

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2011 AND 2010

**REX HEALTHCARE, INC. AND SUBSIDIARIES
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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Rex Healthcare, Inc. and Subsidiaries
Raleigh, North Carolina

We have audited the accompanying combined balance sheets of Rex Healthcare, Inc. and Subsidiaries ("Rex") for the years ended June 30, 2011 and 2010 and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of Rex's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects the combined financial position of Rex Healthcare, Inc. and Subsidiaries as of June 30, 2011 and 2010, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 2 through 7 and the Schedule of Funding Progress on page 34 are both supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements of Rex, taken as a whole. The accompanying combining schedules on pages 32 through 33 are presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in net assets of the individual entities. Accordingly, we do not express an opinion on the financial position, results of operations or changes in net assets of the individual entities. However, such information has been subjected to the auditing procedures applied in our audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.



LarsonAllen LLP

Charlotte, North Carolina
September 19, 2011

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010

Overview

The Management's Discussion and Analysis section of the Rex Healthcare, Inc. and Subsidiaries ("Rex") annual financial report is designed to provide a general overview of the financial position and operating results as of and for the fiscal years ended June 30, 2011 and 2010. This discussion and analysis should be read in conjunction with the combined financial statements and related notes which follow this discussion and analysis.

Rex Healthcare, Inc. is a private, not-for-profit health care organization located in Raleigh, North Carolina, and a member of the University of North Carolina Health Care System. The flagship facility is Rex Hospital, Inc., a 433-bed community hospital. Rex has a 117-year history of providing excellent health services. Rex Hospital, Inc. provides comprehensive care, including emergency, general surgery, orthopedics, oncology, vascular, cardiac, gynecology, and obstetric services on its main campus. Rex Hospital, Inc. reaches beyond the hospital setting to provide long-term care and sub-acute rehabilitation in two skilled nursing centers – a 120-bed center in Raleigh and a 107-bed facility in Apex. In Cary, Rex offers wellness and diagnostic services. Rex Surgery Center of Cary provides outpatient surgery services. At its Wakefield campus, Rex provides outpatient surgery, a full cancer center with medical and radiation oncology services, urgent care, diagnostics, family medicine and a wellness center. At its Knightdale campus, Rex provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. In addition, Rex has a fourth medically supervised wellness center in Garner. Rex operates a home health service, outpatient rehab in three locations, and a senior health center in an underserved market in downtown Raleigh. Rex also provides radiation oncology services in Johnston County. During 2011, Rex broke ground on Rex Healthcare of Holly Springs which will provide urgent care, diagnostics and physician practices to residents in Southern Wake County. It is expected to open in 2012.

Current Year Events

Rex Healthcare had a successful fiscal year 2011. Significant time was spent on planning for the future. Certificate of need (CON) applications were filed for a 50-bed hospital at Rex Healthcare of Holly Springs and a 40-bed hospital at Rex Healthcare of Wakefield. A CON application also was filed for 11 beds to begin construction of Rex Vision 2030 on the main Rex Hospital campus. Rex joint-ventured its Cary Surgery Center with 23 surgeons from Cary. Rex also won certificate of needs for a heart center and cancer hospital.

Physician alignment continued to be a priority at Rex Healthcare during the past fiscal year. A new group joined Rex Physicians, LLC – Wake Heart & Vascular Specialists, while existing practices Rex Surgical Specialists and Rex Heart & Vascular Specialists expanded their presence in Wake County.

Rex continued to be recognized with significant accolades. *Modern Healthcare* magazine named Rex one of the top 100 places to work in health care for 2011. Professional Research Consultants (PRC) nationally recognized Rex Healthcare for its shining achievements in patient service. Rex won eight patient loyalty awards with Rex Hematology Oncology again winning the top performer in the U.S. In addition, Rex achieved its highest HCAHPS scores since reporting began. Rex achieved its goal of 67 percent *excellent* in patient satisfaction with overall satisfaction recorded at 98 percent. Rex was named a Top 50 Best Hospital in the nation by Becker's Hospital Review for 2011.

**REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010**

Current Year Events (Continued)

Additional accomplishments during fiscal year 2011 included Magnet re-designation. Rex also achieved Cycle 3 Chest Pain Center accreditation with PCI, and Blue Cross Blue Shield Center of Distinction for Joint Care and Bariatric Surgery.

Other awards included: Award of Excellence from The Carolinas Center for Medical Excellence by Rex Rehabilitation & Nursing Care Center; reaccreditation by CARF – Rex Rehabilitation & Nursing Care Center; named to the OCS/DecisionHealth Home Care Elite list – Rex Home Services; recognized as a Best Place to Work by Triangle Business Journal and a Family-Friendly Place to Work by Carolina Parent; and the Rex culinary chefs won a gold medal with UNC at NC Prevention Partners and a silver medal at a national competition.

The National Research Corporation (NRC) named Rex Healthcare a Consumer Choice Award winner in 2010. Rex was also recognized nationally by HealthGrades in 2011 with numerous awards including recipient of the HealthGrades 2011 'America's 50 Best' Award™, recipient of the HealthGrades 2011 Distinguished Hospital Award - Clinical Excellence™, recipient of the HealthGrades 2010 Patient Safety Award™, recipient of the HealthGrades Cardiac Care Excellence Award™, recipient of the HealthGrades Coronary Intervention Excellence Award™, ranked among the top 5% in the nation for Overall Cardiac Services, ranked among the top 5% in the nation for Cardiology Services, ranked among the top 5% in the nation for Coronary Interventional Procedures, ranked #1 in North Carolina for Overall Cardiac Services (2011), ranked #1 in North Carolina for Cardiology Services (2011), ranked #1 in North Carolina for Coronary Interventional Procedures, ranked #1 in North Carolina for GI Surgery (2011), and Ranked #1 in North Carolina for Overall Bariatric Surgery (2011).

Rex's overall credit rating was also reaffirmed by Fitch, Standard and Poors, and Moody's at A+/A1.

Using this Financial Report

Rex's financial statements report information of Rex using accounting methods similar to those used by private-sector health organizations. These statements offer short and long-term financial information about its activities.

Balance Sheet

The balance sheet includes all of Rex's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Rex's creditors (liabilities). The balance sheet also provides the basis for evaluating the capital structure of Rex and assessing the liquidity and financial flexibility of Rex.

Statement of Revenues, Expenses and Changes in Net Assets

Revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of Rex's operations over the past year and can be used to determine whether Rex has successfully recovered all of its costs through its fees and other sources of revenue, profitability and credit worthiness.

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010

Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and capital and related financing activities. It also provides answers to such questions as where cash comes from, what cash was used for and what the change in the cash balance was during the reporting period.

Notes to the Combined Financial Statements

Notes to the combined financial statements are designed to give the reader additional information concerning Rex and further supports the statements noted above.

Financial Analysis

The statement of revenues, expenses and changes in net assets reports the net assets of Rex and the changes affecting them. Rex's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, increases or decreases in Rex's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will also need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation.

Condensed Combined Balance Sheets

The following condensed combined balance sheets show the combined financial position at June 30, 2011, 2010, and 2009 (in \$000's):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current Assets	\$ 194,576	\$ 143,526	\$ 112,477
Capital Assets, Net	268,125	261,418	240,388
Noncurrent Assets	217,212	136,265	120,875
Total Assets	<u>\$ 679,913</u>	<u>\$ 541,209</u>	<u>\$ 473,740</u>
LIABILITIES			
Long-Term Debt, Including Current Portion	\$ 159,570	\$ 111,148	\$ 99,788
Other Liabilities	106,878	85,655	76,487
Total Liabilities	<u>266,448</u>	<u>196,803</u>	<u>176,275</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	103,728	150,270	140,600
Restricted	3,959	4,123	4,525
Unrestricted	305,778	190,013	152,340
Total Net Assets	<u>413,465</u>	<u>344,406</u>	<u>297,465</u>
Total Liabilities and Net Assets	<u>\$ 679,913</u>	<u>\$ 541,209</u>	<u>\$ 473,740</u>

**REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010**

Financial Analysis (Continued)

Current assets increased \$51,050 (35.6%) and \$31,049 (27.6%) in 2011 and 2010, respectively. The increases result from growth in outpatient volumes, disciplined expense control, and improved reimbursement associated with renegotiated payor contracts.

Noncurrent assets increased \$80,947 (59.4%) in 2011 and \$15,390 (12.7%) in 2010, the result of investment earnings consistent with overall market performance.

During 2011 and 2010, long-term debt increased \$48,423 (43.6%) and \$11,360 (11.4%), respectively. In 2011, we issued Series 2010A Revenue Bonds, the proceeds of which refunded the Series 1998 Revenue Bonds and provided approximately \$47,600 in funding for certain capital projects, resulting in a net increase in long-term debt. The increase in 2010 is the net result of scheduled debt repayments on the Series 1998 Revenue Bonds and the Tax Exempt Lease Financing and the assumption of an additional \$24,216 of indebtedness in conjunction with our acquisition of full ownership of our suburban campus in the Wakefield community.

Net assets increased \$69,059 (20.1%) in 2011 and \$46,941 (15.8%) during 2010, primarily the result of strong operating performance and investment earnings. Investment income contributed \$27,437 and \$15,243 in 2011 and 2010, respectively, to the increase in net assets. For further information on this change, see the following statement of revenues, expenses and changes in net assets.

Capital Assets

Rex's investment in capital assets consisted of the following at June 30, 2011, 2010 and 2009 (in \$000's):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land and Land Improvements	\$ 49,679	\$ 49,679	\$ 42,816
Buildings and Improvements	263,902	264,540	235,763
Equipment	285,341	273,734	260,626
Total Capital Assets	<u>598,922</u>	<u>587,953</u>	<u>539,205</u>
Accumulated Depreciation	<u>(360,765)</u>	<u>(334,139)</u>	<u>(304,200)</u>
Total Capital Assets, Net	238,157	253,814	235,005
Construction in Progress	29,968	7,604	5,383
Total Capital Assets	<u>\$ 268,125</u>	<u>\$ 261,418</u>	<u>\$ 240,388</u>

The increase in Rex's investment in capital assets in 2011 and 2010 represents purchases of capital assets, net of disposals and depreciation expense, combined with the capital assets of Rex CDP Ventures, LLC and subsidiaries which were acquired by Rex during fiscal year 2010.

Capital investments in 2011 consisted primarily of costs incurred in conjunction with the construction of a replace Central Energy Plant for the main campus, new inpatient beds, and technology assets.

During 2010, Rex's major routine capital investments included two replacement linear accelerators, new inpatient beds and a replacement cardiac catheterization lab. Rex continued to invest in information technology with enhancements to the electronic medical record system.

REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010

Financial Analysis (Continued)

Condensed Combined Statements of Revenues, Expenses and Changes in Net Assets

While the combined balance sheets show the change in financial position of net assets, the following combined statements of revenues, expenses and changes in net assets provides answers to the nature and source of these changes for the years ended June 30, 2011, 2010 and 2009 (in \$000's):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues	\$ 628,617	\$ 571,001	\$ 513,126
Operating Expenses	<u>579,761</u>	<u>535,228</u>	<u>492,560</u>
Operating Income	48,856	35,773	20,566
Nonoperating Income (Loss)	26,232	12,187	(31,099)
Contributions and Other	<u>(6,029)</u>	<u>(1,019)</u>	<u>-</u>
Change in Net Assets	69,059	46,941	(10,533)
Net Assets, Beginning of Period	344,406	297,465	307,998
Net Assets, End of Period	<u>\$ 413,465</u>	<u>\$ 344,406</u>	<u>\$ 297,465</u>

Operating Income

The increase in operating revenues in 2011 and 2010 is primarily the result of volume growth, increased reimbursement resulting from renegotiated payor contracts, and effective cost control. In addition, Rex recognized \$2,198 in operating revenues related to the North Carolina Medicaid Reimbursement Initiative Program in 2011 compared to \$2,860 in 2010. The increases in operating expenses in each year are the result of changes in patient volumes, inflation and expansion of services offered, mitigated by coordinated cost control measures. The increase in operating income is the net result of all these factors.

Nonoperating Income

Nonoperating income consisted of the following for the years ended June 30, 2011, 2010 and 2009 (in \$000's):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest Income	\$ 983	\$ 471	\$ 1,326
Dividend Income	1,946	1,885	2,051
Realized Gains (Losses), Net	3,430	12,425	(12,591)
Net Change in Unrealized Gains (Losses) on Investments	21,990	751	(18,628)
Brokerage Fees	(745)	(597)	(515)
Income from Investments in Affiliates	<u>253</u>	<u>308</u>	<u>273</u>
Total Investment Income (Loss)	27,857	15,243	(28,084)
Other	<u>(1,625)</u>	<u>(3,056)</u>	<u>(3,015)</u>
Total Nonoperating Income (Loss)	<u>\$ 26,232</u>	<u>\$ 12,187</u>	<u>\$ (31,099)</u>

**REX HEALTHCARE, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011 AND 2010**

Finance Contact

Rex's financial statements are designed to present users with a general overview of Rex's finances and to demonstrate Rex's accountability. If you have any questions about this report or need additional financial information, inquiries may be sent to:

Chief Financial Officer
Rex Healthcare, Inc.
4420 Lake Boone Trail
Raleigh, North Carolina 27607

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED BALANCE SHEETS
JUNE 30, 2011 AND 2010
(IN \$000's)

ASSETS	2011	2010
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 96,427	\$ 64,571
Patient Accounts Receivable, Net of Allowance for Uncollectible Accounts of Approximately \$9,722 in 2011 and \$7,912 in 2010	75,243	57,446
Other Receivables	5,989	5,637
Inventories	10,102	9,983
Prepaid Expenses and Other Current Assets	6,815	5,889
Total Current Assets	194,576	143,526
ASSETS LIMITED AS TO USE	206,120	126,692
CAPITAL ASSETS, NET	268,125	261,418
OTHER ASSETS		
Investments in Affiliates	5,582	5,321
Deferred Debt Issuance Costs, Net	1,405	1,531
Other Assets	4,105	2,721
Total Other Assets	11,092	9,573
Total Assets	\$ 679,913	\$ 541,209
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 36,851	\$ 11,844
Vendor Accounts Payable	30,709	29,498
Accrued Expenses and Other Liabilities	49,416	39,528
Estimated Third-Party Payor Settlements	24,640	15,758
Total Current Liabilities	141,616	96,628
LONG-TERM DEBT , Net of Current Maturities	122,719	99,304
NON-CONTROLLING INTEREST	1,170	-
OTHER NONCURRENT LIABILITIES	943	871
Total Liabilities	266,448	196,803
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	103,728	150,270
Restricted	3,959	4,123
Unrestricted	305,778	190,013
Total Net Assets	413,465	344,406
Total Liabilities and Net Assets	\$ 679,913	\$ 541,209

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010
(IN \$000's)

	2011	2010
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Uncollectible Accounts of Approximately \$21,415 in 2011 and \$23,304 in 2010)	\$ 608,277	\$ 552,635
Other Operating Revenues	20,340	18,366
Total Operating Revenues	628,617	571,001
OPERATING EXPENSES		
Salaries	247,064	226,298
Employee Benefits	68,788	59,098
Medical Supplies and Other Expenses	233,226	218,681
Depreciation and Amortization	25,713	26,725
Interest	4,970	4,426
Total Operating Expenses	579,761	535,228
OPERATING INCOME	48,856	35,773
NONOPERATING INCOME (LOSS)		
Investment Income, Net	27,857	15,243
Other, Net	(1,625)	(3,056)
Nonoperating Income, Net	26,232	12,187
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	75,088	47,960
CONTRIBUTIONS TO RELATED PARTY	(5,609)	(1,200)
INCOME APPLICABLE TO NON-CONTROLLING INTEREST	(420)	-
OTHER	-	181
CHANGE IN NET ASSETS	69,059	46,941
Net Assets - Beginning of Year	344,406	297,465
NET ASSETS - END OF YEAR	\$ 413,465	\$ 344,406

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010
(IN \$000's)

	2011	2010
OPERATING ACTIVITIES		
Receipts from Third-Party Payors and Patients	\$ 599,010	\$ 554,717
Payments to and on Behalf of Employees	(309,514)	(279,058)
Payments to Suppliers	(235,718)	(225,543)
Other Receipts	19,266	15,262
Net Cash Provided by Operating Activities	73,044	65,378
INVESTING ACTIVITIES		
Purchases and Sales of Investments, Net	(31,509)	(13,806)
Cash from Acquisition of Remaining Interest in Ventures	-	452
Contributions to Related Party	(5,609)	(1,200)
Investment Income	5,867	14,492
Other Nonoperating Income, Net	(1,625)	(3,056)
Net Cash Used in Investing Activities	(32,876)	(3,118)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(28,336)	(16,322)
Proceeds from Issuance of Long-Term Debt, Net of Premium	130,041	-
Principal Repayments of Long-Term Debt	(80,086)	(13,089)
Cash Paid for Financing Costs on Long-Term Debt	(1,361)	(125)
Cash Paid for Interest on Long-Term Debt	(2,641)	(4,451)
Net Cash Provided by (Used in) Capital and Related Financing Activities	17,617	(33,987)
INCREASE IN CASH AND CASH EQUIVALENTS	57,785	28,273
Cash and Cash Equivalents - Beginning of Year	66,284	38,011
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 124,069	\$ 66,284
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO COMBINED BALANCE SHEETS:		
Cash and Cash Equivalents in Current Assets	\$ 96,427	\$ 64,571
Cash and Cash Equivalents in Assets Limited as to Use	27,642	1,713
Total Cash and Cash Equivalents	\$ 124,069	\$ 66,284

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010
(IN \$000's)

	2011	2010
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 48,856	\$ 35,773
Interest Expense Considered Capital Financing Activity	4,970	4,426
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Provision for Uncollectible Accounts	21,415	23,304
Depreciation and Amortization	25,713	26,725
Loss on Disposal of Capital Assets	974	85
Changes in Assets and Liabilities:		
Patient and Other Receivables, Net	(39,564)	(27,490)
Accounts Payable and Accrued Expenses	3,846	(524)
Estimated Third-Party Payor Settlements	8,882	6,268
Other Assets and Liabilities, Net	(2,048)	(3,189)
Net Cash Provided by Operating Activities	\$ 73,044	\$ 65,378
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Net Change in Unrealized Gains (Losses) on Investments	\$ 21,989	\$ 751
Additions to Capital Assets Included in Current Liabilities	\$ 4,842	\$ 2,592
Capital Assets Acquired through Capital Lease Obligations	\$ -	\$ 413

See accompanying Notes to Combined Financial Statements.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY

Rex Healthcare, Inc. ("Rex") is a North Carolina not-for-profit corporation organized to provide a broad range of health care services to residents of the Triangle area of North Carolina. Acting through its network of operating affiliates, Rex provides health care to patients from several locations through continued development of acute care and non-hospital programs.

Rex's sole member is the University of North Carolina Health Care System ("UNCHCS"). UNCHCS appoints eight of the thirteen seats on Rex's Board of Trustees. Additionally, UNCHCS reviews and approves Rex's annual operating and capital budgets. As required by accounting principles generally accepted in the United States of America, the combined financial statements of Rex present the financial position and results of operations of the parent entity and its blended component units which are described below:

Rex Hospital, Inc. – Rex Hospital, Inc. (the "Hospital"), located in Raleigh, North Carolina, is a 433-bed hospital. The Hospital provides inpatient, outpatient and emergency services primarily to the residents of Wake County, North Carolina. The Hospital operates on its main campus Rex Cancer Center, Rex Women's Center and Rex Rehabilitation and Nursing Care Center of Raleigh, a 120-bed nursing facility. The Hospital provides urgent care and diagnostics at its Cary, North Carolina campus, and outpatient surgery, oncology and wellness services, urgent care, family medicine and diagnostics at its Wakefield campus. Rex's Knightdale campus provides urgent care, diagnostics, family medicine, wound care and a sleep disorders center. Rex also operates Rex Rehabilitation and Nursing Care Center of Apex, a 107-bed nursing facility located in Apex, North Carolina.

Rex Holdings, LLC – Rex formed and became the sole member of Rex Holdings, LLC ("Holdings"), a single member limited liability company. Holdings was formed to hold membership interest in various limited liability companies. During fiscal year 2010, there was no activity related to this entity.

Rex Physicians, LLC – Holdings formed and became the sole member of Rex Physicians LLC ("Physicians"), a single member limited liability company which has elected to be treated as a taxable corporation. Physicians was formed to operate specialty physician practices serving the residents of Wake County and surrounding areas. Physicians currently operates physician practices in the areas of general surgery, heart and vascular services, and thoracic surgery.

Rex Enterprises Company, Inc. – Rex Enterprises Company, Inc. ("Enterprises") is a North Carolina for-profit corporation organized to hold investments in various affiliates and to promote the development of real property in support of the mission of Rex.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY (CONTINUED)

Rex CDP Ventures, LLC – Rex CDP Ventures, LLC (“Ventures”), is a limited liability company organized to own and develop real estate in the Wakefield community of northern Wake County. Prior to June 15, 2010, Enterprises owned a 50% interest in Ventures and accounted for this investment using the equity method of accounting. On June 15, 2010, Enterprises purchased the remaining 50% interest in Ventures from Wakefield Rex Investors, LLC and accordingly began combining the financial position and results of Ventures in the combined financial statements. At June 30, 2011, Ventures was the sole member of the following limited liability companies:

Rex Wakefield Wellness, LLC – Enterprises formed and became the sole member of Rex Wakefield Wellness, LLC (“Wellness”), a single member limited liability company. Wellness was created to develop a wellness center building on the Wakefield campus of the Hospital. The Hospital leases the building from Wellness. On June 15, 2010, Enterprises contributed its membership interest in Wellness to Ventures.

Rex CDP Ventures – HT, LLC – Ventures formed and became the sole member of Rex CDP Ventures – HT, LLC (“HT”), a single member limited liability company. HT was formed to develop a retail unit of the Wakefield campus of the Hospital.

Wakefield Rex Investors MOB, LLC – Wakefield Rex Investors, LLC, formed and became the sole member of Rex Wakefield Investors MOB, LLC (“MOB”) a single member limited liability company. MOB was formed to develop a medical office building on the Wakefield campus of the Hospital. On June 15, 2010, Wakefield Rex Investors, LLC contributed its ownership interest in MOB to Ventures.

Rex CDP Ventures – Retail, LLC – Ventures formed and became the sole member of Rex CDP Ventures – Retail, LLC (“Retail”), a single member limited liability company. Retail was formed to develop a retail unit of the Wakefield campus of the Hospital.

Rex Healthcare Foundation, Inc. – Rex Healthcare Foundation, Inc. (the “Foundation”) is a North Carolina not-for-profit corporation organized to promote the health and welfare of the people of the Triangle area by promoting philanthropic contributions and public support of Rex.

Rex Home Services, Inc. – The Hospital owns Rex Home Services, Inc. (“Home Services”), a North Carolina not-for-profit corporation, organized to provide home health services primarily to the residents of Wake County, North Carolina.

Smithfield Radiation Oncology, LLC – Smithfield Radiation Oncology, LLC (“SRO”) is a limited liability company organized to own and operate a linear accelerator. The Hospital is the sole member of SRO.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 ORGANIZATION AND DESCRIPTION OF THE COMPANY (CONTINUED)

Rex Surgery Center of Cary, LLC – Rex Surgery Center of Cary, LLC (“Surgery Center”) is a limited liability company organized to own and operate an ambulatory surgery center. Surgery Center was formed and began operations on February 28, 2011. The Hospital owns 79.5% of the membership interests, with the remaining 20.5% owned by an unrelated third party. Since the Hospital controls the Surgery Center, it is combined in the accompanying financial statements, with a non-controlling interest.

The financial statements include the accounts of Rex, the Hospital, Enterprises, Physicians, the Foundation, Home Services and SRO. All significant intercompany transactions and balances have been eliminated in combination.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

As a result of the transfer of the membership interest to UNCHCS, an agency of the State of North Carolina, Rex is subject to the application of accounting pronouncements issued by the Governmental Accounting Standards Board (GASB). In 1993, GASB issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting* (the Statement), which provides guidance on how GASB pronouncements affect government entities that use business-type accounting and financial reporting. The provisions of the Statement were effective for periods beginning after December 15, 1993. As is allowable under the Statement, Rex has elected to follow the GASB hierarchy exclusively regarding authoritative literature issued after November 30, 1989.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with an original maturity of three months or less, and which are not designated as investments, are considered to be cash equivalents and are recorded at cost which approximates market value.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in marketable debt and equity securities with readily determinable fair values, including assets whose use is limited, are measured at fair value in the accompanying balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating income (loss) in the accompanying combined financial statements. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

Investments in Affiliates

Enterprises own a 50% interest in Quality Textile Services, Inc. ("QTS"), a Raleigh, North Carolina company that provides laundry services to local hospitals. Enterprises exercises significant influence over QTS; however, it does not control it through a majority voting interest. This investment is accounted for using the equity method of accounting; accordingly, Enterprises' investment has been adjusted for its share of QTS's operations. Enterprises' equity in the net income of this affiliate totaled approximately \$12,000 and \$27,000 for the years ended June 30, 2011 and 2010, respectively, and is included in net nonoperating income. Enterprises received no cash distributions from QTS during 2011 or 2010. Enterprises' investment in QTS totaled approximately \$2,313,000 and \$2,299,000 as of June 30, 2011 and 2010, respectively. Separate financial statements for QTS are not publicly available.

Enterprises owns a 32.5% interest in Rex Cary MOB, LLC, a company that in July 2003, built and began leasing a medical office building in Cary, North Carolina. Enterprises exercises significant influence over Rex Cary MOB, LLC; however, it does not control it through a majority voting interest. This investment is accounted for using the equity method of accounting; accordingly, Enterprises' investment has been adjusted for its share of Rex Cary MOB, LLC's operations. Enterprises' equity in the net income of this affiliate totaled approximately \$241,000 and \$281,000 for the years ended June 30, 2011 and 2010, respectively, and is included in net nonoperating income. Additionally, Enterprises received cash distributions from Rex Cary MOB, LLC totaling approximately \$241,000 and \$131,000 during 2011 and 2010, respectively. Enterprises' investment in Rex Cary MOB, LLC totaled approximately \$614,000 and \$599,000 as of June 30, 2011 and 2010, respectively. Separate financial statements for Rex Cary MOB, LLC are not publicly available.

Enterprises owns less than a 5% interest in Rex MOB Partners, LLC, a company that operates a multi-tenant medical office building in Raleigh, North Carolina on land leased from the Hospital. This investment is accounted for using the cost method of accounting. Enterprises' investment in Rex MOB Partners, LLC totaled approximately \$300,000 as of June 30, 2011 and 2010. Separate financial statements for Rex MOB Partners, LLC are not publicly available.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital asset acquisitions are recorded at cost and include interest on funds used to finance the acquisition or construction of major capital projects. Assets under capital lease are stated at the present value of the minimum lease payments at the inception of the lease. Depreciation is provided on both straight-line and accelerated methods over the estimated useful lives of the depreciable assets which is generally 5 to 15 years for equipment, 5 to 15 years for building improvements, and 30 to 40 years for buildings.

Assets under capital leases and leasehold improvements are depreciated over the estimated useful life or the related lease term, whichever is shorter; generally periods ranging from 5 to 7 years. Depreciation of assets under capital leases and leasehold improvements is included in depreciation and amortization expense in the accompanying statements of revenues, expenses and changes in net assets.

Deferred Debt Issuance Costs

Deferred debt issuance costs are amortized over the term of the related bond issuance under a method which approximates the effective interest method over the life of the bonds. Amortization of deferred debt issuance costs totaled approximately \$131,000 and \$109,000 for years ended June 30, 2011 and 2010. Cumulative amortization of deferred debt issuance costs totaled approximately \$1,203,000 and \$1,312,000 as of June 30, 2011 and 2010, respectively.

Other Assets

Other assets consisted of the following at June 30, 2011 and 2010 (in \$000's):

	<u>2011</u>	<u>2010</u>
Goodwill	\$ 1,812	\$ 1,862
Other Assets	2,293	859
Total	<u>\$ 4,105</u>	<u>\$ 2,721</u>

The excess of purchase price over the fair values of identifiable net assets acquired has been allocated to goodwill. Management periodically evaluates the carrying value and remaining amortization periods of unamortized amounts based on an analysis of estimated undiscounted operating earnings from the operations of each specific business. Any events or circumstances occurring during the year or future years that might have an impact on such carrying value or remaining amortization periods are considered. Other than amortization, no adjustments have been made to the carrying value of the goodwill at June 30, 2011 and 2010.

Proprietary Fund Accounting

Rex utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, net assets are categorized as invested in capital assets, net of related debt, restricted and unrestricted. Invested in capital assets, net of related debt is intended to reflect the portion of net assets that are associated with non-liquid capital assets less outstanding debt related to capital assets. Restricted net assets are assets generated from revenues that have third-party limitation on their use. Unrestricted net assets have no third-party restrictions on use.

Restricted net assets included the following at June 30, 2011 and 2010 (in \$000’s):

	2011	2010
Restricted Net Assets:		
Expendable:		
Various Scholarships, Lectureships and Buildings	\$ 481	\$ 416
Various Supplies, Equipment and Patient Charity Care	3,144	3,407
Total Expendable:	3,625	3,823
Nonexpendable Restricted Net Assets:		
Endowments	334	300
Total Restricted Net Assets	\$ 3,959	\$ 4,123

Net Patient Service Revenue

Net patient service revenue is recorded at established rates when services are provided with contractual adjustments, estimated bad debt expenses, and services qualifying as charity care deducted to arrive at net patient service revenue. Contractual adjustments arise under reimbursement agreements with certain insurance carriers, health maintenance organizations and preferred provider organizations, which provide for payments that are generally less than established billing rates. Contractual adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in the future as final settlements are determined. Total contractual adjustments were approximately \$1,026,693,000 and \$942,592,000, respectively, for the years ended June 30, 2011 and 2010.

Medicare and Medicaid Programs

Services rendered to Medicare program beneficiaries and inpatient services rendered to Medicaid program beneficiaries are paid primarily at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors and cover both operating and capital costs. Outpatient services rendered to Medicaid beneficiaries are reimbursed based on a percentage of actual costs incurred. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by fiscal intermediaries. Final settlements are based on regulations established by the respective programs and as interpreted by fiscal intermediaries. The classification of patients under the Medicare and Medicaid programs, and the appropriateness of their admission, are subject to review by an independent peer review organization.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medicare and Medicaid Programs (Continued)

Accounts receivable and patient service revenue relating to these programs are stated at estimated net realizable amounts in the accompanying combined financial statements. The Hospital's Medicare cost reports have been audited through June 30, 2007. During 2011, the Hospital filed the 2010 Medicare cost report, resulting in a tentative cash settlement of approximately \$279,000. During 2010, the Hospital filed the 2009 Medicare cost report, resulting in a tentative cash settlement of approximately \$171,000. For the years ended June 30, 2011 and 2010, net patient service revenue increased by approximately \$5,109,000 and decreased \$2,486,000, respectively, as a result of changes in estimates related to various third-party accruals and reserves.

The Hospital participates in a voluntary Medicaid disproportionate share program (the "Program"). The Program allows the Hospital to receive additional annual Medicaid funding. Prior to fiscal 2001, funding was received prior to final approval of the Program year by the Centers for Medicare and Medicaid Services ("CMS") and was subject to final settlement by the State of North Carolina once approved by CMS. Prior to 2010, the Hospital's policy was to defer 100% of the amounts received until the fiscal year after CMS approved the Program year, at which time the Hospital recognized a portion of the amounts received. During 2010, the State of North Carolina provided additional information related to the operation of the Program. With this new information, the Hospital updated its revenue recognition policy related to the Program and now recognizes all funds from the Program as net patient service revenue when received. For the years ended June 30, 2011 and 2010, the Hospital recognized net patient revenue of approximately \$2,198,000 and \$2,860,000, respectively, related to the Program.

Other Payors

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

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

Rex provides services primarily to residents of Wake and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to large numbers of patients served and formalized agreements with third-party payors. Rex has significant accounts receivable whose collectability is dependent upon the performance of certain governmental programs, primarily Medicare. Management does not believe there are significant credit risks associated with these governmental programs.

The aggregate mix of accounts receivable from patients and third-party payors was as follows at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Medicare	25 %	28 %
Medicaid	3	3
Managed Care	52	48
Self Pay	20	21
Total	<u>100 %</u>	<u>100 %</u>

Charity Care

Rex provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because Rex does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or accounts receivable in the accompanying financial statements. Rex maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The amount of charity care provided, based on charges foregone, was approximately \$61,364,000 and \$44,271,000 for the years ended June 30, 2011 and 2010, respectively.

Functional Expenses

Rex does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since Rex receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Operating Income

Rex classifies all revenues and expenses earned or incurred in the course of providing health care to patients as operating activities.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonoperating Income (Loss)

Nonoperating income (loss) consists primarily of investment income and other miscellaneous income and expense items. Activities related to Ventures and its affiliates are included in other nonoperating income (loss). Nonoperating income (loss) consisted of the following for the years ended June 30, 2011 and 2010 (in \$000's):

	2011	2010
Interest Income	\$ 983	\$ 471
Dividend Income	1,946	1,885
Realized Gains (Losses), Net	3,430	12,425
Net Change in Unrealized Gains (Losses) on Investments	21,990	751
Brokerage Fees	(745)	(597)
Income from Investments in Affiliates	253	308
Total Investment Income (Loss)	27,857	15,243
Other	(1,625)	(3,056)
Total Nonoperating Income, Net	\$ 26,232	\$ 12,187

Capitalized Interest

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest of approximately \$171,000 and \$0 was capitalized during the years ended June 30, 2011 and 2010, respectively.

Risk Management

Rex is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits; and medical malpractice (see Note 10). Commercial insurance and stop loss coverage is purchased for claims arising from such matters, subject to various deductibles.

Tax-Exempt Status

Rex, the Hospital, the Foundation, and Home Services are exempt from federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code. Enterprises is a taxable corporation that has net operating loss carryforwards. Physicians is a single member limited liability company that has elected to be taxed as a for-profit corporation. Physicians currently has a net operating loss in 2011 and 2010. Accordingly, no provision for income taxes has been reflected in these combined financial statements.

Rex is the sole member of SRO and Enterprises is the sole member of Ventures, Wellness, HT, MOB and Retail. As such, SRO, Ventures Wellness, HT, MOB and Retail are considered disregarded entities for tax purposes.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain amounts in the 2010 combined financial statements have been reclassified to conform to the 2011 presentation. These reclassifications had no effect on previously reported changes in net assets.

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS

Assets Limited as to Use

At June 30, 2011 and 2010, Rex had the following investments, all of which were held by custodians that are agents of Rex (in \$000's):

	2011	2010
Cash and Cash Equivalents	\$ 27,642	\$ 1,713
Certificates of Deposit	200	300
Mutual Funds	125,212	80,346
Equities	12,800	7,010
Alternative Investments	40,266	28,254
Common Trust Funds	-	9,069
	\$ 206,120	\$ 126,692

As of June 30, 2011, all of these investments had maturities of one year or less.

Interest rate risk – Rex has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The policy requires that the duration of the portfolio shall not exceed six years and its average maturity shall range between two and six years.

Credit risk – Rex's investment policy allows it to invest in (i) direct obligations or obligations on which the principal and interest are unconditionally guaranteed by the United States government; (ii) obligations issued by an approved agency or corporation wholly-owned by the United States government; (iii) interest-bearing time deposits, certificates of deposit or other approved forms of deposits in any bank or trust company in North Carolina which satisfies insurance and, if necessary, collateral requirements for holding Company money; and (iv) corporate notes and bonds.

Alternative investments are investments in the common stock of limited investment companies that offer a pattern of returns different from that of the overall market and occasionally have lesser levels of liquidity. Examples of alternative investments include non-publicly traded companies, real estate and hedge funds.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Assets Limited as to Use (Continued)

Concentration of credit risk – Rex limits the amount it may invest in any single issuer. Fixed income holdings in a single issuer (excluding obligations of the United States Government, its agencies and government sponsored entities) shall be limited to 5 percent of the portfolio measured at market value at the time of purchase. Treasuries, agencies and government-sponsored entities have no issuer limits. Securities rated under “A-“ are limited to 3% per issuer.

Custodial credit risk – At year end, Rex’s investments were not exposed to custodial credit risk.

The carrying amount of deposits and investments included in the combined balance sheets are as follows at June 30, 2011 and 2010 (in \$000’s):

	2011	2010
Carrying Amount:		
Deposits	\$ 124,069	\$ 66,284
Investments	178,478	124,979
	\$ 302,547	\$ 191,263
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 96,427	\$ 64,571
Assets Limited as to Use:		
Restricted by Contributors and Grantors	3,959	4,123
Bond Funds Held by Trustee	22,001	-
Funds Held in Escrow or Trust	30	470
Designated for Long-Term Investment	180,130	122,099
	\$ 302,547	\$ 191,263

All investments in securities are on deposit with Rex’s fiduciary agent, which holds these securities by book entry in its fiduciary Federal Reserve accounts. Rex’s ownership of these securities is identified through the internal records of the fiduciary agent. Certain of these securities are optionally callable at par by the issuer on specified dates.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 4 CAPITAL ASSETS AND ACCUMULATED DEPRECIATION

A summary of changes in the historical cost of capital assets and accumulated depreciation and amortization related to capital assets are as follows (in \$000's):

For the year ended June 30, 2011:

	June 30, 2010	Transfers/ Additions	Transfers/ Retirements	June 30, 2011
PROPERTY AND EQUIPMENT				
Land	\$ 34,375	\$ -	\$ -	\$ 34,375
Land Improvements	15,304	-	-	15,304
Buildings and Improvements	264,540	-	(638)	263,902
Equipment	273,734	13,495	(1,888)	285,341
Construction in Progress	7,604	27,357	(4,993)	29,968
Total	<u>595,557</u>	<u>40,852</u>	<u>(7,519)</u>	<u>628,890</u>
ACCUMULATED DEPRECIATION				
Land Improvements	6,051	734	-	6,785
Buildings	113,317	14,412	(638)	127,091
Equipment	214,771	12,754	(636)	226,889
Total	<u>334,139</u>	<u>27,900</u>	<u>(1,274)</u>	<u>360,765</u>
Property and Equipment, Net	<u>\$ 261,418</u>	<u>\$ 12,952</u>	<u>\$ (6,245)</u>	<u>\$ 268,125</u>

For the year ended June 30, 2010:

	June 30, 2009	Transfers/ Additions	Transfers/ Retirements	June 30, 2010
PROPERTY AND EQUIPMENT				
Land	\$ 27,634	\$ 6,741	\$ -	\$ 34,375
Land Improvements	15,182	122	-	15,304
Buildings and Improvements	235,763	28,777	-	264,540
Equipment	260,626	13,579	(471)	273,734
Construction in Progress	5,383	15,326	(13,105)	7,604
Total	<u>544,588</u>	<u>64,545</u>	<u>(13,576)</u>	<u>595,557</u>
ACCUMULATED DEPRECIATION				
Land Improvements	5,432	619	-	6,051
Buildings	99,402	13,905	10	113,317
Equipment	199,366	15,765	(360)	214,771
Total	<u>304,200</u>	<u>30,289</u>	<u>(350)</u>	<u>334,139</u>
Property and Equipment, Net	<u>\$ 240,388</u>	<u>\$ 34,256</u>	<u>\$ (13,226)</u>	<u>\$ 261,418</u>

The capital acquisitions' figures above are presented net of transfers from construction in progress to operating asset categories and sales and other dispositions. Depreciation expense related to Ventures and its related entities is included in other nonoperating income. Depreciation and amortization expense totaled approximately \$28,115,000 and \$28,244,000 for the years ended June 30, 2011 and 2010, respectively. The expense shown in the table above is net of decreases in accumulated depreciation for sales and other dispositions of capital assets. At June 30, 2011 and 2010, equipment under capital obligations had a cost of approximately \$4,214,000 and \$4,214,000 and accumulated amortization of approximately \$2,134,000 and \$1,414,000, respectively.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 5 ACCOUNTS RECEIVABLE AND ACCRUED EXPENSES

Accounts receivable, accrued expenses and other liabilities consisted of the following at June 30, 2010 and 2009 (in \$000's):

	<u>2011</u>	<u>2010</u>
Gross Receivables:		
Medicare	\$ 38,810	\$ 34,276
Medicaid	4,798	3,726
Managed Care	78,650	59,232
Self Pay	30,030	26,024
	<u>152,288</u>	<u>123,258</u>
Less:		
Contractual Allowances	(67,323)	(57,900)
Allowance for Doubtful Accounts	(9,722)	(7,912)
	<u>\$ 75,243</u>	<u>\$ 57,446</u>
Accrued Salaries, Wages and Withholdings	\$ 26,518	\$ 21,290
Accrued Paid Time Off	13,126	12,075
Reserve for Workers' Compensation Claims	1,541	1,743
Reserve for Employee Health Benefit Claims	1,840	2,135
Reserve for Medical Malpractice Claims	2,355	1,247
Other	4,036	1,038
	<u>\$ 49,416</u>	<u>\$ 39,528</u>

NOTE 6 LONG-TERM DEBT

A summary of long-term debt and changes in long-term debt for the years ended June 30, 2011 and 2010 is as follows (in \$000's):

	<u>June 30,</u>		<u>Payments</u>	<u>June 30,</u>		<u>Payments</u>	<u>June 30,</u>
	<u>2009</u>	<u>Borrowings</u>	<u>and Discount</u>	<u>2010</u>	<u>Borrowings</u>	<u>and Discount</u>	<u>2011</u>
			<u>Amortization</u>			<u>Amortization</u>	
Bonds Payable:							
Series 1998	\$ 79,872	\$ -	\$ (5,966)	\$ 73,906	\$ -	\$ (73,906)	\$ -
Series 2010A	-	-	-	-	125,509	(95)	125,414
Tax-Exempt							
Financing	9,534	-	(6,303)	3,231	-	(3,231)	-
Construction							
Loan	7,328	24,216	-	31,544	2,445	(1,306)	32,683
Line of Credit	-	-	-	-	140	-	140
Obligations Under							
Capital Lease	3,054	413	(1,000)	2,467	-	(1,134)	1,333
	<u>\$ 99,788</u>	<u>\$ 24,629</u>	<u>\$ (13,269)</u>	<u>\$ 111,148</u>	<u>\$ 128,094</u>	<u>\$ (79,672)</u>	<u>\$ 159,570</u>

Bonds Payable

In March 1998, Rex issued \$124,215,000 Hospital Revenue Bonds (1998 Bonds) through the North Carolina Medical Care Commission (the "Commission") under a Master Indenture and other related agreements. The proceeds were used to refund a portion of the Series 1993 Bonds and to finance certain capital projects.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 6 LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

In October 2010, Rex issued \$122,965,000 Series 2010A Health Care Facilities Revenue and Revenue Refunding Bonds (2010A Bonds) through the Commission. The proceeds were used to refund the outstanding 1998 Bonds, fund costs of construction and equipment related to the relocation of Rex's power plant, pay construction period interest, and pay for issuance costs for the 2010A Bonds.

The 2010A Bonds mature annually in amounts ranging from \$1,000,000 to \$8,130,000 and bear interest at rates between 2.00% and 5.00% for amounts maturing between 2011 and 2030. Under the agreements, the Obligated Group must also maintain a defined level of income available for debt service. As of June 30, 2011, Rex believed that the Obligated Group was in compliance with all debt covenants.

The 2010A Bonds are secured by a pledge of and a lien on the accounts receivable and the proceeds thereof derived from the ownership and operation of the Obligated Group. In the Master Indenture agreements for the 2010A Bonds, the Obligated Group includes Rex and the Hospital. Under the terms of the Master Indenture agreement for the 2010A Bonds, the Obligated Group is subject to certain financial covenants including but not limited to limitations on the transfer or sale of the Obligated Group's assets, limitations on the incurrence of additional indebtedness, maintenance of adequate insurance coverage on property, and maintenance of its tax-exempt status. Under the agreements, the Obligated Group must also maintain a defined level of income available for debt service. Rex believes the Obligated Group is in compliance with all debt covenants at June 30, 2011.

As a result of the early extinguishment of the 1998 Bonds, Rex incurred a loss of approximately \$1,947,000 during 2011. The loss has been deferred and is being amortized over the remaining life of the 1998 Bonds. At June 30, 2011, accumulated amortization of the deferred loss was approximately \$166,000.

Tax-Exempt Equipment Financing

In December 2005, Rex entered into a tax-exempt equipment financing arrangement through the Commission for \$30,000,000. The proceeds were used in connection with a lease-purchase financing of various capital equipment. The remaining outstanding balance was repaid in full during 2011.

Construction Loan

Ventures entered into a construction loan agreement with Wellness, HT, Retail and MOB as "Co-Borrowers" to fund the construction of the Wakefield campus. The loan bears interest at the BBA LIBOR daily floating rate plus 1.45% (1.64% and 1.78% at June 30, 2011 and 2010, respectively) and required interest only payments through April 2011. Beginning May 2011, all net cash flow from the Rex CDP properties will be applied to the outstanding principal balance of the construction loan through December 2011. Beginning in January 2012, 50% of the net cash flow from properties will be applied to the outstanding principal balance of the construction loan until the note matures and all outstanding balances are due in March 2012.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 6 LONG-TERM DEBT (CONTINUED)

Construction Loan (Continued)

Proceeds from the loan are drawn for specific projects in the Wakefield development and are allocated to the appropriate Co-Borrower for each project. Repayments of the loan will be made primarily using proceeds from lease rental payments from various lessees (See Note 9). The total maximum amount allowable under the loan is approximately \$38,360,000, of which, approximately \$32,683,000 and \$31,544,000 is outstanding at June 30, 2011 and 2010, respectively (in \$000's):

	2011	2010
Rex Wakefield Wellness, LLC	\$ 7,282	\$ 7,547
Rex CDP Ventures, LLC	2,286	5,342
Rex CDP Ventures-HT, LLC	2,201	2,369
Rex CDP Ventures- Retail, LLC	3,372	-
Wakefield Rex Investors MOB, LLC	17,542	16,286
	\$ 32,683	\$ 31,544

The loan is collateralized by the real property. Each of the four individual Co-Borrowers are jointly and severally liable for repayment of the loan and is guaranteed by Enterprises.

Lines of Credit

During the year ended June 30, 2009, the Hospital entered into a note agreement for a short-term revolving line of credit with a financial institution for an amount up to \$50,000,000 to support short-term normal operating expenses and to enhance liquidity. The line of credit is collateralized by the Hospital's accounts receivable. Interest is due and payable monthly at the monthly London Inter-Bank Offered Rate ("LIBOR") plus 1.25 percent. The outstanding principal amount along with any accrued interest will be due upon the maturity date of March 31, 2012. The Hospital has not drawn any proceeds on this line of credit, thus, at June 30, 2011 and 2010, there was no outstanding balance.

During 2011, the Surgery Center entered into a note agreement for a short-term revolving line of credit with a financial institution for an amount up to \$1,250,000 to support short-term normal operating expense and to enhance liquidity. The line of credit is collateralized by certain assets of the Surgery Center. Interest is due and payable monthly at 3.0%. The outstanding principal amount along with any accrued interest will be upon maturity date of March 8, 2012. At June 30, 2011, the Surgery Center has drawn approximately \$140,000.

Equipment Loan

During the year ended June 30, 2011, the Surgery Center entered into a note agreement with a financial institution for an amount up to \$1,000,000 to support purchases of equipment. Surgery Center had not made any draws on the note at June 30, 2011 and has until September 8, 2011 to draw advances. The note bears interest at one month-LIBOR (.187% at June 30, 2011) + 1.75%, with a minimum floor of 3.0%. Monthly payments are interest only through September 8, 2011, with monthly principal and interest payments from October 8, 2011 through September 8, 2018. The note is collateralized by certain assets of the Surgery Center.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 6 LONG-TERM DEBT (CONTINUED)

Obligations Under Capital Lease

Rex has entered into non-cancellable capital lease obligations for several pieces of equipment as of June 30, 2011 which expire at various dates through 2015.

Total future debt service requirements subsequent to June 30, 2011 are as follows (in \$000's):

	Bonds	Construction Loan	Obligations Under Capital Lease	Line of Credit	Interest	Total
Year Ending June 30:						
2012	\$ 3,120	\$ 32,683	\$ 908	\$ 140	\$ 6,586	\$ 43,437
2013	4,645	-	404	-	6,443	11,492
2014	4,835	-	20	-	5,118	9,973
2015	4,980	-	1	-	4,945	9,926
2016	5,175	-	-	-	4,716	9,891
2017-2021	29,675	-	-	-	19,765	49,440
2022-2026	33,655	-	-	-	12,650	46,305
2027- 2031	36,880	-	-	-	4,794	41,674
	<u>122,965</u>	<u>32,683</u>	<u>1,333</u>	<u>140</u>	<u>65,017</u>	<u>222,138</u>
Unamortized Bond Premium, Net	4,230	-	-	-	-	4,230
Deferred Loss on Refunding, Net	(1,781)	-	-	-	-	(1,781)
	<u>\$ 125,414</u>	<u>\$ 32,683</u>	<u>\$ 1,333</u>	<u>\$ 140</u>	<u>\$ 65,017</u>	<u>\$ 224,587</u>

NOTE 7 RELATED PARTY TRANSACTIONS

UNCHCS provides certain services to Rex. Rex paid UNCHCS approximately \$4,785,000 and \$4,087,000 for such services during the years ended June 30, 2011 and 2010, respectively. UNCHCS paid Rex approximately \$587,000 and \$238,000 for such services during the years ended June 30, 2011 and 2010, respectively.

Under a management agreement effective January 1, 2000, UNCHCS assumed responsibility for the management and day-to-day operations of Rex Home Services, Inc. During the years ended June 30, 2011 and 2010, this agreement resulted in approximately \$948,000 and \$1,098,000, respectively, paid to UNCHCS.

During 2011, Rex contributed approximately \$4,209,000 to UNCHCS to help fund working capital needs at Triangle Physicians Network, LLC ("TPN"), of which UNCHCS is the sole member. TPN provides health care to patients throughout the Triangle and surrounding counties in North Carolina. Rex also contributed \$1,400,000 and \$1,200,000 during the years ended June 30, 2011 and 2010, respectively, to the UNCHCS Enterprise Fund to support the ongoing health care mission of UNCHCS.

Net payables due to UNCHCS were approximately \$83,000 and \$240,000 as of June 30, 2011 and 2010, respectively, and are included in accrued expenses and other liabilities in the accompanying combined balance sheets.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)

The Hospital paid QTS (an equity investment, discussed in Note 2) approximately \$1,395,000 and \$1,343,000 for laundry services during the years ended June 30, 2011 and 2010, respectively.

The Hospital paid Rex Cary MOB, LLC (an equity investment discussed in Note 2) approximately \$764,000 and \$820,000 in rent expenditures for the use of surgical and office suites during the years ended June 30, 2011 and 2010, respectively.

Rex MOB Partners, LLC (a cost based investment discussed in Note 2) paid the Hospital approximately \$293,000 and \$134,000 for rent during the years ended June 30, 2011 and 2010, respectively.

NOTE 8 EMPLOYEE BENEFITS

Rex Employees' Retirement Plan

The Hospital sponsors the Rex Employees' Retirement Plan (the "Plan"), a single-employer defined benefit retirement plan available to eligible employees. The benefit formula is based on the highest five consecutive years of an employee's compensation during the 10 plan years preceding retirement.

During the year ended June 30, 2009, the Hospital amended the Plan to (1) reduce early retirement benefits by increasing the retirement age from 62 to 65, and (2) freeze access to the Plan for eligible employees hired after February 1, 2009. In addition, the Hospital revised certain actuarial assumptions to (1) change the amortization period for gains and losses from 10 to 30 years and (2) change the asset valuation method from 20% to 30% above and below market value.

Funding amounts for the Plan are based upon actuarial calculations. The Plan utilized the projected unit-credit method to determine the annual contributions. The Hospital contributed approximately \$7,475,000 and \$6,141,000 to the Plan in 2011 and 2010, respectively. There are no employee contributions to the Plan.

Plan assets held in trust on behalf of the Plan participants consisted primarily of equity securities, U.S. Treasury securities and corporate bonds at June 30, 2011 and 2010. The actuarial value of Plan assets was determined by using a five-year moving average method.

The following table shows the trend in Rex's annual pension cost (APC), percentage of APC contributed, and net pension asset (in \$000's):

	Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
Fiscal Year Ending:			
June 30, 2011	\$ (7,475)	100.00 %	\$ -
June 30, 2010	(6,141)	100.00	-
June 30, 2009	(6,283)	100.00	-

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 8 EMPLOYEE BENEFITS (CONTINUED)

As of January 1, 2011, the most recent actuarial valuation date, the Plan was 84.1% funded. The actuarial accrued liability for benefits was approximately \$188,633,000 and the actuarial value of assets was approximately \$158,693,000 resulting in an unfunded actuarial accrued liability of approximately \$29,940,000. The covered payroll was approximately \$190,434,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.7%.

The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Combined Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The following assumptions were used in the January 1, 2011 and 2010 actuarial variations:

Inflation Rate	3.00%
Investment Rate of Return	8.00%
Projected Salary Increases	3.75%

Tax Deferred Annuity Retirement Plan

The Hospital sponsors a defined contribution retirement plan covering substantially all employees. The Hospital matches one-half of each participant's voluntary contributions on a graduated scale based on length of service not to exceed 5% of the participant's annual salary. Employer contributions totaled approximately \$5,705,000 and \$5,402,000 for the years ended June 30, 2011 and 2010, respectively.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Commitments

The Hospital has entered into certain agreements, in connection with ongoing development and support of its electronic medical records system. Future minimum payments subsequent to June 30, 2011 are approximately \$468,000 in 2012.

The Hospital has entered into a lease with Wellness to lease the wellness center. In addition, the Hospital entered into a lease with MOB for part of the medical office building. Rex has certain other noncancelable operating leases for the rental of office space and equipment. Future rent payments under these leases subsequent to June 30, 2011 are as follows (in \$000's):

Year Ending June 30:	Wellness Center	Medical Office Building	Office Space and Equipment	Total
2012	\$ 798	\$ 2,157	\$ 5,540	\$ 8,495
2013	798	2,189	3,960	6,947
2014	835	2,221	2,401	5,457
2015	862	2,253	2,109	5,224
2016	862	2,286	1,780	4,928
2017-2021	4,487	9,812	7,916	22,215
2022-2026	4,846	9,206	4,008	18,060
2027-2029	2,429	5,339	-	7,768
	\$ 15,917	\$ 35,463	\$ 27,714	\$ 79,094

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Total rental expense, including rental expense under noncancelable leases, was approximately \$10,559,000 and \$8,626,000 for the years ended June 30, 2011 and 2010, respectively.

Contingencies

The Hospital self-insures a portion of its workers' compensation exposure up to \$350,000 per claim. An accrual for the self-insurance program is established to provide for estimated claims and losses and applicable legal expenses for claims incurred through June 30, 2011 but not reported. This accrual was determined by an actuary and totaled approximately \$1,541,000 and \$1,743,000 at June 30, 2011 and 2010, respectively. The accrual is included in accrued expenses and other liabilities in the accompanying combined balance sheets. Commercial insurance has been obtained for coverage in excess of the self-insured amounts.

The Hospital self-insures a portion of its employee health benefits exposure up to \$200,000 per incident. An accrual for the self-insurance program is established to provide for estimated claims and losses and applicable legal expenses for claims incurred through June 30, 2011 but not reported. This accrual was determined by an actuary and totaled approximately \$1,840,000 and \$2,135,000 at June 30, 2011 and 2010, respectively. The accrual is included in accrued expenses and other liabilities in the accompanying balance sheets. Commercial insurance has been obtained for coverage in excess of the self-insured amounts.

Rex is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on Rex's financial position or results of operations.

During 2004, the Hospital entered into an agreement whereby patients without insurance that meet contractually specified criteria can apply for medical loans from a third-party lender. Under this medical loan program, approved patients owe the third-party lender and the Hospital receives payment and recognizes revenue at the time medical services are provided. The Hospital is then contingently obligated to repurchase accounts receivable balances once the borrower does not make three scheduled monthly payments. Total accounts which the Hospital could possibly be required to repurchase were approximately \$283,000 and \$409,000 at June 30, 2011 and 2010, respectively. The Hospital establishes a reserve for accounts it believes it will have to repurchase based on historical experience with this program. The Hospital reserved approximately \$28,000 and \$49,000 for potential recourse that was included in the net accounts receivable, at June 30, 2011 and 2010, respectively.

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

REX HEALTHCARE, INC. AND SUBSIDIARIES
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Management believes Rex is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed.

NOTE 10 COMMUNITY BENEFITS

In addition to providing care without charge, or at amounts less than established rates to certain patients identified as qualifying for charity care, Rex also recognizes its responsibility to provide health care services and programs for the benefit of the community, at no cost or at reduced rates. Rex sponsors many community health initiatives, including breast and prostate cancer screenings, cardiovascular and pulmonary awareness and diabetes education programs that ultimately result in the overall improved health of our community. The Rex Healthcare Emergency Response Team provides emergency aid and medical treatment at special events in the Wake County area. Rex also provides contributions, cash and in-kind, to various charitable and community organizations. The costs of these programs are included in operating expenses in the accompanying statements of revenues, expenses and changes in net assets.

SUPPLEMENTARY INFORMATION

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINING BALANCE SHEET
JUNE 30, 2011
(IN \$000's)

ASSETS	<u>Obligated Group</u>	<u>Nonobligated Group</u>	<u>Eliminations</u>	Combined Rex Healthcare, Inc. and Subsidiaries
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 89,903	\$ 6,524	\$ -	\$ 96,427
Patient Accounts Receivable, Net	63,497	11,746	-	75,243
Other Receivables	30,679	196	(24,886)	5,989
Inventories	9,584	518	-	10,102
Prepaid Expenses and Other Current Assets	5,995	820	-	6,815
Total Current Assets	<u>199,658</u>	<u>19,804</u>	<u>(24,886)</u>	<u>194,576</u>
ASSETS LIMITED AS TO USE	201,711	4,409	-	206,120
CAPITAL ASSETS, NET	228,353	39,772	-	268,125
OTHER ASSETS				
Investment in Affiliates	3,485	5,004	(2,907)	5,582
Deferred Debt Issuance Costs, Net	1,405	-	-	1,405
Other Assets	939	4,418	(1,252)	4,105
	<u>5,829</u>	<u>9,422</u>	<u>(4,159)</u>	<u>11,092</u>
 Total Assets	 <u>\$ 635,551</u>	 <u>\$ 73,407</u>	 <u>\$ (29,045)</u>	 <u>\$ 679,913</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 4,028	\$ 32,823	\$ -	\$ 36,851
Vendor Accounts Payable	29,211	5,692	(4,194)	30,709
Accrued Expenses and Other Liabilities	46,761	23,347	(20,692)	49,416
Estimated Third-Party Settlements	24,435	205	-	24,640
Total Current Liabilities	<u>104,435</u>	<u>62,067</u>	<u>(24,886)</u>	<u>141,616</u>
LONG-TERM DEBT, Net of Current Maturities	122,719	-	-	122,719
NON-CONTROLLING INTEREST	-	-	1,170	1,170
OTHER NONCURRENT LIABILITIES	2,195	-	(1,252)	943
Total Liabilities	<u>229,349</u>	<u>62,067</u>	<u>(24,968)</u>	<u>266,448</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	101,606	6,199	(4,077)	103,728
Restricted	1,010	2,949	-	3,959
Unrestricted	303,586	2,192	-	305,778
Total Net Assets	<u>406,202</u>	<u>11,340</u>	<u>(4,077)</u>	<u>413,465</u>
 Total Liabilities and Net Assets	 <u>\$ 635,551</u>	 <u>\$ 73,407</u>	 <u>\$ (29,045)</u>	 <u>\$ 679,913</u>

REX HEALTHCARE, INC. AND SUBSIDIARIES
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011
(IN \$000's)

	Obligated Group	Nonobligated Group	Eliminations	Rex Healthcare, Inc. and Subsidiaries
OPERATING REVENUES				
Net Patient Service Revenue	\$ 565,866	\$ 42,411	\$ -	\$ 608,277
Other Operating Revenues	18,407	1,933	-	20,340
Total Operating Revenues	<u>584,273</u>	<u>44,344</u>	-	<u>628,617</u>
OPERATING EXPENSES				
Salaries	220,502	26,562	-	247,064
Employee Benefits	64,200	4,588	-	68,788
Medical Supplies and Other Expenses	224,204	11,644	(2,622)	233,226
Depreciation and Amortization	25,150	563	-	25,713
Interest	4,969	1	-	4,970
Total Operating Expenses	<u>539,025</u>	<u>43,358</u>	<u>(2,622)</u>	<u>579,761</u>
OPERATING INCOME (LOSS)	45,248	986	2,622	48,856
NONOPERATING INCOME (LOSS)				
Investment Income (Loss), Net	26,780	1,077	-	27,857
Other, Net	1,462	(465)	(2,622)	(1,625)
Nonoperating Income (Loss), Net	<u>28,242</u>	<u>612</u>	<u>(2,622)</u>	<u>26,232</u>
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	73,490	1,598	-	75,088
CONTRIBUTIONS TO RELATED PARTY	(5,609)	-	-	(5,609)
INCOME APPLICABLE TO NON-CONTROLLING INTEREST	-	-	(420)	(420)
OTHER	-	3,657	(3,657)	-
CHANGE IN NET ASSETS	67,881	5,255	(4,077)	69,059
Net Assets - Beginning of Year	<u>338,321</u>	<u>6,085</u>	-	<u>344,406</u>
NET ASSETS - END OF YEAR	<u>\$ 406,202</u>	<u>\$ 11,340</u>	<u>\$ (4,077)</u>	<u>\$ 413,465</u>

REX HEALTHCARE, INC. AND SUBSIDIARIES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR REX EMPLOYEES' RETIREMENT PLAN
(UNAUDITED)
JUNE 30, 2011
(IN \$000's)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2011	\$ 158,693	\$ 188,633	\$ 29,940	84.13 %	\$ 190,434	15.72 %
January 1, 2010	149,019	171,627	22,608	86.83	199,427	11.34
January 1, 2009	140,562	155,914	15,352	90.15	173,000	8.87
January 1, 2008	139,324	151,747	12,423	91.81	152,626	8.14
January 1, 2007	123,721	136,052	12,331	90.94	140,917	8.75

The surplus actuarial accrued liability is being amortized over a ten-year period on an open basis using the level-dollar method.