SOUTHERN ILLINOIS HOSPITAL SERVICES

CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

March 31, 2012 and 2011

SOUTHERN ILLINOIS HOSPITAL SERVICES

CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012 and 2011

CONTENTS

REPORT INDEPENDENT AUDITORS 1

CONSOLIDATED FINANCIAL STATEMENTS

- CONSOLIDATED BALANCE SHEETS 2
- CONSOLIDATED STATEMENTS OF OPERATIONS 4
- CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS 5
- CONSOLIDATED STATEMENTS OF CASH FLOWS 6
- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 8

SUPPLEMENTARY INFORMATION

- CONSOLIDATING BALANCE SHEETS 33
- CONSOLIDATING STATEMENTS OF OPERATIONS 37

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Southern Illinois Hospital Services
Carbondale, Illinois

We have audited the accompanying consolidated balance sheets of Southern Illinois Hospital Services ("SIHS" or "Corporation") and its wholly-owned and majority-owned subsidiaries and wholly-controlled affiliate as of March 31, 2012 and 2011, and the related consolidated statements of operations, 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 did not audit the financial statements of SIH Cayman SPC Group, Ltd., a consolidated subsidiary, which statements reflect total assets and revenue constituting 4% and 1% for the year ended March 31, 2012 and 3% and 1% for the year ended March 31, 2011 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for SIH Cayman SPC Group, Ltd., is based solely on the report of the other auditors.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Illinois Hospital Services and its wholly owned and majority-owned subsidiaries and wholly controlled affiliate as of March 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated balance sheet and consolidating statements of operations are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling other information directly to the underlying accounting and such records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
July 18, 2012

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATED BALANCE SHEETS
March 31, 2012 and 2011
($ in thousands)

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,127	$ 8,983
Assets whose use is limited by trust agreement	17	47
Accounts receivable:		
Patient, net	85,303	69,480
Affiliates	46	95
Supplies	6,505	7,158
Prepaid expenses	5,693	4,833
Current portion of notes receivable	314	142
Other	3,690	2,831
Total current assets	108,695	93,569
Assets whose use is limited by:		
Board designation for capital improvements	277,985	280,494
Board designation for self-insurance	15,304	12,265
Trust agreement	17	10,590
	293,306	303,349
Property and equipment, net	175,691	169,135
Other Assets:		
Unamortized bond costs, net of accumulated amortization of $760 in 2012 and $1,076 in 2011	4,451	4,310
Investments in joint ventures	2,106	1,943
Notes receivable, less current portion	1,139	1,030
Goodwill	11,492	877
Other	7,839	6,407
	27,027	14,567
Total assets	$ 604,719	$ 580,620

(Continued)

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATED BALANCE SHEETS
March 31, 2012 and 2011
($ in thousands)

	2012	2011
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	$ 3,395	$ 3,104
Current maturities of interest rate swap contracts	2,206	2,378
Accounts payable:		
Construction contracts	128	235
Trade	18,052	17,003
Affiliates	-	27
Estimated third-party payor settlements	11,698	8,121
Accrued liabilities:		
Payroll and related expenses	19,589	17,175
Other	9,512	7,564
Total current liabilities	64,580	55,607
Long-term debt, less current maturities	131,468	135,759
Interest rate swap contracts	12,085	3,418
Medical professional liabilities	26,620	21,746
Other	688	659
	170,861	161,582
Total liabilities	235,441	217,189
Net assets:		
SIHS controlling interest	367,994	362,295
Non-controlling interest	699	588
Total unrestricted	368,693	362,883
Temporarily restricted	585	548
Total net assets	369,278	363,431
Total liabilities and net assets	$ 604,719	$ 580,620

See accompanying notes to consolidated financial statements.

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended March 31, 2012 and 2011
($ in thousands)

	2012	2011
Net patient service revenue	$ 379,649	$ 363,220
Other operating revenue	4,938	2,874
Net assets released from restriction	305	161
Total revenue	384,892	366,255
Expenses		
Salaries	146,185	136,570
Employee benefits	43,383	41,167
Physicians' fees	25,079	23,538
Professional fees	18,871	16,072
Purchased services	12,318	11,575
Patient chargeable supplies	37,252	37,175
Patient nonchargeable supplies	12,671	11,165
Drugs and pharmaceuticals	13,396	11,745
Other supplies and expense	7,355	6,911
Rent expense	2,273	2,262
Repairs and maintenance	9,983	9,342
Insurance	11,891	9,686
Miscellaneous expense	3,356	4,411
Interest and amortization	7,508	7,620
Depreciation	25,481	23,289
Non-cash interest (income) expense associated with interest rate swap contracts	4,746	987
Total expense	381,748	353,515
Income from operations	3,144	12,740
Non-operating gains (losses)		
Unrestricted gifts and interest income	1,184	729
Investment income and net realized gains from board designated funds	9,266	22,700
Reclassification of net unrealized gains on securities transferred To trading categories	-	17,722
Change in net unrealized gains on investments	(5,577)	12,624
Equity in earnings of joint ventures	1,612	3,469
Other	(363)	(318)
Corporate allocation	-	-
	6,122	56,926
Excess (deficiency) of revenue over expenses before non-controlling interest	9,266	69,666
Reclassification of net unrealized gains on securities transferred to trading categories	-	(17,722)
Contributions	184	420
Change in fair value of interest rate swap contracts	(3,751)	(589)
Increase in unrestricted net assets	$ 5,699	$ 51,775

See accompanying notes to consolidated financial statements.

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the years ended March 31, 2012 and 2011
($ in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets Parent Co.	Non-controlling Interests	Total Net Assets
Balance at April 1, 2010	$ 310,520	$ 192	$ 310,712	$ -	$ 310,712
Changes in net assets:					
Reclassification of non-controlling interest	-	-	-	868	868
Distributions				(11)	(11)
Contributions	420	517	937	-	937
Releases from restriction	-	(161)	(161)	-	(161)
Change in fair value of interest rate swap	(589)	-	(589)	-	(589)
Reclassification of net unrealized gains on securities transferred to the trading categories (Note 1)	(17,722)	-	(17,722)	-	(17,722)
Excess revenue over expenses	69,666	-	69,666	(269)	69,397
Total change in net assets:	51,775	356	52,131	588	52,719
Balance at March 31, 2011	362,295	548	362,843	588	363,431
Changes in net assets:					
Distributions				(28)	(28)
Contributions	184	342	526	-	526
Releases from restriction	-	(305)	(305)	-	(305)
Change in fair value of interest rate swap	(3,751)	-	(3,751)	-	(3,751)
Excess revenue over expenses	9,266	-	9,266	139	9,405
Total change in net assets:	5,699	37	5,736	111	5,847
Balance at March 31, 2012	$ 367,994	$ 585	$ 368,579	$ 699	$ 369,278

See accompanying notes to consolidated financial statements.

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2012 and 2011
($ in thousands)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 5,847	$ 52,719
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-controlling interest in net income (loss) of consolidated subsidiary	139	-
Reclassification of non-controlling interest	-	(868)
Minority dividend distributions	(28)	(11)
Depreciation	25,481	23,289
Amortization of bond costs	222	199
Loss on bond refinancing	216	-
Investment amortization	-	201
Provision for bad debts	37,865	27,466
Loss on disposal of property and equipment	224	142
(Gain) on sale of investments	(87)	(13,833)
Net unrealized (gains) losses on investments	5,577	(12,624)
Undistributed net earnings of joint ventures	(1,612)	(3,469)
Loss on interest rate swap contracts	8,495	1,578
Changes in working capital components:		
(Increase) decrease in:		
Patient accounts receivable	(53,639)	(17,275)
Supplies, prepaids and other assets	(2,536)	(3,888)
Increase (decrease) in:		
Trade payables	1,049	2,915
Third-party reimbursement programs	3,577	770
Payroll and related expenses	2,414	(493)
Medical professional liabilities	4,874	4,241
Other liabilities	1,944	4,442
Net cash from operating activities	40,022	65,501
Cash flows from investing activities		
Purchases of investments	(262,005)	(392,686)
Proceeds from sale of investments	266,558	357,580
Payments received on notes receivable, net of (advances)	(281)	(287)
Proceeds from sale of property and equipment	52	82
Proceeds from sale of interest in SIOC	-	2,675
Adjustments to goodwill	(15,810)	-
Distributions from joint venture	1,449	1,659
Purchases and construction of property and equipment	(27,262)	(30,224)
Net cash from investing activities	(37,299)	(61,201)

See accompanying notes to consolidated financial statements.

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2012 and 2011
($ in thousands)

	2012	2011
Cash flows from financing activities		
Principal payments on long-term debt	$ (135)	$ (84)
Proceeds from long-term debt	73	-
Proceeds from bonds	14,420	-
Principal payments on bonds	(18,358)	(2,645)
Payment of bond costs	(579)	(70)
Net cash from financing activities	(4,579)	(2,799)
(Decrease) Increase in cash and cash equivalents	(1,856)	1,501
Cash and cash equivalents		
Beginning of year	8,983	7,482
End of year	$ 7,127	$ 8,983
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 7,406	$ 7,345
Supplemental disclosures of noncash investing and financing activities		
Construction-in-progress released/(incurred) in exchange for construction contracts payable	$ 1,200	$ 563

See accompanying notes to consolidated financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Southern Illinois Hospital Services (SIHS or Corporation) owns and/or operates the following entities:

Memorial Hospital of Carbondale, Carbondale, Illinois (Memorial)
Herrin Hospital, Herrin, Illinois (Herrin)
St. Joseph Memorial Hospital, Murphysboro, Illinois
SIH Cayman SPC Group, Ltd.
Southern Illinois Medical Services, NFP
Physicians' Surgery Center, LLC
SIH Foundation, NFP
Quality Health Partners LLC

The hospitals provide acute inpatient, outpatient and emergency care services. Certain facilities also provide maternity care, rehabilitation care, skilled nursing inpatient care, and intermediate inpatient care. Admitting physicians are primarily practitioners in the local area.

SIHS is the sole stockholder of SIH Cayman SPC Group, Ltd. (Captive), an off-shore captive insurance corporation established to underwrite the general and professional liability risks of the hospitals. The Captive was established effective April 1, 2006.

SIHS serves as the sole member and elects all of the trustees of, and thereby controls, Southern Illinois Medical Services, NFP (SIMS), an Illinois not-for-profit corporation, established to employ physicians and to operate physician practices in Southern Illinois. SIMS was established in November 2006.

As of March 31, 2008, SIHS was the sole member of Physicians' Surgery Center, LLC (PSC), an Illinois Limited Liability Company which was established in May 2007 to operate and manage the ambulatory surgical treatment center that was acquired as part of purchase of the Carbondale Clinic. In April 2008, certain employed and non-employed physicians contributed capital of $900,000 to PSC in exchange for a 45% equity interest, resulting in SIHS becoming a 55% member of PSC.

Southern Illinois Hospital Services is under the control of Southern Illinois Healthcare Enterprises, Inc. (SIHE). SIHE is a not-for-profit corporation established as a parent corporation. The Corporation is included in the consolidated financial statements of SIHE.

The following table depicts the changes in consolidated unrestricted net assets attributable to the noncontrolling interest in PSC.

	PSC
Balance April 1, 2010	$ 868
Excess of revenues over expenses (from continuing operations)	(269)
Distributions declared	(11)
Change in net assets	(280)
Balance March 31, 2011	588
Excess of revenues over expenses (from continuing operations)	133
Distributions declared	(22)
Change in net assets	111
Balance March 31, 2012	$ 699

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A summary of SIHS's significant accounting policies is as follows:

Principles of Consolidation: The consolidated financial statements include the accounts of SIHS and its wholly owned hospitals Memorial, Herrin and St. Joseph, its wholly owned Subsidiary (Captive), its wholly-controlled Affiliate (SIMS) and its majority-owned Subsidiary (PSC) and SIH Foundation and Quality Health Partners LLC. All material intercompany accounts and transactions are 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. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of the net patient accounts receivable and settlements with third-party payors and accrual for professional and general liability claims. These estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: All highly liquid investments, excluding assets whose use is limited, purchased with maturity of three months or less are considered to be cash equivalents. Cash equivalents consist of certificates of deposit and money market mutual funds. At times, the Corporation has deposits with financial institutions in excess of federally insured limits.

The Corporation routinely invests its operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Patient Receivables: Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. A patient receivable is considered past due when the amount billed remains unpaid for more than 30 days subject to a third-party payor's agreed upon terms, if applicable. The hospitals do not charge interest on patient receivable accounts which are past due. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Supplies: Inventories of supplies are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Fair value is determined primarily on the basis of quoted market prices. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses in 2012 and interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

Effective April 1, 2010, the Corporation designated its investments as trading securities. As a result of this designation, $17,722,000 of cumulative net unrealized gains on the trading portfolio as of April 1, 2010, not previously recognized in earnings, were recognized as non-operating income.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment income on proceeds of borrowings that are held by a trustee are included in operating revenue. Unrestricted contributions and income from all other investments are recorded as non-operating gains.

Realized gains from the sale of investments are recognized using the first-in, first-out cost basis for sales of marketable equity securities. Gains and losses from sales of debt securities are recognized using a specific identification cost basis.

Assets Whose Use is Limited: Assets whose use is limited include assets held by trustees under bond indenture agreements, assets designated for payment of future medical professional liability claims and assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities have been classified as current assets at March 31, 2012 and 2011.

Investments in Joint Ventures: As of March 31, 2012 and 2011, the Corporation has an interest of 34% interest in Southern Illinois Orthopedic Center, LLC (SIOC). SIOC was established in fiscal 1999 to build and operate an ambulatory surgical treatment center. On June 1, 2010, the Corporation sold 15% of its interest in SIOC for $2,675,000, recording a gain of $1,994,000 to equity in earnings of joint ventures at the date of transaction.

The investment is accounted for by the equity method of accounting under which the Corporation's share of the net income of the affiliate is recognized as income in the Corporation's consolidated statements of operations and added to the investment account, and dividends received from the affiliate are treated as a reduction of the investment account.

Property and Equipment: The Corporation capitalizes expenditures that exceed $1,000 and that are expected to have a useful life in excess of two years. Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line and accelerated methods over the estimated useful lives of the assets following guidelines of the American Hospital Association. The Corporation evaluates the carrying value of long-lived assets whenever significant events or changes in circumstances indicate the carrying value of these assets may be impaired. The property and equipment acquired through business acquisitions has been recorded at the fair market value at the time of the acquisition.

Other Assets: Unamortized bond costs relating to the bond issues are being amortized by the straight-line method, which approximates the effective interest method, over the term of the bond issue.

Goodwill: The Financial Accounting Standards Board ("FASB") issued FASB ASC 805 (*Business Combinations*) and FASB ASC 350 (*Intangibles - Goodwill and Other)*. FASB ASC 805 requires all business combinations to be accounted for using the purchase method of accounting. In addition, FASB ASC 805 requires that identifiable intangible assets be recognized apart from goodwill based on meeting certain criteria. FASB ASC 350 addresses how intangible assets and goodwill should be accounted for upon and after acquisition. Specifically, goodwill and intangible assets with indefinite useful lives will not be amortized but will be subject to annual impairment tests based on their estimated fair value. There was no impairment in 2012 or 2011.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On October 31, 2011, Southern Illinois Medical Services, NFP purchased substantially all of the assets of Logan Primary Care (the “Practice”), excluding the accounts receivable and cash used in or generated from the conduct and operation of the Practice prior to closing date. The Corporation acquired the primary family practice clinic as the transaction was mutually beneficial for both parties. The purchase price was allocated to the balance sheet as follows:

Property and equipment	$ 5,207
Prepaid assets	68
Goodwill	10,615
Other accrued liabilities	(80)
Total purchase allocation	$ 15,810

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

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

Operating Income: The statements of operations and changes in net assets include operating income. Changes in unrestricted net assets, which are excluded from operating income include unrestricted contributions and other income which management views as outside of normal activity.

Excess of Revenues Over Expenses: The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the following transactions when applicable: permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets). The change in the fair value of interest rate swap contracts is excluded from excess of revenue over expenses if it qualifies as a highly effective hedge transaction.

Net Asset Classifications: Net assets are segregated into two categories that are classified as unrestricted and temporarily restricted. Contributions received without specific restriction from a donor or that arise as a result of operations are classified as unrestricted net assets. Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets to a particular time or purpose. When a donor restriction expires, that is, when the stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements. The Corporation and its subsidiaries do not have any permanently restricted net assets.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily restricted net assets are primarily for the purchase of property and equipment.

Income Taxes: The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Corporation realized certain income which the Internal Revenue Service considers to be unrelated business income subject to income tax. For the years ended March 31, 2012 and 2011, no tax was due related to these operations.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. Examples of tax positions common to health systems include matters such as the tax exempt entity taking a tax position that an organization is tax exempt without observing corresponding proof of tax exemption from federal and state taxing authorities and there is material net income generated by the entity or egregious compensation paid to insiders that could result in revocation of exempt status (outside the scope of intermediate sanctions excise tax penalties). The tax position is to consider that these compensatory arrangements do not jeopardize tax exemption. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the “more-likely-than-not” recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no uncertain tax benefits identified and recorded as a liability upon the adoption of ASC 740 or at March 31, 2012 and 2011. The Corporation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Corporation would recognize interest and/or penalties related to income tax matters in miscellaneous expenses.

Tax returns filed by the Corporation are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Tax returns filed by the Corporation are no longer subject to examination for the years ended March 31, 2008 and prior.

Fair Value Measurement: Investments are stated at fair value based on quoted prices or nationally recognized securities exchanges.

Derivative Financial Instruments: The Corporation’s derivative financial instruments, which consist of interest rate swap contracts, are recognized on the balance sheet at their fair value. Changes in the fair value of interest rate swaps are recognized as a change in unrestricted net assets below excess (deficiency) of revenue over expenses in the period of change as long as the swap is determined to be an effective cash flow hedge. Any ineffective portion of the swap is recorded as an adjustment to interest expense in the consolidated statement of operations.

Insurance: The Corporation has elected to self-insure a portion of its employee health insurance claims. Amounts are charged against income based upon estimated losses as determined by management for each period. The Corporation is funding this estimated liability on a current basis.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIHS formed the Captive, an off-shore captive insurance company, to underwrite its professional and general liability losses. The Captive has purchased a reinsurance policy with an unrelated third party to provide excess coverage for large claims. Assets are funded and losses are accrued as expense based upon estimated losses that are determined by actuarial analysis.

SIMS is not covered under the Captive, and has purchased physicians and surgeons professional liability insurance coverage from Medical Alliance Insurance Company. See Note 10 for additional disclosure.

New Accounting Pronouncements: Effective April 1, 2011 and retrospectively for all periods presented, the Corporation adopted the provisions of ASU 2010-24 which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. In connection with the Corporation's adoption of ASU 2010-24, the Corporation recorded an increase to its "Other assets" and "Reserves for self-insurance claims and other liabilities" in the accompanying condensed consolidated balance sheet by $10.5 million as of March 31, 2012. The $1.65 million increase to both "Other" assets and "Other" liabilities as of March 31, 2012 represents the Corporation's estimate of its recoveries for certain claims in excess of the Corporation's self-insured retention levels for workers' compensation claims and professional and general liability claims. The adoption of ASU 2010-24 had no impact on the Corporation's results of operations or cash flows.

In July 2011, the FASB issued ASU 2011-7, "Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" ("ASU 2011-7"). In accordance with ASU 2011-7, the Corporation will be required to present its provision for doubtful accounts related to patient service revenue as a deduction from revenue, similar to contractual discounts. Accordingly, the Corporation's revenues will be required to be reported net of both contractual discounts as well as its provision for doubtful accounts related to patient service revenues. Additionally, ASU 2011-7 will require the Corporation to make certain additional disclosures designed to help users understand how contractual discounts and bad debts affect recorded revenue in both interim and annual financial statements. ASU 2011-7 is required to be applied retrospectively and is effective for public companies for fiscal years beginning after December 15, 2011 and interim periods within those fiscal years. Early adoption is permitted. The Corporation has adopted the provisions of ASU 2011-7. As a result of the adoption, ASU 2011-7 is not expected to impact the Corporation's financial position, results of operations or cash flows, however, it will change the presentation of the Corporation's revenues on its statements of operations as well as requiring additional disclosures.

In September 2011, the FASB issued ASU 2011-8, "Intangibles — Goodwill and Other (Topic 350)" ("ASU 2011-8"). Previously, entities were required to test goodwill for impairment, on at least an annual basis, by first comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the resulting fair value of a reporting unit was less than its carrying amount, then the second step of the test would be performed to measure the amount of the impairment loss, if any. ASU 2011-8 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary.

(Continued)

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with ASU 2011-8, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. Additionally, ASU 2011-8 permits an entity to resume performing the qualitative assessment in any subsequent period. ASU 2011-8 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of ASU 2011-8 is not expected to impact the Corporation's financial position, results of operations or cash flows.

In August 2010, the FASB issued ASU 2010-23, which requires a company in the healthcare industry to use its direct and indirect costs of providing charity care as the measurement basis for charity care disclosures. This ASU also requires additional disclosures of the method used to determine such costs. The Corporation adopted this ASU on April 1, 2011. In the ordinary course of business, the Corporation renders services to patients who are financially unable to pay for hospital care. Included in the provision for contractual allowances is the value (at the Corporation's standard charges) of these services to patients who are unable to pay that is eliminated from net operating revenues when it is determined they qualify under the Corporation's charity care policy

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications did not affect total net assets or changes in net assets.

NOTE 2 - HEDGING ACTIVITIES

The Corporation maintains an interest-rate risk-management strategy that uses derivative instruments (interest rate swap contracts) to minimize unanticipated earnings fluctuations caused by interest-rate volatility. The Corporation's specific goals are (1) to manage interest-rate sensitivity by modifying the repricing or maturity characteristics of certain of its debt and (2) to lower (where possible) the cost of its borrowed funds. Interest-rate fluctuations create an unrealized appreciation or depreciation in the market value of the Corporation's debt when compared to its cost. The effect of this unrealized appreciation or depreciation in market value, however, will generally be offset by income or loss on derivative instruments that are linked to the debt.

The Corporation entered into an interest-rate swap contract with the Royal Bank of Canada (RBC) which was intended to convert a portion, $43,750,000 as of March 31, 2012 and 2011, of their $69,000,000 Revenue Bonds, Series 2005 with Wells Fargo to a fixed rate of 3.374%. The Series 2005 bonds had an outstanding balance of $69,000,000 as of March 31, 2012 and 2011. The interest rate swap contract expires in March 2035. The interest rate swap's variable portion was set at 57% of 30 day LIBOR plus .44% which was determined would effectively hedge the auction rate payments. During the first quarter of 2008, the auction rate market experienced large fluctuations and the cash flow hedge was determined to no longer be effective. The swap is no longer tied to these bonds as the bonds now have a fixed interest rate. See Note 8 for further discussion. During 2012 and 2011, respectively, the hedge resulted in additional interest expense of approximately $1,228,000 and $1,209,000. The Corporation expects additional interest expense of $1,156,000 during the year-ended March 31, 2013.

In June 2009, the Corporation entered into an interest-rate swap contract with Morgan Stanley to convert a portion, $30,000,000 of their $55,000,000 Series 2008 Variable Rate Demand Revenue Bonds to a fixed rate of 3.844%. The swap amortizes relative to the bonds and had a notional amount of $29,235,000 and $29,495,000 as of March 31, 2012 and 2011, respectively. The Series 2008 bonds had an outstanding balance of $52,270,000 and $54,065,000 as of March 31, 2012 and 2011, respectively.

(Continued)

NOTE 2 - HEDGING ACTIVITIES (Continued)

The interest rate swap expires in March 2038. The interest rate swap's variable portion was set at the SIFMA Municipal Swap Index rate which was determined would effectively hedge the weekly interest rate. Management formally documented the hedging relationship at hedge inception and assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instrument is highly effective in offsetting changes in cash flows of the hedged items. Any ineffectiveness is recorded as a charge to interest expense in the statement of operations. During 2012 and 2011, respectively, the hedge resulted in a reduction of interest expense of approximately $1,093,000 and $1,060,000.

The Corporation expects $1,088,000 of the unrealized loss to be reclassified out of unrestricted net assets as a decrease to interest expense during the year-ended March 31, 2013.

The interest rate swap contracts had a combined fair value of $(14,291,000) and $(5,796,000) as of March 31, 2012 and 2011, respectively. The change in the fair value of these contracts resulted in a net loss of $8,496,000 and $1,577,000 for the years ended March 31, 2012 and 2011, respectively. The change in the fair value of the ineffective hedge (RBC) was recognized as a debit to interest expense of $4,746,000 and $987,000 in the consolidated statements of operations for the years ended March 31, 2012 and 2011, respectively. The change in the fair value of the Morgan Stanley contract was recorded as a $3,750,000 and $589,000 decrease of unrestricted net assets in the consolidated statement of changes in net assets during 2012 and 2011, respectively. The Corporation is exposed to credit risk if Morgan Stanley or Royal Bank of Canada fails to perform under the terms on the interest rate swap contract.

NOTE 3 - NET PATIENT SERVICE REVENUE

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

Medicare: Memorial and Herrin are paid for inpatient acute care and outpatient care services rendered to Medicare program beneficiaries under prospectively determined rates per discharge (Prospective Payment Systems). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Memorial's and Herrin's classification of patients under Prospective Payment Systems and the appropriateness of the patient's admissions are subject to validation reviews. Memorial and Herrin are reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual reimbursement reports by Memorial and Herrin and audits by the Medicare fiscal intermediary.

Fiscal year 2008 represented the first of a three-year phase-in period for implementation of new Medicare Severity DRG's, known as MS-DRG's, the first changes to DRG's since 1983. This payment methodology makes meaningful refinements to the current CMS classification system to increase recognition of severity of illness. The new MS-DRG's are designed to adjust for how severely sick a patient is, with hospitals with sicker patients being paid more.

St. Joseph Memorial Hospital is paid for inpatient and outpatient services under the Critical Access Hospital (CAH) methodology. As a CAH, St. Joseph Memorial Hospital is reimbursed based upon a reasonable cost methodology at a tentative rate with final settlement determined after submission of annual cost reports by St. Joseph Memorial Hospital and audits by the third-party Medicare fiscal intermediary.

The Corporation's Medicare cost reports have been audited by the Medicare fiscal intermediary through March 31, 2007.

(Continued)

NOTE 3 - NET PATIENT SERVICE REVENUE (Continued)

The laws and regulations governing the Medicare program 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 2012 and 2011 net patient service revenue increased by approximately $710,000 and 1,815,000, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Medicaid: Inpatient acute care services rendered under the Medicaid program are also paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based on various predetermined rates.

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

The Federal Centers for Medicare and Medicaid Services (CMS) approved State of Illinois (State) legislation for a Medicaid Hospital Assessment Program (Program). Under the Program, the Corporation receives additional Medicaid reimbursement from the State and pays a related assessment. The laws and regulations authorizing this Program extend through June 30, 2013. The Corporation recorded a prepaid asset of $1,464,000, for the years ended March 31, 2012 and 2011, and a liability of $3,601,000 and $3,601,000 for the years ended March 31, 2012 and 2011, respectively. Total reimbursement revenue recognized by the Corporation related to this Program amounted to $14,404,455 during the Corporation’s years ended March 31, 2012 and 2011 and is included in net patient service revenue on the consolidate statements of operations and changes in net assets. Total assessments incurred by the Corporation related to this program amounted to $5,855,000 during the Corporation’s years ended March 31, 2012 and 2011 and is included in miscellaneous expenses on the consolidated statements of operations and changes in net assets.

A summary of net patient revenue for the years ended March 31, 2012 and 2011 is as follows ($ in thousands):

	2012	2011
Gross patient service revenue (after charity care)	$ 1,057,367	$ 941,999
Less contractual allowances	639,853	551,313
	$ 417,514	$ 390,686

(Continued)

NOTE 3 - NET PATIENT SERVICE REVENUE (Continued)

The Corporation maintains records to identify and monitor the level of charity care it provides. Of the Corporation's $382 million of total expenses, an estimated $11 million arose and $12 million, for the years ended March 31, 2012 and 2011, respectively, from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total expenses (less bad debt expense) divided by gross patient service revenue.

The Corporation adopted FASB ASU 2011-07, which requires healthcare organizations that perform services for patients for which the ultimate collection of all or a portion of the amounts billed or billable cannot be determined at the time services are rendered to present all bad debt expense associated with patient service revenue as an offset to the patient service revenue line item in the statement of operations. The Corporation's provision for bad debts are presented as a reduction of patient service revenue after contractual adjustments and discounts. The changes in net revenue years ended March 31, 2012 and 2011 are as follows ($ in thousands):

	2012	2011
Net patient service revenue (net of contractual allowances and discounts	$ 417,514	$ 390,686
Provision for bad debts	(37,865)	(27,466)
Net operating revenues, less provision for bad debts	$ 379,649	$ 363,220

NOTE 4 - PATIENT RECEIVABLES

Patient receivables at March 31, 2012 and 2011 are as follows ($ in thousands):

	2012	2011
Patient receivables	$ 292,134	$ 160,977
Less allowance for doubtful accounts	(40,593)	(26,659)
Less unapplied third party payments and allowances for estimated contractual adjustments	(166,238)	(64,838)
	$ 85,303	$ 69,480

(Continued)

NOTE 5 - NOTES RECEIVABLE

Notes receivable bearing interest at various rates at March 31, 2012 and 2011 are as follows ($ in thousands):

	2012	2011
Physician advances	$ 1,128	$ 1,091
Other miscellaneous receivables	325	81
	1,453	1,172
Less current portion	314	142
Long-term portion	$ 1,139	$ 1,030

NOTE 6 - INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

The detail of trustee bond funds, consisting of money market funds and U.S. government obligations as of March 31 is as follows ($ in thousands):

	2012	2011
Project fund - long-term	$ 17	$ 10,590
Principal and interest fund	17	47
	$ 34	$ 10,637

Board designated funds for expansion, replacement and major repairs of property and equipment at March 31, 2012 and 2011 are as follows ($ in thousands):

	2012	2011
Cash	$ -	$ -
Certificates of deposit, money market accounts, mutual funds, repurchase agreements, commercial paper and bonds and U.S. government obligations	277,985	280,494
	$ 277,985	$ 280,494

Board designated funds for self-insurance consist of U.S. corporate bonds and notes, U.S. government and agency bonds and common stocks totaling $15,304,000 and $12,265,000 at March 31, 2012 and 2011, respectively.

(Continued)

NOTE 6 - INVESTMENTS AND ASSETS WHOSE USE IS LIMITED (Continued)

The composition of investments and assets whose use is limited as of March 31, 2012 and 2011 are set forth in the following table ($ in thousands). Investments are stated at fair value.

	2012	2011
Cash, certificates of deposit, money market funds	$ 3,579	$ 19,067
U. S. government securities	7,243	17,676
Exchange traded funds	1,187	-
Common stocks	31,012	14,861
Mutual funds	192,160	210,878
Corporate bonds	57,111	39,863
Accrued interest	1,014	1,049
	$ 293,306	$ 303,349

Assets whose use is limited by Board designation for capital improvements and by trust agreement which are designated for payment of current liabilities have been classified as current assets. Assets whose use is limited by Board designation for self-insurance designated for payment of current liabilities is not readily determinable, and therefore, the entire balance is classified as a noncurrent asset.

The gross unrealized gains (losses) on investments and assets whose use is limited as of March 31, 2012 and 2011 are as follows:

	2012	2011
Gross unrealized gain on investments	$ 24,991	$ 31,616
Gross unrealized (losses) on investments	(287)	(1,270)
	$ 24,704	$ 30,346

Investment income and gains (losses) presented on the consolidated statements of operations for assets whose use is limited, cash equivalents and other investments are comprised of the following ($ in thousands) for the years ended March 31, 2012 and 2011:

	2012	2011
Interest and dividend income	$ 8,872	$ 8,867
Net realized gains (losses) on sale of investments	394	13,833
Reclassification of net unrealized gains on securities transferred to the trading category	-	17,722
Change in net unrealized gains (losses) on investments	(5,577)	12,624
	$ 3,689	$ 53,046

(Continued)

NOTE 6 - INVESTMENTS AND ASSETS WHOSE USE IS LIMITED (Continued)

Investment income has been presented on the consolidated statements of operations and changes in net assets in the following categories ($ in thousands):

	2012	2011
Nonoperating gains:		
Investment income and net realized gains from board designated funds	$ 9,266	$ 22,700
Reclassification of net unrealized gains on securities transferred to the trading category	-	17,722
Change in net unrealized gains on investments	(5,577)	12,624
	$ 3,689	$ 53,046

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2012 and 2011 are as follows ($ in thousands):

	2012	2011
Buildings	$ 112,809	$ 105,307
Building equipment	88,092	84,597
Departmental equipment	141,578	127,207
Land and leasehold improvements	12,103	11,765
	354,582	328,876
Less accumulated depreciation	192,603	170,959
	161,979	157,917
Land	9,236	7,942
Construction-in-progress	4,476	3,276
	$ 175,691	$ 169,135

Construction-in-progress represents amounts expended at March 31, 2012 and 2011 for on-going projects at Memorial Hospital, Herrin Hospital, St. Joseph Memorial Hospital and at the Corporate Division. The significant projects at Memorial Hospital are the hospital surgery expansion and power plant. At Herrin Hospital, the significant project is the lower level air handler. The significant project at St. Joseph Memorial Hospital is the wound center. At the Corporate Division mall expansion plus hardware and software upgrades and consultation for other projects are ongoing. These projects will be funded through operations. The projects in progress at March 31, 2012 are expected to be completed in fiscal 2013 and 2014. The estimated total costs-to-complete construction projects in progress at March 31, 2012 are approximately $12,314,000.

(Continued)

NOTE 8 - LONG-TERM DEBT

Long-term debt as of March 31, 2012 and 2011 is as follows ($ in thousands):

	2012	2011
Hospital revenue bonds		
Series 1998A serial bonds, with interest at 5.375% per annum, principal paid in full as of October 2011	$ -	$ 4,690
Series 1998A term bonds, with interest at 5.00% payable semiannually, principal paid in full as of October 2011	-	7,200
Series 1998A term bonds with interest at 5.00% payable semiannually, principal paid in full as of October 2011	-	3,390
Series 2005 serial bonds, with interest ranging from 4.00-5.25% per annum, commencing September 1, 2010 semi-annually through March 1, 2024	14,000	14,000
Series 2005 term bonds, with interest at 5.25% per annum, commencing September 1, 2010 semi-annually through March 1, 2030	27,450	27,450
Series 2005 term bonds, with interest at 5.38% per annum, commencing September 1, 2010 semi-annually through March 1, 2035	27,550	27,550
Series 2008, serial bonds, with interest at 0.23% and 0.29% at March 31, 2012 and 2011, respectively, with annual payments in 2011 through 2038	52,270	54,065
Series 2011, serial bonds, with interest at 1.86% at March 31, 2012 with annual payments in 2012 through 2015	7,747	-
Series 2011, serial bonds, with interest at 2.51% at March 31, 2012 with annual payments in 2016 through 2020	5,390	-
Line of credit, with interest of LIBOR +3%, secured by all of PSC's assets	213	250
Note payable, with fixed interest of 6.87%, due in monthly installments of $8,785 including interest, final installment due July 30, 2015, secured by all of PSC's assets	179	268
Note payable, with fixed interest of 3.35%, due in monthly installments of $2,062 including interest, final installment due October 15, 2014, secured by all of PSC's assets	64	-
	134,863	138,863
Less current portion	3,395	3,104
Long-term portion	$ 131,468	$ 135,759

(Continued)

NOTE 8 - LONG-TERM DEBT (Continued)

In April 1998, the Illinois Health Facility Authority (Authority) issued $37,175,000 Series A and $35,200,000 Series B Revenue Refunding Bonds on behalf of the Corporation. The proceeds of the bond issues were loaned to the Corporation pursuant to a Note Purchase Agreement to advance refund and defease the Series 1994, Series 1991 and Series 1987 bonds and to pay the costs of issuing the Series 1998A and Series 1998B bonds.

The Series 1998A and 1998B bonds are payable solely from payments from the Corporation and are not payable in any manner of taxation by the Authority. The bonds are collateralized by gross revenues (as defined) of the Corporation. Payment of the principal and interest on the Series 1998A and 1998B bonds is insured by the Municipal Bond Investors Assurance Corporation.

In October 2003, the Series 1998B bonds were subject to a Reoffering Circular. The purpose of this Reoffering Circular was to convert the Series 1998B bonds from variable rate demand bonds to Reset Auction Mode Securities (RAMS). The RAMS were dated the date of original issuance and bear interest of the Auction Rate. During 2012, these bonds were retired by the proceeds from the Series 2011 Bonds.

In January 2005, the Authority issued $69,000,000 Reset Auction Mode Variable Rate Revenue Bonds, Series 2005 on behalf of the Corporation. The proceeds of the Series 2005 Bonds were loaned to the Corporation pursuant to a loan agreement between the Corporation and the Authority, and were used primarily to advance refund and defease the Series 2001 bonds, pay the issuing and insurance cost of the 2005 bonds, and finance capital improvement projects for the Corporation. Interest is paid by the Corporation at the auction rate. The bonds are due in varying amounts, beginning March 2016 with the final payment due in 2035. Payment of the principal and interest on the Series 2005 bonds is insured by Financial Security Assurance Inc. and collateralized by gross revenues (as defined) of the Corporation. The Corporation entered into an interest rate swap agreement in conjunction with the issuance of the Series 2005 revenue bonds. Please see Note 2 for further discussion of the Corporation’s interest rate swaps.

In November 2008, the Corporation converted the Series 2005 Bonds from the Reset Auction Mode Variable Rate to an Index Rate Mode. Under the Index Rate Mode, there was an initial rate period from the time of conversion through November 1, 2011. The Corporation had the right to convert the interest mode on the Bonds before November 1, 2011, which, if exercised, would trigger an automatic mandatory tender and remarketing of the Bonds on the conversion date. In February 2010, the Corporation exercised their right and the Series 2005 Bonds were subject to a Reoffering Circular. The Reoffering Circular converted the 2005 bonds from Index Rate Mode Securities to fixed rate securities with an interest rate ranging from 4.0% to 5.38% through 2035.

In November 2008, the Authority issued $55,000,000 of Variable Rate Demand Revenue Bonds, Series 2008, tax exempt bonds pursuant to a bond trust indenture between the Authority and Wells Fargo Bank, N.A., as bond trustee. The proceeds of the bond issue were loaned to the Corporation to finance the cost of the acquisition, construction, renovation and equipping of certain health facilities of the Corporation and the Designated Affiliate (SIHS) and to refund all of the Authority’s Series 1998B Auction Rate Mode Securities which had a principal balance of $24,500,000.

(Continued)

NOTE 8 - LONG-TERM DEBT (Continued)

The Authority issued $14,420,000 of Series 2011 Revenue Refunding Bonds (Series 2011 Bonds). The Corporation borrowed the exempt bonds pursuant to a bond trust indenture between the Authority and Wells Fargo Bank, N.A., as bond trustee. The proceeds of the Series 2011 Bonds were issued to retire interest and principal payments of all previously outstanding Series 1998 Bonds. During 2012, the Corporation recorded a loss of $216,000 related to the write-down of debt issuance costs for its Series 1998 Bonds. The loss is recorded in other operating revenue within the consolidated statement of operations.

In accordance with the provisions of the Bond Trust Indenture, the Corporation is required to make deposits for principal and interest to cover debt service on outstanding obligations as they come due. Such deposits are held by a trustee and are reported within assets whose use is limited in the accompanying statement of financial position.

The Series 2008 Bonds will bear interest initially at a weekly rate and give the bond holders the option of tendering their bonds for purchase while in the weekly interest rate mode. The Corporation has entered into a Remarketing Agreement (the Agreement) with Morgan Stanley & Co. Incorporated which provides for a “best efforts” remarketing of the bonds which are tendered for purchase. If the bonds cannot be remarketed, the tendered bonds will be purchased by JP Morgan Chase Bank pursuant to the terms of the letters-of-credit agreement.

Upon purchase of the Bonds by the Bank, the Bank will be granted all security rights granted to a bondholder under the Bond Indenture. In accordance with a reimbursement agreement between the Corporation and the Bank, if there is no event of default, the Corporation will reimburse the Bank for all amounts drawn on the letter-of-credit on the first business day to occur at least 365 days after the date of the related advance. The letter-of credit expires on November 16, 2016. The obligations of the Corporation to the Bank under the reimbursement agreement are secured by the same rights noted in the bond trust indenture.

At March 31, 2012, the aggregate annual maturities of long-term debt are as follows ($ in thousands):

Year Ending March 31,	Amount
2013	$ 3,395
2014	3,163
2015	3,215
2016	3,335
2017	3,480
Thereafter	118,275
	$ 134,863

The Hospital revenue bonds are obligations of the Southern Illinois Healthcare Obligated Group (Obligated Group) which includes Southern Illinois Healthcare Enterprises, Inc. and its designated affiliate. Southern Illinois Hospital Services is the designated affiliate of these bonds.

The Master Trust Indenture imposes certain restrictive covenants upon the Obligated Group. The most restrictive of the covenants relates to the issuance of additional debt, the calculation of the historical debt service coverage ratio of the Obligated Group and restrictions upon the ability of the Obligated Group to sell, lease or dispose of its property. As of March 31, 2012, the Corporation was in compliance with these covenants.

(Continued)

NOTE 8 - LONG-TERM DEBT (Continued)

The Corporation has guaranteed 20% of an SIOC bank loan. The outstanding guaranteed amount was approximately $456,449 and $474,419 as of March 31, 2012 and 2011, respectively.

The Corporation has a credit card account with a bank with a credit limit of $7,000,000. As of March 31, 2012, approximately $1,195,000 had been drawn on the credit card account.

The Corporation has a line of credit from a bank with a credit limit of $4,000,000. The balance of the line of credit was $0 for each of the years ended March 31, 2012 and 2011.

The Corporation's letter of credit expires on November 16, 2016. The letter of credit supports the 2008 bonds and the remarketing efforts necessary for those bonds, should they be needed. The estimated date for this to occur is on or about November 17, 2016. Per the terms of the Reimbursement Agreement, the first repayment on the letter of credit will not be due until 365 days after November 17, 2016. As this process and the underlying dates are outside the period that would qualify for consideration of reclassifying the debt as short-term, recognition of the debt as long-term is still warranted as of March 31, 2012.

PSC has a line-of-credit from a bank with a credit limit of $250,000, expiring May 30, 2012. The balance of the line of credit was $213,889 and $250,000 for each of the years ended March 31, 2012 and 2011, respectively.

NOTE 9 - GOODWILL

Goodwill consists of the following at March 31, 2012 and 2011 ($ in thousands):

	2012	2011
Beginning balance	$ 877	$ 877
Acquisitions	10,615	-
Adjustments to acquired goodwill	-	-
Ending balance	$ 11,492	$ 877

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Corporation is a party to certain claims and legal proceedings arising in the ordinary course of its business. It is the opinion of management that any liability of the Corporation with respect to these actions will not materially affect its financial statements.

The Corporation is also a defendant in various lawsuits which, in the opinion of management, are covered by insurance.

Prior to January 1, 2006, Memorial, Herrin and St. Joseph hospitals purchased general and professional liability insurance coverage from the Illinois Provider Trust (IPT). IPT is a pooled self-insurance trust program organized under Illinois Statutes for the purpose of providing general and professional liability insurance to member hospitals on a claims-made basis (IPT was on the occurrence-basis until January 1, 2005). Under the polices with IPT, Memorial, Herrin and St. Joseph hospitals bear the risk for individual claims exceeding $10,000,000, $8,000,000 and $5,000,000, respectively.

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

Effective April 1, 2006, the Corporation established an offshore captive insurance company (Captive) domiciled in the Cayman Islands. The Corporation funded the Captive through a $3.3 million infusion of capital during April 2006.

The Captive provides medical professional liability coverage, on a claims-made basis with "prior acts" coverage and general liability coverage including employee benefits liability, advertising and personal injury, product liability and completed operations liability on an occurrence basis to the Corporation and its affiliates and employees. Coverage was written for the stub period January 1, 2006 to April 1, 2006 and for the policy period April 1, 2006 to April 1, 2007, with a limit of $3,000,000 for each and every claim with a $10,000,000 policy aggregate for general liability and medical professional liability. As of April 1, 2008, the policy limit was decreased to $2,000,000 for each claim.

For the policy period April 1, 2006 to April 1, 2007, the Captive provided umbrella liability coverage, excess of the primary general liability, medical professional liability, automobile liability, aviation liability and employers liability policies to the Corporation and its affiliates and employees, with limits up to $20,000,000 per claim and $20,000,000 in the aggregate. Effective April 1, 2007 the umbrella liability limits were increased to $35,000,000 per claim and $35,000,000 in the aggregate. Effective April 1, 2009 the limits increased to $45,000,000 per claim and in the aggregate.

For policy periods April 1, 2006 to April 1, 2012, this excess insurance policy was fully reinsured with an unrelated insurer based in the United States of America. The Corporation estimates that of its outstanding liability, approximately $5,014,000 and $3,972,000 can be claimed from its reinsurers, as of March 31, 2012 and 2011, respectively. In the event that the reinsurers are unable to meet their obligation under the reinsurance agreements, The Corporation would still be liable to pay losses and would only receive reimbursement to the extent that the reinsurers can meet their obligations. The Corporation has recorded a receivable in other assets for amounts estimated to be recoverable from its reinsurers.

The Captive utilizes the services of an independent actuary to determine the year-end liability assessments. Accrued professional and general liability claim losses have been discounted at 1.0% and 2.5% for the years ended March 31, 2012 and 2011, respectively. The portion of the accrual for estimated professional and general liability claims expected to be paid within one year of the balance sheet dates is not readily determinable and, therefore, the entire accrual balance is classified as a noncurrent liability.

There are no assurances that the Corporation or the Captive will be able to renew existing policies or procure coverage on similar terms in the future as a result of current factors affecting the insurance industry.

The Corporation accrues the expense of its share of malpractice claim costs for any unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any such incident. Such an estimate is based on the Corporation's own claims experience. The Corporation has recorded liabilities for Memorial, Herrin, and St. Joseph hospitals of $3,820,000 and $3,593,000 for claims incurred but not reported (IBNR) related to claims occurring subsequent to January 1, 2005 which were not reported as of March 31, 2012 and 2011, respectively. The Corporation has recorded liabilities for SIMS of approximately $1,536,000 and $1,344,000 for claims incurred but not reported (IBNR) related to claims occurring subsequent to January 15, 2007 which were not reported as of March 31, 2012 and 2011, respectively. These liabilities are included in medical professional liabilities on the consolidated balance sheets as of March 31, 2012 and 2011. Self-insured professional and general liability expense of approximately $4,770,000 in 2012 and $4,709,000 in 2011 has been included within insurance expense in the accompanying consolidated statements of operations.

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

In the event that the excess loss insurance and reinsurance companies might be unable to meet their obligations under existing excess loss insurance and reinsurance agreements, the Corporation would be liable for such defaulted amounts.

SIMS purchased physicians and surgeons professional liability insurance coverage from the Medical Alliance Insurance Company (MAIC). MAIC provides coverage to physicians on staff at hospital members of the Illinois Provider Trust (IPT) and self-insured hospitals being served by Illinois Risk Management Services (IRMS). IPT is a pooled self-insurance trust program organized under Illinois statutes for the purpose of providing general and professional liability insurance to member hospitals on a claims-made basis.

Coverage was written for the period from January 1, 2008 to January 1, 2012 and then renewed through January 1, 2013, with a limit of $1,000,000 for each and every claim with a $3 million per physician limit for physicians and surgeons liability. A separate policy provides coverage for Emergency Room Physicians for the period from July 1, 2008 to July 1, 2012, and then renewed through July 1, 2013, with a limit of $1,000,000 for each and every claim with a $25 million policy aggregate for physicians and surgeons' liability. A separate policy provides coverage for Hospitalists for the period from January 1, 2011 to January 1, 2012, and then renewed through January 1, 2013, with a limit of $1,000,000 for each and every claim with an $18 million policy aggregate for physicians and surgeons' liability.

The Corporation has elected to self-insure a portion of its employee health insurance cost. The Corporation is self-insured up to $150,000 per enrollee per year for each of the years ended March 31, 2012 and 2011. Losses in excess of this self-insurance amount are covered by reinsurance. The expense related to claims paid and accrued for health insurance costs, recognized for the years ended March 31, 2012 and 2011, was approximately $23,233,000 and $21,561,000, respectively. The expense related to claims paid and accrued for dental insurance claims, recognized for the years ended March 31, 2012 and 2011, was approximately $730,000 and $1,101,000, respectively.

At March 31, 2012, the Corporation was committed to various fixed minimum operating and rental payments under various agreements as follows ($ in thousands):

Year Ending March 31,	Amount
2013	$ 1,665
2014	1,326
2015	586
2016	85
2017	15
	$ 3,677

Total rent and lease expense for the years ended March 31, 2012 and 2011 was approximately $2,274,000 and $2,262,000, respectively.

Regulatory Investigations: The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. The Corporation is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material adverse effect on the Corporation's financial position or results of operations.

(Continued)

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. During 2010, auditors began work with Illinois hospitals. The Corporation has received various requests for information from these auditors and will continue to work with them to respond to questions they may have.

NOTE 11 - PENSION PLANS

The Corporation has a defined contribution plan covering substantially all of its employees who meet eligibility requirements. The Corporation's policy is to make matching contributions up to 2.5% of employee deferrals as well as a discretionary contribution of 1.5% of employee's earnings. The Corporation contributed approximately $4,445,000 and $4,125,000, for the years ended March 31, 2012 and 2011, respectively.

The Corporation also has a supplemental nonqualified, defined contribution plan covering selected executive employees. The Corporation's policy is to make an annual contribution to the Plan. This amount is calculated by multiplying each participant's percentage, as set forth in the Plan Document, by his or her base salary for the Plan Year. For the Plan Year commencing October 1, 2011 and 2010, respectively, the Corporation contributed approximately $778,000 and $772,000 to the Plan.

The Corporation also has a noncontributory defined contribution investment program, containing a split-dollar life option, covering designated executive employees. The Corporation's contributions are based on the compensation of the employees, and amounted to approximately $247,000 and $240,000 for 2012 and 2011, respectively.

NOTE 12 - RELATED-PARTY TRANSACTIONS

Southern Illinois Hospital Services is under the control of Southern Illinois Healthcare Enterprises, Inc. (SIHE). SIHE is a not-for-profit corporation established as a parent corporation. The Corporation is included in the consolidated financial statements of SIHE. The Corporation rents buildings from SIHE. Rent paid to SIHE totaled approximately $563,000 and $517,000 for the years ended March 31, 2012 and 2011, respectively.

Health Services of Southern Illinois, Inc. (HSSI) - an Illinois for-profit corporation established to engage in other health related activities is also under common control of SIHE.

(Continued)

NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 825 requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. Fair value is determined under the framework established by ASC 820. ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation. The following information presents estimated fair values of the Corporation's financial instruments as of March 31, 2012 and 2011 and the methods and assumptions used to estimate those fair values. The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, other current assets, and accounts payable. Based on the current maturity of these instruments, carrying value approximates fair value. The Corporation also has assets whose use is limited, investments and debt. The fair value of assets whose use is limited and investments is based upon quoted market rates or, if not available, estimated market rates. The fair value of the Corporation's long term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Corporation long-term debt at March 31, 2012 and 2011 was approximately $141,796,000 and $136,140,000.

NOTE 14 - FAIR VALUE MEASUREMENTS

ASC 820 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. ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The fair values of U.S. Government securities and corporate debt obligations are determined by matrix pricing, which is mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (market approach valuation technique).
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Exchange Traded Funds: The fair values of exchange traded hedge funds are based upon quoted market prices (Level 1 inputs).

(Continued)

NOTE 14 - FAIR VALUE MEASUREMENTS (Continued)

Mutual Funds: The fair values of mutual fund investments are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Common Stock: The fair values of common stocks are determined by obtaining quoted prices from a nationally recognized exchange (Level 1 inputs).

Corporate Bonds: The fair value of corporate bonds is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivative instruments.

While most corporate bonds are categorized in Level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they are categorized in Level 3.

U.S. Government Securities: U.S. government securities are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations. U.S. government securities are categorized in Level 1 or Level 2 of the fair value hierarchy depending on the inputs used and market activity levels for specific securities.

Investments (Recurring): The fair value of the Corporation's investments are determined using the Level 1 and Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively.

Interest Rate Swap Contract (Recurring): The Corporation's interest rate swaps are pay-fixed, receive-variable interest rate swaps based on LIBOR or SIFMA Municipal Swap Index rates ("swap rates"). The swap rates are observable at commonly quoted intervals for the full term of the swaps and therefore are considered a Level 2 item. For the interest rate swaps in an asset position, the credit standing of the counterparty is analyzed and factored into the fair value measurement of the asset. ASC 820 states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of the Corporation's creditworthiness has also been factored into the fair value measurement of the interest rate swaps in a liability position.

(Continued)

NOTE 14 - FAIR VALUE MEASUREMENTS (Continued

Assets and Liabilities at Fair Value on a Recurring Basis

The following table summarizes assets and liabilities ($ in thousands) measured at fair value on a recurring basis as of March 31, 2012 and 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments				
US government securities	$ 7,243	$ -	$ 7,243	$ -
Exchange traded funds	1,187	1,187	-	-
Common stocks:				
Domestic	14,419	14,419	-	-
International	6,256	6,256	-	-
Emerging markets	121	121	-	-
Real estate	9,799	9,799	-	-
Commodities	417	417	-	-
Mutual funds:				
Equity mutual funds	132,864	132,864	-	-
Debt mutual funds	59,296	59,296	-	-
Corporate bonds	57,111	-	57,111	-
	$ 288,713	$ 224,359	$ 64,354	$ -
Liabilities:				
Interest rate swap contracts	$ 14,291	$ -	$ 14,291	$ -

NOTE 14 - FAIR VALUE MEASUREMENTS (Continued)

	March 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments				
US government securities	$ 17,676	$ 1,540	$ 16,136	$ -
Common stocks:				
Domestic	5,200	5,200	-	-
International	18	18	-	-
Emerging markets	240	240	-	-
Real estate	9,403	9,403	-	-
Mutual funds:				
Equity mutual funds	144,835	144,835	-	-
Debt mutual funds	66,043	66,043	-	-
Corporate bonds	39,863	-	39,863	-
	$ 283,278	$ 227,279	$ 55,999	$ -
Liabilities:				
Interest rate swap contracts	$ 5,796	$ -	$ 5,796	$ -

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

The Corporation grants credit, without collateral, to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross patient service revenue and receivables from patients and third-party payors at March 31, 2012 and 2011 was as follows:

	Gross Patient Service Revenue		Patient Receivables	
	2012	2011	2012	2011
Medicare	44%	43%	15%	23%
Medicaid	18	19	46	16
Other third-party payors	33	34	15	41
Patients	5	4	24	20
	100%	100%	100%	100%

At March 31, 2012 and 2011, the Corporation had cash deposits in bank accounts which exceeded Federal Depository Insurance Corporation limits by material amounts. The majority of this excess was on deposit with local financial institutions and management believes that the credit risk related to these deposits is minimal.

The Corporation routinely invests in money market mutual funds. Investments in money market funds are not insured or guaranteed by the U.S. government; however, management believes that credit risk related to these investments is minimal.

(Continued)

NOTE 16 - FUNCTIONAL EXPENSES

The Corporation provides comprehensive quality health care services to the residents of the Southern Illinois area. The operating expenses included in the consolidated statements of operations are primarily related to providing these health care related services. For the years ended March 31, 2012 and 2011, these expenses are as follows ($ in thousands):

	2012	2011
Health care services	$ 321,370	$ 302,851
General and administrative	59,962	50,225
Fundraising	416	439
	$ 381,748	$ 353,515

NOTE 17 - SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to March 31, 2012, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended March 31, 2012. Management has performed their analysis through July 18, 2012, the date the financial statements were issued.

SUPPLEMENTARY INFORMATION

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATING BALANCE SHEET
March 31, 2012
($ in thousands)

	Memorial Hospital of Carbondale	Herrin Hospital	St. Joseph Memorial Hospital	Corporate	SIHS Subtotal	Southern Illinois Medical Services, NFP	SIH Cayman SPC Group, Ltd.	Physicians' Surgery Center, LLC	SIH Foundation	Quality Health Partners LLC	Elimination	Total
ASSETS												
Current assets												
Cash and cash equivalents	$ 1,108	$ 563	$ 2,278	$ 97	$ 4,046	$ 1,230	$ 1,258	$ 141	$ 82	$ 370	$ -	$ 7,127
Assets whose use is limited by trust agreement	4	10	3	-	17	-	-	-	-	-	-	17
Accounts receivable												
Patient, net	46,852	20,194	10,102	-	77,148	7,221	-	934	-	-	-	85,303
Affiliates	-	-	-	4,655	4,655	23	-	-	3	202	(4,837)	46
Supplies	3,344	1,172	573	1,149	6,238	48	-	219	-	-	-	6,505
Prepaid expenses	1,782	646	131	2,060	4,619	1,028	12	34	-	-	-	5,693
Current portion of notes receivable	110	161	20	23	314	-	-	-	-	-	-	314
Other	1,970	146	62	1,396	3,574	116	-	-	-	-	-	3,690
Total current assets	55,170	22,892	13,169	9,380	100,611	9,666	1,270	1,328	85	572	(4,837)	108,695
Assets whose use is limited by:												
Board designation for capital improvements	183,470	72,276	16,679	5,560	277,985	-	-	-	-	-	-	277,985
Board designation for self-insurance	-	-	-	-	-	-	15,304	-	-	-	-	15,304
Trust agreement	17	-	-	-	17	-	-	-	-	-	-	17
	183,487	72,276	16,679	5,560	278,002	-	15,304	-	-	-	-	293,306
Property and equipment, net	70,325	53,473	16,810	21,195	161,803	13,383	-	505	-	-	-	175,691
Other assets												
Unamortized bond costs, net	2,642	1,472	337	-	4,451	-	-	-	-	-	-	4,451
Investments in joint ventures	2,105	1	-	1,177	3,283	-	-	-	-	-	(1,177)	2,106
Notes receivable, less current portion	443	506	20	38	1,007	132	-	-	-	-	-	1,139
Goodwill	-	-	-	-	-	10,615	-	877	-	-	-	11,492
Other	111	232	85	2,059	2,487	338	5,014	-	-	-	-	7,839
	5,301	2,211	442	3,274	11,228	11,085	5,014	877	-	-	(1,177)	27,027
Total assets	$ 314,283	$ 150,852	$ 47,100	$ 39,409	$ 551,644	$ 34,134	$ 21,588	$ 2,710	$ 85	$ 572	$ (6,014)	$ 604,719

(Continued)

($ in thousands)

	Memorial Hospital of Carbondale	Herrin Hospital	St. Joseph Memorial Hospital	Corporate	SIHS Subtotal	Southern Illinois Medical Services, NFP	SIH Cayman SPC Group, Ltd.	Physicians' Surgery Center, LLC	SIH Foundation	Quality Health Partners LLC	Elimination	Total
LIABILITIES AND NET ASSETS												
Current liabilities												
Current maturities of long-term debt	$ 2,100	$ 758	$ 203	$ -	$ 3,061	$ -	$ -	$ 334	$ -	$ -	$ -	$ 3,395
Current maturities of interest rate swap contracts	1,247	768	191	-	2,206	-	-	-	-	-	-	2,206
Accounts payable:												
Construction contracts	20	36	18	-	74	54	-	-	-	-	-	128
Trade	6,780	2,956	1,137	5,251	16,124	1,646	65	217	-	-	-	18,052
Affiliates	-	-	-	3	3	4,515	128	33	-	158	(4,837)	-
Estimated third-party payor settlements	6,016	4,643	666	-	11,325	-	-	373	-	-	-	11,698
Accrued liabilities:												
Payroll and related expenses	6,657	4,024	1,551	3,554	15,786	3,750	-	53	-	-	-	19,589
Other	5,300	1,195	385	1,865	8,745	766	-	1	-	-	-	9,512
Total current liabilities	28,120	14,380	4,151	10,673	57,324	10,731	193	1,011	-	158	(4,837)	64,580
Long-term debt, less current maturities	76,953	43,911	10,481	-	131,345	-	-	123	-	-	-	131,468
Interest rate swap contracts, less current maturities	6,997	4,131	957	-	12,085	-	-	-	-	-	-	12,085
Medical professional liabilities	2,178	1,165	478	-	3,821	1,536	21,263	-	-	-	-	26,620
Other	141	161	38	251	591	97	-	-	-	-	-	688
	86,269	49,368	11,954	251	147,842	1,633	21,263	123	-	-	-	170,861
Total liabilities	114,389	63,748	16,105	10,924	205,166	12,364	21,456	1,134	-	158	(4,837)	235,441
Net assets												
Common stock	-	-	-	-	-	-	120	1,100	-	-	(1,220)	-
SIHS unrestricted	199,888	87,104	30,993	27,985	345,970	21,770	12	(223)	8	414	43	367,994
Non-controlling interest	-	-	-	-	-	-	-	699	-	-	-	699
Total unrestricted	199,888	87,104	30,993	27,985	345,970	21,770	132	1,576	8	414	(1,177)	368,693
Temporarily restricted	6		2	500	508	-	-	-	77	-	-	585
Total net assets	199,894	87,104	30,995	28,485	346,478	21,770	132	1,576	85	414	(1,177)	369,278
Total liabilities and net assets	$ 314,283	$ 150,852	$ 47,100	$ 39,409	$ 551,644	$ 34,134	$ 21,588	$ 2,710	$ 85	$ 572	$ (6,014)	$ 604,719

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATING BALANCE SHEET
March 31, 2011
($ in thousands)

	Memorial Hospital of Carbondale	Herrin Hospital	St. Joseph Memorial Hospital	Corporate	SIHS Subtotal	Southern Illinois Medical Services, NFP	SIH Cayman SPC Group, Ltd.	Physicians' Surgery Center, LLC	Elimi-nations	Total
ASSETS										
Current assets										
Cash and cash equivalents	$ 3,823	$ 2,478	$ 1,874	$ 125	$ 8,300	$ (409)	$ 937	$ 155	$ -	$ 8,983
Assets whose use in limited by trust agreement	12	29	6	-	47	-	-	-	-	47
Accounts receivable										
Patient, net	39,287	17,238	7,734	-	64,259	4,725	-	496	-	69,480
Affiliates	-	-	-	2,351	2,351	-	-	-	(2,256)	95
Supplies	4,236	1,117	491	1,139	6,983	12	-	163	-	7,158
Prepaid expenses	1,639	523	147	1,701	4,010	776	12	35	-	4,833
Current portion of notes receivable	76	21	22	23	142	-	-	-	-	142
Other	619	166	72	1,893	2,750	81	-	-	-	2,831
Total current assets	49,692	21,572	10,346	7,232	88,842	5,185	949	849	(2,256)	93,569
Assets whose use is limited by:										
Board designation for capital improvements	185,328	72,743	16,787	5,596	280,454	-	-	40	-	280,494
Board designation for self-insurance	-	-	-	-	-	-	12,265	-	-	12,265
Trust agreement	6,963	3,627	-	-	10,590	-	-	-	-	10,590
	192,291	76,370	16,787	5,596	291,044	-	12,265	40	-	303,349
Property and equipment, net	72,496	53,305	16,039	20,737	162,577	5,955	-	603	-	169,135
Other assets										
Unamortized bond costs, net	2,574	1,483	253	-	4,310	-	-	-	-	4,310
Investments in joint ventures	1,942	1	-	1,205	3,148	-	-	-	(1,205)	1,943
Notes receivable, less current portion	259	575	27	58	919	111	-	-	-	1,030
Goodwill	-	-	-	-	-	-	-	873	-	873
Other	94	219	79	1,880	2,272	166	3,973	-	-	6,411
	4,869	2,278	359	3,143	10,649	277	3,973	873	(1,205)	14,567
Total assets	$ 319,348	$ 153,525	$ 43,531	$ 36,708	$ 553,112	$ 11,417	$ 17,187	$ 2,365	$ (3,461)	$ 580,620

(Continued)

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATING BALANCE SHEET
March 31, 2011
($ in thousands)

	Memorial Hospital of Carbondale	Herrin Hospital	St. Joseph Memorial Hospital	Corporate	SIHS Subtotal	Southern Illinois Medical Services, NFP	SIH Cayman SPC Group, Ltd.	Physicians' Surgery Center, LLC	Elimi-nations	Total
LIABILITIES AND NET ASSETS										
Current liabilities										
Current maturities of long-term debt	$ 1,887	$ 714	$ 164	$ -	$ 2,765	$ -	$ -	$ 339	$ -	$ 3,104
Current maturities of interest rate swap contracts	1,344	828	206	-	2,378	-	-	-	-	2,378
Accounts payable:										
Construction contracts	111	5	119	-	235	-	-	-	-	235
Trade	6,634	2,653	831	6,131	16,249	550	70	134	-	17,003
Affiliates	-	-	-	-	-	2,019	195	69	(2,256)	27
Estimated third-party payor settlements	5,283	1,955	860	(240)	7,858	-	-	263	-	8,121
Accrued liabilities:										
Payroll and related expenses	6,626	3,877	1,354	3,237	15,094	2,025	-	56	-	17,175
Other	4,155	1,108	397	1,508	7,168	390	-	6	-	7,564
Total current liabilities	26,040	11,140	3,931	10,636	51,747	4,984	265	867	(2,256)	55,607
Long-term debt, less current maturities	78,883	48,150	8,547	-	135,580	-	-	179	-	135,759
Interest rate swap contract	2,020	1,253	145	-	3,418	-	-	-	-	3,418
Medical professional liabilities	2,281	934	397	-	3,612	1,344	16,790	-	-	21,746
Other	146	187	-	290	623	36	-	-	-	659
	83,330	50,524	9,089	290	143,233	1,380	16,790	179	-	161,582
Total liabilities	109,370	61,664	13,020	10,926	194,980	6,364	17,055	1,046	(2,256)	217,189
Net assets										
Common Stock	-	-	-	-	-	-	120	1,100	(1,220)	-
SIHS unrestricted	209,978	91,749	30,511	25,346	357,584	5,053	12	(369)	15	362,295
Non-controlling interest	-	-	-	-	-	-	-	588	-	588
Total unrestricted	209,978	91,749	30,511	25,346	357,584	5,053	132	1,319	(1,205)	362,883
Temporarily restricted	-	112	-	436	548	-	-	-	-	548
Total net assets	209,978	91,861	30,511	25,782	358,132	5,053	132	1,319	(1,205)	363,431
Total liabilities and net assets	$ 319,348	$ 153,525	$ 43,531	$ 36,708	$ 553,112	$ 11,417	$ 17,187	$ 2,365	$ (3,461)	$ 580,620

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATING STATEMENT OF OPERATIONS
Year-ended March 31, 2012
($ in thousands)

	Memorial Hospital of Carbondale	Herrin Hospital	St. Joseph Memorial Hospital	Corporate	SIHS Subtotal	Southern Illinois Medical Services, NFP	SIH Cayman SPC Group, Ltd.	Physicians' Surgery Center, LLC	SIH Foundation	Quality Health Partners LLC	Elimination	Total
Gross patient revenue	$ 539,069	$ 308,458	$ 107,031	$ -	$ 954,558	$ 90,272	$ -	$ 12,537	$ -	$ -	$ -	$ 1,057,367
Contractual allowances	326,327	196,544	57,717	-	580,588	50,642	-	8,623	-	-	-	639,853
Provision for (recovery of) bad debts	15,959	11,115	4,839	(5)	31,908	5,827	-	130	-	-	-	37,865
Net patient service revenue	196,783	100,799	44,475	(5)	342,062	33,803	-	3,784	-	-	-	379,649
Other operating revenue	1,620	324	162	870	2,976	1,877	5,395	-	-	205	(5,515)	4,938
Net assets released from restriction	-	112	-	193	305	-	-	-	-	-	-	305
Corporate allocation	675	277	112	(1,064)	-	-	-	-	-	-	-	-
Total revenue	199,078	101,512	44,749	4	345,343	35,680	5,395	3,784	-	205	(5,515)	384,892
Expenses:												
Salaries	52,714	32,688	12,140	20,760	118,302	27,145	-	738	-	-	-	146,185
Employee benefits	18,404	11,134	3,770	5,111	38,419	4,762	-	202	-	-	-	43,383
Physicians' fees	11,334	6,275	1,574	28	19,211	5,828	-	-	-	40	-	25,079
Professional fees	3,677	2,496	1,823	4,910	12,906	4,403	109	217	-	1,236	-	18,871
Purchased services	4,061	2,345	602	4,553	11,561	393	-	397	-	1	(34)	12,318
Patient chargeable supplies	28,839	7,041	1,289	-	37,169	83	-	-	-	-	-	37,252
Patient non-chargeable supplies	7,632	3,820	1,060	1	12,513	158	-	-	-	- -	-	12,671
Drugs and pharmaceuticals	3,162	3,898	4,303	-	11,363	794	-	1,239	-	-	-	13,396
Other supplies and expense	4,046	2,357	589	8	7,000	258	-	84	-	13	-	7,355
Rent expense	705	381	256	566	1,908	1,148	-	161	-	-	(944)	2,273
Repairs and maintenance	3,026	1,167	562	5,059	9,814	136	-	33	-	-	-	9,983
Insurance	4,922	2,374	960	362	8,618	2,602	5,392	49	-	-	(4,770)	11,891
Miscellaneous expense	6,094	2,365	734	3,517	12,710	(9,724)	51	85	-	1	233	3,356
Interest and amortization	4,568	2,398	502	9	7,477	-	-	31	-	-	-	7,508
Depreciation	9,118	5,615	2,228	7,371	24,332	894	-	255	-	-	-	25,481
Corporate allocation	33,179	13,585	5,486	(52,250)	-	-	-	-	-	-	-	-
Non-cash interest (income) expense associated with interest rate swap contract	3,061	1,476	209	-	4,746	-	-	-	-	-	-	4,746
Total expense	198,542	101,415	38,087	5	338,049	38,880	5,552	3,491	-	1,291	(5,515)	381,748
Income from operations	536	97	6,662	(1)	7,294	(3,200)	(157)	293	-	(1,086)	-	3,144

(Continued)

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATING STATEMENT OF OPERATIONS
Year-ended March 31, 2012
($ in thousands)

	Memorial Hospital of Carbondale	Herrin Hospital	St. Joseph Memorial Hospital	Corporate	SIHS Subtotal	Southern Illinois Medical Services, NFP	SIH Cayman SPC Group, Ltd.	Physicians' Surgery Center, LLC	SIH Foundation	Quality Health Partners LLC	Elimination	Total
Non-operating gains (losses)												
Unrestricted gifts and interest income	$ 802	$ 147	$ 200	$ 16	$ 1,165	$ -	$ -	$ 11	$ 8	$ -	$ -	$ 1,184
Investment income and net gains from board designated funds	6,024	2,373	548	183	9,128	-	138	-	-	-	-	9,266
Change in net unrealized gain from board designated funds	(3,693)	(1,455)	(336)	(112)	(5,596)		19	-	-	-	-	(5,577)
Equity earning of joint venture	1,047	565	-	-	1,612	-	-	-	-	-	-	1,612
Other	(96)	(80)	(23)	(9)	(208)	(21)	-	(134)	-	-	-	(363)
Corporate allocation	49	20	8	(77)	-	-	-	-	-	-	-	-
	4,133	1,570	397	1	6,101	(21)	157	(123)	8	-	-	6,122
Excess (deficiency) of revenues over expenses	4,669	1,667	7,059	-	13,395	(3,221)	-	170	8	(1,086)		9,266
Corporate allocation	4	2	1	(7)	-	-	-	-	-	-	-	
Contributions	59	109	9	7	184	-	-	-	-	-	-	184
Contributions to affiliate	(12,998)	(5,081)	(5,060)	23,139	-	-	-	-	-	-	-	-
Change in fair value of interest rate swap	(1,820)	(1,343)	(588)	-	(3,751)	-	-	-	-	-	-	(3,751)
Increase (decrease) in unrestricted net assets	$ (10,086)	$ (4,646)	$ 1,421	$ 23,139	$ 9,828	$ (3,221)	$ -	$ 170	$ 8	$ (1,086)	$ -	$ 5,699

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATING STATEMENT OF OPERATIONS
Year-ended March 31, 2011
($ in thousands)

	Memorial Hospital of Carbondale	Herrin Hospital	St. Joseph Memorial Hospital	Corporate	SIHS Subtotal	Southern Illinois Medical Services, NFP	SIH Cayman SPC Group, Ltd.	Physicians' Surgery Center, LLC	Elimi-nations	Total
Gross patient revenue	$ 503,929	$ 276,749	$ 83,529	$ -	$864,207	$ 68,686	$ -	$ 9,106	$ -	$ 941,999
Contractual allowances	291,126	171,800	43,831	-	506,757	38,396	-	6,160	-	551,313
Provision for (recovery of) bad debts	9,790	8,340	3,029	(5)	21,154	6,192	-	120	-	27,466
Net patient service revenue	203,013	96,609	36,669	5	336,296	24,098	-	2,826	-	363,220
Other operating revenue	1,827	414	161	888	3,290	1,361	3,254	1	(5,032)	2,874
Net assets released from restriction	26	-	1	134	161	-	-	-	-	161
Corporate allocation	649	266	107	(1,022)	-	-	-	-	-	-
Total revenue	205,515	97,289	36,938	5	339,747	25,459	3,254	2,827	(5,032)	366,255
Expenses:										
Salaries	53,624	31,420	12,215	19,137	116,396	19,347	-	827	-	136,570
Employee benefits	18,294	10,794	3,649	4,777	37,514	3,442	-	211	-	41,167
Physicians' fees	9,987	4,907	1,953	181	17,028	6,510	-	-	-	23,538
Professional fees	3,431	2,729	2,001	4,119	12,280	3,533	109	150	-	16,072
Purchased services	3,547	2,854	591	4,305	11,297	179	-	118	(19)	11,575
Patient chargeable supplies	29,267	6,852	1,009	-	37,128	47	-	-	-	37,175
Patient nonchargeable supplies	7,098	3,133	788	1	11,020	145	-	-	-	11,165
Drugs and pharmaceuticals	3,485	4,314	1,454	-	9,253	1,453	-	1,039	-	11,745
Other supplies and expense	3,975	2,286	546	(132)	6,675	191	-	45	-	6,911
Rent expense	819	303	249	528	1,899	859	-	152	(648)	2,262
Repairs and maintenance	2,984	1,362	494	4,406	9,246	63	-	33	-	9,342
Insurance	5,233	2,207	897	349	8,686	2,041	3,606	62	(4,709)	9,686
Miscellaneous expense	6,277	2,792	784	3,523	13,376	(9,455)	70	76	344	4,411
Interest and amortization	4,781	2,370	418	19	7,588	-	-	32	-	7,620
Depreciation	9,018	4,710	2,080	6,530	22,338	705	-	246	-	23,289
Corporate allocation	30,314	12,412	5,012	(47,738)	-	-	-	-	-	-
Non-cash interest expense associated with interest rate swap contract	637	307	43	-	987	-	-	-	-	987
Total expense	192,771	95,752	34,183	5	322,711	29,060	3,785	2,988	(5,032)	353,515
Income from operations	12,744	1,537	2,755	-	17,036	(3,601)	(531)	(164)	-	12,740

(Continued)

SOUTHERN ILLINOIS HOSPITAL SERVICES
CONSOLIDATING STATEMENT OF OPERATIONS
Year-ended March 31, 2011
($ in thousands)

	Memorial Hospital of Carbondale	Herrin Hospital	St. Joseph Memorial Hospital	Corporate	SIHS Subtotal	Southern Illinois Medical Services, NFP	SIH Cayman SPC Group, Ltd.	Physicians' Surgery Center, LLC	Elimi-nations	Total
Nonoperating gains (losses)										
Unrestricted gifts and interest income	$ 507	$ 83	$ 109	$ 19	$ 718	$ 3	$ -	$ 8	$ -	$ 729
Investment income and net gains from board designated funds	14,631	5,764	1,335	439	22,169	-	531	-	-	22,700
Reclassification of net unrealized gains on securities transferred to trading securities (Note 1)	-	-	-	17,722	17,722	-	-	-	-	17,722
Change in net unrealized gains on investments	8,487	3,344	772	257	12,860	-	(236)	-	-	12,624
Equity earning of joint venture	2,953	516	-	-	3,469	-	-	-	-	3,469
Other	(72)	(12)	(55)	2	(137)	(5)	-	(176)	-	(318)
Corporate allocation	456	186	75	(717)	-	-	-	-	-	-
	26,962	9,881	2,236	17,722	56,801	(2)	295	(168)	-	56,926
Excess (deficiency) of revenues over expenses	39,706	11,418	4,991	17,722	73,837	(3,603)	(236)	(332)	-	69,666
Corporate allocation	5	2	1	(8)	-	-	-	-	-	-
Reclassification of net unrealized gains on securities transferred to trading securities (Note 1)	-	-	-	(17,722)	(17,722)	-	-	-	-	(17,722)
Contributions	341	13	58	8	420	-	-	-	-	420
Contributions to affiliate	(12,618)	9,142	146	3,330	-	-	-	-	-	-
Change in fair value of interest rate swap	(274)	(262)	(53)	-	(589)	-	-	-	-	(589)
Increase (decrease) in unrestricted net assets	$ 27,160	$ 20,313	$ 5,143	$ 3,330	$ 55,946	$ (3,603)	$ (236)	$ (332)	$ -	$ 51,775