INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

COMBINED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

AUGUST 31, 2008 AND 2007

INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

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AUGUST 31, 2008 AND 2007

CPAs / ADVISORS

blue

Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Indianapolis Osteopathic Hospital, Inc.
d/b/a Westview Hospital and Affiliated Entities
Indianapolis, Indiana

We have audited the accompanying combined balance sheets of Indianapolis Osteopathic Hospital, Inc. d/b/a Westview Hospital and Affiliated Entities (the Organization) as of August 31, 2008 and 2007, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization'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 generally accepted auditing standards in the United States of America. 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 financial position of the Organization as of August 31, 2008 and 2007, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the combined financial statements, certain errors resulting in understatement of previously reported pension liabilities as of August 31, 2007, were discovered by management of the Organization during the current year. Accordingly, an adjustment has been made to the combined net assets to correct the error.

Board of Directors
Indianapolis Osteopathic Hospital, Inc.
d/b/a Westview Hospital and Affiliated Entities
Indianapolis, Indiana

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements. This information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

Blue & Co., LLC

December 29, 2008

INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

COMBINED BALANCE SHEETS
AUGUST 31, 2008 AND 2007

ASSETS

	2008	2007
Current assets		
Cash and cash equivalents	$ 1,801,322	$ 953,154
Patient accounts receivable, less allowance for estimated uncollectible amounts of $3,383,315 in 2008 and $2,150,270 in 2007	4,333,270	4,251,203
Other receivables	262,140	150,557
Inventories	395,780	453,597
Prepaid expenses and other current assets	451,682	264,427
Estimated third-party settlements	-0-	312,173
Total current assets	7,244,194	6,385,111
Assets limited as to use		
Internally designated for capital acquisitions	5,913,387	8,658,002
Property and equipment		
Land and improvements	1,182,678	1,182,678
Buildings and improvements	35,537,674	34,783,778
Equipment	24,634,390	23,799,984
	61,354,742	59,766,440
Less accumulated depreciation	35,869,497	33,063,916
	25,485,245	26,702,524
Construction in progress	32,826	280,315
Total property and equipment, net	25,518,071	26,982,839
Other assets		
Derivative asset	-0-	57,199
Investment in affiliates	100,000	50,000
Physician recruitment	122,500	120,000
Other	547,570	818,773
Total other assets	770,070	1,045,972
Total assets	$ 39,445,722	$ 43,071,924

See accompanying notes to combined financial statements.

INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

COMBINED BALANCE SHEETS
AUGUST 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
Current liabilities		
Current portion of long-term debt	$ 1,437,166	$ 1,308,735
Accounts payable	1,394,140	2,601,441
Accrued salaries and related liabilities	2,535,209	2,143,117
Accrued property taxes	198,891	124,937
Accrued interest	76,160	41,299
Estimated third-party settlements	255,024	-0-
Total current liabilities	5,896,590	6,219,529
Long-term liabilities		
Long-term debt, less current portion	9,778,677	10,946,416
Physician recruitment	122,500	120,000
Total long-term liabilities	9,901,177	11,066,416
Total liabilities	15,797,767	17,285,945
Net assets unrestricted	23,647,955	25,785,979
Total liabilities and net assets	$ 39,445,722	$ 43,071,924

See accompanying notes to combined financial statements.

INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
Revenues, gains and other support		
Net patient service revenue	$ 42,710,459	$ 42,187,874
Membership fees and ancillary income	4,438,003	4,521,833
Rental revenue	265,186	309,015
Other revenue	1,322,008	1,338,868
Total revenues, gains and other support	48,735,656	48,357,590
Expenses		
Salaries and wages	19,685,439	20,299,351
Employee benefits	4,818,980	4,457,438
Purchased services	6,416,412	6,773,679
Supplies	5,495,855	5,047,621
Utilities	1,413,851	1,344,773
Insurance	871,210	727,972
Interest	679,447	633,667
Equipment lease and rental	509,720	365,853
Depreciation and amortization	3,282,945	3,271,990
Property tax	253,216	114,674
Bad debts	3,642,873	3,369,423
Other	2,913,793	3,041,359
Total expenses	49,983,741	49,447,800
Operating loss	(1,248,085)	(1,090,210)
Other changes in unrestricted net assets		
Unrealized gain (loss) on derivative	(57,199)	57,199
Unrealized gain (loss) on investments	(832,740)	133,752
Change in net assets	(2,138,024)	(899,259)
Net assets		
Beginning of year	25,785,979	26,685,238
End of year	$ 23,647,955	$ 25,785,979

See accompanying notes to combined financial statements.

INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
Operating activities		
Change in net assets	$ (2,138,024)	$ (899,259)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	3,282,945	3,271,990
Bad debts	3,642,873	3,369,423
Net unrealized (gain) loss on investments	832,740	(133,752)
Loss on disposal of property and equipment	77,982	-0-
Unrealized (gain) loss on derivative	57,199	(57,199)
Changes in operating assets and liabilities		
Patient accounts receivable	(3,724,940)	(2,638,853)
Other receivables	(111,583)	300,789
Inventories	57,817	(215,840)
Prepaids and other current assets	(187,255)	87,873
Accounts payable	(1,207,301)	835,500
Accrued salaries and related liabilities	392,092	74,781
Accrued property taxes	73,954	-0-
Accrued interest	34,861	4,084
Estimated third-party settlements	567,197	(520,650)
Net cash flows from operating activities	1,650,557	3,478,887
Investing activities		
Acquisition and construction of capital assets	(1,164,779)	(1,682,767)
Proceeds from sale of property and equipment	36,626	-0-
Other changes in internally designated for capital acquisitions	1,911,875	(72,796)
Change in investment in affiliate	(50,000)	(50,000)
Other changes in other assets	(191,135)	(594,744)
Net cash flows from investing activities	542,587	(2,400,307)
Financing activities		
Repayment of long-term debt	(1,344,976)	(1,242,795)
Net change in cash and cash equivalents	848,168	(164,215)
Cash and cash equivalents		
Beginning of year	953,154	1,117,369
End of year	$ 1,801,322	$ 953,154
Noncash investing and financing transaction		
Property acquired through capital leases	$ 305,668	$ 259,341
Supplemental disclosure of cash flows information		
Cash paid for interest	$ 644,586	$ 629,583

See accompanying notes to combined financial statements.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Indianapolis Osteopathic Hospital, Inc. d/b/a Westview Hospital (the Hospital) is an Indiana not-for-profit acute care Hospital. Health Institute of Indiana, Inc. (HII) is an Indiana not-for-profit fitness center. HII is a wholly-controlled affiliate of the Hospital. Westview Hospital Foundation, Inc. (Foundation) is a not-for-profit entity organized to support the activities of the Hospital.

The Hospital, located in Indianapolis, Indiana, is a general acute care facility providing inpatient and outpatient services with associated ancillary departments. HII, located on the Hospital's main campus, is a fitness center providing a wide variety of health services to its membership. The Foundation conducts fundraising activities to support the activities of the Hospital.

The combined financial statements include the accounts of the Hospital, its wholly-controlled affiliated entity, HII and the Foundation (collectively called the Organization). All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the combined 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, including the allowance for estimated uncollectible accounts and estimated third-party settlements, and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents include all cash held in checking and money market accounts available for operating purposes with original maturities of 90 days or less. The Organization maintains these deposits with banks which, at times may exceed federally insured limits. The Organization has not experienced any loss in these accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments and Investment Income

Investments in equity securities and debt securities are measured at fair value in the balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Investment income (including realized gains and losses on investments, interest, dividends and declines in value determined to be other-than-temporary) from all investments is reported as gains (losses) unless the income is restricted by donor or law. Unrealized gains (losses) on investments that are considered temporary are excluded from net income due to the non-trading nature of the investments.

Assets Limited as to Use

Assets whose use is limited include funds designated by the Board of Directors for future replacement of property and equipment, over which the Board retains control and may at its discretion subsequently use for other purposes. A portion of the internally designated funds include investments in debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the balance sheet at August 31, 2008 and 2007. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law.

Property and Equipment and Depreciation

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Operating Indicator

The combined statements of operations and changes in net assets include an operating indicator. Changes in unrestricted net assets which are excluded from the operating indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

The Organization is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Organization is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Organization is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Organization's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients.

Net patient service revenue is reported as the estimated realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in the future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

During 2008 and 2007, approximately 50% of the Hospital's gross patient service revenue was received under the Medicare program in each year, while approximately 5% of gross service revenue was received under the State Medicaid program each year.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in healthcare coverage and other collection indicators. Management assesses the adequacy of allowance for uncollectible accounts based upon historical write off experience by payor category.

The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the Hospital follows established guidelines for placing certain past due patient balances with collection agencies.

Membership Fees

HII received revenue from membership dues for the fitness center and related ancillary services.

Charity Care

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift 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 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 as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements. No donor-restricted contributions currently exist.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by external sources for a specific time period or purpose. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Restrictions that are met within the year of receipt are reflected with unrestricted net assets. As of August 31, 2008 and 2007, there were no temporarily restricted net assets.

Income Taxes

The Hospital, HII and the Foundation are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Advertising Costs

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expenses were $287,376 and $358,671 in 2008 and 2007, respectively.

Inventories

Inventories are determined by physical count, are priced at cost, (first-in, first-out method) and are not in excess of market value.

Unamortized Financing Costs

Costs incurred in connection with obtaining long-term debt have been deferred. These costs are amortized over the period the obligations are outstanding using a method approximating the effective interest method. These amounts are included in other assets.

Derivative Financial Instruments

The Organization uses derivative financial instruments (cash flow hedge interest rate swap agreement) to manage its exposure to fluctuations in interest rates. All derivatives are recorded as either assets or liabilities in the combined balance sheets, and periodically adjusted to fair value. The classification of gains and losses resulting from changes in the fair values of derivatives is dependent on the intended use of the derivative and its resulting designation. Adjustments to reflect changes in fair values of derivatives that are not considered highly effective hedges are reflected in earnings. Adjustments to reflect changes in fair values of derivatives that are considered highly effective hedges are either reflected in earnings and largely offset by corresponding adjustments related to the fair value of the hedged items, or reflected in other comprehensive income until the hedged transaction matures and the entire transaction is recognized in earnings. The change in fair value of the ineffective portion of a hedge is immediately recognized in earnings.

Subsequent to August 31, 2008, the other party in the derivative transaction filed for bankruptcy creating an event of default under the agreement. Under the terms of the derivative agreement, the settlement amount for the derivative was determined to be $-0-.

For the years ended August 31, 2008 and 2007, the Organization recognized a derivative asset of $-0- and $57,199, respectively. The Organization recognized an unrealized loss of $57,199 in 2008 and an unrealized gain of $57,199 in 2007.

Accounting Pronouncement

Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners" ("FIN 45-3"). It serves as an amendment to FASB Interpretation No. 45, "Guarantor's Accounting of Indebtedness of Others" ("FIN 45") by adding minimum revenue guarantees to the list of examples of contracts to which FIN 45 applies.

Under FIN 45 as amended, the Hospital is required to report the liability for these physician revenue guarantees on its balance sheets at fair value and amortize the related prepaid physician recruitment expense over the period of the physician's contractual commitment to practice in the local community, which is typically three years. The Hospital recognized an asset and corresponding liability $122,500 and $120,000 as of August 31, 2008 and 2007, respectively.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the current year presentation.

2. PRIOR PERIOD ADJUSTMENT

During 2008, management of the Organization discovered certain errors resulting in understatement of previously reported pension liabilities as of August 31, 2007. Accordingly, an adjustment has been made to combined net assets to correct the error. The following is the restatement of combined net assets:

Combined net assets	
Previously reported, August 31, 2006	$ 27,101,125
Prior period adjustment	(415,887)
Restated, August 31, 2006	$ 26,685,238

3. INVESTMENTS

The composition of assets limited as to use at August 31, 2008 and 2007 is set forth in the following table. Investments are stated at fair value.

	2008	2007
Internally designated for capital acquisitions		
Cash and cash equivalents	$ 728,496	$ 383,468
Marketable debt securities	3,168,143	3,407,333
Marketable equity securities	1,778,402	4,670,130
Mutual funds - equities	238,346	197,071
	$ 5,913,387	$ 8,658,002

The following schedule summarizes the fair value of securities included in investments that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of August 31, 2008. The schedule further segregates the securities that have been in a gross unrealized position as of August 31, 2008, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary.

The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future. These individual investments have projected recoveries in value in 2009. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of August 31, 2008:

	August 31, 2008					
	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable debt securities	$ 759,994	$ (80,459)	$ -0-	$ -0-	$ 759,994	$ (80,459)
Marketable equity securities	384,108	(134,220)	-0-	-0-	384,108	(134,220)
Mutual funds - equities	68,414	(1,496)	-0-	-0-	68,414	(1,496)
	$ 1,212,516	$ (216,175)	$ -0-	$ -0-	$ 1,212,516	$ (216,175)

Investments as of August 31, 2007 were in unrealized gain positions.

4. DEFERRED COMPENSATION

In October 2004, the Organization entered into a Deferred Compensation Agreement. Under the agreement, compensation and certain benefits were paid through October 2007. This amount is $-0- and $99,624 as of August 31, 2008 and 2007, respectively. The accrual is included in salaries and related liabilities on the combined balance sheets. This agreement specifies that if certain events happen the salary and benefits payable by Westview Hospital will be reduced accordingly.

5. LONG-TERM DEBT AND CAPITAL LEASES

A summary of long-term debt and capital lease obligations as of August 31, 2008 and 2007 follows:

	2008	2007
Hospital Authority of Marion County, Indiana Adjustable Rate Demand Hospital Revenue Bonds of 2004. Bonds payable from August 2005 through November 2019. Variable interest rate of 1.88% and 3.99% as of August 31, 2008 and 2007, respectively.	$ 10,472,500	$ 11,595,000
Capital lease obligations, at varying rates of imputed interest from 5 percent to 8 percent collateralized by leased equipment	743,343	660,151
	11,215,843	12,255,151
Less current portion	1,437,166	1,308,735
Long-term debt, net of current portion	$ 9,778,677	$ 10,946,416

Variable Rate Loan Program Notes

The 2004 bonds are secured by the Hospital with a general security agreement pledging the Hospital's assets and an irrevocable letter of credit issued by a bank. The termination date of the letter of credit is November 15, 2009. The 2004 bonds are secondarily guaranteed by HII. The letter of credit requires compliance with specific financial covenants. As of August 31, 2008, the Organization believes it was in compliance with the specific financial covenants.

In the Reimbursement and Pledge Agreement related to the letter of credit, principal and interest drawings on the letter of credit are due on demand at an interest rate of prime plus 4%. In the event any portion of the bonds cannot be remarketed by the remarketing agent, remarketing drawings are due within 30 days after the remarketing drawing at an interest rate of prime for the first 5 days and prime plus 4% thereafter.

While the 2004 bonds bear interest in one of the Interest Rate Modes other than the fixed interest rate, the interest rate for a particular interest rate period is determined by the remarketing agent on the Interest Rate Determination Date. Such interest rate is effective on the Interest Rate Adjustment Date for the succeeding Interest Rate Period. Various redemption dates and redemption prices exist.

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending August 31,	Long-term debt	Capital lease obligations
2009	$ 1,175,000	$ 302,047
2010	1,242,500	245,353
2011	1,297,500	191,000
2012	830,000	107,038
2013	700,000	-0-
Thereafter	5,227,500	-0-
	$ 10,472,500	845,438
Less amount representing interest under capital lease obligations		102,095
		$ 743,343

In June 2005, the Hospital entered into a 10-year "cash flow hedge interest rate swap" agreement for $8,500,000. Under this agreement, the Hospital paid a fixed rate of 3.418% and received the USD-BMA Municipal Swap Index as a hedge against the note. The swap agreement had an original notional amount of $8,500,000 with accreting and amortization in accordance with the swap agreement.

Subsequent to August 31, 2008, the other party in the swap agreement filed for bankruptcy creating an event of default under the agreement. Under the terms of the swap agreement, the settlement amount for the derivative was determined to be $-0-.

The Organization recorded a derivative asset of $-0- and $57,199 as of August 31, 2008 and 2007, respectively. The Organization recognized an unrealized loss of $57,199 in 2008 and an unrealized gain of $57,199 in 2007, respectively.

The following is an analysis of the leased assets included in property and equipment as of August 31:

	2008	2007
Equipment	$ 1,078,973	$ 857,395
Less accumulated depreciation	452,969	230,467
	$ 626,004	$ 626,928

Amortization of capital leases is included in depreciation on the combined statements of operations and changes in net assets.

6. MEDICAL MALPRACTICE CLAIMS

The State of Indiana puts a judgment cap of $1,250,000 on malpractice claims for those institutions and individual physicians willing to participate in the state funded insurance "pool". The "pool' requires that an institution/physician be responsible for the first $250,000 of every claim and the state will fund the remaining balance of each claim. Malpractice claims related to the period that the Hospital was insured by PHICO Insurance Company are being defended by the Indiana Guaranty Fund. To the extent these claims exceed the statutory claim limits set for Guaranty Fund claims, the Hospital may have exposure to the applicable limit for a Qualified Provider during the relevant claim period.

On July 1, 2006, the Organization became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Organization's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. The Organization made capital contributions of $100,000 for 20% ownership in the captive which is included in investments in affiliates. The investment is accounted for under the equity method. The captive provides protection from liability in an amount not to exceed $250,000 per incident and aggregate liability protection not to exceed $7,500,000 per year. In addition, the Organization maintains a commercial umbrella/excess liability policy with a limit of $1,000,000 each occurrence, $1,000,000 fire legal liability, $1,000,000 personal and advertising injury, and a $3,000,000 total policy aggregate. Premiums are accrued based on the captive's experience.

No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimated. The current policy is on a claims-made basis and as long as this coverage is continued or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

7. RETIREMENT PLAN

The Hospital has a money purchase pension plan to cover all employees having more than one year of service at the Hospital, work 1,000 hours during the year and who are at least 21 years of age. The plan is funded at the rate of 7% of each eligible employee's compensation not in excess of the taxable wage base and 12% for amounts over the taxable wage base. The taxable wage base is the contribution and benefits base under Section 230 of the Social Security Act. Vesting in the plan occurs over a period of six years. Termination of employees prior to full vesting will result in forfeitures which reduce the plan liability. The Hospital contributions to the plan of $852,526 and $792,696 for 2008 and 2007, respectively, have been included in employee benefits in the combined statements of operations and changes in net assets.

During 2008, the Hospital identified differences in pension plan documentation that affected contribution requirements. The Hospital will be filing a proposed plan of correction with the Internal Revenue Service based upon the Internal Revenue Service's Employee Plans Compliance Resolution System. The Hospital expects a determination by the IRS on the proposed correction plan within 12 to 18 months after filing. The estimated contribution liability (including contribution earning loss) is approximately $590,000 as of August 31, 2008. Of this amount approximately, $416,000 related to years ended August 31, 2006 and prior as addressed in Note 2 for prior period adjustments. As a result the Hospital recognized additional pension expense of approximately $89,000 for 2008 and $85,000 for 2007 related to the proposed plan.

8. CONCENTRATIONS OF CREDIT RISK

The Organization's main office is located in Indianapolis, Indiana. The Organization grants credit without collateral to its patients, most of whom are local residents are insured under third-party payor agreements. Accounts receivable from patients and third-party payors were as follows:

	2008	2007
Medicare and Medicaid	38%	43%
Blue Cross	17%	16%
Other (none over 10%)	18%	20%
Self-Pay	27%	21%
	100%	100%

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. These leases expire in various years through 2013. Rental expense was $509,720 and $365,853 for 2008 and 2007, respectively. Minimum future rental payments under all operating leases for each of the next 5 years are:

Year Ending August 31,	
2009	$ 308,004
2010	304,719
2011	300,120
2012	189,114
2013	45,045
	$ 1,147,002

Litigation

The Organization is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these amounts will be resolved without material adverse effect on the Organization's future financial position or result from operations.

10. RENT INCOME

HII leases space in its building. These leases expire in various years through January 2012 and are payable in monthly installments.

Future minimum rental income under these agreements is as follows:

Year Ending August 31,	
2009	$ 152,114
2010	150,062
2011	127,642
2012	14,161
	$ 443,979

11. FUNCTIONAL EXPENSES

The Organization provides general healthcare and health club services to residents within its geographic location. Expenses related to providing these services are as follows 2008 and 2007:

	2008	2007
Health care services	$ 27,784,864	$ 27,592,844
Health club services	2,215,410	2,211,566
General and administrative	11,061,881	11,323,767
Provision for bad debt	3,642,873	3,369,423
Depreciation and amortization	3,282,945	3,271,990
Property tax expense	253,216	114,674
Fundraising	191,895	201,897
Insurance	871,210	727,972
Interest	679,447	633,667
	$ 49,983,741	$ 49,447,800

12. CHARITY CARE

The amount of charges foregone for services and supplies furnished under the Organization's charity care policy aggregated approximately $680,684 and $677,419 for the years ended August 31, 2008 and 2007, respectively.

13. SELF INSURED HEALTH PLAN

The health plan is self-insured by the Organization. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment on a bi-weekly basis. The Plan purchased individual excess risk insurance to cover individual health claims in excess of a predetermined amount. In addition, the Plan has an aggregate stop loss of a predetermined amount. Total expense for 2008 and 2007 was $1,952,519 and $1,572,343, respectively.

14. MANAGEMENT'S CONSIDERATION OF GOING CONCERN

The Organization experienced significant operating losses during the years ended August 31, 2008 and 2007. Additionally, there has been a high level of turnover, particularly in key management positions. Management is considering several alternatives for mitigating these conditions during the next year. These include implementation of programs to increase inpatient days, outpatient procedures, overall utilization and revenue enhancement strategies, development of medical staff and reduction and control of certain expenditures as deemed appropriate.

SUPPLEMENTARY INFORMATION

INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

COMBINING BALANCE SHEETS
AUGUST 31, 2008

	Westview Hospital	Health Institute of Indiana, Inc.	Foundation	Eliminations	Total
Assets					
Current assets					
Cash and cash equivalents	$ 1,299,590	$ 491,092	$ 10,640	$ -0-	$ 1,801,322
Patient accounts receivable, net	4,179,552	153,718	-0-	-0-	4,333,270
Other receivables	754,695	45,901	10,544	(549,000)	262,140
Inventories	375,209	20,571	-0-	-0-	395,780
Prepaid expenses and other current assets	408,689	42,993	-0-	-0-	451,682
Total current assets	7,017,735	754,275	21,184	(549,000)	7,244,194
Assets limited as to use					
Internally designated for capital acquisitions	5,520,930	-0-	392,457	-0-	5,913,387
Property and equipment					
Land and improvements	1,182,678	-0-	-0-	-0-	1,182,678
Buildings and improvements	20,238,266	15,299,408	-0-	-0-	35,537,674
Equipment	22,815,462	1,805,718	13,210	-0-	24,634,390
	44,236,406	17,105,126	13,210	-0-	61,354,742
Less accumulated depreciation	30,609,078	5,247,209	13,210		35,869,497
	13,627,328	11,857,917	-0-	-0-	25,485,245
Construction in progress	32,826	-0-	-0-		32,826
Total property and equipment, net	13,660,154	11,857,917	-0-	-0-	25,518,071
Other assets					
Investment in affiliates	4,526,371	-0-	-0-	(4,426,371)	100,000
Related party note receivable	7,107,000	-0-	-0-	(7,107,000)	-0-
Physician recruitment	122,500	-0-	-0-	-0-	122,500
Other	539,316	8,254	-0-	-0-	547,570
Total other assets	12,295,187	8,254	-0-	(11,533,371)	770,070
Total assets	$ 38,494,006	$ 12,620,446	$ 413,641	$ (12,082,371)	$ 39,445,722

INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

COMBINING BALANCE SHEETS
AUGUST 31, 2008

	Westview Hospital	Health Institute of Indiana, Inc.	Foundation	Eliminations	Total
Liabilities and net assets					
Current liabilities					
Current portion of long-term debt	$ 1,437,166	$ 549,000	$ -0-	$ (549,000)	$ 1,437,166
Accounts payable	1,227,473	166,667	-0-	-0-	1,394,140
Accrued salaries and related liabilities	2,400,399	134,810	-0-	-0-	2,535,209
Accrued property taxes	-0-	198,891	-0-	-0-	198,891
Accrued interest	38,453	37,707	-0-	-0-	76,160
Estimated third-party settlements	255,024	-0-	-0-	-0-	255,024
Total current liabilities	5,358,515	1,087,075	-0-	(549,000)	5,896,590
Long-term liabilities					
Long-term debt, less current portion	9,778,677	7,107,000	-0-	(7,107,000)	9,778,677
Physician recruitment	122,500	-0-	-0-	-0-	122,500
Total long-term liabilities	9,901,177	7,107,000	-0-	(7,107,000)	9,901,177
Total liabilities	15,259,692	8,194,075	-0-	(7,656,000)	15,797,767
Net assets - unrestricted	23,234,314	4,426,371	413,641	(4,426,371)	23,647,955
Total liabilities and net assets	$ 38,494,006	$ 12,620,446	$ 413,641	$ (12,082,371)	$ 39,445,722

See report of independent auditors on pages 1 and 2.

INDIANAPOLIS OSTEOPATHIC HOSPITAL, INC.
D/B/A
WESTVIEW HOSPITAL AND AFFILIATED ENTITIES

COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED AUGUST 31, 2008

	Westview Hospital	Health Institute of Indiana, Inc.	Foundation	Eliminations	Total
Revenues, gains and other support					
Net patient service revenue	$ 42,710,459	$ -0-	$ -0-	$ -0-	$ 42,710,459
Membership fees and ancillary income	-0-	4,438,003	-0-	-0-	4,438,003
Rental revenue	111,300	461,177	-0-	(307,291)	265,186
Other revenue	1,515,403	19,344	191,077	(403,816)	1,322,008
Total revenues, gains and other support	44,337,162	4,918,524	191,077	(711,107)	48,735,656
Expenses					
Salaries and wages	18,021,102	1,664,337	-0-	-0-	19,685,439
Employee benefits	4,608,481	210,499	-0-	-0-	4,818,980
Purchased services	6,187,568	228,844	-0-	-0-	6,416,412
Supplies	5,155,281	340,574	-0-	-0-	5,495,855
Utilities	888,481	525,370	-0-	-0-	1,413,851
Insurance	811,582	59,628	-0-	-0-	871,210
Interest	679,447	373,816	-0-	(373,816)	679,447
Equipment lease and rental	770,315	46,696	-0-	(307,291)	509,720
Depreciation and amortization	2,694,774	588,171	-0-	-0-	3,282,945
Property tax	39,600	213,616	-0-	-0-	253,216
Bad debts	3,565,828	77,045	-0-	-0-	3,642,873
Other	2,214,392	507,506	221,895	(30,000)	2,913,793
Total expenses	45,636,851	4,836,102	221,895	(711,107)	49,983,741
Operating income (loss)	(1,299,689)	82,422	(30,818)	-0-	(1,248,085)
Other changes in unrestricted net assets					
Income in affiliates	82,422	-0-	-0-	(82,422)	-0-
Unrealized loss on derivative	(57,199)	-0-	-0-	-0-	(57,199)
Unrealized loss on investments	(818,477)	-0-	(14,263)	-0-	(832,740)
Change in net assets	(2,092,943)	82,422	(45,081)	(82,422)	(2,138,024)
Net assets					
Beginning of year	25,327,257	4,343,949	458,722	(4,343,949)	25,785,979
End of year	$ 23,234,314	$ 4,426,371	$ 413,641	$ (4,426,371)	$ 23,647,955