

**Deaconess Women's Hospital of Southern Indiana, LLC
d/b/a The Women's Hospital**

Accountants' Report and Financial Statements
December 31, 2008 and 2007

**Deaconess Women's Hospital of
Southern Indiana, LLC
d/b/a The Women's Hospital
December 31, 2008 and 2007**

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Independent Accountants' Report

Board of Managers
Deaconess Women's Hospital of
Southern Indiana, LLC
d/b/a The Women's Hospital
Newburgh, Indiana

We have audited the accompanying balance sheets of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital (Hospital) as of December 31, 2008 and 2007, and the related statements of operations, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital as of December 31, 2008 and 2007, 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.

BKD, LLP

February 10, 2009

**Deaconess Women's Hospital of
Southern Indiana, LLC
d/b/a The Women's Hospital**

**Balance Sheets
December 31, 2008 and 2007**

Assets

	2008	2007
Current Assets		
Accounts receivable, net of allowance for uncollectible accounts; 2008 - \$794,046, 2007 - \$466,436	\$ 8,500,708	\$ 7,419,378
Supplies	319,735	274,150
Prepaid expenses and other	130,368	199,988
Total current assets	8,950,811	7,893,516
Property and Equipment, At Cost		
Leasehold improvements	933,719	942,472
Equipment	10,837,979	10,210,207
Construction in progress	216,993	56,150
	11,988,691	11,208,829
Less accumulated depreciation	(6,720,154)	(5,654,245)
	5,268,537	5,554,584
Other Assets		
Other assets	128,457	124,893
Goodwill	295,800	295,800
	424,257	420,693
Total assets	\$ 14,643,605	\$ 13,868,793

Liabilities and Members' Equity

Current Liabilities		
Checks in process of clearing	\$ 967,310	\$ 77,501
Line of credit	139,792	-
Current maturities of long-term debt	945,100	917,744
Accounts payable	3,001,152	2,190,674
Accrued expenses	1,721,774	1,533,592
Total current liabilities	6,775,128	4,719,511
Long-Term Debt		
	1,102,679	2,110,258
Members' Equity		
Contributed capital	3,500,000	3,500,000
Accumulated earnings	3,265,798	3,539,024
Total members' equity	6,765,798	7,039,024
Total liabilities and members' equity	\$ 14,643,605	\$ 13,868,793

**Deaconess Women's Hospital of
Southern Indiana, LLC
d/b/a The Women's Hospital
Statements of Operations
Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Revenues		
Net patient service revenue	\$ 50,935,289	\$ 49,517,529
Other	1,359,527	1,364,028
Total revenue, gains and other support	<u>52,294,816</u>	<u>50,881,557</u>
Expenses and Losses		
Salaries and wages	16,853,672	16,189,242
Employee benefits	4,494,122	4,546,695
Medical supplies	3,736,084	3,678,560
General supplies	1,020,945	924,336
Purchased services and professional fees	10,877,312	9,470,441
Rent expense	3,377,779	3,350,324
Depreciation and amortization	1,182,065	1,183,218
Interest expense	182,800	266,257
Provision for uncollectible accounts	1,501,538	1,236,841
Loss on disposal of equipment	62,572	4,608
Other	3,059,143	2,847,308
Total expenses and losses	<u>46,348,032</u>	<u>43,697,830</u>
Operating Income	<u>5,946,784</u>	<u>7,183,727</u>
Other Income		
Interest income	5,551	19,140
Other	6,966	23,802
	<u>12,517</u>	<u>42,942</u>
Net Income	<u>\$ 5,959,301</u>	<u>\$ 7,226,669</u>

**Deaconess Women's Hospital of
Southern Indiana, LLC
d/b/a The Women's Hospital
Statements of Members' Equity
Years Ended December 31, 2008 and 2007**

	<u>Contributed Capital</u>	<u>Accumulated Earnings</u>	<u>Total</u>
Balance, January 1, 2007	\$ 3,500,000	\$ 1,873,067	\$ 5,373,067
Net income	-	7,226,669	7,226,669
Distributions to members	-	<u>(5,560,712)</u>	<u>(5,560,712)</u>
Balance, December 31, 2007	3,500,000	3,539,024	7,039,024
Net income	-	5,959,301	5,959,301
Distributions to members	-	<u>(6,232,527)</u>	<u>(6,232,527)</u>
Balance, December 31, 2008	<u>\$ 3,500,000</u>	<u>\$ 3,265,798</u>	<u>\$ 6,765,798</u>

**Deaconess Women's Hospital of
Southern Indiana, LLC
d/b/a The Women's Hospital
Statements of Cash Flows
Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Operating Activities		
Net income	\$ 5,959,301	\$ 7,226,669
Items not requiring cash		
Depreciation and amortization	1,182,065	1,183,218
Provision for uncollectible accounts	1,501,538	1,236,841
Loss on sale of property and equipment	62,572	4,608
Changes in		
Patient accounts receivable	(2,582,868)	(1,934,097)
Supplies	(45,585)	(3,845)
Accounts payable and accrued expenses	998,660	401,716
Other assets	66,056	406,857
Net cash provided by operating activities	<u>7,141,739</u>	<u>8,521,967</u>
Investing Activities		
Payment for business acquisition	-	(230,487)
Purchase of property and equipment	(958,590)	(1,067,928)
Proceeds received on physician note receivable	-	20,158
Net cash used in investing activities	<u>(958,590)</u>	<u>(1,278,257)</u>
Financing Activities		
Increase (decrease) in checks in process of clearing	889,809	(249,919)
Net borrowings under line of credit agreement	139,792	(1,343,274)
Distributions to members	(6,232,527)	(5,560,712)
Principal payments on long-term debt and capital leases	(980,223)	(784,805)
Proceeds from issuance of long-term debt	-	695,000
Net cash used in financing activities	<u>(6,183,149)</u>	<u>(7,243,710)</u>
Change in Cash	-	-
Cash, Beginning of Year	<u>-</u>	<u>-</u>
Cash, End of Year	<u>\$ -</u>	<u>\$ -</u>
Supplemental Cash Flows Information		
Interest paid	\$ 184,540	\$ 268,761
Debt incurred for business acquisition	-	119,513
Capital lease obligation incurred for property and equipment	-	320,684

**Deaconess Women's Hospital of
Southern Indiana, LLC
d/b/a The Women's Hospital
Notes to Financial Statements
December 31, 2008 and 2007**

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

Nature of Operations

Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital (Hospital), primarily earns revenues by providing obstetrical, gynecological and nursery care on an inpatient and outpatient basis to women in Evansville, Indiana and surrounding communities. The Hospital is organized as a limited liability company; therefore, taxable income or loss is reported to the individual members of the corporation for inclusion in their respective tax returns.

Use of Estimates

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

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out (FIFO) method or market.

Property and Equipment

Property and equipment are depreciated over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements. Annual depreciation is primarily computed using straight-line methods.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Charity care is not reported as revenue. Charges excluded from revenue under the Hospital's charity care policy were \$261,849 and \$250,037 for 2008 and 2007, respectively.

Checks in Process of Clearing

The Hospital has an arrangement with a bank whereby any cash held at the end of each banking day is swept against the line of credit (see Note 4), causing bank balances to zero out each day. The arrangement also directs the bank to transfer cash from the line of credit to the cash accounts to pay checks as they are processed through the bank. The result is a credit amount in the cash account, which represents checks written by the Hospital but not yet processed by the bank.

**Deaconess Women's Hospital of
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Self Insurance

The Hospital has elected to self insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to expense when incurred. The Hospital has purchased insurance that limits its exposure for individual claims to \$50,000.

Hospital management has accrued an amount it believes reasonable to cover incurred but not reported claims. It is reasonably possible these estimates could change materially in the near term.

Patient Accounts Receivable

Patient accounts receivable are stated at net realizable amounts from patients, third-party payers and others for services rendered. The Hospital provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Patient accounts receivable are ordinarily due 30 days after the issuance of the patient statement. Balances past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient or third-party payer.

Goodwill

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Income Taxes

The Hospital's members have elected to have the Hospital's income taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes is included in these statements.

Uncertain Tax Positions

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Hospital has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ended December 31, 2009. The Hospital has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Statement No. 5, *Accounting for Contingencies*.

**Deaconess Women's Hospital of
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Notes to Financial Statements
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Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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. These payment arrangements include:

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

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient reimbursement is based on prospectively established fee schedule allowances and rates for surgery groups.

The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law and, as such, is eligible to receive DSH payments. The amounts of these additional DSH funds are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. DSH payments have been made by the state of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized \$3,712,011 and \$2,169,419 of net patient service revenue related to the DSH program for the years ended December 31, 2008 and 2007, respectively.

In May 2007, the Centers for Medicare and Medicaid issued a final ruling that may change the state of Indiana's ability to operate the DSH program as described above. Upon enactment of this final ruling, several moratoriums have been issued on the ruling. It is unknown if the moratorium will be extended, or what the financial implications to the DSH program in the event the moratorium is not extended.

Effective January 1, 2008, the State of Indiana began operating an insurance plan for the benefit of Indiana residents without health insurance. The plan, referred to as the Healthy Indiana Plan (HIP), will be funded through an additional state cigarette tax and with the use of a portion of the DSH funds described above. As such, the level of future Medicaid DSH payments may also be negatively affected.

Approximately 90% of net patient service revenues are from participation in Managed Care and state-sponsored Medicaid program for the years ended December 31, 2008 and 2007. Laws and regulations governing the Medicaid program are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

**Deaconess Women's Hospital of
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**Notes to Financial Statements
December 31, 2008 and 2007**

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31 were:

	<u>2008</u>	<u>2007</u>
Medicare	2%	1%
Medicaid	16	15
Other third-party payers	68	74
Patients	<u>14</u>	<u>10</u>
	<u>100%</u>	<u>100%</u>

Note 4: Line of Credit

The Hospital has a \$3,000,000 revolving line of credit expiring in June 2009. At December 31, 2008, there was \$139,792 borrowed under this line of credit. At December 31, 2007, there were no borrowings against this line of credit. The line of credit is collateralized by substantially all of the Hospital assets. Interest varies with the London Interbank Offered Rate (LIBOR) plus 120 basis points and is payable monthly. The interest rate was 2.16% and 6.20% on December 31, 2008 and 2007, respectively.

Note 5: Long-Term Debt

	<u>2008</u>	<u>2007</u>
Note payable, bank (A)	\$ 513,912	\$ 663,327
Capital lease obligations (B)	919,834	1,170,531
Note payable, bank (C)	569,890	1,074,631
Note payable (D)	<u>44,143</u>	<u>119,513</u>
	2,047,779	3,028,002
Less current maturities	<u>945,100</u>	<u>917,744</u>
	<u>\$ 1,102,679</u>	<u>\$ 2,110,258</u>

**Deaconess Women's Hospital of
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**Notes to Financial Statements
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- (A) Due October 2012; payable \$14,758 monthly including interest at 6.64%; secured by substantially all assets of the Hospital. In connection with this note payable to the bank and the note referenced in (C) below, the Hospital is required to comply with certain financial covenants.
- (B) Capital leases include leases for various equipment for terms ranging from 5 to 20 years. The leases assume interest rates of 1.77% to 8.25%. The leases are payable in monthly installments ranging from \$2,682 to \$6,332 and are secured by the leased equipment.
- (C) Due March 2010; payable \$42,110 monthly including interest at 5.7%; secured by substantially all assets of the Hospital.
- (D) During 2007, the Hospital acquired a therapy organization resulting in a purchase agreement of \$350,000. \$230,487 was paid by the Hospital in 2007 with the remaining balance due in two installments; \$75,000 due in 2008 and \$44,513 due in 2009. This note charges no interest.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2008 were:

	Long-Term Debt (Exc. Leases)	Capital Lease Obligations
2009	\$ 676,254	\$ 338,503
2010	241,860	275,846
2011	168,118	220,745
2012	41,713	124,053
2013	-	53,377
Thereafter	-	88,211
	<u>\$ 1,127,945</u>	<u>1,100,735</u>
Less amount representing interest		<u>180,901</u>
Present value of future minimum lease payments		<u>\$ 919,834</u>

**Deaconess Women's Hospital of
Southern Indiana, LLC
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Notes to Financial Statements
December 31, 2008 and 2007**

Property and equipment include the following property under capital leases:

	2008	2007
Equipment	\$ 1,810,338	\$ 1,874,528
Less accumulated depreciation	1,087,984	897,435
	\$ 722,354	\$ 977,093

Note 6: Operating Leases

Noncancellable operating leases for the building and equipment expire at various dates through 2030. The leases require the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at December 31, 2008 were:

2009	\$ 3,485,858
2010	3,442,050
2011	3,374,913
2012	3,421,578
2013	3,428,967
Later years	58,612,962
	\$ 75,766,328

Rent expense for all operating leases was \$3,377,779 and \$3,350,324 for the years ended December 31, 2008 and 2007, respectively.

Note 7: Profit-Sharing Plan

The Hospital has a 401(k) profit-sharing plan (Plan) covering substantially all employees. The Hospital's contributions to the Plan are determined annually by the board of managers. Contributions to the Plan were \$374,429 and \$344,578 for 2008 and 2007, respectively.

**Deaconess Women's Hospital of
Southern Indiana, LLC
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Notes to Financial Statements
December 31, 2008 and 2007**

Note 8: Deferred Compensation Agreement

The Hospital has a deferred compensation agreement with the chief executive officer that provides certain benefits upon disability or retirement. The present value of total estimated deferred compensation is being accrued using the straight-line method over the remaining years to the full eligibility date. Expense for 2008 and 2007 was \$12,053 and \$12,053, respectively.

Note 9: Related-Party Transactions

Deaconess Hospital, Inc. (DHI) owns 50% of the Hospital. The Hospital engages in various transactions with DHI which are summarized below.

- Capital lease arrangements - The Hospital leases various equipment under capital lease arrangements from DHI. Payments related to these leases totaled \$149,189 for 2008 and 2007. Amounts owed at December 31, 2008 and 2007 totaled \$551,140 and \$650,371, respectively, and the net book value of the related equipment was \$380,082 and \$469,550 for 2008 and 2007, respectively. These leases are also included and described in Note 5.
- Operating lease arrangements - The Hospital leases its hospital, education and office space from DHI under noncancellable leases ranging from 10 to 30 years. Total payments under these arrangements were \$2,942,445 and \$2,792,867 in 2008 and 2007, respectively. These leases are also included and described in Note 6.
- Other services - The Hospital contracts with DHI for pharmacy, lab, transcription, coding and other services. Payments made to DHI under these agreements totaled \$2,583,050 and \$2,393,347 in 2008 and 2007, respectively. Amounts payable for these services at year end totaled \$671,714 and \$688,136 in 2008 and 2007, respectively.

Note 10: Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America requires a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Deaconess Women's Hospital of
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Notes to Financial Statements
December 31, 2008 and 2007**

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values (including defined benefit pension plan investments) and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Admitting Physicians

The Hospital is served by one group of admitting physicians whose patients comprise approximately 33% of the Hospital's net patient service revenue for 2008.

Deferred Compensation Agreement

As described in Note 8, the amount of annual expense accrued for deferred compensation is based on an estimate of the total amounts payable under the contract over the lifetime of the beneficiary.

**Deaconess Women's Hospital of
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Notes to Financial Statements
December 31, 2008 and 2007**

Note 12: Business Acquisition

In October 2007, the Hospital acquired the business of a niche physical therapy operation that provides physical therapy to infants in the neonatal intensive care unit, among other patients. The aggregate purchase price was \$350,000, including approximately \$54,200 of certain therapy equipment, which is included in property, plant and equipment, resulting in \$295,800 in goodwill, which is expected to be deductible for tax purposes. The results of operations since the acquisition date are included in these financial statements.