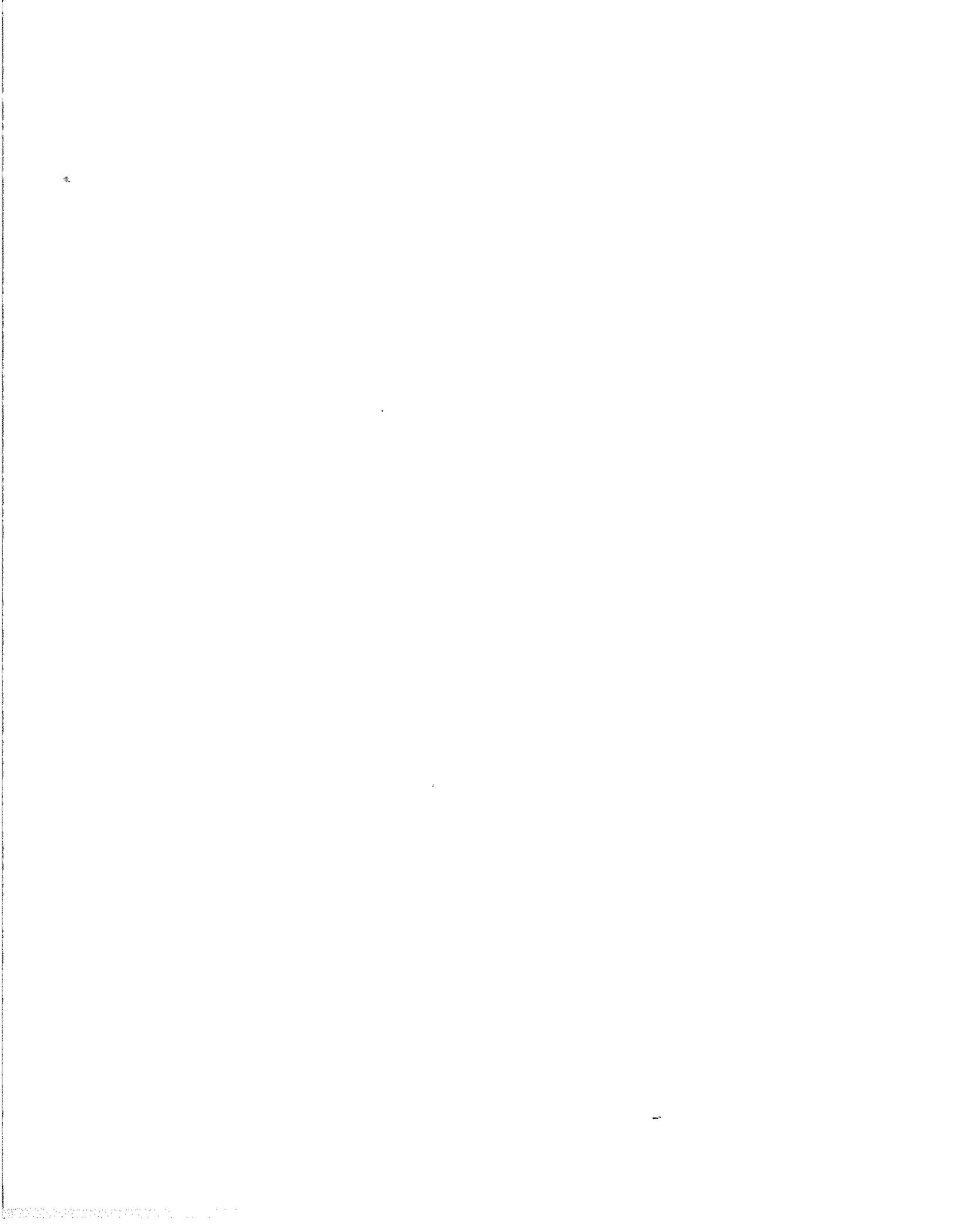


DeKalb Memorial Hospital, Inc.
Accountants' Report and Financial Statements
September 30, 2008 and 2007





DeKalb Memorial Hospital, Inc.

September 30, 2008 and 2007

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Independent Accountants' Report

Finance and Audit Committee
DeKalb Memorial Hospital, Inc.
Auburn, Indiana

We have audited the accompanying balance sheets of DeKalb Memorial Hospital, Inc. (Hospital) as of September 30, 2008 and 2007, and the related statements of operations, changes in net assets 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 DeKalb Memorial Hospital, Inc. as of September 30, 2008 and 2007, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD LLP

November 25, 2008

DeKalb Memorial Hospital, Inc.

Balance Sheets September 30, 2008 and 2007

	2008	2007
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,607,374	\$ 3,404,098
Accounts receivable		
Patient services, net of allowance for uncollectible accounts; 2008 - \$2,181,463, 2007 - \$1,942,192	6,563,932	7,124,905
Other	1,043,621	1,345,873
Inventory	418,078	387,901
Prepaid expenses	301,310	273,045
Total current assets	11,934,315	12,535,822
Assets Limited as to Use		
Internally designated	12,337,975	22,048,320
Externally restricted by donor	89,495	67,656
Held by trustee	1,450,295	4,061,280
Total assets limited as to use	13,877,765	26,177,256
Property and Equipment, Net	33,927,692	26,297,320
Other Assets	172,861	253,964
Total assets	\$ 59,912,633	\$ 65,264,362
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 1,055,965	\$ 1,016,301
Accounts payable	2,164,494	2,149,854
Accrued salaries, wages and related liabilities	2,711,052	2,437,217
Other accrued liabilities	617,051	639,390
Total current liabilities	6,548,562	6,242,762
Long-Term Debt, less current maturities	8,811,734	9,876,293
Total liabilities	15,360,296	16,119,055
Net Assets		
Unrestricted	44,462,842	49,077,651
Temporarily restricted	89,495	67,656
Total net assets	44,552,337	49,145,307
Total liabilities and net assets	\$ 59,912,633	\$ 65,264,362

DeKalb Memorial Hospital, Inc.
Statements of Operations
Years Ended September 30, 2008 and 2007

	2008	2007
Unrestricted Revenue, Gains and Other Support		
Net patient service revenue	\$ 40,818,462	\$ 40,663,759
Other	1,556,785	1,648,466
Net assets released from restrictions used for operations	<u>29,483</u>	<u>56,120</u>
Total unrestricted revenue, gains and other support	<u>42,404,730</u>	<u>42,368,345</u>
Expenses		
Salaries and wages	18,200,903	16,853,478
Payroll taxes and employee benefits	6,070,415	5,944,510
Purchased medical services	2,996,331	2,664,739
Medical supplies and drugs	4,010,310	3,943,475
Insurance	493,355	521,013
Depreciation and amortization	2,697,271	2,269,769
Interest	235,893	132,586
Provision for uncollectible accounts	3,863,054	3,637,770
Other	<u>5,876,171</u>	<u>5,614,888</u>
Total expenses	<u>44,443,703</u>	<u>41,582,228</u>
Operating Income (Loss)	<u>(2,038,973)</u>	<u>786,117</u>
Other Income (Expense)		
Contributions received	36,236	58,039
Investment return	3,058,613	1,713,802
Loss on investment in equity investee	<u>(81,285)</u>	<u>(103,406)</u>
Total other income	<u>3,013,564</u>	<u>1,668,435</u>
Excess of Revenue Over Expenses	974,591	2,454,552
Investment return, change in unrealized gains (losses) on other than trading securities	(5,601,970)	1,568,176
Net assets released from restrictions used for purchase of property and equipment	12,570	33,241
Other	<u>—</u>	<u>(105,179)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ (4,614,809)</u>	<u>\$ 3,950,790</u>

DeKalb Memorial Hospital, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007
Unrestricted Net Assets		
Excess of revenue over expenses	\$ 974,591	\$ 2,454,552
Investment return, change in unrealized gains (losses) on other than trading securities	(5,601,970)	1,568,176
Net assets released from restrictions used for purchase of property and equipment	12,570	33,241
Other	<u>—</u>	<u>(105,179)</u>
Increase (decrease) in unrestricted net assets	<u>(4,614,809)</u>	<u>3,950,790</u>
Temporarily Restricted Net Assets		
Restricted contributions	63,892	98,269
Net assets released from restrictions	<u>(42,053)</u>	<u>(89,361)</u>
Increase in temporarily restricted net assets	<u>21,839</u>	<u>8,908</u>
Increase (Decrease) in Net Assets	(4,592,970)	3,959,698
Net Assets, Beginning of Year	<u>49,145,307</u>	<u>45,185,609</u>
Net Assets, End of Year	<u>\$ 44,552,337</u>	<u>\$ 49,145,307</u>

DeKalb Memorial Hospital, Inc.
Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007
Operating Activities		
Increase (decrease) in net assets	\$ (4,592,970)	\$ 3,959,698
Items not requiring (providing) cash		
Depreciation and amortization	2,697,271	2,269,769
Unrealized and realized (gains) losses on other than trading securities	3,305,345	(2,167,387)
Restricted contributions	(63,892)	(98,269)
Loss on equity in joint ventures	81,285	103,406
Changes in		
Patient accounts receivable	560,973	(883,896)
Net change in other receivables, inventories, prepaid expenses, other assets, payables and accruals	714,204	46,067
Net cash provided by operating activities	2,702,216	3,229,388
Investing Activities		
Net change in certificates of deposit	6,863,619	550,112
Purchase of property and equipment	(10,532,083)	(8,242,667)
Purchase of investments	(14,851,110)	(8,112,438)
Proceeds from sale of investments	16,981,637	4,514,670
Net cash used in investing activities	(1,537,937)	(11,290,323)
Financing Activities		
Repayments of long-term debt	(1,024,895)	(4,235,733)
Proceeds from issuance of long-term debt	—	12,079,438
Restricted contributions	63,892	98,269
Net cash provided by (used in) financing activities	(961,003)	7,941,974
Increase (Decrease) in Cash and Cash Equivalents	203,276	(118,961)
Cash and Cash Equivalents, Beginning of Year	3,404,098	3,523,059
Cash and Cash Equivalents, End of Year	\$ 3,607,374	\$ 3,404,098
Supplemental Cash Flows Information		
Interest paid during the year	\$ 242,659	\$ 80,393
Fixed assets additions in accounts payable	1,097,371	1,334,350

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

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

Nature of Operations

DeKalb Memorial Hospital, Inc. (Hospital), a not-for-profit organization, provides inpatient and outpatient health care services generally to residents of DeKalb County, Indiana and contiguous counties. Expenses relate to the provision of medical care and related general and administrative costs.

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 revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2008 and 2007, cash equivalents consisted primarily of a money market account and demand deposit accounts.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheet.

Assets Limited as to Use

Assets limited as to use include (1) assets held by a trustee under terms of a bond indenture agreement, (2) assets restricted by donors and (3) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

Patient Accounts Receivable

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

Inventory

Supply inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) method or market.

Property and Equipment

Property and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	<u>2008</u>	<u>2007</u>
Total interest expense incurred on borrowings for project	\$ 234,343	\$ 315,242
Interest income from investment of proceeds of borrowings for project	<u>(155,358)</u>	<u>(167,454)</u>
Net interest cost capitalized	\$ <u>78,985</u>	\$ <u>147,788</u>
Interest capitalized	\$ 234,343	\$ 315,242
Interest charged to expense	<u>235,893</u>	<u>132,586</u>
Total interest incurred	\$ <u>470,236</u>	\$ <u>447,828</u>

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

Patient Accounts Receivable Financing

Under a credit financing agreement, qualified self-pay patients can receive interest-bearing loans from an independent financial institution to pay their receivable balances to the Hospital. The transfer of these receivables is with full recourse to the Hospital. At September 30, 2008 and 2007, these receivables totaled \$284,270 and \$213,515, respectively. The Hospital has recorded a liability for estimated required repayments on these loans at September 30, 2008 and 2007, of \$0 and \$24,284, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Excess of Revenue Over Expenses

The statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

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 adjustments become known.

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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges forgone were \$635,430 and \$506,904 in 2008 and 2007, respectively.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair values at the date each promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

are met within the same year as received are recorded as temporarily restricted and then released from restriction. Receipt of contributions which are conditional are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Estimated Malpractice Costs

The Hospital participates in the Indiana Medical Malpractice Act which limits the maximum recovery to \$1,250,000 per occurrence, the first \$250,000 of which would be the responsibility of the Hospital, with the balance paid by the State of Indiana Patient Compensation Fund. The Hospital carries a claims-made basis insurance policy covering the Hospital's \$250,000 of exposure per claim with a \$5,000,000 annual aggregate. Accounting principles generally accepted in the United States of America require 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, an accrual of \$75,000 has been made at September 30, 2008 and 2007, which is included in other accrued liabilities. It is reasonably possible that this estimate could change materially in the near term.

Pension Plan

The Hospital has a noncontributory defined contribution pension plan covering all eligible employees. The Hospital's cost each year is determined by the plan as a specific percentage of each participating employee's salary. It is the Hospital's policy to fund pension costs as accrued. Pension expense was \$1,288,441 and \$973,815 in 2008 and 2007, respectively.

Self Insurance

The Hospital has elected to self-insure certain costs related to employee health programs. Costs resulting from noninsured losses are charged to income when incurred. The Hospital has purchased insurance that limits its exposure for individual claims to \$75,000 per covered employee and that limits its aggregate exposure to \$3,400,000.

Income Taxes

The Hospital has been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on the change in net assets.

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements

September 30, 2008 and 2007

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. These payment arrangements include:

Medicare. Inpatient acute care services and outpatient services provided to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment although determination of certain elements of the rates can occur after the current period and generate final settlement after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary.

Medicaid. The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment although determination of certain elements of the rates can occur after the current period and generate a retroactive settlement.

Other Reimbursement Arrangements. The Hospital also 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.

Approximately 35% and 41% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2008 and 2007, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

A summary of gross patient service revenue and contractual adjustments for the years ended September 30, 2008 and 2007, follows:

	<u>2008</u>	<u>2007</u>
Patient service revenue		
Routine services	\$ 7,346,863	\$ 6,626,631
Ancillary services		
Inpatient	11,624,583	11,016,883
Outpatient	52,177,226	50,731,767
Charity care	<u>(635,430)</u>	<u>(506,904)</u>
Total patient service revenue	70,513,242	67,868,377
Contractual adjustments	<u>(29,694,780)</u>	<u>(27,204,618)</u>
Net patient service revenue	<u>\$ 40,818,462</u>	<u>\$ 40,663,759</u>

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are area residents and are generally insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2008 and 2007, was:

	2008	2007
Commercial insurance	30%	29%
Medicare	27	26
Medicaid	10	9
Self-pay	27	24
Other	6	12
	100%	100%

The Hospital maintains a substantial portion of its cash in several local financial institutions. At September 30, 2008, the Hospital's cash accounts exceeded federally insured limits by approximately \$3,200,000.

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use include:

	2008	2007
Cash and cash equivalents	\$ 1,513,012	\$ 4,484,664
Corporate bonds	—	795,262
Common stocks	96,959	10,459,645
Certificates of deposits	—	6,863,619
Mutual funds	12,267,794	3,574,066
	\$ 13,877,765	\$ 26,177,256
Internally designated	\$ 12,337,975	\$ 22,048,320
Externally restricted by donors	89,495	67,656
Held by trustee	1,450,295	4,061,280
	\$ 13,877,765	\$ 26,177,256

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

Total investment return is comprised of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 761,988	\$ 945,173
Realized gain on sales of securities	2,296,625	599,211
Unrealized gains (losses) on other than trading securities	<u>(5,601,970)</u>	<u>1,568,176</u>
Total investment return (loss)	<u>\$ (2,543,357)</u>	<u>\$ 3,112,560</u>

Investment fees are included in other expenses and were \$38,134 and \$62,768 for 2008 and 2007, respectively.

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	<u>2008</u>	<u>2007</u>
Unrestricted net assets		
Other nonoperating income	\$ 3,058,613	\$ 1,544,384
Change in unrealized gains (losses) on other than trading securities	<u>(5,601,970)</u>	<u>1,568,176</u>
	<u>\$ (2,543,357)</u>	<u>\$ 3,112,560</u>

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2008 and 2007, was \$12,185,668 and \$1,465,108, which is approximately 88% and 6%, respectively, of the Hospital's investment portfolio. These declines primarily resulted from recent increases in market interest rates, failure of certain investments to maintain consistent credit quality ratings (or meet projected earnings targets) and recent market conditions.

Based on evaluation of available evidence, including credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

The following table shows the Hospital's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2008 and 2007 for less than 12 months:

Description of Securities	2008		2007	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Common stock	\$ —	\$ —	\$ 747,035	\$ 60,344
Fixed income	—	—	718,073	6,619
Mutual funds	<u>12,185,668</u>	<u>2,453,451</u>	<u>—</u>	<u>—</u>
	<u>\$ 12,185,668</u>	<u>\$ 2,453,451</u>	<u>\$ 1,465,108</u>	<u>\$ 66,963</u>

At September 30, 2008 and 2007, there were no investments that were in a continuous unrealized loss position for 12 months or more.

The Hospital has both the intent and ability to hold these investments until they fully recover, and considers the decline to be temporary.

Subsequent to year-end, fair value of the Hospital's investments in marketable securities declined by approximately 13% or \$1,937,000.

Note 5: Property and Equipment

Property and equipment at September 30 consists of:

	2008	2007	Estimated Useful Life
Land	\$ 220,118	\$ 220,118	
Land improvements	1,695,893	1,422,266	5-15 years
Hospital buildings	32,913,985	18,320,430	5-40 years
Medical office buildings	9,594,703	9,801,644	5-40 years
Equipment	15,363,660	13,239,789	5-20 years
Medical office equipment	60,893	63,391	5-20 years
Equipment held under capital lease	21,636	21,636	5 years
Construction in progress	<u>1,210,655</u>	<u>9,007,789</u>	
	61,081,543	52,097,063	
Less accumulated depreciation and amortization	<u>(27,153,851)</u>	<u>(25,799,743)</u>	
	<u>\$ 33,927,692</u>	<u>\$ 26,297,320</u>	

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

The Hospital has entered into capital leases for certain medical equipment. This equipment is included in property and equipment with an original cost of \$21,636 and accumulated amortization of approximately \$19,250 and \$16,600 at September 30, 2008 and 2007, respectively. The capital lease obligations are collateralized by the leased equipment.

In 2008, the Hospital completed the construction phase of a capital improvement project consisting of:

- The construction of a three story, approximately 72,000 square foot addition to the existing facility
- Renovation of certain portions of the interior of the existing facility
- Construction and renovation of parking spaces

Note 6: Investment in Equity Investee

The Hospital has a 50% ownership in a joint venture which operates an urgent care and occupational health clinic (RediMed DeKalb) in Auburn, Indiana. The Hospital accounts for the investment under the equity method of accounting. As a result, the Hospital recognized a loss of \$81,285 and \$103,406 related to its investment in RediMed DeKalb for the years ended September 30, 2008 and 2007, respectively, which is included in other nonoperating income in the statements of operations.

The combined carrying value of this investment of \$0 and \$48,565 at September 30, 2008 and 2007, respectively, is included in other assets in the balance sheets. At September 30, 2008, the Hospital has recorded a liability for approximately \$33,000 related to losses in excess of the Hospital's investment in RediMed DeKalb which the Hospital intends to guarantee.

Note 7: Medical Office Buildings

The Hospital owns medical office buildings (MOBs) adjacent to the Hospital, and leases space in these MOBs to physicians under various operating leases. Other revenue for the years ended September 30, 2008 and 2007, includes gross rental income of \$564,052 and \$605,135, respectively, from cancelable and noncancelable leases of the medical office building.

The following is a schedule, by year, of future minimum rental income to be received under operating leases which have initial or remaining noncancelable terms in excess of one year as of September 30, 2008:

2009	\$	148,231
2010		98,428
2011		12,016

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

Note 8: Long-Term Debt

Long-term debt consists of the following:

	2008	2007
Hospital Authority of DeKalb County, Indiana, Revenue Bonds, Series 2006: Series A and B Bonds, payable through August 1, 2016, interest at 3.9% to 4.6% (A)	\$ 9,864,931	\$ 10,888,221
Capital lease obligation, at an imputed interest rate of 5%	2,768	4,373
	9,867,699	10,892,594
Less current maturities	(1,055,965)	(1,016,301)
	\$ 8,811,734	\$ 9,876,293

- (A) The Hospital Authority of DeKalb County (Authority) was established in accordance with the Indiana Hospital Authority Act to issue tax-exempt revenue bonds for hospitals within DeKalb County. Payments due under the bonds are made from amounts received by the Authority from the Hospital under a loan agreement. The Hospital's financial statements reflect the debt and related transactions of the Authority, on behalf of the Hospital, as if the Hospital had issued the tax-exempt bonds.

The Series 2006 Bonds mature serially in varying annual amounts through August 2016. At its option, the Hospital may redeem outstanding Series 2006 Bonds at any time on or after August 1, 2008.

The Loan Agreement for the Series 2006 Bonds grants a security interest in certain of the Hospital's real estate and portions of buildings.

The following is a schedule of maturities of long-term debt as of September 30, 2008:

2009	\$ 1,055,965
2010	1,096,017
2011	1,140,786
2012	1,190,000
2013	1,240,000
Thereafter	4,144,931
	\$ 9,867,699

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2008 and 2007

Note 9: Significant Estimates and Concentrations

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

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.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 1.

Regulatory Investigations

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

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. At September 30, 2008 and 2007, no accrual of potential losses from litigation was recorded. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 10: Related Party Transactions

The Hospital and DeKalb County Community Memorial Hospital Foundation, Inc. (Foundation) are related parties that are not financially interrelated organizations. The Foundation was established to receive and administer funds and to apply them for the acquisition, construction, establishment and operation of a Community Memorial Hospital for DeKalb County, Indiana. In the absence of donor restrictions, funds are distributed as determined by the Foundation's Board of Directors, which are separately appointed from that of the Hospital.

There were no related party transactions received by the Foundation in either the current or prior years.

DeKalb Memorial Hospital, Inc.

Notes to Financial Statements

September 30, 2008 and 2007

The Hospital has entered into various agreements in the normal course of business for services with companies for which certain officers of these companies are also members of the Hospital Board of Directors.

Note 11: Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2008</u>	<u>2007</u>
Health care services	\$ 31,985,846	\$ 29,938,648
General and administrative	<u>12,457,857</u>	<u>11,643,580</u>
	<u>\$ 44,443,703</u>	<u>\$ 41,582,228</u>