# MONROE HOSPITAL, LLC AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS
## AND
## INDEPENDENT AUDITORS' REPORT

**December 31, 2008 and 2007**

KATZ, SAPPER & MILLER

Certified Public Accountants

# MONROE HOSPITAL, LLC AND SUBSIDIARIES

## CONTENTS

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*Independent Auditors' Report*

Board of Directors and Members
Monroe Hospital, LLC

We have audited the accompanying consolidated balance sheets of Monroe Hospital, LLC and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, members' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Monroe Hospital, LLC and Subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Hospital has experienced significant operating losses since inception and its total liabilities exceed its total assets by a significant amount. In addition, the Hospital's operating cash flows are inadequate to sustain operations. This situation raises substantial doubt about the Hospital's ability to continue as a going concern. The consolidated financial statements do not include any adjustments, including asset impairment adjustments, that might result from the outcome of this uncertainty.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
June 19, 2009

# MONROE HOSPITAL, LLC AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS
## December 31, 2008 and 2007

### ASSETS

| | 2008 | 2007 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | $ 707,096 | $ 160,273 |
| Accounts receivable-trade, net | 6,690,221 | 3,693,923 |
| Inventories | 1,429,206 | 1,190,956 |
| Prepaid expenses and other | 146,549 | 385,394 |
| Total Current Assets | 8,973,072 | 5,430,546 |
| **PROPERTY AND EQUIPMENT,** net | 10,092,143 | 11,778,309 |
| **OTHER ASSETS** | | |
| Restricted cash and investments | 4,024,690 | 3,931,142 |
| Deposits | 1,283,634 | 926,020 |
| Amounts due from affiliate | | 98,900 |
| Amounts due from Medicare | | 1,526,469 |
| Goodwill | 4,252,499 | 893,499 |
| Total Other Assets | 9,560,823 | 7,376,030 |
| **TOTAL ASSETS** | $ 28,626,038 | $ 24,584,885 |

### LIABILITIES AND MEMBERS' DEFICIT

| | 2008 | 2007 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Line of credit borrowings | | $ 1,252,000 |
| Current maturities of long-term debt | $ 2,005,519 | 1,586,239 |
| Accounts payable-trade | 2,734,481 | 1,670,858 |
| Amounts due to Medicare | 1,431,186 | |
| Accrued expenses | 5,564,309 | 1,612,429 |
| Total Current Liabilities | 11,735,495 | 6,121,526 |
| **LONG-TERM DEBT,** less current maturities | 35,747,990 | 26,692,156 |
| Total Liabilities | 47,483,485 | 32,813,682 |
| **MEMBERS' DEFICIT** | (18,857,447) | (8,228,797) |
| **TOTAL LIABILITIES AND MEMBERS' DEFICIT** | $ 28,626,038 | $ 24,584,885 |

*See accompanying notes.*

## MONROE HOSPITAL, LLC AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS
### Years Ended December 31, 2008 and 2007

| | 2008 | % | 2007 | % |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Inpatient | $ 21,987,464 | 27.02 | $ 14,228,463 | 32.04 |
| Outpatient | 38,986,522 | 47.92 | 16,264,808 | 36.63 |
| Emergency room | 12,045,545 | 14.81 | 10,906,086 | 24.56 |
| Surgery Center | | | 180,731 | 0.41 |
| Other | 8,339,173 | 10.25 | 2,825,172 | 6.36 |
| Gross Revenue | 81,358,704 | 100.00 | 44,405,260 | 100.00 |
| Less: Contractual adjustments | (50,221,028) | (61.73) | (27,585,511) | (62.12) |
| Total Revenue | 31,137,676 | 38.27 | 16,819,749 | 37.88 |
| **OPERATING EXPENSES** | | | | |
| Payroll, related taxes and benefits | 14,561,501 | 17.90 | 11,053,045 | 24.89 |
| Medical supplies | 5,257,445 | 6.46 | 2,916,192 | 6.57 |
| Office and other supplies | 418,754 | 0.51 | 462,110 | 1.04 |
| Occupancy costs | 6,335,566 | 7.79 | 5,445,751 | 12.26 |
| Advertising | 706,730 | 0.87 | 412,753 | 0.93 |
| Professional services | 6,539,464 | 8.04 | 3,844,456 | 8.66 |
| Depreciation and amortization | 2,071,942 | 2.55 | 2,014,716 | 4.54 |
| Insurance | 541,815 | 0.67 | 441,796 | 0.99 |
| Administrative | 1,320,864 | 1.62 | 683,028 | 1.54 |
| Other | 11,493 | 0.01 | 447,882 | 1.01 |
| Total Operating Expenses | 37,765,574 | 46.42 | 27,721,729 | 62.43 |
| Net Operating Loss | (6,627,898) | (8.15) | (10,901,980) | (24.55) |
| **OTHER INCOME (EXPENSE)** | | | | |
| Interest income | 127,286 | 0.15 | 227,157 | 0.51 |
| Interest expense | (3,784,125) | (4.65) | (1,844,958) | (4.15) |
| Loss on uncollectible note | (343,913) | (0.42) | | - |
| Total Other Expense-Net | (4,000,752) | (4.92) | (1,617,801) | (3.64) |
| **NET LOSS** | $ (10,628,650) | (13.07) | $ (12,519,781) | (28.19) |

*See accompanying notes.*

## MONROE HOSPITAL, LLC AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY (DEFICIT)
### Years Ended December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **MEMBERS' EQUITY (DEFICIT) AT BEGINNING OF YEAR** | $ (8,228,797) | $ 3,050,984 |
| Contributions from members | | 1,240,000 |
| Net loss | (10,628,650) | (12,519,781) |
| **MEMBERS' DEFICIT AT END OF YEAR** | $ (18,857,447) | $ (8,228,797) |

*See accompanying notes.*

## MONROE HOSPITAL, LLC AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### Years Ended December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net loss | $ (10,628,650) | $ (12,519,781) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Investment earnings added to restricted cash and investments | (93,548) | (61,912) |
| Depreciation and amortization | 2,071,942 | 2,014,717 |
| (Increase) decrease in certain current assets: | | |
| Accounts receivable-trade | (2,967,444) | (3,052,939) |
| Inventories | (238,250) | 86,989 |
| Prepaid expenses and other | 238,845 | (295,660) |
| Amounts due from Medicare | 1,526,469 | |
| Increase (decrease) in certain current liabilities: | | |
| Accounts payable-trade | 1,063,623 | (1,289,696) |
| Accrued expenses | 3,951,880 | 940,359 |
| Amounts due to Medicare | 1,431,186 | |
| Net Cash Used by Operating Activities | (3,643,947) | (14,177,923) |
| **INVESTING ACTIVITIES** | | |
| Cash purchases of property and equipment | (244,776) | (122,329) |
| Increase in deposits | (357,614) | (919,616) |
| Decrease in amounts due from affiliate | 98,900 | 79,819 |
| Net Cash Used by Investing Activities | (503,490) | (962,126) |
| **FINANCING ACTIVITIES** | | |
| Proceeds of long-term debt | 7,290,403 | 16,286,406 |
| Principal payments on long-term debt | (2,596,143) | (1,935,161) |
| Cash contributions from members | | 240,000 |
| Net Cash Provided by Financing Activities | 4,694,260 | 14,591,245 |
| **NET INCREASE (DECREASE) IN CASH** | 546,823 | (548,804) |
| **CASH** | | |
| Beginning of Year | 160,273 | 709,077 |
| End of Year | $ 707,096 | $ 160,273 |
| **SUPPLEMENTAL INFORMATION** | | |
| Cash paid for interest | $ 3,606,391 | $ 1,745,506 |
| Noncash investing and financing activities: | | |
| Assets acquired and liabilities assumed in the purchase of a medical practice | 3,528,854 | 893,000 |
| Noncash contribution of capital by former member | | 1,000,000 |

*See accompanying notes.*

## MONROE HOSPITAL, LLC AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements include the balances and transactions of Monroe Hospital, LLC and its wholly-owned subsidiaries, Monroe Hospital Outpatient ASC, LLC and Monroe Hospital Management, LLC (collectively, the Hospital). All significant intercompany balances and transactions have been eliminated from the consolidated financial statements.

Monroe Hospital, LLC, organized as an Indiana limited liability company in March 2005, is a 32-bed acute care hospital located in Bloomington, Indiana. Hospital operations commenced in October 2006.

Monroe Hospital Outpatient ASC, LLC is a single-member limited liability company organized in October 2005, to acquire 100% of the outstanding stock of a surgery center specializing in pain management. The stock was acquired from a member for a total purchase price of $6,269,000. The purchase was funded with cash of $1 million and debt of $5,269,000. The Hospital operated the surgery center until October 2006. In December 2006, the Hospital sold the surgery center to the original owner in exchange for the cancellation of the related debt and a subordinated note payable of $1 million which was forgiven during 2007.

Monroe Hospital Management, LLC is a single-member limited liability company organized in April 2006, to administer the Hospital's payroll.

On August 1, 2008, the Hospital purchased certain assets and assumed certain liabilities of a medical practice, incurring costs of approximately $3,350,000. The acquisition was funded through an increase in debt. On October 1, 2007, the Hospital purchased certain assets and assumed certain liabilities of a medical practice, incurring costs of approximately $920,000. The acquisition was funded through an increase in debt.

***Estimates:*** Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were used.

***Financial Instruments,*** including accounts receivable, accounts payable and notes payable, are carried at cost, which approximates fair value.

***Cash*** is maintained in bank deposit accounts which, at times, may exceed federally insured limits. To date, there have been no losses in such accounts.

***Receivables and Credit Policies:*** The Hospital grants credit without collateral to its patients, most of whom are local residents and most of whom are insured under third-party payor agreements. Accounts receivable represent the net realizable amounts due from patients, third-party payors and others for services rendered. Accounts receivable are generally due within 30 days of the invoice date. Balances outstanding more than 120 days past the invoice date are considered delinquent and may be written-off or turned over to a collection agency based on the specific circumstances. The carrying amount of accounts receivable is reduced by an allowance that reflects management's best estimate of amounts that will ultimately not be collected based on historical credit losses and an analysis of specific past due receivables.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Inventories*** are comprised of medical supplies stated at the lower of cost, as determined by the first-in, first-out method, or market.

***Property and Equipment*** are recorded at cost. Depreciation is provided by the straight-line method over estimated useful lives ranging from 5 to 7 years. Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount to future net undiscounted cash flows expected to be generated by the related asset. If such assets are determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the assets. To date, no adjustments to the carrying amount of long-lived assets have been required.

***Goodwill***, which represents the excess of the cost over the fair value of the net assets of entities acquired by the Hospital, is tested for impairment annually, or whenever events occur or circumstances indicate the carrying amount may be impaired. Impairment testing is performed at a reporting unit level. If the fair value of the reporting unit is less than its carrying amount, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying amount.

***Restricted Cash and Investments,*** is comprised of collateral accounts required by certain lease agreements.

***Revenue Recognition*****:** Revenue from medical services is recognized when the related service is performed.

***Unit-Based Transactions:*** The Hospital accounts for unit-based transactions with employees in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), which requires companies to recognize the grant date fair value of unit options and other equity-based compensation issued to employees in their income statements.

***Advertising Costs*** are expensed as incurred and aggregated $706,730 in 2008 and $412,753 in 2007.

***Income Taxes*****:** The Hospital is a limited liability company which is treated as a partnership for federal income tax purposes whereby income and losses are taxed directly to its members. Accordingly, the accompanying consolidated financial statements do not include any provision for federal or state taxes on income generated by the Hospital.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with FASB Staff Position (FSP) No. FIN 48-3, the Hospital elected to defer the application of FIN 48 until January 1, 2009. At December 31, 2008 and 2007, the Hospital did not recognize or measure uncertain tax positions, if any, that may have an impact on the consolidated financial statements.

***Reclassifications:*** Certain prior year amounts have been reclassified to conform with the current year presentation.

## NOTE 2 - GOING CONCERN UNCERTAINTY

The accompanying consolidated financial statements have been prepared assuming the Hospital will continue as a going concern. The Hospital has experienced significant operating losses since inception and its total liabilities are significantly in excess of its assets. As such, the Hospital is dependent upon securing additional financing and/or capital contributions to maintain adequate working capital. The Hospital's operating cash flows are inadequate to sustain its operations. This situation raises substantial doubt about the Hospital's ability to continue as a going concern. The consolidated financial statements do not include any adjustments, including asset impairment adjustments, that might result from the outcome of this uncertainty.

Although Management has developed a strategy that it believes will improve the Hospital's future financial performance, the Hospital has continued to incur operating losses. The Hospital's ability to continue as a going concern is also dependent upon successfully marketing current services, attracting additional skilled physicians and developing an orthopedic center utilizing the outpatient surgery capabilities of the Hospital.

## NOTE 3 - ACCOUNTS RECEIVABLE

At December 31, 2008 and 2007, accounts receivable-trade were comprised of the following:

| | **2008** | **2007** |
|---|---|---|
| Accounts receivable from patients, third-party payors and others | $17,717,665 | $10,510,690 |
| Less: Allowance for contractual adjustments | 7,856,716 | 4,024,823 |
| Less: Allowance for uncollectible accounts | 3,170,728 | 2,791,944 |
| Accounts Receivable, Net | $ 6,690,221 | $ 3,693,923 |

## NOTE 4 - PROPERTY AND EQUIPMENT

At December 31, 2008 and 2007, property and equipment were comprised of the following:

| | **2008** | **2007** |
|---|---|---|
| Furniture, fixtures and equipment | $13,453,225 | $13,453,225 |
| Computer equipment and software | 861,854 | 518,606 |
| Leasehold improvements | 89,893 | 47,366 |
| | 14,404,972 | 14,019,197 |
| Less: Accumulated depreciation | 4,312,829 | 2,240,888 |
| Property and Equipment, Net | $10,092,143 | $11,778,309 |

Equipment under capital lease aggregated $13,258,741 in 2008 and $13,258,741 in 2007, with related accumulated amortization of $3,946,054 in 2008 and $2,051,948 in 2007. Amortization of equipment under capital lease is included with depreciation.

## NOTE 5 - GOODWILL

The following are changes in goodwill during the years ended December 31, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Goodwill at beginning of year | $ 893,499 | |
| Goodwill related to the acquisition of medical practices | 3,359,000 | $ 893,499 |
| Goodwill at end of year | $ 4,252,499 | $ 893,499 |

## NOTE 6 - DEBT AND CREDIT ARRANGEMENTS

At December 31, 2008 and 2007, long-term debt was comprised of the following:

| | 2008 | 2007 |
|---|---|---|
| Line of credit borrowings from Hospital's lessor. Secured (A) | $25,391,652 | $15,764,406 |
| Note payable to employee in monthly installments of $2,900, including interest computed at 6%, through maturity in October 2012. Unsecured. | 116,723 | 143,518 |
| Note payable in monthly installments of $9,506, including interest computed at 7%, through maturity in January 2014. Unsecured. | 499,948 | |
| Note payable in monthly installments of $11,883, including interest computed at 7%, through maturity in December 2013. Secured. | 566,291 | |
| Note payable in monthly installments of $1,276, including interest computed at 6.75%, through maturity in December 2009, when a balloon payment of approximately $30,000 is due. Secured. | 33,793 | |
| Note payable in monthly installments of $2,047, including interest computed at 8.3%, through maturity in August 2009. Secured. | 27,940 | |
| Notes payable to the lessor of the Hospital facility with monthly installments of interest only computed at 10.5% through maturity in 2021. Unsecured. | 232,500 | 232,500 |
| Capital lease obligation payable in nine monthly installments of $110,206, seventy-five monthly installments of $220,413, and six monthly installments of $340,813, including interest imputed at 9.2%, through December 2013. The lease is secured by the related equipment and by the personal guaranties of certain members of the Hospital. | 10,884,662 | 12,137,971 |
| | 37,753,509 | 28,278,395 |
| Less: Current Maturities | 2,005,519 | 1,586,239 |
| Total Long-term Debt | $35,747,990 | $26,692,156 |

## NOTE 6 - DEBT AND CREDIT ARRANGEMENTS (CONTINUED)

(A) In March 2007, the Hospital entered into a line of credit agreement with the lessor of the Hospital's facility. A maximum amount of $26,616,532 is available under the agreement, of which $25,391,652 was borrowed and outstanding at December 31, 2008. Interest on borrowings is payable monthly and was computed at 10.5% through January 1, 2009, at which time the rate increased by the greater of the Consumer Price Index or 2.5%. Effective March 1, 2009, the principal balance is payable in monthly installments based on a 120-month amortization schedule, with a balloon payment due in March 2012, however, the line of credit is subjected to renewal at that time. Borrowings after March 2009 are amortized over the remaining line of credit term through March 2012. Borrowings are secured by substantially all of the Hospital's assets. The line of credit the maintenance of certain financial and nonfinancial covenants by the Hospital.

At December 31, 2008, the future minimum capital lease payments and the aggregate maturities of long-term debt were as follows:

| Payable In | Capital Lease Payments | Principal |
|---|---|---|
| 2009 | $ 2,675,533 | $ 1,324,928 |
| 2010 | 3,006,153 | 1,902,803 |
| 2011 | 2,644,952 | 2,103,353 |
| 2012 | 2,644,952 | 21,093,953 |
| 2013 | 2,644,952 | 201,834 |
| 2014 | | 241,976 |
| Total Required Lease Payments | 13,616,542 | |
| Less: Amount Representing Interest | 2,731,880 | |
| Net Capital Lease Obligation | $10,884,662 | |

Short-term borrowings under a revolving bank line of credit were limited to the lesser of $5 million or the Borrowing Base, as defined, of which $1,252,000 was borrowed and outstanding at December 31, 2007. The line of credit was repaid during 2008 and has expired.

## NOTE 7 - MEMBERS' EQUITY

During 2007, certain members of the Hospital sold their ownership interests in the Hospital's common units to another investor, who is a party to the management agreement with the Hospital. Separately, the investor contributed to members' equity the subordinated note payable of $1 million in exchange for the release of various debt guaranties of $4 million.

During 2006, members of the Hospital contributed $6,990,000 to acquire 233 of the Hospital's common units. Certain units sold included warrants which provide that the members may each purchase one additional unit for $30,000 within 36 months. Twenty warrants were issued in 2006 in connection with this agreement, all of which were outstanding at December 31, 2008 and 2007. No warrants were exercised in 2008 or 2007, and no warrants were issued in 2008 or 2007.

The Monroe Hospital, LLC Risk Pool was designed to reward those members who have provided personal guaranties to assist with the Hospital's financing. In that regard, the Board allocated 50 profits interest units to be distributed ratably among the participating members. The profits interest units do not include any voting or management rights.

**NOTE 8 - RETIREMENT PLAN**

The Hospital sponsors a 401(k) retirement savings plan for the benefit of substantially all of its employees. Plan participants may elect to defer up to 75% of their annual compensation to the Plan up to the maximum amount prescribed under the Internal Revenue Code. The Hospital is required to make an annual matching contribution equal to 100% of each participant's contributions up to the first 3% of participant compensation. The Hospital may also make discretionary contributions to the Plan. Retirement plan expense was $146,164 in 2008 and $93,999 in 2007.

**NOTE 9 - COMMITMENTS**

The Hospital leases its hospital facility pursuant to a noncancellable operating lease, which is subject to renewal in October 2020. The lease agreement requires the Hospital to maintain a cash collateral account of $3,727,500. The Hospital also leases an administrative office building pursuant to a noncancellable operating lease, which expires in August 2010. In addition, the Hospital leases certain equipment pursuant to noncancellable operating leases, which expire at various dates through October 2011. Certain equipment leases also require the maintenance of a cash collateral account of $151,447 in 2008 and $146,006 in 2007. Rent expense incurred in connection with these leases aggregated $5,139,438 during 2008 and $3,918,608 during 2007.

At December 31, 2008, the minimum future rental payments required under noncancellable operating leases were as follows:

| **Payable In** | **Payments** |
|---|---|
| 2009 | $ 4,621,429 |
| 2010 | 4,505,335 |
| 2011 | 4,442,339 |
| 2012 | 4,041,875 |
| 2013 | 4,140,698 |
| Thereafter | 30,714,600 |
| Total | $52,466,276 |

In March 2007, the Hospital entered into a management agreement with one of its members. Pursuant to the agreement, which is subject to automatic annual renewal in March 2012, the member (as management agent) will provide certain management and administrative functions for which it will be paid a fee computed as 2.5% of net collections, or if revenue exceeds $2 million, 3% of net collections. In addition, the management agreement provides for an incentive management fee equal to 20% of annual EBITDA. Total management and incentive management fees may not exceed 6% of the Hospital's revenue. Amounts due under the management agreement are subordinated to obligations under the line of credit with the lessor of the Hospital's facility. Amounts paid under this management agreement were $787,038 in 2008 and $220,279 in 2007. At December 31, 2008 and 2007, the Hospital owed $232,351 and $81,280, respectively, in connection with this agreement.

## NOTE 10 - RELATED PARTY TRANSACTIONS

In addition to the management fees paid to a member of the Hospital, as noted above, certain doctors and medical professionals are also investors in the Hospital. Total fees paid to these related parties were $873,599 in 2008 and $727,591 in 2007. At December 31, 2008 and 2007, the Hospital owed $59,286 and $63,571, respectively, in connection with these services.

The Hospital has evaluated its interests in other entities and management has determined that the Hospital does not interact with a variable interest entity in which the Hospital would be considered the primary beneficiary. Accordingly, the Hospital is not required to consolidate any other entities in its financial statements pursuant to FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities*.

## NOTE 11 - CONCENTRATIONS OF CREDIT RISK

At December 31, 2008 and 2007, the mix of receivables from patients and third-party payors was as follows:

| | **2008** | **2007** |
|---|---|---|
| Medicare | 24% | 21% |
| Medicaid | 5% | 9% |
| Patients and other payors | 71% | 70% |
| | 100% | 100% |

## NOTE 12 - CONTINGENCIES

In the course of normal operations, the Hospital is subject to various claims, assessments and litigation that management intends to vigorously defend. The range of loss, if any, from these potential claims cannot be reasonably estimated. However, management believes the ultimate resolution of these matters will not have a material adverse impact on the Hospital's business or financial position.