldstein
Analyst
Public Finance Group
Moody's Investors Service

Mark Pascaris

Contacts

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Research Clients: (212) 553-1653

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MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."



Fitch : Info Center : Press Releases

Fitch Rates Iowa Health System's (Iowa) 2009F&G Revs 'AA-'; Outlook Stable Ratings

13 Jul 2009 2:31 PM (EDT)

Fitch Ratings-New York-13 July 2009: Fitch Ratings has assigned 'AA-' ratings to the Iowa Finance Authority's expected issuance of approximately \$50 million revenue bonds, series 2009F-G, issued on behalf of Iowa Health System (IHS). In addition, Fitch affirms the 'AA-' underlying ratings on approximately \$600 million of bonds issued for IHS. The Rating Outlook is Stable.

The preliminary plan of finance includes issuance of \$50 million series 2009F&G bonds as uninsured traditional fixed-rate bonds and long-term interest rate mode bonds, and a fixed-rate reoffering of \$201.3 million of series 2005A variable-rate demand bonds and \$150 million of series 2008A variable-rate demand bonds. Both the series 2005A and series 2008A bonds are insured by Assured Guaranty, which is currently rated 'AA' and on Rating Watch Evolving by Fitch. Proceeds from the series 2009 bonds will be used to fund various renovations and improvements at its facilities in Dubuque, Sioux City, West Des Moines and Waterloo and to pay related costs of issuance. The bonds are expected to be priced/reoffered during the week of July 20, 2009 through negotiated sale.

The rating of 'AA-' is supported by IHS' geographic diversity and breadth of coverage throughout the State of Iowa, solid liquidity measures, and solid historical coverage of proforma debt service coverage. IHS is the largest provider of health care services in Iowa, as one out of every four Iowans receives care from IHS. In total, the organization operates 14 hospitals, 142 physician clinics, and is affiliated with 12 community network hospitals and serves seven main population centers in Iowa. IHS' largest markets are located in Des Moines, Cedar Rapids, and the Quad Cities, which comprise approximately 67% of IHS' total operating revenues. As of May 31, 2009 (unaudited), IHS had approximately \$801.6 million of unrestricted cash and investments, which translates into approximately 163 days cash on hand, a cushion ratio of 17.8 times, and cash to debt of 130%. Expected to open in late 2009, IHS' new hospital construction in West Des Moines is nearly complete as the hospital is ahead of budget and schedule, which Fitch views positively.

With the exception of fiscal 2008, historical coverage of proforma maximum annual debt service (MADS) by EBITDA has been on a positive trend over the last four years and is consistent with Fitch's 'AA' peers. From fiscal 2002 through fiscal 2007, IHS posted year over year improvement in coverage of proforma MADS from 3.6 times (x) in 2002 to 5.2x in fiscal 2007. In fiscal 2008, proforma MADS coverage by EBITDA dipped to 2.6x reflecting the impact of realized losses on investments. Coverage by operating EBITDA in fiscal 2008 was a solid 4.0x. In Fitch's analysis, proforma maximum annual debt of \$45 million excludes a \$23 million bullet maturity occurring in 2015, which is expected to be refinanced prior to maturity.

Credit concerns include significant competition in most regions and flat utilization trends. IHS faces significant competition in the six regions producing 90% of its overall revenue base, three of which include Mercy Health Network (part of Catholic Health Initiatives and Trinity Health System; revenue bonds rated 'AA' by Fitch). IHS maintains a secondary market position in the Dubuque, Sioux City and the Quad Cities regions. Inpatient admissions have remained relatively flat for the past three fiscal years as inpatient admissions totaled 101,680 in fiscal 2008, which represents a slight increase from fiscal 2005's total of 99,740. Fitch believes that maintaining operating profitability will be achieved through cost control and improving efficiency.

As of June 30, 2009 IHS was a counterparty to 17 separate interest-rate swap agreements with a total notional value of \$756.8 million. Approximately \$600 million of IHS' swap transactions are fixed payor swaps that synthetically convert underlying variable-rate bonds to a fixed-rate obligation. Roughly \$161 million of total swap exposure represent swap transactions that offset one another. As of June 30, 2009, the aggregate mark-to-market on IHS' swap portfolio was negative \$48.2 million. However, IHS is not required to post collateral due to swap insurance on \$351.3 million of its swap agreements provided by Assured Guaranty.

As an additional note, Fitch has withdrawn its 'AA-' long-term rating on the following bond:

--Iowa Finance Authority (IA) (Iowa Health System) hospital facility revenue bonds series 1998A.

The rating withdrawal is in conjunction with the advanced refunding of the above-referenced bonds.

Iowa Health System, headquartered in Des Moines, IA comprises 12 hospitals in Iowa and two hospitals in Illinois (2,065 aggregate staffed beds), 482 employed or contracted physicians and various other health care related entities. In fiscal 2008

total operating revenue was almost \$2 billion. IHS covenants to provide to bondholders annual disclosure of audited financial statements within 180 days of each fiscal year end. It is management's practice to file annual and quarterly financial information and utilization data with the NRMSIRs, as well as with DAC and on the IHS web site.

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MOODY'S ASSIGNS A2 RATING TO METHODIST MEDICAL CENTER'S (IL) \$51.2 MILLION SERIES 2011B BONDS; OUTLOOK IS STABLE

\$51.2 MILLION RATED DEBT TO BE OUTSTANDING

Methodist Medical Center of Illinois
Illinois Health Facilities Authority
Health Care-Hospital
Illinois

Moody's Rating

Issue	Rating
Variable Rate Demand Revenue Bonds, Series 2011B	A2[1]

Sale Amount \$51,220,000

Expected Sale Date 05/11/11

Rating Description Health Care Revenue

[1] expected to be supported by LOC from PNC Bank

Moody's Outlook - Stable

NEW YORK, May 10, 2011 -- Moody's Investors Service has assigned an A2 underlying rating to Methodist Medical Center of Illinois' (MMCI) \$51.2 million of Series 2011B variable rate demand bonds to issued by the Illinois Finance Authority. The Series 2011B bonds will be backed by a letter of credit from PNC Bank, N.A and carry a joint default rating. Please see Moody's Fully Supported Research for further detail. The rating outlook is stable. The rating applies to the rated debt listed at the conclusion of this report. In addition, the issuer expects to privately place \$63.8 million of Series 2011A fixed rate bonds concurrent with this issuance; our analysis incorporates aggregate debt to be outstanding.

SUMMARY RATING RATIONALE: The A2 rating for MMCI reflects its solid market presence in a highly competitive service area, continued favorable operating performance and good cash flow generation providing for healthy coverage of a modest debt load.

STRENGTHS

*Balance sheet profile is healthy with unrestricted cash of \$166.0 million, excluding \$13 million of swap collateral, as of FYE 2010. Cash net of collateral equates to 180 days cash and 142% pro-forma cash-to-debt, comparing favorably to A2 medians of 169 days and 132% cash-to-debt

*Conservative approach to financing capital needs, resulting in a well below average debt burden. Based on FY 2010: 2.9 times pro-forma debt to cashflow and 32% debt to revenue

*Stable to growing market share position of 31%; strategic expansion initiatives aimed at building alliances with hospitals, payers and physicians will likely continue to fortify MMCI's position

*Sizable and growing employed physician group, Methodist Medical Group (MMG), accounts for a growing percentage of MMCI admissions and reduces System's dependency on the greater Peoria independent physician market

*Success in signing Caterpillar Network Products that has brought access to 10,000 HMO lives in the market during CY 2009 and an additional 60,000 PPO lives in summer 2010

*MMCI will receive \$11.4 million in net funds annually from the Illinois Hospital Assessment Program through June 30, 2014

CHALLENGES

*Though still profitable, operating and cash-flow margins have declined for two consecutive years

*Losses incurred by MMG have grown as a result of having added 29 providers in FY 2010 and will likely to continue to pressure margins in the near to midterm

*Peoria remains a challenging market, subject to shifting alliances between physicians, hospitals and payers,

* Modest demographics of greater Peoria market

*Historically large swap program which has contributed to a high degree of variability in unrestricted cash balances; it is expected that the swap program will be reduced materially with the issuance of the Series 2011 bonds

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: The proceeds of the Series 2011A&B bonds will be used to:

refinance all existing debt and the bank line; pay a portion of the costs to terminate an interest rate swap agreement; and pay certain costs of issuance

LEGAL SECURITY: Unrestricted receivables of MMCI; negative mortgage lien

INTEREST RATE DERIVATIVES: MMCI currently has a very large swap program with a total notional amount of \$210 million; however it is expected that the forward starting swap will be terminated with proceeds from this issuance and cash.

Historically the swap program increased the variability of cash balances due to the need to post collateral as substantiated by MMCI's need to post \$13.6 million of collateral as of December 31, 2010.

After this transaction there will be just one floating-to-floating rate swap (basis swap) outstanding with a notional amount of \$60 million. The second swap, a forward-starting floating-to-fixed rate swap with a notional amount of \$150 million, is expected to be terminated. Morgan Stanley is the counterparty on both swaps.

DEBT STRUCTURE: Following the issuance of Series 2011A&B bonds, 47% of debt outstanding will be variable with a demand feature

MARKET POSITION/COMPETITIVE STRATEGY:

The Peoria market remains dynamic and challenging, exhibiting relatively weak socio-economic indicators that are below average as well as shifting alliances between physicians, hospitals and payers. MMCI captures a solid and growing 31% market share. St. Francis Hospital, the flagship of the OSF Healthcare System (debt rated A3), remains the leading provider in Peoria with a stable and distinctly leading, 53% market share. Proctor Hospital (debt rated Ba1) captures a distant 13% market share.

Most physician specialists are organized into large groups that tend to control sizable volume and have considered or opened competitive facilities.

In response, MMCI has built a sizable employed physician group (MMG; 167

providers) which materially tempers system margins but strengthens alliances and protects volumes from competitors. MMG, and physicians that are affiliated with MMCI, are also critical to strategies aimed at enhancing service lines and ambulatory access points as MMCI looks to address the parameters of health reform. To that end, Methodist will look to further align with independent physicians either through employment, joint ventures, or management agreements. At this point, however, most large physicians groups are aligned with MMCI or a competitor, providing some greater stability going forward in physician referrals.

The payer environment in Peoria continues to be in flux. MMCI has secured contracts with Caterpillar and, given the size of these contracts, could capture sizeable market share historically garnered by Saint Francis. While, Saint Francis maintains its exclusive contract with Humana (which purchased OSF's Health Plan) and Blue Cross, the trend in the area toward more inclusive contracts is an opportunity for MMCI to capture once elusive market share in the near to mid-term.

MMCI has entered into a non-binding letter of intent (LOI) to explore a strategic partnership with Iowa Health System (rated Aa3). The impact of such a partnership has not been incorporated into this rating action, however, we see opportunity for quality collaboration and expense savings related to administrative and purchasing functions, but no clinical consolidation.

OPERATING PERFORMANCE:

In audited FY 2010, MMCI recorded an operating income of \$8.2 million (2.2% operating margin) and operating cash flow of nearly \$34 million (9.2% operating cash flow margin). Revenue growth in 2010 of 6.1% is above industry median of 4.2%, largely reflecting Methodist's recent inclusion in Caterpillar contracts and strong outpatient volume trends. Operating cash flow translated into an above average 5.6 times pro-forma maximum annual debt service coverage and a very low (favorable) 2.9 times pro-forma debt-to-cashflow. Though margins have tempered in each of the last few years due to relatively flat inpatient volume trends, increased pension obligations, and one-time affiliation expenses, Methodist has been able to control expenses including labor, supplies, and purchased services to adjust to the economic recession.

Looking forward, management anticipates that access to Caterpillar contracts will translate into top line growth in FY 2011 and beyond.

BALANCE SHEET POSITION:

Unrestricted cash and investments increased modestly to \$166.2 million, excluding swap collateral of \$13 million, from \$160 million at FYE 2009.

Though slightly better on an absolute basis, expense growth outpaced liquidity build with cash on hand declining modestly to a still healthy 180 days (A2 median is 169 days) from 185 days at FYE 2009. After the current refinancing cash-to-debt will remain an adequate and above average 142% (A2 median is 132%). Investments are allocated among: 28% equities; 60% fixed income and cash/cash equivalents; and 11% in hedge funds; with \$146 million available on a monthly basis. Monthly liquidity provides over 3 times coverage of pro-forma demand debt. Plans for significant new bonded debt related to master facility redevelopment are indefinitely delayed.

OUTLOOK:

The stable outlook reflects our belief that MMCI will maintain its market position and continue to generate good operating results and maintain liquidity.

What could change the rating--UP

Strengthened operating performance and related margins; fortified liquidity ratios

What could change the rating--DOWN

Continued decline in financial performance; material increase in debt; decline in unrestricted cash

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Methodist Health Services Corporation and Subsidiaries

-First number reflects audit year ended December 31, 2009

-Second number reflects audit year ended December 31, 2010, with Series 2011A&B bonds

-Investment returns smoothed at 6% unless otherwise noted

*Inpatient admissions: 15,186; 15,034

*Total operating revenues: \$345.5 million; \$366.5 million

*Moody's-adjusted net revenue available for debt service: \$42.4 million; \$44.6 million

*Total debt outstanding: \$94.4 million; \$116.8 million

*Maximum annual debt service (MADS): \$6.6 million; \$7.9 million

*MADS Coverage based on reported investment income: 7.4 times; 6.0 times

*Moody's-adjusted MADS Coverage: 6.4 times; 5.6 times

*Debt-to-cash flow: 2.4 times; 2.9 times

*Days cash on hand: 185 days; 180 days

*Cash-to-debt: 170%; 142%

*Operating margin: 2.9%; 2.2%

*Operating cash flow margin: 9.3%; 9.2%

RATED DEBT

Series 1998 bonds, fixed rate, MBIA insurance policy - to be refunded

Series 2011B, variable rate demand bonds supported by letter of credit from PNC Bank, A2 underlying

CONTACTS

Issuer: Calvin MacKay, Senior Vice President / Chief Financial Officer, (309)

672-5931

Underwriter: David Gallin, Morgan Stanley, (212) 762-8269

Financial Advisor: Glenn Wagner, Kaufman Hall, (847) 441-8780

The last rating action was on January 28, 2011 when we affirmed the A2 rating and stable outlook

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Not-for-Profit Hospitals and Health Systems published in January 2008.

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Healthcare New Issue

Methodist Medical Center of Illinois Illinois Finance Authority

Ratings

Approximately \$52,000,000
Illinois Finance Authority
(Methodist Medical Center of
Illinois) Variable-Rate Demand
Revenue Bonds, Series 2011B* A

*The bonds are expected to be supported
by a letter of credit from PNC Bank.

Rating Outlook

Stable

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New Issue Details

Sale Information: Illinois Finance
Authority variable-rate demand revenue
bonds, series 2011B, expected to sell
the week of May 9 via negotiation.
Security: Pledge of unrestricted
receivables of the obligated group.
Purpose: To pay off a drawn line of
credit, pay a portion of swap termination
fees, and pay costs of issuance.
Final Maturity: 2040.

Related Research

For information on Build America Bonds,
visit www.fitchratings.com/BABs.

Applicable Criteria

- *Nonprofit Hospitals and Health
Systems Rating Criteria, Dec. 29, 2009*
- *Revenue-Supported Rating Criteria,
Oct. 8, 2010*

Rating Rationale

- The 'A' rating is supported by Methodist Medical Center of Illinois' (Methodist) strong balance sheet metrics, light leverage, and physician alignment strategy with employed physicians accounting for more than 65% of admissions.
- A primary credit concern is the competitive environment, with Methodist maintaining the second largest market share position among three providers in a service area dominated by one large employer.
- Although capital plans are manageable, Fitch Ratings believes the competitive environment may put pressure on capital spending in the medium to near term.

Key Rating Drivers

- Methodist's ability to maintain strong liquidity and solid operating profitability.
- On March 29, 2011, Methodist executed a nonbinding letter of intent to explore a strategic partnership with Iowa Health System (revenue bonds rated 'AA-' by Fitch). Should both parties agree to a partnership agreement, an upward movement in Methodist's rating could occur, depending on the final terms of the agreement.

Credit Summary

Methodist is located in Peoria, IL, approximately 150 miles southwest of Chicago and roughly 170 miles northeast of St. Louis, MO. Methodist is a 329-licensed-bed regional tertiary medical center and generated \$366.5 million in total operating revenues in 2010. Methodist will covenant to provide annual and quarterly disclosure to bondholders through the Municipal Securities Rulemaking Board's EMMA system, with quarterly statements no later than 60 days after the end of the first three fiscal quarters and annual statements no later than 120 days after the fiscal year end.

The 'A' rating is based primarily on Methodist's strong liquidity position, light leverage, adequate profitability, and physician alignment strategy.

Days cash on hand equaled 193.8 days as of Dec. 31, 2010 (fiscal year end), relative to the 'A' rating category median of 183.8 days. After the series 2011 issuance, cash to debt is expected to equal approximately 190%, while the cushion ratio is expected to equal about 20.2x. Both ratios exceed the 'A' category medians of 105.5% and 14.4x, respectively.

Methodist's debt burden is manageable, with pro forma maximum annual debt service (MADS) comprising 2.2% of total revenues, compared with the 'A' rating category median of 3.0%. Solid operating cash flow resulted in pro forma operating EBITDA MADS coverage of 4.1x in 2010 and 3.9x in 2009, relative to the 'A' category median of 3.3x.

The operating margin peaked in 2008 at 5.5% and decreased to 2.5% in 2010, relative to the 'A' category median of 3.0%. The decrease was primarily due to an increase in employed physicians and pension expense.

New Issue Details

Methodist expects to issue a total of \$115 million of series 2011 bonds in two series through the Illinois Finance Authority. A total of approximately \$63 million is expected to be

Rating History

Rating	Action	Outlook/ Watch	Date
A	Assigned	Stable	5/4/11

structured as fixed-rate debt (series 2011A bonds), and roughly \$52 million is expected to be structured as variable-rate demand bonds secured by a direct-pay letter of credit from PNC Bank (series 2011B bonds).

Proceeds from the series 2011A fixed-rate bonds will be privately placed with PNC and currently refund the series 1998 bonds with about \$54 million of par now outstanding. The series 2011B bonds will refinance the drawn portion of Methodist's operating line of credit (\$48 million), partially fund the termination payment for the forward-starting fixed-payor swap, and pay costs of issuance. The swap had a negative mark-to-market value of approximately \$27.2 million as of April 2011.

In conjunction with the issuance of the series 2011 bonds, Methodist's master trust indenture (MTI) will be amended. Amendments are expected to modernize the indenture's definitions but are not expected to alter any covenants. Management expects to receive a new operating line of credit from PNC in the amount of \$20 million in 2011 but has no plans to make any draws on the new line of credit.

Repayment of the series 2011 bonds will be governed by the amended MTI dated May 12, 2011 and is secured by a pledge of the obligated group's unrestricted receivables. The bonds will not be secured by a mortgage on property or equipment.

Operating covenants under the MTI are standard and include a minimum MADS coverage of 1.10x. Additionally, Methodist is subject to the following financial covenants per the letter of credit with PNC:

- Maximum debt to capitalization: 65%.
- Minimum days cash on hand: 90 days.

Per the MTI, Methodist covenants to disclose annual financial information within 120 days of each fiscal year end and quarterly disclosure within 60 days of the end of the first three fiscal quarters. Financial disclosure is expected to be disseminated through the Municipal Securities Rulemaking Board's EMMA system, which is viewed favorably by Fitch.

Debt Profile

Total outstanding debt after the series 2011 issuance will equal approximately \$115 million, with 55% fixed rate and 45% variable rate. According to the underwriter, the approximate pro forma MADS is expected to equal \$8.2 million.

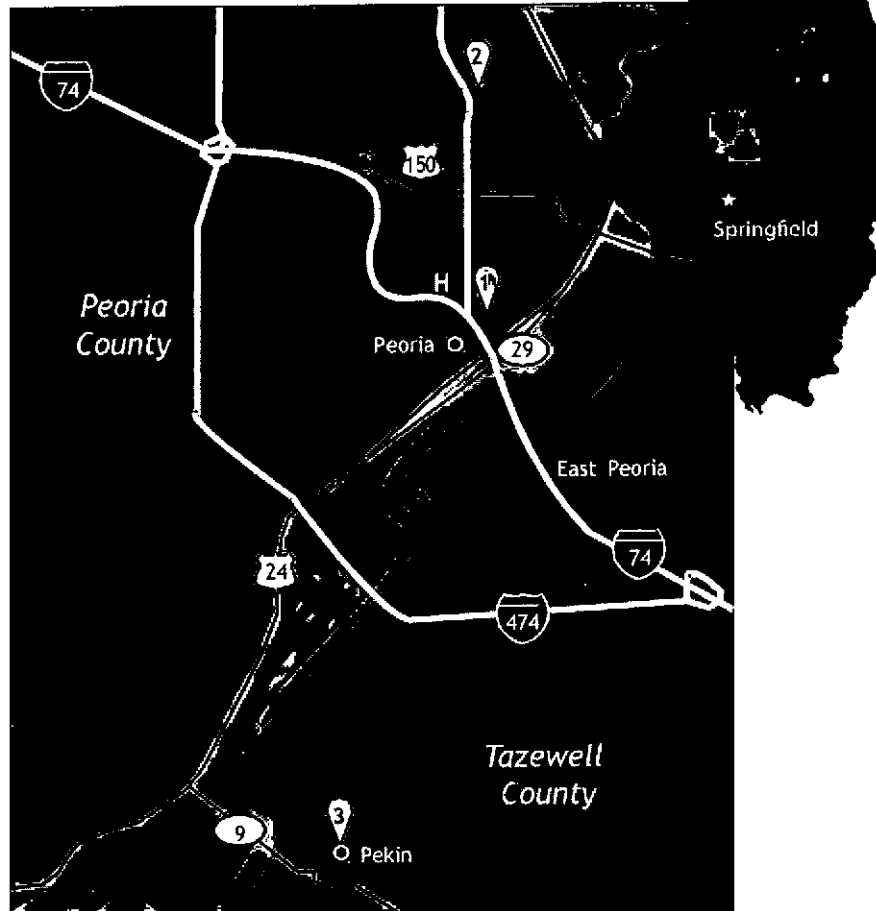
Methodist has two swaps in place, including a fixed-spread basis swap and a forward-starting fixed-payor swap. The fixed-spread basis swap has a notional amount of \$60 million and terminates on Nov. 15, 2030. In 2010, Methodist entered into a forward-starting fixed-payor swap, which is effective July 1, 2011. However, Methodist is expected to terminate the forward-starting swap in conjunction with the series 2011 issuance. In 2010, the mark-to-market valuation exceeded the \$10 million collateral posting threshold, resulting in collateral posting of \$13.6 million to the swap counterparty. The collateral payment will be returned to Methodist upon termination of the swap.

Organization and Management

Methodist was originally established in 1898 as The Deaconess Homes and Hospital Association. Methodist then operated under the name Methodist Hospital of Central Illinois from 1917–1975; the hospital adopted its current name in 1975.

Fitch met with certain members of the leadership team in April 2011 during a site visit. Overall, the stability and experience of the management team have provided significant

Methodist Medical Center of Illinois



Methodist Medical Center of Illinois
221 Northeast Glen Oak Avenue
Peoria, IL



Proctor Hospital
5409 North Knoxville Avenue
Peoria, IL



Primary Competitors

OSF St. Francis Medical Center
530 NE Glen Oak Avenue
Peoria, IL



Pekin Hospital
600 South 13th Street
Pekin, IL

institutional knowledge and service area expertise, resulting in a demonstrated ability to successfully execute strategic initiatives.

The board of directors is authorized to consist of 9–12 members and is currently composed of 11 members, including five physicians and six community members. Directors serve three-year terms, with no more than four consecutive terms. Committees include finance and investment, governance, professional resources, and audit and compliance. Methodist has garnered significant depth and breadth within its board of directors, which includes individuals with expertise in finance, law, architecture, and commercial development. Overall, Fitch believes Methodist's management and governance structure is a credit strength.

In March, 2011, Methodist signed a nonbinding letter of intent to explore entering into a strategic partnership with Iowa Health System (IHS). If Methodist moves forward with the strategic partnership, it would become the eighth affiliate of IHS. Fitch views this affiliation positively, as it will better position Methodist for healthcare reform.

Service Area and Competition

Methodist is located on approximately seven acres of land on the northern edge of the downtown business district of Peoria. The primary service area (PSA) includes Peoria, Tazewell, and Woodford Counties and accounts for roughly 85% of inpatient admissions. The secondary service area includes 16 counties and accounts for approximately 14% of inpatient admissions. Peoria has a population of 117,000, with a median household income of \$44,000 versus the U.S. median household income of \$51,000. Of Peoria's population, 32% has a bachelor's degree or higher, compared with 27.5% for the U.S. overall. The largest employers in the service area include Caterpillar, Inc., OSF Saint Francis Medical Center (OSF), Peoria Public Schools, Methodist Medical Center, and Peoria County. Caterpillar, headquartered in Peoria, is the service area's largest employer with more 17,000 employees.

The competitive nature of the PSA is a credit concern. Peoria is a highly competitive healthcare environment with three hospitals located within a four-mile radius. Methodist holds the number two market share position in its PSA with 31% of the inpatient admissions (as of 2009). OSF is the market share leader with 56% of inpatient admissions, while Proctor Hospital (Proctor) holds an 11% market share. OSF is located across the street from Methodist's campus, while Proctor is located approximately four miles away. OSF completed a \$400 million, 440,000 square feet addition to its campus in August 2010, including areas related to the children's hospital, surgery, intensive care units, and the emergency department.

Utilization and Payor Mix

Overall, inpatient utilization trends have been flat over the past three years but somewhat offset by the reclassification of observation cases, while outpatient utilization has demonstrated modest growth. Methodist has focused on its ambulatory strategy, including the addition of an outpatient center in North Peoria, a fast growing and affluent area. Continued growth in outpatient services and the resultant referrals should enable Methodist to maintain its market share position, despite OSF's \$400 million addition to its campus.

Utilization Data

(Years Ended Dec. 31)

	2007	2008	2009	2010
Licensed Beds	353	339	329	329
Operated Beds	316	297	302	300
Acute Discharges/Admissions, Excluding Newborn Births	15,658	15,555	15,186	15,034
Acute Patient Days, Excluding Newborn Days	80,372	80,427	77,534	74,925
Average Length of Stay (Days)	5.1	5.2	5.1	5.0
Average Daily Census	220	220	212	205
Occupancy (%)	70	74	70	68
Normal Newborn Births	1,906	1,823	1,870	1,770
Outpatient Surgeries	10,697	10,472	10,602	11,036
Net ER Visits (Excluding ER Admissions)	56,404	58,763	58,611	57,841
Clinic Visits	107,792	110,129	110,799	121,651
Full-Time Equivalents (FTEs)	2,069	2,126	2,051	2,122
FTEs/Adjusted Occupied Bed	4.6	4.6	4.3	4.4
Medicare Case Mix Index	1.6	1.6	1.7	1.7

ER – Emergency room.

Methodist's payor mix has been consistent and is characterized by somewhat high levels of government payors, which exceeded 58% of gross revenues over the past four years. Although Methodist's dependence on Medicare and Medicaid is significant, it has not materially impacted its ability to generate positive operating margins.

Caterpillar, the largest employer in the service area, had an exclusive HMO and PPO contract with OSF from 1992–2010. Caterpillar opened its contract in 2010. Both Methodist and Proctor joined Caterpillar's HMO and PPO network, effective July 1, 2010.

Payor Mix

(As % of Gross Revenues, Years Ended Dec. 31)

	2007	2008	2009	2010
Medicare	44.6	42.6	40.8	41.2
Medicaid	15.3	16.3	17.3	16.7
Blue Cross	6.2	7.9	5.5	6.1
Commercial	3.1	2.8	2.4	2.6
Managed Care	26.4	25.8	28.8	27.6
Self-Pay	4.2	4.3	4.8	5.5
Other	0.2	0.3	0.4	0.3
Total	100.0	100.0	100.0	100.0

Note: Numbers may not add to 100% due to rounding.

Quality and IT

Fitch views Methodist's quality indicators and information technology strategies as credit positives. Methodist compares favorably based on quality indicators utilized by the joint commission and the State of Illinois Department of Public Health. Electronic health records, computerized physician order-entry systems, and a physician portal have been implemented. Methodist is currently working to integrate its first independent physician group into its system.

Clinical Summary

Methodist is a regional tertiary medical center and teaching affiliate of the University of Illinois College of Medicine at Peoria, home to the family practice residency program and Methodist College of Nursing. Methodist offers a comprehensive range of traditional inpatient and outpatient services, including behavioral health, cancer care, cardiovascular, and emergency services, as well as a senior clinic within its emergency department. Methodist provides the only inpatient psychiatric program in the PSA and, with its affiliation with the University of Illinois College of Medicine, will commence a new psychiatric residency program in 2011.

As of Dec. 31, 2010, Methodist had 665 medical staff members, 195 of whom were primary care physicians (family practice, internal medicine, hospitalists, and obstetrics/gynecology). The average age for all medical staff is 48.3 years. The top 10 admitting physicians for inpatient admissions accounted for 22.8% of the total inpatient admissions at Methodist. Methodist's strategy is to develop an integrated delivery system, including the integration of the medical group and independent physicians into the management of care across the continuum. Methodist Medical Group (MMG) follows an employed physician model and consists of more than 165 providers, 29 of whom were hired in 2010. MMG accounted for 65% of all admissions.

Financial Profile

Methodist's financial profile is characterized by strong liquidity for the 'A' rating category, low leverage, and strong coverage.

Operating performance softened in 2010 and 2009, primarily driven by an increase in physician practice acquisitions, the number of employed physicians, and pension costs. Management stated that the pace of physician practice acquisitions is expected to decrease in 2011 and 2012.

The operating margin averaged 4.0% over the past four years but declined from 5.5% in 2008 to 2.5% in 2010, below the 'A' category median of 3.0%. The operating EBITDA margin averaged 10.6% over the past four years but declined in 2010 to 9.2%, compared with the 'A' category median of 10.0%. Salaries and benefits grew faster than both revenues and total expenses during this time frame. According to management, this trend was primarily due to increased physician employment. Management expects operating performance to return to historical averages after Methodist absorbs the increased costs associated with the recent physician practice acquisitions.

Methodist's debt burden is manageable, with pro forma MADS comprising 2.2% of total revenues versus the 'A' category median of 3.0%. Solid operating cash flow resulted in pro forma operating EBITDA MADS coverage of 4.1x and 3.9x in 2010 and 2009, respectively, relative to the 'A' category median of 3.3x.

Liquidity indicators are strong for the rating level. At Dec. 31, 2010, Methodist had \$166 million of unrestricted cash and investments, which equated to a solid 193.8 days cash on hand, compared with the 'A' category median of 183.8 days. With the series 2011 issuance, MADS is expected to decrease to \$8.2 million from \$9.4 million (including an assumption for the line of credit), resulting in a pro forma cushion ratio of 20.2x and pro forma cash to debt of 189.9%. Both metrics handily exceed the respective 'A' category medians of 14.4x and 105.5%. The cash payment on a portion of the swap termination fee is not expected to materially impact liquidity, as it is expected to be offset by the return of Methodist's \$13.6 million collateral payment to the swap counterparty.

Methodist's average age of plant remains high at 13.6 years, despite strong capital spending over the past four years. Since 2007, capital expenditures as a percentage of depreciation averaged 207.9%, relative to the 'A' category median of 122.4%. This equates to average capital spending of \$40 million per year. Methodist's budget decreases capital spending to approximately \$24 million per year from 2011–2013.

Financial Summary

(\$000, Audited Fiscal Years Ended Dec. 31)

	2007	2008	2009	2010
Balance Sheet Data				
Unrestricted Cash	151,369	97,469	160,018	166,248
Restricted Cash	11,101	7,473	11,418	13,229
Net Patient Accounts Receivable	53,290	55,485	45,924	47,648
Gross Property, Plant, and Equipment (PP&E)	438,612	480,359	525,395	557,606
Accumulated Depreciation	256,024	268,251	283,187	299,222
Net PP&E	182,588	212,108	242,208	258,384
Total Assets	427,492	444,933	483,716	530,822
Short-Term Debt	3,000	0	6,000	12,000
Current Liabilities	59,197	76,168	79,305	89,436
Due to Third-Party Payors	11,362	19,211	23,815	25,667
Long-Term Debt	69,949	88,476	84,620	87,557
Unrestricted Net Assets	239,296	148,009	215,482	221,896
Income and Cash Flow Data				
Net Patient Revenue	316,565	328,396	334,143	347,598
Other Revenue	12,884	12,056	11,335	18,948
Total Revenue	329,449	340,452	345,478	366,546
Annualized Total Revenue	329,449	340,452	345,478	366,546
Salaries, Wages, Fees, and Benefits	148,909	158,336	167,354	179,245
Depreciation and Amortization	17,755	18,547	19,612	22,027
Interest Expense	4,103	3,161	2,191	2,693
Provision for Bad Debt	26,436	21,341	20,528	22,288

EBITDA – Earnings before interest, taxes, depreciation, and amortization. CFFOBI – Cash flow from operations before interest. Note: Fitch Ratings may have reclassified certain financial statement items for analytical purposes.

Financial Summary (continued)

(\$000, Audited Fiscal Years Ended Dec. 31)

	2007	2008	2009	2010
Income and Cash Flow Data (continued)				
Operating Lease Expense	2,460	2,194	2,159	1,999
Total Expenses	312,260	321,731	335,290	357,386
Income from Operations	17,189	18,721	10,188	9,160
Operating EBITDA	39,047	40,429	31,991	33,880
Non-Operating Gains/(Losses)	23,341	(3,435)	871	5,942
Excess Income	40,530	15,286	11,059	15,102
Total Investment Income	23,213	(4,479)	581	5,796
Net Unrealized Gains/(Losses)	(17,803)	(30,546)	17,264	9,331
Net Change in Fair Market Value of Derivative Instruments	(1,805)	(45,646)	37,409	(13,606)
Cash Flow from Operations	20,316	42,862	64,493	21,505
Net PP&E Acquisitions	26,965	48,051	49,871	36,682
EBITDA	62,388	36,994	32,862	39,822
CFFOBI	24,419	46,023	66,684	24,198
Free Cash Flow	(6,649)	(5,189)	14,622	(15,177)
Maximum Annual Debt Service (MADS)	8,200	8,200	8,200	8,200
Liquidity Ratios				
Days Cash on Hand	206.1	126.2	197.9	193.8
Days in Accounts Receivable	61.4	61.7	50.2	50.0
Days in Current Liabilities	80.6	98.6	98.1	104.3
Cushion Ratio (x)	18.5	11.9	19.5	20.3
Cash to Debt (%)	216.4	110.2	189.1	189.9
Profitability and Operational Ratios				
Operating Margin (%)	5.2	5.5	2.9	2.5
Operating EBITDA Margin (%)	11.9	11.9	9.3	9.2
Excess Margin (%)	11.5	4.5	3.2	4.1
EBITDA Margin (%)	17.7	11.0	9.5	10.7
Cash Flow Margin (%)	5.8	12.7	18.6	5.8
Investment Income as % of Excess Income	57.3	(29.3)	5.3	38.4
Personnel Cost as % of Revenue	45.2	46.5	48.4	48.9
Bad Debt Expense as % of Revenue	8.0	6.3	5.9	6.1
Capital-Related Ratios				
MADS Coverage - EBITDA (x)	7.6	4.5	4.0	4.9
MADS Coverage - Operating EBITDA (x)	4.8	4.9	3.9	4.1
MADS Coverage - CFFOBI (x)	3.0	5.6	8.1	3.0
MADS Coverage - CFFOBI Less Capital Expenditures (x)	(0.3)	(0.2)	2.1	(1.5)
MADS as % of Revenue	2.5	2.4	2.4	2.2
Debt to EBITDA (x)	1.1	2.4	2.6	2.2
Debt to Operating EBITDA (x)	1.8	2.2	2.6	2.6
Debt to Free Cash Flow (x)	(10.5)	(17.1)	5.8	(5.8)
Debt to Capitalization (%)	22.6	37.4	28.2	28.3
Average Age of Plant (Years)	14.4	14.5	14.4	13.6
Capital Expenditures as % of Depreciation Expense	151.9	259.1	254.3	166.5
Capital Expenditures as % of EBITDA	43.2	129.9	151.8	92.1
Capital Expenditures as % of Total Revenue	8.2	14.1	14.4	10.0

EBITDA – Earnings before interest, taxes, depreciation, and amortization. CFFOBI – Cash flow from operations before interest. Note: Fitch Ratings may have reclassified certain financial statement items for analytical purposes.

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FINANCIAL STATEMENTS FOR IHS AND MHSC

Iowa Health System and Subsidiaries

Accountants' Report and Consolidated Financial Statements

December 31, 2010 and 2009



Iowa Health System and Subsidiaries
December 31, 2010 and 2009

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Independent Accountants' Report

Board of Directors
Iowa Health System and Subsidiaries

We have audited the accompanying consolidated balance sheets of Iowa Health System and Subsidiaries (the Health System) as of December 31, 2010 and 2009 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Iowa Health System and Subsidiaries as of December 31, 2010 and 2009 and the results of their operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

April 12, 2011

Iowa Health System and Subsidiaries

Consolidated Balance Sheets

December 31, 2010 and 2009

Assets

	2010	2009
	<i>(in thousands)</i>	
Current Assets		
Cash and cash equivalents	\$ 80,121	\$ 92,037
Short-term investments	230,061	167,406
Assets limited as to use – required for current liabilities	11,443	17,307
Patient accounts receivable, less estimated uncollectibles; 2010 – \$43,507, 2009 – \$47,860	255,702	243,610
Other receivables	20,271	18,700
Inventories	45,460	41,922
Prepaid expenses	21,005	16,538
Total current assets	664,063	597,520
Assets Limited As to Use, Noncurrent		
Held by trustee under bond indenture agreements	2,924	17,838
Internally designated	771,232	662,780
Total assets limited as to use, noncurrent	774,156	680,618
Property, Plant and Equipment, Net	943,349	969,508
Other Long-term Investments	205,434	167,003
Investments in Joint Ventures and Other Investments	36,264	39,176
Contributions Receivable, Net	54,141	52,355
Other	25,420	28,452
Total assets	\$ 2,702,827	\$ 2,534,632

Liabilities and Net Assets

	2010	2009
	<i>(in thousands)</i>	
Current Liabilities		
Current maturities of long-term debt	\$ 33,552	\$ 36,812
Accounts payable	72,266	70,640
Accrued payroll	111,608	100,927
Accrued interest	9,629	11,565
Estimated settlements due to third-party payers	39,024	45,109
Other current liabilities	38,681	43,611
Total current liabilities	304,760	308,664
Long-term Debt, Net	657,979	667,779
Other Long-term Liabilities	167,184	150,928
Total liabilities	1,129,923	1,127,371
Net Assets		
Unrestricted	1,484,242	1,320,881
Temporarily restricted	45,494	45,009
Permanently restricted	43,168	41,371
Total net assets	1,572,904	1,407,261
Total liabilities and net assets	\$ 2,702,827	\$ 2,534,632

Iowa Health System and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2010 and 2009

	2010	2009
	<i>(in thousands)</i>	
Unrestricted Revenue		
Net patient service revenue	\$ 2,126,978	\$ 1,967,219
Other operating revenue	105,565	106,187
Net assets released from restrictions used for operations	8,376	7,694
Total unrestricted revenue	<u>2,240,919</u>	<u>2,081,100</u>
Expenses		
Salaries and wages	790,573	740,360
Physician compensation and services	222,940	188,671
Employee benefits	216,145	209,453
Supplies	375,614	353,567
Other expenses	324,686	315,727
Depreciation and amortization	124,127	119,173
Interest	32,239	26,007
Provision for uncollectible accounts	96,965	68,346
Total expenses	<u>2,183,289</u>	<u>2,021,304</u>
Operating Income	<u>57,630</u>	<u>59,796</u>
Nonoperating Gains (Losses)		
Investment income	117,427	138,510
Other, net	(9,587)	(20,918)
Total nonoperating gains (losses), net	<u>107,840</u>	<u>117,592</u>
Revenue Over Expenses Before Loss on Revenue Bond Refinancing Transactions	165,470	177,388
Loss on revenue bond refinancing transactions	-	(9,390)
Revenue Over Expenses	165,470	167,998
Change in net unrealized gains and losses on investments	-	27,595
Change in net unrealized gains and losses on swaps	(7,294)	93,207
Net assets released from restrictions used for capital expenditures	4,948	7,505
Change in defined benefit pension plan gains and losses and prior costs or credits	(1,987)	28,451
Contributions of or for acquisition of property and equipment	1,061	770
Other, net	1,163	(27)
Increase in Unrestricted Net Assets	<u>\$ 163,361</u>	<u>\$ 325,499</u>

Iowa Health System and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
	<i>(in thousands)</i>	
Unrestricted Net Assets		
Revenue over expenses	\$ 165,470	\$ 167,998
Change in net unrealized gains and losses on investments	-	27,595
Change in net unrealized gains and losses on swaps	(7,294)	93,207
Net assets released from restrictions used for capital expenditures	4,948	7,505
Change in defined benefit pension plan gains and losses and prior costs or credits	(1,987)	28,451
Contributions of or for acquisition of property and equipment	1,061	770
Other, net	<u>1,163</u>	<u>(27)</u>
Increase in unrestricted net assets	<u>163,361</u>	<u>325,499</u>
Temporarily Restricted Net Assets		
Contributions	3,908	13,342
Investment income	1,546	803
Government grants	723	1,145
Scholarships, loan cancellations and receivable payments	-	(10)
Net assets released from restrictions used for operations	(8,376)	(7,694)
Net assets released from restrictions used for capital expenditures	(4,948)	(7,505)
Change in net unrealized gains and losses on investments	192	1,470
Change in beneficial interest in net assets of affiliate	7,578	10,052
Other, net	<u>(138)</u>	<u>736</u>
Increase in temporarily restricted net assets	<u>485</u>	<u>12,339</u>
Permanently Restricted Net Assets		
Contributions	250	361
Investment income	1,213	1,878
Change in net unrealized gains and losses on investments	163	441
Change in beneficial interest in net assets of affiliate	139	(205)
Other, net	<u>32</u>	<u>283</u>
Increase in permanently restricted net assets	<u>1,797</u>	<u>2,758</u>
Increase in Net Assets	<u>165,643</u>	<u>340,596</u>
Net Assets, Beginning of Year	<u>1,407,261</u>	<u>1,066,665</u>
Net Assets, End of Year	<u><u>\$ 1,572,904</u></u>	<u><u>\$ 1,407,261</u></u>

Iowa Health System and Subsidiaries

Consolidated Statements of Cash Flows Years Ended December 31, 2010 and 2009

	2010	2009
	(in thousands)	
Operating Activities		
Increase in net assets	\$ 165,643	\$ 340,596
Items not requiring (providing) operating cash		
Net gains on investments	(103,686)	(152,512)
Net unrealized (gains) losses on swaps	17,254	(75,150)
Restricted contributions, investment income and government grants received	(7,640)	(17,529)
Contributions of or for acquisition of property and equipment	(1,061)	(770)
Depreciation and amortization	124,127	119,173
Change in defined pension plans' liability	1,987	(28,451)
Transfer of Trinity Muscatine net assets	-	(1,020)
Amortization of debt issuance costs	375	445
(Gain) loss on disposition of assets	(968)	2,193
Loss on revenue bond refinancing transactions	-	9,390
Equity in earnings of joint ventures	(16,795)	(16,969)
Change in beneficial interest in net assets of affiliate	(7,717)	(9,847)
Changes in		
Receivables	(13,101)	30,985
Inventories and prepaid expenses	(4,103)	(5,041)
Accounts payable, accrued liabilities and other liabilities	11,998	(19,052)
Due to third-party payers	(5,932)	602
Net cash provided by operating activities	<u>160,381</u>	<u>177,043</u>
Investing Activities		
Capital expenditures	(98,457)	(183,047)
Proceeds from sale of assets	3,281	1,574
(Increase) decrease in assets limited as to use, net	(5,794)	14,924
Acquisition of Des Moines Parking Associates, less cash acquired	(2,550)	-
Increase in short-term investments	(62,655)	(119,306)
Increase in other long-term investments	(12,250)	(39,291)
Investments in joint ventures	(343)	(373)
Distributions received from joint ventures	15,807	21,534
Net cash used in investing activities	<u>(162,961)</u>	<u>(303,985)</u>
Financing Activities		
Proceeds from issuance of long-term debt	441	646,934
Payments of debt	(18,478)	(606,197)
Payments of financing costs	-	(8,554)
Proceeds from restricted contributions, investment income and government grants	7,640	15,050
Proceeds from contributions for acquisition of property and equipment	1,061	770
Net cash provided by (used in) financing activities	<u>(9,336)</u>	<u>48,003</u>
Decrease in Cash and Cash Equivalents	<u>(11,916)</u>	<u>(78,939)</u>
Cash and Cash Equivalents, Beginning of Year	<u>92,037</u>	<u>170,976</u>
Cash and Cash Equivalents, End of Year	<u>\$ 80,121</u>	<u>\$ 92,037</u>

Iowa Health System and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2010 and 2009

	2010	2009
	<i>(in thousands)</i>	
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 34,477	\$ 22,526
Capital lease obligations incurred for property and equipment	2,829	60
Property and equipment purchases in accounts payable	7,407	15,004
Affiliation with Trinity Muscatine		
Assets acquired	-	24,479
Liabilities assumed	-	24,792
Acquisition of Des Moines Parking Associates		
Assets acquired	5,262	-
Liabilities assumed	2,725	-

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2010 and 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Organization

Iowa Health System is an Iowa nonprofit corporation formed in December 1994. Iowa Health System and its subsidiaries (the Health System) provide inpatient and outpatient care and physician services from fourteen hospital facilities and various ambulatory service and clinic locations in Iowa and Illinois. Primary, secondary and tertiary care services are provided to residents of Iowa and adjacent states.

Basis of Presentation

The consolidated financial statements include the accounts of Iowa Health System and its subsidiaries listed below:

- Central Iowa Health System and Subsidiaries (d/b/a Iowa Health - Des Moines)
(Des Moines)
- Trinity Regional Health System and Subsidiaries (Rock Island)
- St. Luke's Healthcare and Subsidiaries (Cedar Rapids)
- Allen Health Systems, Inc. and Subsidiaries (Waterloo)
- Trinity Health Systems, Inc. and Subsidiaries (Fort Dodge)
- St. Luke's Health System, Inc. (Sioux City)
- Finley Tri-States Health Group, Inc. and Subsidiaries (Dubuque)
- Iowa Physicians Clinic Medical Foundation (d/b/a Iowa Health Physicians)
- Intrust (d/b/a Iowa Health Home Care)

On July 1, 2009, Trinity Regional Health System (TRHS) and Trinity Muscatine (formerly Unity HealthCare) entered into an Affiliation agreement under which Trinity Muscatine became a controlled affiliate of TRHS on that date. At December 31, 2009, TRHS has recorded \$25,370 of total assets and net revenues of \$23,806 for the six months ended December 31, 2009. Unity HealthCare officially adopted the d/b/a Trinity Muscatine on April 1, 2010.

All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Iowa Health System and Subsidiaries

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Cash Equivalents and Short-term Investments

Cash equivalents consist of demand deposits, repurchase agreements, money market funds and other debt securities with original maturities of three months or less at the date of purchase, other than those included in assets limited as to use. Short-term investments consist of debt securities with maturities between 91 and 365 days of the balance sheet date.

Assets Limited as to Use

Assets limited as to use include amounts held by trustees under bond indenture agreements and related documents and assets internally designated by the Board of Directors for identified purposes and over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities are classified as current assets.

Inventories

Inventories consist of supplies and are stated at the lower of cost or market.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in fixed income securities are measured at fair value in the consolidated balance sheets. The fair values are based on quoted market prices or dealer quotes.

Investments in joint ventures and other affiliates, which are more than 20% and not more than 50% owned, are recorded using the equity method. Other investments are reported at cost, as adjusted for permanent impairment in value, if any.

Realized gains and losses from the sale of investments, interest and dividends, except those earned as a function of operations, and unrealized gains and losses on investments classified as trading securities and those carried at fair value pursuant to ASC Topic 825, are reported as non-operating gains or losses unless restricted by a donor. Unrealized gains and losses on those investments accounted for at fair value and realized gains and losses and investment income on investments restricted by donors are included as a component of the change in net assets.

During 2009, the System changed its investment strategy and investment portfolio from available-for-sale securities to trading securities. Effective January 1, 2009, unrealized gains and losses are recorded in earnings as a component of revenues over expenses. These investments were previously held as available-for-sale securities with unrealized gains and losses excluded from earnings until realized. The change also required unrealized gains and losses not previously recognized in earnings to be recognized immediately. This resulted in net unrealized losses of \$28,289 being recorded in revenues over expenses for the year ended December 31, 2009.

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The Health System elected the fair value option for its private investment funds (PIF) that are primarily limited liability corporations and partnerships. Management has elected the fair value option for the private investment funds because it more accurately reflects the portfolio returns and financial position of the Health System. Gains and losses on investments subject to the fair value option are reported in investment income on the statement of operations.

Refer to *Notes 4 and 12* for additional disclosures regarding balance sheet line items and fair value of those investments carried under Topic 825.

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost less accumulated depreciation. Depreciation is provided primarily using the straight-line method over the estimated useful lives of the assets. Depreciation of assets under capital lease is provided using the straight-line method over the shorter of the lease term or the estimated useful life of the assets. Donated property, plant and equipment are recorded at fair market value at the date of donation.

The Health System capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for a project, net of interest earned on investments acquired with the proceeds of the borrowing. During 2010 and 2009, the Health System capitalized \$242 and \$3,680 of interest expense, offset by \$0 and \$806 of interest income, respectively.

Long-lived Asset Impairment

The Health System evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2010 and 2009.

Other Assets

Other assets include certain patient records, goodwill and other intangible assets that are stated at cost less accumulated amortization. Annually, the Health System performs an impairment test of all goodwill and any identified impairment loss is recognized as expense. Other assets also include deferred financing costs, which are amortized over the period the obligation is expected to be outstanding. The Health System has \$3,446 and \$2,107 of goodwill at December 31, 2010 and 2009. Other intangible assets at December 31, 2010 and 2009 were \$12,346 and \$12,107, respectively, which are subject to amortization.

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Net Assets

Net assets are classified into three mutually exclusive classes: unrestricted, temporarily restricted and permanently restricted. The three classes are based on the presence or absence of donor-imposed restrictions. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors in perpetuity. The expiration of donor restrictions is recorded in the period in which the restrictions expire.

Temporarily restricted net assets are generally restricted for capital expenditures, passage of time or other donor specified restrictions. Absent specific donor instructions, the income from permanently restricted net assets is available for unrestricted purposes.

Revenues and Expenses

Revenues and expense transactions affecting unrestricted net assets are reflected in the consolidated statements of operations. Consistent with industry practice, unrealized gains and losses on investments other than trading securities (excluding impairment that is other than temporary), the effective portion of derivative instruments qualifying for hedge accounting carried at fair value, change in defined benefit plans and contributions of long-lived assets (including assets acquired with donor-restricted cash contributions) are excluded from determination of the excess of revenues over expenses. Transactions related to temporarily or permanently restricted net assets are recorded as additions or deductions to net assets and reflected in the consolidated statements of changes in net assets. Minority interest included as part of revenue over expenses is \$1,142.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at the estimated net realizable amount primarily from patients and third-party payers for services provided, including retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period in which the related services are provided, and adjusted in future periods as final settlements are determined.

The Health System provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Health System bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

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Patient service revenue at established rates less third-party payer contractual adjustments and charity care consisted of the following for the years ended December 31:

	2010	2009
Patient service revenue	\$ 4,841,549	\$ 4,393,741
Allowances for contractual adjustments	(2,714,571)	(2,426,522)
Net patient service revenue	<u>\$ 2,126,978</u>	<u>\$ 1,967,219</u>

Charity Care

The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Amounts determined to be charity care are not reported as revenue.

Functional Expenses

The Health System provides general health care services, including acute inpatient, outpatient, physician, ambulatory, long-term and home health care, and incurs related general and administrative expenses. Expenses related to providing these services were as follows:

	2010	2009
General health care services	\$ 1,721,113	\$ 1,567,365
Management, general and administrative	459,527	451,432
Research	<u>2,649</u>	<u>2,507</u>
	<u>\$ 2,183,289</u>	<u>\$ 2,021,304</u>

Contributions and Beneficial Interest in Net Assets

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-imposed restrictions are considered fulfilled as soon as the stipulated time has expired or the qualifying expenditure has been made.

Contributions not expected to be collected within a year are recorded at the present value of expected future cash flows using a risk-free interest rate over the term of the contribution. Contributions of property are recorded at fair value when received.

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Interest in charitable trusts and perpetual trusts is carried at the present value of expected future cash flows. The Health System's interest in the net assets (the Interest) of certain foundations that raise and hold assets on behalf of the Health System is accounted for in a manner similar to the equity method. The Interest is stated at fair value, and changes in the Interest are included in the change in net assets. Transfers of assets between these foundations and the Health System are recognized as increases or decreases in the Interest.

Estimated Malpractice Costs, Health Insurance and Workers' Compensation

An annual estimated provision is accrued for the self-insured portion of medical malpractice, health insurance and workers' compensation claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Interest Rate Swap Agreements

The Health System has entered into various interest rate swap agreements (the Swaps) to reduce the effect of changes in cash flows primarily related to interest rate fluctuations on the Health System's various variable rate demand bond issues. The Swaps were entered into for the risk management purpose of reducing the variability in cash flows related to the Health System's variable rate debt.

As described in *Note 7*, the Health System has designated certain swaps as hedges, while other swaps have not been designated as hedging instruments. The effective portion of changes in the fair value of swaps designated as hedges is recognized as a component of other changes in net assets, while the ineffective portion of these swaps changes in fair value, and all changes in fair value of swaps not designated as hedges, is recorded as a component of revenues over expenses.

The Swaps are recognized on the consolidated balance sheets at fair value. The net cash payments or receipts under the Swaps designated as hedging instruments are recorded as an increase or decrease to interest expense. The net cash payments or receipts under the Swaps not designated as hedges are recorded as an increase or decrease to other income (loss).

Income Taxes

Iowa Health System and most of its subsidiaries are classified as tax-exempt organizations as described in Sections 501(c)(3) and 501(c)(2) of the Internal Revenue Code (the Code). Tax-exempt organizations are not subject to federal and state income taxes on related income, pursuant to Section 501(a) of the Code. These organizations are subject to federal and state income taxes to the extent they have unrelated business income as described under provisions of Section 511 of the Code.

The Health System files Form 990 for substantially all of its operating entities in the U.S. federal jurisdiction and is no longer subject to examination by tax authorities for the years before 2007. The Health System has no material uncertain tax positions.

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Certain subsidiaries are subject to federal and state income taxes. Some of these corporations have accumulated net operating loss carryforwards that are available to offset future taxable income during the carryforward period. No income tax benefit has been recognized for the net operating loss carryforwards or other potential deferred tax assets in the consolidated financial statements because the Health System believes realization of these benefits is unlikely.

Retirement Plans

Substantially all employees meeting age and length of service requirements participate in defined contribution plans. Certain subsidiaries have prior defined benefit plans that have been substantially frozen. Pension costs for the defined benefit plans, which are composed of normal costs and amortization of prior service costs related to defined benefit plans, are funded currently.

Subsequent Events

Subsequent events have been evaluated through April 12, 2011, which is the date the financial statements were issued.

Note 2: Community Benefit

The Health System provides service to eligible patients at reduced or no cost based upon the individual patient's financial situation. During the collection process, certain accounts are classified by the Health System as charity care and, therefore, not reported as revenue. In some cases, the charity care is subsidized by contributions from volunteer organizations or other donors.

Community benefit is also provided through reduced price services and free programs offered throughout the year. The Health System provides an array of uncompensated activities and services intended to meet community health needs. These activities include wellness programs, community education programs, and various health screening programs.

The Health System has calculated the costs for providing community benefit related to the following:

	2010	2009
Charity care	\$ 33,969	\$ 38,525
Medicaid	54,352	48,164
Other activities	63,672	41,771
	<u>\$ 151,993</u>	<u>\$ 128,460</u>

Medicaid and other activities amounts listed are unaudited.

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Note 3: Third-Party Reimbursement

As a provider of health care services, the Health System generally grants credit to patients without requiring collateral or other security. The Health System routinely obtains assignments of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. These health insurance programs or providers are commonly referred to as third-party payers and include the Medicare and Medicaid programs, Wellmark and various health maintenance and preferred provider organizations.

A major portion of the Health System's revenues is derived from these third-party payers. Significant changes have been made, and may be made, in certain of these programs, which could have a material, adverse impact on the financial condition of the Health System. These changes include federal and state laws and regulations, particularly those pertaining to Medicare and Medicaid.

The Health System has agreements with certain third-party payers that provide for payment of services at amounts different from established rates. Third-party payer payment rates vary by payer and include established charges; contracted rates less than established charges; prospectively determined rates per discharge, per procedure, or per diem; retroactively determined cost-based rates; and periodic revenue at capitated rates per covered life for patients of employed physician groups.

Gross patient service revenue (based on established rates) by payer for 2010 and 2009 were as follows:

	2010	2009
Medicare	43%	43%
Medicaid	11	11
Wellmark	21	21
Commercial	19	20
Self-pay and other	6	5
	<u>100%</u>	<u>100%</u>

Gross patient accounts receivable (based on established rates) by payer class at December 31 were as follows:

	2010	2009
Medicare	32%	31%
Medicaid	10	11
Wellmark	17	14
Commercial	27	29
Self-pay and other	14	15
	<u>100%</u>	<u>100%</u>

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Illinois Medicaid State Plan

The Illinois Medicaid State Plan has an annual tax assessment on certain hospital providers. Under the amended Illinois Medicaid State Plan, proceeds from the tax assessment are used to obtain federal matching funds, all of which must be distributed to Illinois hospitals and physicians to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific health care providers is based primarily on the amount of care provided to Medicaid recipients. The Health System's tax assessment and contribution all relate to Trinity Regional Health System.

In 2010 and 2009, the Health System's tax assessment and contribution was \$8,312 and \$8,386, respectively, and is included in operating expenses in the 2010 and 2009 consolidated statements of operations. Additional Medicaid reimbursement in the same periods is approximately \$14,375 and \$14,375 and is included in net patient service revenue in the 2010 and 2009 consolidated statements of operations, respectively, resulting in a net increase in 2010 and 2009 operating income of \$6,063 and \$5,989, respectively.

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Note 4: Investments

Investment Summary

Short-term investments consist of debt securities and totaled \$230,061 and \$167,406 at December 31, 2010 and 2009, respectively.

A summary of investments reported as assets limited as to use at December 31 is as follows:

	2010	2009
Held by trustees under bond indenture agreements		
Cash and short-term investments	\$ 2,874	\$ 17,773
Mortgage-backed securities	50	65
	<u>2,924</u>	<u>17,838</u>
Internally designated		
Cash and short-term investments	12,085	19,099
U.S. Treasury obligations	30,826	28,507
U.S. Government agency obligations	15,168	1,893
Asset-backed securities		
Home equity	9,507	8,791
Other	2,117	1,310
Mortgage-backed securities		
Government	26,199	27,751
Non-government	31,548	23,485
Certificates of deposit	474	474
Corporate bonds	38,169	40,354
Corporate bonds - PIF	139,008	133,174
Equity securities		
Domestic	92,407	102,033
Equity securities - PIF		
Domestic	121,367	121,905
International	69,351	63,146
Mutual funds		
International	61,142	38,090
Emerging markets	68,293	11,007
Hedge fund of funds	63,607	58,097
Interest receivable	1,407	971
	<u>782,675</u>	<u>680,087</u>
Total assets limited as to use	785,599	697,925
Less amount required to meet current obligations	<u>11,443</u>	<u>17,307</u>
Noncurrent portion of assets limited as to use	<u>\$ 774,156</u>	<u>\$ 680,618</u>

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Assets held by trustee under bond indenture agreements are required to be held in separate trust accounts. A summary of these trust accounts aggregated by their required use at December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Construction accounts	\$ -	\$ 14,913
Collateral and other accounts	<u>2,924</u>	<u>2,925</u>
	<u>\$ 2,924</u>	<u>\$ 17,838</u>

Internally designated assets are summarized below based on the designation at December 31:

	<u>2010</u>	<u>2009</u>
Capital improvements	\$ 749,503	\$ 641,926
Self-insured reserves	32,803	37,878
Bond interest account	<u>369</u>	<u>283</u>
	<u>\$ 782,675</u>	<u>\$ 680,087</u>

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Investments presented as other long-term investments at December 31 are summarized as follows:

	2010	2009
Restricted cash and short-term investments	\$ 3,106	\$ 3,443
U.S. Treasury obligations	7,422	6,527
U.S. Government agency obligations	3,403	509
Asset-backed securities		
Home equity	2,084	1,794
Other	464	267
Mortgage-backed securities		
Government	5,841	5,843
Non-government	7,033	4,944
Corporate bonds	8,261	8,139
Corporate bonds - PIF	30,471	27,174
Equity securities		
Domestic	32,654	24,194
Equity securities - PIF		
Domestic	26,604	24,875
International	15,202	12,885
Mutual funds		
Domestic	15,419	18,517
International	14,547	9,004
Emerging markets	14,655	2,107
Hedge fund of funds	13,943	11,855
Interest receivable	299	186
Insurance policies	4,026	4,363
Interest rate swaps (see Note 7)	-	377
Total other long-term investments	<u>\$ 205,434</u>	<u>\$ 167,003</u>

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The following schedule summarizes the investment return and its classification in the consolidated financial statements for the year ended December 31:

	2010	2009
Investment return		
Interest and dividends	\$ 18,802	\$ 18,748
Realized gains and losses on sales of investments	53,890	(1,623)
Unrealized gains and losses on trading investments	11,918	30,345
Unrealized gains and losses on other than trading investments	355	29,506
Equity	16,795	16,969
Change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	37,523	98,056
	<u>\$ 139,283</u>	<u>\$ 192,001</u>
Investment return classification		
Unrestricted net assets		
Other operating revenue	\$ 18,742	\$ 21,304
Nonoperating gains and losses – investment income	117,427	138,510
Change in net unrealized gains and losses on investments	-	27,595
Temporarily restricted net assets	1,738	2,273
Permanently restricted net assets	1,376	2,319
	<u>\$ 139,283</u>	<u>\$ 192,001</u>

Private Investment Funds

At December 31, 2010 and 2009, 48% and 52%, respectively, of the Health System's investments are invested in private investment funds whose portfolios are primarily invested in debt and marketable equity securities. These investments are included in internally designated and other long-term investments in the investment summary tables (previously presented) based on the underlying investments. The amounts included in the investment summary tables are as follows:

	2010	2009
Corporate bonds	\$ 169,479	\$ 160,348
Equity securities	232,524	222,811
Hedge fund of funds	77,550	69,952
	<u>\$ 479,553</u>	<u>\$ 453,111</u>

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The private investment funds are primarily limited partnerships and limited liability companies including one hedge fund-of-funds. The underlying investments of these funds are primarily debt and marketable equity securities. The investment strategies for each fund vary but include low return volatility through tactical investment strategies, investing in growth or value securities for long-term growth and to earn a total rate of return in excess of rates of return compared to a standard index. There is no public market for shares in the private investment funds. The value of the investments in the private investment funds is determined based on the fair values of the underlying securities.

The private investment funds generally have certain limits regarding advance notice and timing of withdrawals. They generally require advance notice of at least two days prior to a month end to withdraw funds. One fund that represents about 17% of the private investment funds requires a 95-day notice to withdraw funds either quarterly or semiannually based on the initial purchase date of the investments. In addition, withdrawals may be limited by the private investment funds underlying investment funds ability to liquidate their holdings.

Investments In Joint Ventures

At December 31, 2010 and 2009, investments in joint ventures amounted to \$26,327 and \$28,161, respectively. Other investments consist primarily of cash surrender value of life insurance policies and real estate held for investment.

The joint ventures consist of 36 privately held health care organizations in which the Health System's ownership interest ranges from 3% to 50% interest. The joint ventures at December 31, 2010 and 2009 had total assets aggregating \$137,522 and \$154,626, respectively. Net revenues of the joint ventures totaled \$139,626 in 2010 and \$148,819 in 2009. The excess of revenues over expenses for the joint ventures, in the aggregate, were \$39,971 in 2010 and \$38,823 in 2009. The Health System's share of earnings on the investments in joint ventures is included in other operating revenue in the consolidated statements of operations and totaled \$16,795 in 2010 and \$16,969 in 2009. The Health System made new investments in joint ventures of \$343 in 2010 and \$373 in 2009 and received distributions from joint ventures of \$15,807 in 2010 and \$21,534 in 2009.

The Health System both purchases services and sells services and supplies to several joint ventures. In 2010 and 2009, services purchased from joint ventures totaled \$10,370 and \$28,407, respectively. Services and supplies sold to joint ventures in 2010 and 2009 were \$7,261 and \$8,740, respectively.

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Note 5: Property, Plant and Equipment

Property, plant and equipment are stated at cost and are summarized at December 31, 2010 and 2009 as follows:

	2010	2009
Land	\$ 52,940	\$ 49,176
Land improvements	43,758	44,096
Buildings, improvements and fixed equipment	1,362,863	1,310,467
Moveable equipment	864,826	850,380
	<u>2,324,387</u>	<u>2,254,119</u>
Less accumulated depreciation and amortization	<u>1,413,950</u>	<u>1,325,911</u>
	910,437	928,208
Construction/information systems installation in progress	<u>32,912</u>	<u>41,300</u>
Net property, plant and equipment	<u>\$ 943,349</u>	<u>\$ 969,508</u>

As of December 31, 2010 and 2009, the Health System has committed approximately \$96,223 and \$62,887, respectively, for costs related to various hospital construction/information systems projects. The Health System will fund the projects through internal funds.

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Note 6: Long-term Debt

Long-term debt at December 31, 2010 and 2009 is summarized as follows:

	Payable Through	Issuance Type	Interest Rate (1)	2010	2009
Hospital Facility Revenue Bonds					
Series 2009A	2035	Variable	0.28%, 0.20%	\$ 54,375	\$ 55,260
Series 2009B	2035	Variable	0.28%, 0.20%	54,375	55,260
Series 2009C	2035	Variable	1.16%, 0.21%	31,245	31,750
Series 2009D	2035	Variable	0.36%, 0.23%	58,065	59,000
Series 2009E	2039	Variable	0.36%, 0.23%	43,000	43,000
Series 2009F	2039	Fixed	5.00%	50,000	50,000
Series 2008A	2037	Fixed	2.5% - 5.625%	148,050	150,000
Series 2008	2028	Variable	13.16%, 13.08%	4,528	4,528
Series 2006	2031	Variable	1.34%, 0.24%	13,485	13,845
Series 2005	2031	Fixed	4.50%	3,722	3,820
Series 2005A	2035	Fixed	2.5% - 5.625%	198,060	201,270
Series 2000	2010	Fixed	6.50%	-	4,420
Series 1985	2015	Fixed	4.40%	1,980	-
Series 1985B	2015	Variable	0.27%, 0.25%	23,000	23,000
Total hospital facility revenue bonds				683,885	695,153
Capital lease obligations, due through 2015			0% - 16.93%	4,328	3,551
Other notes and mortgages			Various	2,194	4,733
				690,407	703,437
Current maturities				(33,552)	(36,812)
Unamortized bond discount				1,124	1,154
Long-term portion				\$ 657,979	\$ 667,779

(1) Variable rates shown as of year-end for 2010, 2009, respectively.

The Series 2009, 2008, 2005 and 2000 Bonds (collectively "the Bonds") are general obligations of the Health System and its affiliates. The Health System is required to meet certain operating and financial ratios contained in the master bond trust indenture, bond insurance agreements and bank letter of credit agreements (related to the variable rate demand bonds). The Bonds are subject to the provisions of amended and restated master trust indentures, which generally require monthly or quarterly deposits for principal and interest payments be made, and certain funds be maintained by the trustee for interest payment and bond retirement purposes.

The variable interest rates on substantially all of the bonds are adjusted daily or weekly by remarketing agents. The bonds may be tendered by the bond holders each interest rate period. The Health System maintains a combination of letters of credit and standby purchase agreements that can be drawn on should the bonds not be remarketed. Agreements totaling \$246,300 expire in 2012 and \$28,620 in 2013. The agreements are renewable, subject to trustee approval and at the option of the agreement providers, throughout the term of the bonds. Outstanding amounts under the agreements are due at the earlier of expiration of the agreements or over a period of three years commencing after an initial outstanding period generally ranging from 60 to 366 days.

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In December 2010, the Health System completed an interest rate mode conversion for the 2009C bonds converting the interest rate from a daily rate to an index rate. The interest rate modification was not considered a significant modification of terms; thus, all costs incurred from the mode conversion were expensed during the year. In 2010, a Direct Note Obligation for the 2009C bonds was issued to a financial institution, eliminating the supporting letter of credit requirement.

In March 2009, the Health System issued \$244,270 of Variable Rate Demand Health Facilities Revenue Bonds. The proceeds from the bonds were used to redeem the Series 2005B bonds and provide funding for several capital projects. The bonds are payable in varying amounts through 2039. The Health System also redeemed the Series 1998B bonds and the related line of credit of \$37,280 during March 2009 using internal funds. In March 2009, the Health System recognized a loss on revenue bond refinancing of \$3,520 for the unamortized debt issue costs of the bond issuances that were refinanced through this transaction.

In August 2009, the Health System completed an interest rate mode conversion for the 2005A and 2008A bonds converting from a variable rate to fixed. The interest rate modification was considered a significant modification of terms, thus losses on extinguishment of the original bonds of \$5,870 were incurred from recognition of their respective debt issue costs. Costs associated with the mode conversion were then capitalized to be amortized over the remainder of the life of the bonds. In addition, the 2009F bonds were issued in the amount of \$50,000. The proceeds provided the Health System with funds for several capital projects throughout the Health System.

Aggregate annual maturities of long-term debt during the years ending December 31 are as follows:

	Accelerated Maturities with Letter of Credit Expirations	Scheduled Maturities Based on Loan Agreements
2011	\$ 33,552	\$ 33,552
2012	91,848	16,077
2013	119,516	16,150
2014	71,627	16,307
2015	5,594	37,149
Thereafter	368,270	571,172
	<u>\$ 690,407</u>	<u>\$ 690,407</u>

The Health System has included \$17,097 in current maturities of long-term debt related to letters of credit and standby purchase agreements for related bonds that if not remarketed would require a payment within 2011.

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Note 7: Interest Rate Swaps

Swaps Designated as Hedging Instruments

As a risk management strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Health System entered into the following interest rate swap agreements:

Trade Date	Maturity Date	Current Notional Amount	Health System Pays	Health System Receives	Accounting Treatment	Fair Value	
						2010	2009
2005	2035	\$ 198,060	3.5%	62.4% of LIBOR + 29 bps	Cash Flow Hedge	\$ (16,684)	\$ (9,865)

In 2005, the Health System entered into interest rate swap agreements effectively converting the Series 2005B variable rate bonds into fixed rate debt at a rate of 3.5% (4.1% including transaction costs). During 2009, these swaps were redesignated to hedge the Series 2009 A-D Bonds. The swap agreements have an aggregate notional amount of \$198,060 at December 31, 2010 and mature in 2035.

Management has designated the above interest rate swap agreements as cash flow hedging instruments, and has determined that these agreements are highly effective. The aggregate fair value of the swap agreements is recorded as a long-term liability of \$(16,684) at December 31, 2010 and \$(9,865) at December 31, 2009. The change in fair value of \$(6,819) and \$94,431 as of December 31, 2010 and 2009, respectively, is reported as part of the change in unrealized gains and losses on swaps. Interest, the net of what the Health System pays and receives under the two legs of the swaps, is settled monthly on each swap agreement and is reported as interest expense.

The Health System has provisions within certain interest rate swap agreements that would require it to post collateral should the negative fair value of the agreements exceed \$25,000, the Health System's credit rating fall below Aa3 by Moody's AA- by S&P or the bond insurers rating fall below A- by S&P. As of December 31, 2010, the Health System has not been requested to post collateral under these agreements.

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The table below presents certain information regarding the Health System's interest rate swap agreement designated as a cash flow hedge. The Health System has additional derivative instruments at December 31, 2010 and 2009 that are no longer designated as hedging instruments under ASC 815 (*Derivatives and Hedging*), as shown below:

	2010	2009
Long-term Liability		
Fair value of interest rate swap agreement	\$ (16,684)	\$ (9,865)
Unrestricted Net Assets		
Gain (loss) recognized in changes in unrealized gains and losses on investments (effective portion)	(6,819)	63,052
Change in unrestricted net assets reclassified into Other, net (effective portion)	-	31,379
Other, Net		
Loss recognized in income (ineffective portion)	-	(31,379)

Other Swap Agreements

The Health System has also entered into the following interest rate swap agreements which are no longer designated as hedging instruments. The Health System has elected to carry these swaps as an investing activity, until such time that satisfactory termination value can be obtained, or their respective maturity date.

Trade Date	Call Date	Maturity Date	Notional Amount	Health System Pays	Health System Receives	Fair Value	
						2010	2009
2006		2037	\$ 144,700	3.8%	61.9% of LIBOR + 31 bps	\$ (20,531)	\$ (14,346)
2006		2023	42,700	3.5	61.9% of LIBOR + 31 bps	(4,251)	(2,725)
2006		2010	48,456	3.6	61.9% of LIBOR + 31 bps	-	(147)
2005		2035	66,020	3.3	62.4% of LIBOR + 29 bps	(4,758)	(4,964)
2004		2010	32,304	3.2	BMA	-	(95)
2000	2010	2030	80,760	BMA	5.4%	-	377
						<u>\$ (29,540)</u>	<u>\$ (21,900)</u>

The aggregate fair value of the unhedged swap agreements are recorded as long-term investments of \$0 and \$377 and long-term liability of \$(29,540) and \$(22,277), as of December 31, 2010 and 2009, respectively. The change in fair value of \$(7,640) and \$(18,057) are included as a component of other income (loss) as of December 31, 2010 and 2009, respectively. Interest, the net of what the Health System pays and receives, is settled monthly or semi-monthly on each swap agreement and is reported as other income (loss).

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In prior years, certain swap agreements previously designated as hedges by the Health System were deemed to be ineffective. The effective portion of these changes in fair value, previously deemed effective, is being amortized into other income (loss) over the remaining life of the swap. As of December 31, 2010 and 2009, \$(760) and \$(285) of net unrealized gains (losses) remain in net assets to be amortized and \$475 and \$1,224 was amortized into other income (loss), respectively.

As of August 2009, hedge accounting ceased for the swap agreements associated with the 2005A and 2008 bonds due to interest rate mode conversion to a fixed interest rate. All changes in fair value prior to that date, previously recorded as a component of the change in unrealized gains and losses on swaps and excluded from revenues over expenses in the amount of \$(31,379) were immediately recognized as a component of other income (loss). Subsequent to this date, the remaining changes in fair values are reported as a component of other income (loss).

During December 2009 and January 2010, the Health System terminated two swaps agreements, each with a notional value of \$67,090, at a cost of \$(3,199) and \$(2,795), respectively. The Health System's counterparty also called swap agreements with a notional amount of \$80,760 in accordance with the agreement in February 2010.

Other Swaps:

	2010	2009
Long-term Liability		
Fair value of interest rate swap agreement	\$ (29,540)	\$ (21,900)
Unrestricted Net Assets		
Change in unrestricted net assets amortizing into		
Other, net	(475)	(1,224)
Other, Net		
Gain (loss) recognized in income from changes in		
fair value of interest rate swap	(7,640)	15,297
Gain recognized in income from amortization of		
unrecognized gains (losses) in unrestricted net assets	475	1,224
Loss recognized in income from termination of		
interest rate swap	(2,795)	(3,199)

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Note 8: Related-Party Transactions

The Health System leases real estate from certain companies controlled by members of the Board of Directors of the Health System or its subsidiaries. Minimum payments under these operating leases are \$6,841 per year. The leases expire in various periods through 2021. Rent expense under these leases, including a pro rata portion of certain operating expenses of the facilities, was \$7,107 and \$7,598 for 2010 and 2009, respectively. At December 31, 2010 and 2009, the Health System also had outstanding debt related to real estate capital lease obligations of \$1,503 and \$1,957, respectively. The Health System also leases real estate to physicians who may serve the Health System through board of director or medical director roles.

The Health System purchases a variety of services and products from companies affiliated with members of the Boards of Directors of the Health System and/or its subsidiaries. Services and products purchased from these affiliated companies during 2010 and 2009 totaled \$13,382 and \$20,347, respectively, of which \$7,526 and \$12,095, respectively, were related to construction project costs. In addition, the Health System purchases services from several joint ventures and sells services and supplies to several joint ventures in which the Health System is also an investor. The Health System believes these transactions are consummated under commercially reasonable business arrangements.

The Health System has recorded receivables for amounts held by nonconsolidated foundations on behalf of the Health System of \$40,594 and \$36,200 as of December 31, 2010 and 2009, respectively. Contributions received from nonconsolidated foundations and other related parties were \$3,562 and \$8,740 in 2010 and 2009, respectively.

Note 9: Retirement Benefit Plans

Defined Contribution Retirement Plans

The Health System has several defined contribution benefit plans, which are available to substantially all employees meeting age and length of service requirements. Participating employers annually determine the amount, if any, of the Health System's contributions to the plan. Total benefit expenses under the defined contribution plans were approximately \$44,537 and \$41,458 for 2010 and 2009, respectively. The Health System also has deferred compensation plans for certain employees. Total expenses under the deferred compensation plans were \$2,534 and \$1,889 for 2010 and 2009, respectively.

Defined Benefit Plans

Prior to 2001, substantially all employees of four of the Health System's subsidiaries were covered by noncontributory defined benefit pension plans. The plans have been substantially frozen. The Health System's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Health System may determine to be appropriate from time to time. The Health System expects to contribute \$4,953 to the plans in 2011.

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During 2010, the Sioux City Affiliate began executing its plan for distribution of the assets in its defined benefit pension plan. The plan was terminated effective January 31, 2008. In December 2009, a determination letter was received from the IRS approving the termination. The termination and asset distribution were completed by June 30, 2010.

The following tables set forth information about each defined benefit plan:

	As of December 31, 2010			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Change in Benefit Obligation				
Benefit obligation, beginning of year	\$ 158,490	\$ 97,288	\$ 48,520	\$ 13,422
Service cost	3,530	122	489	-
Interest cost	9,966	6,203	3,104	-
Actuarial loss (gain)	10,442	6,607	2,793	-
Benefits paid	(7,034)	(3,668)	(1,680)	(13,422)
Curtailment gain from freezing benefits	-	-	49	-
Benefit obligation, end of year	<u>175,394</u>	<u>106,552</u>	<u>53,275</u>	<u>-</u>
Change in Fair Value of Plan Assets				
Fair value of plan assets, beginning of year	166,024	79,108	44,017	14,740
Actual return on plan assets	21,104	10,532	4,427	-
Employer contributions	1,000	3,633	3,300	-
Benefits paid	(7,034)	(3,668)	(1,680)	(13,473)
Settlement	-	-	-	(1,267)
Fair value of plan assets, end of year	<u>181,094</u>	<u>89,605</u>	<u>50,064</u>	<u>-</u>
Funded status, end of year	<u>\$ 5,700</u>	<u>\$ (16,947)</u>	<u>\$ (3,211)</u>	<u>\$ -</u>
Accumulated benefit obligation	<u>\$ 172,110</u>	<u>\$ 106,045</u>	<u>\$ 53,275</u>	<u>\$ -</u>

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	As of December 31, 2010			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Assets and liabilities recognized in the balance sheets				
Noncurrent assets	\$ 5,700	\$ -	\$ -	\$ -
Noncurrent liabilities	\$ -	\$ (16,947)	\$ (3,211)	\$ -
Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost				
Net loss	\$ 10,875	\$ 30,584	\$ 12,977	\$ -
Net prior service cost (credit)	88	-	(5,127)	-
	<u>\$ 10,963</u>	<u>\$ 30,584</u>	<u>\$ 7,850</u>	<u>\$ -</u>
Amounts expected to be recognized within one year				
Net loss	\$ -	\$ 2,166	\$ 859	\$ -
Net prior service cost (credit)	46	-	(651)	-
	<u>\$ 46</u>	<u>\$ 2,166</u>	<u>\$ 208</u>	<u>\$ -</u>
Other changes in plan assets recognized in changes in net assets				
Net loss	\$ 2,543	\$ 2,375	\$ 1,886	\$ -
Prior service cost	-	-	49	-
Amortization of				
Net loss	-	(2,174)	(590)	(2,995)
Prior service cost	(46)	-	642	-
	<u>(46)</u>	<u>-</u>	<u>642</u>	<u>-</u>
Total recognized in changes in net assets	<u>\$ 2,497</u>	<u>\$ 201</u>	<u>\$ 1,987</u>	<u>\$ (2,995)</u>

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	Des Moines	As of December 31, 2010 Cedar Rapids	Waterloo	Sioux City
Weighted-Average Assumptions Used to Determine Benefit Obligations for the Year Ended December 31, 2010				
Discount rate	6.00%	6.00%	6.00%	N/A
Rate of compensation increase	4.00%	5.00%	N/A	N/A
Weighted-Average Assumptions Used to Determine Benefit Costs for the Year Ended December 31, 2010				
Discount rate	6.50%	6.50%	6.50%	N/A
Expected return on plan assets	8.00%	8.00%	8.00%	N/A
Rate of compensation increase	4.00%	5.00%	N/A	N/A
Components of Net Periodic Benefit Cost				
Service cost	\$ 3,530	\$ 122	\$ 489	\$ -
Interest cost	9,966	6,203	3,104	-
Expected return on plan assets	(13,204)	(6,300)	(3,519)	-
Amortization of prior service cost	46	-	(642)	-
Recognized net actuarial loss	-	2,174	590	2,995
Net periodic benefit cost (benefit)	<u>\$ 338</u>	<u>\$ 2,199</u>	<u>\$ 22</u>	<u>\$ 2,995</u>

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	As of December 31, 2009			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Change in Benefit Obligation				
Benefit obligation, beginning of year	\$ 153,829	\$ 93,235	\$ 51,881	\$ 13,347
Service cost	3,527	149	358	-
Interest cost	9,799	5,946	3,325	850
Actuarial loss (gain)	1,662	1,400	648	(260)
Benefits paid	(10,327)	(3,442)	(1,625)	(515)
Curtailment gain from freezing benefits	-	-	(6,067)	-
Benefit obligation, end of year	<u>158,490</u>	<u>97,288</u>	<u>48,520</u>	<u>13,422</u>
Change in Fair Value of Plan Assets				
Fair value of plan assets, beginning of year	148,241	63,721	35,681	15,665
Actual return on plan assets	17,660	15,663	7,636	(410)
Employer contributions	10,450	3,166	2,325	-
Benefits paid	(10,327)	(3,442)	(1,625)	(515)
Fair value of plan assets, end of year	<u>166,024</u>	<u>79,108</u>	<u>44,017</u>	<u>14,740</u>
 Funded status, end of year	<u>\$ 7,534</u>	<u>\$ (18,180)</u>	<u>\$ (4,503)</u>	<u>\$ 1,318</u>
 Accumulated benefit obligation	<u>\$ 154,239</u>	<u>\$ 96,771</u>	<u>\$ 48,520</u>	<u>\$ 13,422</u>
 Assets and liabilities recognized in the balance sheets				
Noncurrent assets	\$ 7,534	\$ -	\$ -	\$ 1,318
Noncurrent liabilities	<u>\$ -</u>	<u>\$ (18,180)</u>	<u>\$ (4,503)</u>	<u>\$ -</u>
 Amounts recognized in unrestricted net assets but not yet recognized as components of net periodic benefit cost				
Net loss	\$ 8,332	\$ 30,383	\$ 11,681	\$ 2,995
Net prior service cost	134	-	(5,818)	-
	<u>\$ 8,466</u>	<u>\$ 30,383</u>	<u>\$ 5,863</u>	<u>\$ 2,995</u>
 Amounts expected to be recognized within one year				
Net loss	\$ -	\$ 2,174	\$ 782	\$ 148
Net prior service cost	46	-	(642)	-
	<u>\$ 46</u>	<u>\$ 2,174</u>	<u>\$ 140</u>	<u>\$ 148</u>

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	As of December 31, 2009			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Other changes in plan assets recognized in changes in net assets				
Net loss (gain)	\$ (4,684)	\$ (9,450)	\$ (4,220)	\$ 1,001
Prior service cost	-	-	(6,068)	-
Amortization of				
Net loss	-	(3,548)	(1,539)	(168)
Prior service cost	(46)	-	(58)	-
	<u>(46)</u>	<u>-</u>	<u>(58)</u>	<u>-</u>
 Total recognized in changes in net assets	 \$ (4,730)	 \$ (12,998)	 \$ (11,885)	 \$ 833

	As of December 31, 2009			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Weighted-Average Assumptions Used to Determine Benefit Obligations for the Year Ended December 31, 2009				
Discount rate	6.50%	6.50%	6.50%	6.50%
Rate of compensation increase	4.00%	5.00%	4.66%	N/A

	As of December 31, 2009			
	Des Moines	Cedar Rapids	Waterloo	Sioux City
Weighted-Average Assumptions Used to Determine Benefit Costs for the Year Ended December 31, 2009				
Discount rate	6.50%	6.50%	6.50%	6.50%
Expected return on plan assets	8.00%	8.00%	8.00%	5.50%
Rate of compensation increase	4.00%	5.00%	4.66%	N/A

Components of Net Periodic Benefit Cost				
Service cost	\$ 3,527	\$ 149	\$ 358	\$ -
Interest cost	9,799	5,946	3,325	850
Expected return on plan assets	(11,316)	(4,812)	(2,768)	(850)
Amortization of prior service cost	46	-	58	-
Recognized net actuarial loss	-	3,548	1,539	168
	<u>-</u>	<u>3,548</u>	<u>1,539</u>	<u>168</u>
 Net periodic benefit cost (benefit)	 \$ 2,056	 \$ 4,831	 \$ 2,512	 \$ 168

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The Health System has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreements permit investment in common stocks, corporate bonds and debentures, U.S. Government securities and other specified investments, based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2010 and 2009 are as follows:

		2010			
		Des Moines	Cedar Rapids	Waterloo	Sioux City
Equity securities	Not to exceed	20%	35%	35%	—
Fixed income	Not to exceed	50%	35%	35%	—
Private investment funds	Not to exceed	30%	30%	30%	—
		2009			
		Des Moines	Cedar Rapids	Waterloo	Sioux City
Equity securities	Not to exceed	35%	35%	30%	—
Fixed income	Not to exceed	35%	35%	40%	100%
Private investment funds	Not to exceed	30%	30%	30%	—

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Plan assets are re-balanced quarterly. At December 31, 2010 and 2009, plan assets by category are as follows:

	2010			2009			
	Des Moines	Cedar Rapids	Waterloo	Des Moines	Cedar Rapids	Waterloo	Sioux City
Cash and short term investments	4%	4%	6%	2%	3%	3%	84%
U.S. Treasury obligations	13	12	12	7	2	2	-
U.S. Government agency obligations	2	2	2	2	-	-	12
Asset-backed securities							
Home equity	1	1	1	1	1	1	-
Mortgage-backed securities							
Government	1	1	3	1	4	4	-
Non-government	4	3	3	7	4	4	-
Corporate bonds	25	12	15	37	4	5	4
Corporate bonds - PIF	-	1	5	-	19	18	-
Equity securities							
Domestic	2	3	3	2	5	4	-
Equity securities - PIF							
Domestic	8	17	16	8	20	18	-
International	3	6	7	2	5	5	-
Mutual funds							
Domestic	1	2	3	1	3	3	-
International	4	6	7	1	3	3	-
Emerging markets	3	5	6	-	1	1	-
Hedge fund of funds	29	25	11	29	26	29	-
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Defined Benefit Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

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Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include highly liquid U.S. Treasuries and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include U.S. Government agency obligations, collateralized mortgage obligations, corporate bonds and private investment funds. For these investments, the inputs used by the pricing service to determine the fair value include one or a combination of observable inputs, such as broker/dealer quotes, issuer spreads, benchmark securities, bid offers and reference data market research publications. In certain cases where Level 1 and Level 2 inputs are not available, plan assets are classified within Level 3 hierarchy. The plans have no Level 3 investments.

Private investment funds include interest in fixed income and equity security investment portfolios as well as alternative asset partnerships. Private investment funds are valued based on the Health System's proportionate interest in the fair value of the underlying investment assets held by the fund, adjusted to reflect risk associated with liquidity of their investment in the partnership, restrictions on transfer and other matters, if any. Interest in funds that consist of underlying securities with observable inputs, such as quoted market prices or quoted prices of securities with similar characteristics, are categorized as Level 2 of the fair value hierarchy.

The Health System changed third party administrators (TPA) for their investment portfolio on January 1, 2010. As a result of the change in TPA and management's evaluation of fair value inputs, certain securities are now classified in Level 2 of the valuation hierarchy in 2010 from Level 1 in 2009. These securities consisted primarily of U.S. Treasury Obligations.

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The fair values of the Health System's pension plans' assets at December 31, 2010 and 2009, by asset category are as follows:

		2010			
		Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value				
Cash and short-term investments	\$ 11,706	\$ -	\$ 11,706	\$ -	
U.S. Treasury obligations	39,674	-	39,674	-	
U.S. Government agency obligation	7,841	-	7,841	-	
Asset-backed securities					
Home equity	2,953	-	2,953	-	
Other	1,276	-	1,276	-	
Mortgage-backed securities					
Government	3,388	-	3,388	-	
Non-government	11,643	-	11,643	-	
Corporate bonds	62,775	235	62,540	-	
Corporate bonds - PIF	2,866	-	2,866	-	
Equity securities					
Domestic	7,940	7,940	-	-	
Equity securities - PIF					
Domestic	35,714	-	35,714	-	
International	14,978	-	14,978	-	
Mutual funds					
Domestic	5,940	5,940	-	-	
International	15,509	15,509	-	-	
Emerging markets	13,354	13,354	-	-	
Hedge fund of funds	81,586	-	81,586	-	
	<u>\$ 319,143</u>	<u>\$ 42,978</u>	<u>\$ 276,165</u>	<u>\$ -</u>	

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		2009		
		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Cash and short-term investments	\$ 19,513	\$ 16,676	\$ 2,837	\$ -
U.S. Treasury obligations	13,494	13,494	-	-
U.S. Government agency obligations	5,743	-	5,743	-
Asset-backed securities				
Home equity	3,062	-	3,062	-
Other	585	-	585	-
Mortgage-backed securities				
Government	5,489	-	5,489	-
Non-government	16,188	-	16,188	-
Corporate bonds	65,089	457	64,632	-
Corporate bonds - PIF	22,066	-	22,066	-
Equity securities				
Domestic	9,057	9,057	-	-
Equity securities - PIF				
Domestic	37,260	-	37,260	-
International	10,326	-	10,326	-
Mutual funds				
Domestic	6,293	6,293	-	-
International	6,237	6,237	-	-
Emerging markets	1,376	1,376	-	-
Hedge fund of funds	81,164	-	81,164	-
	<u>\$ 302,942</u>	<u>\$ 53,590</u>	<u>\$ 249,352</u>	<u>\$ -</u>

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2010:

2011	\$ 13,511
2012	14,960
2013	16,036
2014	17,572
2015	18,652
2016 - 2020	113,061

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Other Retirement Plan

One subsidiary of the Health System sponsors an unfunded defined benefit plan that provides postretirement medical and dental benefits to certain retirees and their dependent spouses of a predecessor hospital. The plan is not available to current employees. The total accrued postretirement benefit obligation is \$312 and \$345 as of December 31, 2010 and 2009, respectively. Benefit cost was \$(258) and \$(304) for 2010 and 2009, respectively. Benefits paid were \$39 and \$44 for 2010 and 2009, respectively. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 6.0% and 6.5% at December 31, 2010 and 2009, respectively.

Note 10: Risk Management

The Health System's hospitals are primarily self-insured for professional and general liability for amounts of \$3,000 per claim and \$25,000 in the aggregate annually, with a \$6,000 inter-aggregate for maternity claims and general liability claims and \$4,000 inter-aggregate for non-maternity claims. Thereafter, professional and general liability insurance coverage is maintained on a claims-made basis, with a liability limit of \$25,000. Other entities of the Health System maintain their professional and general liability coverage on a claims-made basis with no significant deductibles.

The Health System is primarily self-insured for workers' compensation and employee health care claims. Workers' compensation claims individually and in the aggregate that exceed certain amounts are covered by insurance.

Property insurance is maintained with at least 90% replacement value coverage and minimal deductibles. Business interruption insurance coverage is also maintained by the Health System.

The Health System has accrued as other liabilities \$50,241 and \$61,009 for self-insured losses at December 31, 2010 and 2009, respectively. The accrued liabilities are based on management's evaluation of the merits of various claims, historical experience and consultation with external insurance consultants and actuaries, and include estimates for incurred but not reported claims. There can be no assurance that the accrued liabilities will be sufficient for the ultimate amounts that will be paid for claims and settlements. Also, in the ordinary course of business, the Health System is involved in other litigation and claims, none of which management believes will ultimately result in losses that will adversely affect the Health System's consolidated net assets or results of operations to a material degree.

Cash and investments have been internally designated to be held for payments of claims, if any, which may result from the self-insured or uninsured portion of liability insurance and workers' compensation claims. At December 31, 2010 and 2009, the cash and investments amounted to \$32,803 and \$37,878, respectively.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2010 and 2009

Note 11: Lease Commitments

Certain property and equipment is being leased under long-term noncancelable operating leases. In most cases, management expects that, in the normal course of operations, the leases will be renewed or replaced by other leases. The total rent expense under operating leases for 2010 and 2009 was \$41,629 and \$36,446, respectively.

The following is a schedule by year of future minimum rental payments required under noncancelable operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2010.

2011	\$	31,872
2012		24,880
2013		16,430
2014		11,485
2015		9,182
Thereafter		39,435
Total minimum payments required	\$	<u>133,284</u>

Note 12: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

Financial Instruments Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2010 and 2009

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid U.S. Treasuries, exchange traded equities and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agency obligations, collateralized mortgage obligations, corporate debt obligations and private investment funds. For these investments, the inputs used by the pricing service to determine the fair value include one or a combination of observable inputs, such as broker/dealer quotes, issuer spreads, benchmark securities, bid offers and reference data market research publications. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain less liquid securities. The Health System has no Level 3 investments.

Private investment funds include interests in fixed income and equity security investment portfolios as well as alternative asset partnerships. Private investment funds are valued based on the net asset values reported by investment managers.

Quoted market prices were used to determine the fair value of Level 1 items. For Level 2 investments, inputs include: maturity and coupon rates and/or closing prices of similar securities from comparable industry financial data, as well as private investment fund's net asset values.

The Health System changed third party administrators (TPA) for their investment portfolio on January 1, 2010. As a result of the change in TPA and management's evaluation of fair value inputs, certain securities are now classified in Level 2 of the valuation hierarchy in 2010 from Level 1 in 2009. These securities consisted primarily of U.S. Treasury Obligations.

Interest Rate Swap Agreements

The fair value of interest rate swap agreements are estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Beneficial Interests in Trusts

The fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2010 and 2009

Fair Value Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2010 and 2009:

		2010		
		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Financial Assets				
Cash and short-term investments	\$ 247,437	\$ 6,987	\$ 240,450	\$ -
U.S. Treasury obligations	38,742	-	38,742	-
U.S. Government agency obligations	18,587	-	18,587	-
Asset-backed securities				
Home equity	11,728	-	11,728	-
Other	2,626	-	2,626	-
Mortgage-backed securities				
Government	32,509	-	32,509	-
Non-government	39,140	-	39,140	-
Certificates of deposit	474	474	-	-
Corporate bonds	46,631	-	46,631	-
Corporate bonds - PIF	171,449	-	171,449	-
Equity securities				
Domestic	124,520	124,520	-	-
Equity securities - PIF				
Domestic	147,252	-	147,252	-
International	84,292	-	84,292	-
Mutual funds				
Domestic	15,419	15,419	-	-
International	75,241	75,241	-	-
Emerging markets	82,498	82,498	-	-
Hedge fund of funds	78,627	-	78,627	-
Insurance policies	4,026	-	4,026	-
Beneficial interest in trust	5,487	-	5,487	-
Beneficial interest in Foundations	40,594	-	40,594	-
Financial Liabilities				
Interest rate swap agreements (net)	(46,225)	-	(46,225)	-
	<u>\$ 1,221,054</u>	<u>\$ 305,139</u>	<u>\$ 915,915</u>	<u>\$ -</u>

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2010 and 2009

		2009		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash and short-term investments	\$ 207,271	\$ 22,342	\$ 184,929	\$ -
U.S. Treasury obligations	35,141	35,141	-	-
U.S. Government agency obligations	2,277	51	2,226	-
Asset-backed securities				
Home equity	10,631	-	10,631	-
Other	1,585	-	1,585	-
Mortgage-backed securities				
Government	33,806	-	33,806	-
Non-government	28,555	-	28,555	-
Certificates of deposit	474	474	-	-
Corporate bonds	48,388	7,848	40,540	-
Corporate bonds - PIF	161,059	-	161,059	-
Equity securities				
Domestic	126,183	126,183	-	-
Equity securities - PIF				
Domestic	147,430	-	147,430	-
International	76,368	-	76,368	-
Mutual funds				
Domestic	18,237	18,237	-	-
International	47,285	47,285	-	-
Emerging markets	13,169	13,169	-	-
Hedge fund of funds	70,262	-	70,262	-
Insurance policies	4,363	-	4,363	-
Beneficial interest in trust	5,284	-	5,284	-
Beneficial interest in Foundations	36,200	-	36,200	-
Financial Liabilities				
Interest rate swap agreements (net)	(31,765)	-	(31,765)	-
	<u>\$ 1,042,203</u>	<u>\$ 270,730</u>	<u>\$ 771,473</u>	<u>\$ -</u>

Financial Instruments Not Measured at Fair Value

The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments, which include cash and cash equivalents, short-term investments, receivables, accounts payable, accrued liabilities, estimated settlements due to third-party payers and other current liabilities.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2010 and 2009

The carrying amount of the variable rate bonds and notes is assumed to approximate fair value. For the fixed-rate bonds, the estimated fair value is based on quoted prices for similar liabilities and is obtained from a financial institution that deals in these types of instruments. Other debt obligations are insignificant, and the carrying amounts are assumed to approximate fair value.

Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates. The fair market value of the Health System's financial instruments at December 31 approximates the carrying value except as follows:

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding capital leases and interest rate swaps	\$ 687,203	\$ 674,486	\$ 701,040	\$ 714,103

Note 13: Temporarily and Permanently Restricted Net Assets

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

	2010	2009
Purchase of equipment	\$ 6,257	\$ 8,047
Indigent care/operations	6,308	7,887
Health education	5,791	5,529
For use in future periods	6,629	6,612
Other	20,509	16,934
Total temporarily restricted net assets	\$ 45,494	\$ 45,009

Permanently restricted net assets are restricted to:

	2010	2009
Investments (generally including net investment appreciation and depreciation) to be held in perpetuity (income is restricted)	\$ 24,904	\$ 24,540
Investments (generally including net investment appreciation and depreciation) to be held in perpetuity (income is restricted for various purposes as directed by the donors)	13,001	11,720
Other	5,263	5,111
Total permanently restricted net assets	\$ 43,168	\$ 41,371

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2010 and 2009

Note 14: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Health System's conditional asset retirement obligations primarily relate to asbestos contained in various buildings. Environmental regulations in many of the states where the Health System operates require the Health System to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

A summary of changes in asset retirement obligations during 2010 and 2009 is included in the table below.

	2010	2009
Liability, beginning of year	\$ 11,910	\$ 11,847
Liabilities settled	(501)	(535)
Accretion expense	700	589
Changes in estimates, including timing	(1)	9
Liability, end of year	<u>\$ 12,108</u>	<u>\$ 11,910</u>

Note 15: Commitments and Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity has increased with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenues for patient services. The Health System has a corporate compliance plan intended to meet federal guidelines. As a part of this plan, the Health System performs periodic internal reviews of its compliance with laws and regulations. As part of the Health System's compliance efforts, the Health System investigates and attempts to resolve and remedy all reported or suspected incidents of material noncompliance with applicable laws, regulations or policies on a timely basis. The Health System believes that these compliance programs and procedures lead to substantial compliance with current laws and regulations.

The Health System is in various stages of responding to inquiries and investigations. These various inquiries and investigations could result in fines and/or financial penalties, which could be material. At this time, the Health System is unable to estimate the possible liability, if any, that may be incurred as a result of these inquiries and investigations, but the Health System does not believe it would materially affect the financial position of the Health System.

Iowa Health System and Subsidiaries

Notes to Consolidated Financial Statements

(Dollars in Thousands)

December 31, 2010 and 2009

Guarantees

The Health System has guaranteed approximately \$7,302 and \$13,140 at December 31, 2010 and 2009, respectively, relating to long-term debt for the construction of a cancer center, a data center, a medical office building that includes clinic and office space, purchase of equipment and a line of credit for a joint venture.

Employment Contracts

The Health System is committed for noncancelable physician employment contracts in the following amounts, prior to inflationary adjustments and bonuses based on future events:

2011	\$	14,062
2012		12,407
2013		441
2014		65
2015		47
Thereafter		47

Current Economic Conditions

The current protracted economic decline continues to present healthcare organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Health System.

Some of the Health System's patients are covered by government sponsored Medicare or Medicaid programs. The effect of the current economic conditions on government budgets may have an adverse effect on the cash flow from these programs.

Further, current economic conditions, have made it difficult for certain of the Health System's other patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Health System's future operating results.

Note 16: Subsequent Events

In January 2011, St. Luke's Health System, Inc. (Sioux City) purchased for approximately \$13 million a building that had previously been leased from a related party. Health System internal funds were used for the purchase.

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

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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	240,671,712	214,872,056
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	13,229,024	11,418,380
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	18,537,017	15,217,373
	<u>\$ 530,821,799</u>	<u>\$ 483,715,678</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	89,435,557	79,304,671
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	206,060,359	176,034,721
Total liabilities	295,495,916	255,339,392
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	235,325,883	228,376,286
	<u>\$ 530,821,799</u>	<u>\$ 483,715,678</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
	<u>347,597,926</u>	<u>334,142,713</u>
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	<u>366,691,096</u>	<u>345,767,508</u>
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	<u>357,386,316</u>	<u>335,290,149</u>
Operating income	<u>9,304,780</u>	<u>10,477,359</u>
Nonoperating income		
Investment income	13,796,578	16,247,283
Interest rate swap valuation	(13,606,427)	37,408,568
Total nonoperating income, net	<u>190,151</u>	<u>53,655,851</u>
Revenues in excess of expenses	<u>9,494,931</u>	<u>64,133,210</u>

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	<u>\$ 235,325,883</u>	<u>\$ 228,376,286</u>

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:

	2010	2009
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:

	2010	2009
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:

	2010	2009
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:

	2010	2009
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	<u>299,222,489</u>	<u>283,186,565</u>
	<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:

	2010	2009
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
	<u>104,165,643</u>	<u>94,359,999</u>
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
	<u>\$ 87,557,285</u>	<u>\$ 84,619,999</u>

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)

	2010	2009
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>
	2010	2009
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:

	2010	2009
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.

	2010	2009
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:

	<u>2010</u>	<u>2009</u>
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:

	<u>2010</u>	<u>2009</u>
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).

	Level 1	Level 2	Level 3	Fair Value
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	93,583	–	–	93,583
Hedge fund investments:				
Special situations fund	–	–	10,562	10,562
Common collective trust fund			15,327	15,327
Total assets at fair value	\$ 93,583	\$ –	\$ 25,889	\$ 119,472

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).

	Level 1	Level 2	Level 3	Fair Value
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	84,759	—	—	84,759
Hedge fund investments:				
Common collective trust fund	—	—	24,275	24,275
Total assets at fair value	\$ 84,759	\$ —	\$ 24,275	\$ 109,034

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	1,614
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:

	2010	2009
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:

	2010	2009
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 CIGCCC. 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. CIGCCC 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
CIGCCC	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:

<u>Affiliate</u>	<u>Percentage Interest</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Income (Loss)</u>
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:

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

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 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	\$ -	\$ -	\$ 3,906,959	\$ 3,906,959

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



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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



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Fax: +1 312 879 4000
www.ey.com

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>

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VERIFICATIONS

Attachment #7 includes verification of the items specified in 77 Ill. Adm. Code 1130.520(b) and (c)(5). Please note that there are no outstanding permits.

The verifications included in the attachment are described below:

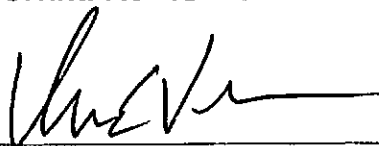
- 1) Verification that the categories of service and number of beds as reflected in the Inventory of Health Care Facilities will not substantially change for at least 12 months following the project's completion date.
- 2) Proof that the applicant is fit, willing and able and *has the qualifications, background and character to adequately provide a proper standard of health service for the community* [20 ILCS 3960/6] by certifying that no adverse action has been taken against the applicant by the federal government, licensing or surveying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application.
- 3) Proof that the applicant has sufficient funds to finance the acquisition and to operate the facility for a period of 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch's, Moody's, or Standard and Poor's rating agencies or evidence of compliance with HFPB financial viability review criteria applicable to the type of facility to be acquired as specified in 77 Ill. Adm. Code 1120 is provided in Attachment 2 to the application.
- 4) Verification that the applicant intends to maintain ownership and control of the facility for a minimum of three years.
- 5) Verification that any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of this Section.
- 6) Certification that the facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction. The hospital must provide certification that the compliant charity care policy will remain in effect for a two-year period, following the change of ownership transaction.
- 7) Verification that failure to complete the project in accordance with the applicable provisions of Section 1130.570 no later than 12 months from the date of exemption approval (or by a later date established by HFPB upon a finding that the project has proceeded with due diligence) and failure to comply with the material change requirements of this Section will invalidate the exemption.

Verifications- Iowa Health System

1. Iowa Health System ("IHS") verifies that the categories of service identified in the Illinois Department of Public Health Inventory of Healthcare Facilities for The Methodist Medical Center of Illinois will not substantially change for at least 12 months following the project's completion date.
2. IHS hereby certifies that there has been no adverse action taken against any health care facility owned and operated by it by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois within the last three years.
3. IHS hereby verifies that ownership and control of The Methodist Medical Center of Illinois will be maintained by IHS for a minimum of three years following the receipt of the Certificate of Exemption for Change of Ownership.
4. IHS hereby certifies that any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of 1130.520.
5. IHS hereby certifies that it will not cause The Methodist Medical Center of Illinois to adopt a more restrictive charity care policy than the policy in effect one year prior to the transaction. The Methodist Medical Center of Illinois will maintain its compliant charity care policy for two years, following the change of ownership transaction.
6. IHS hereby certifies that it understands that failure to complete the change of ownership of The Methodist Medical Center of Illinois in accordance with the applicable provision of Section 1130.570 within 12 months from the date of exemption approval and failure to comply with the material change requirements of this Section 1130.520 will invalidate the exemption.

Iowa Health System

Signature of Authorized Officer: _____



Typed or Printed Name of Authorized Officer: Kevin E. Vermeer

Title of Authorized Officer: EVP/CFO

Address: 1200 Pleasant Street

City, State & Zip Code: Des Moines, IA 50309

Telephone: (515) 241-8215 Date: June 9, 2011

Verifications- Methodist Health Services Corporation and The Methodist Medical Center of Illinois

1. Methodist Health Services Corporation and The Methodist Medical Center of Illinois verify that the categories of service identified in the Illinois Department of Public Health Inventory of Healthcare Facilities for The Methodist Medical Center of Illinois will not substantially change for at least 12 months following the project's completion date.
2. Methodist Health Services Corporation and The Methodist Medical Center of Illinois hereby certify that there has been no adverse action taken against any health care facility owned and operated by it by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois within the last three years.
3. Methodist Health Services Corporation and The Methodist Medical Center of Illinois hereby verify that ownership and control of The Methodist Medical Center of Illinois will be maintained by Iowa Health System for a minimum of three years following the receipt of the Certificate of Exemption for Change of Ownership.
4. Methodist Health Services Corporation and The Methodist Medical Center of Illinois hereby certify that any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of 1130.520.
5. The Methodist Medical Center of Illinois hereby certifies that it will not adopt a more restrictive charity care policy than the policy in effect one year prior to the transaction. The Methodist Medical Center of Illinois will maintain its compliant charity care policy for two years, following the change of ownership transaction.
6. Methodist Health Services Corporation and The Methodist Medical Center of Illinois hereby certify that it understands that failure to complete the change of ownership of The Methodist Medical Center of Illinois in accordance with the applicable provision of Section 1130.570 within 12 months from the date of exemption approval and failure to comply with the material change requirements of this Section 1130.520 will invalidate the exemption.

Methodist Health Services Corporation and The Methodist Medical Center of Illinois

Signature of Authorized Officer : W. Michael Bryant

Typed or Printed Name of Authorized Officer: W. Michael Bryant

Title of Authorized Officer: President and Chief Executive Officer

Address: 221 Northeast Glen Oak Avenue

City, State & Zip Code: Peoria, IL 61636-0002

Telephone: (309) 672-5599 Date: June 9, 2011

**ILLINOIS HEALTH FACILITIES PLANNING BOARD
INSTRUCTIONS FOR THE COMPLETION OF APPLICATION FOR EXEMPTION
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY**

Prior to the submission of an application for exemption for the change of ownership of a health care facility, a letter of intent must be filed. The requirements of a letter of intent are specified at 77 IAC 1130.500(a). No application for exemption will be accepted until the requirements of 77 IAC 1130.500 and 1130.550(b) are met.

The attached form must be used for all transactions proposing a change of ownership of a health care facility. The requirements for issuance of an exemption are contained in 77 IAC 1130.520. Applicants should refer to IAC 1130.140 for definitions of a change of ownership and control of a health care facility. Applicants should also refer to 77 IAC 1130.220(a) for information on who the applicant(s) should be. Note the following requirements and guidelines pertaining to the Application for Exemption:

1. IAC 1130.520(a) prohibits any person from acquiring or entering into an agreement to acquire an existing health care facility prior to receiving approval from the State Board.
2. Complete the application with all applicable attachments. All pages and documents must be on single-sided paper size 8 1/2" x 11". Applicants should note that the required attachments to the application must be labeled and identified by attachment number. FAILURE TO DO SO WILL RESULT IN THE APPLICATION BEING DEEMED INCOMPLETE.
3. It is noted that all applications for exemption for the change of ownership of a health care facility are subject to the opportunity for a public hearing and public hearing requirements (77 IAC 1130.520(c) and (d)).
4. Applicants must submit a complete original application with original signature(s) and required appendices and attachments, as well as the APPLICATION FEE of \$2,500 payable by check or money order to the Illinois Department of Public Health. Submit the material to:

Jeffrey Mark, Executive Secretary
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

5. Per IAC 1130.550(b), the State Agency is allowed 30 DAYS (from the date of receipt of the application) to determine the application's completeness. PLEASE REFRAIN FROM TELEPHONING THE STATE AGENCY FOR A STATUS REPORT ON YOUR APPLICATION. STAFF TIME ANSWERING PHONE INQUIRIES TAKES FROM STAFF TIME TO REVIEW APPLICATIONS. The State Agency will contact you if your application is incomplete.

NOTE: "The Illinois Department of Public Health does not discriminate on the basis of handicap in admission or access to, or treatment or employment in its programs and activities in compliance with Section 504 of the Rehabilitation Act of 1973, as amended. The Equal Employment Opportunity Officer is responsible for coordination of compliance efforts; voice (217) 785-2034; TDD (217) 785-2088."

Revised September, 2006