

**Deaconess**

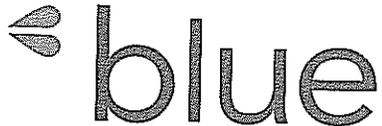
**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2010 AND 2009**

*CPAs / ADVISORS*



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# DEACONESS HEALTH SYSTEM, INC.

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Deaconess Health System, Inc.  
Evansville, Indiana

We have audited the consolidated balance sheets of Deaconess Health System, Inc. (System) as of September 30, 2010 and 2009 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the System'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 of America. Those standards require that we plan and perform the audits 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 consolidated 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 consolidated financial position of the System as of September 30, 2010 and 2009 and the consolidated 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of the System. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Blue & Co., LLC*

November 30, 2010

# DEACONESS HEALTH SYSTEM, INC.

## CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2010 AND 2009

	2010	2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 56,093,410	\$ 36,087,733
Funds held by trustee, current portion	32,280,782	53,878,232
Patient accounts receivable, less allowance for estimated uncollectible amounts of \$27,845,000 in 2010 and \$20,366,000 in 2009	113,787,194	106,684,229
Inventories	6,110,441	4,608,569
Prepaid expenses and other current assets	12,498,906	11,886,931
Total current assets	220,770,733	213,145,694
<b>Investments limited as to use, less current portion</b>		
Board designated funds	148,124,612	143,319,008
Funds held by trustee	3,503,922	27,431,023
Temporarily restricted	8,130,489	7,433,787
Total investments limited as to use	159,759,023	178,183,818
<b>Property and equipment</b>		
Land and improvements	17,967,232	17,415,922
Buildings and fixed equipment	399,131,262	391,908,971
Movable equipment	194,671,499	181,098,645
	611,769,993	590,423,538
Less allowances for depreciation	351,694,604	315,543,831
	260,075,389	274,879,707
Construction in progress	90,473,250	36,588,039
Total property and equipment, net	350,548,639	311,467,746
<b>Other assets</b>		
Deferred financing costs	2,933,648	3,123,267
Investments in joint ventures and other	51,927,242	53,351,731
Total other assets	54,860,890	56,474,998
Total assets	\$ 785,939,285	\$ 759,272,256

See accompanying notes to consolidated financial statements.

# DEACONESS HEALTH SYSTEM, INC.

## CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2010 AND 2009

### LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
<b>Current liabilities</b>		
Accounts payable and other current liabilities	\$ 41,785,507	\$ 39,600,859
Salaries, wages and related liabilities	27,076,112	27,003,199
Estimated third-party payor settlements	5,525,997	1,617,444
Accrued interest	1,022,831	1,046,515
Line of credit	1,520,188	6,226,203
Current portion of long-term debt	9,241,622	10,102,296
Total current liabilities	<u>86,172,257</u>	<u>85,596,516</u>
<b>Long-term liabilities</b>		
Long-term debt, less current portion	235,411,006	243,769,978
Other long-term liabilities	60,962,306	65,094,051
Total long-term liabilities	<u>296,373,312</u>	<u>308,864,029</u>
 Total liabilities	 382,545,569	 394,460,545
<b>Net assets</b>		
Unrestricted	386,970,013	349,781,965
Temporarily restricted	8,130,489	7,433,787
Net assets - controlling interest	<u>395,100,502</u>	<u>357,215,752</u>
Non-controlling interest	8,293,214	7,595,959
 Total net assets	 <u>403,393,716</u>	 <u>364,811,711</u>
  Total liabilities and net assets	  <u>\$ 785,939,285</u>	  <u>\$ 759,272,256</u>

See accompanying notes to consolidated financial statements.

## DEACONESS HEALTH SYSTEM, INC.

### CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
<b>Unrestricted revenue and other support</b>		
Net patient service revenue	\$ 587,294,767	\$ 581,457,767
Other revenue	32,473,481	35,025,538
Total unrestricted revenue and other support	619,768,248	616,483,305
<b>Expenses</b>		
Salaries and wages	231,983,800	229,209,371
Employee benefits	61,935,271	52,420,094
Supplies	105,977,878	104,048,967
Contract services	67,103,228	75,429,406
Repairs and maintenance	19,692,800	19,268,093
Provision for bad debts	26,567,615	31,990,056
Depreciation and amortization	37,064,471	34,049,286
Interest	6,703,105	7,353,249
Utilities	12,155,122	12,256,815
Other	28,414,384	28,890,978
Total expenses	597,597,674	594,916,315
Income from operations	22,170,574	21,566,990
<b>Nonoperating gain</b>		
Investment income and other nonoperating	4,592,610	11,073,890
Net income	26,763,184	32,640,880
<b>Other changes in unrestricted net assets</b>		
Net unrealized gain on investments	7,507,505	4,519,311
Pension related changes other than net periodic pension cost	7,620,595	(48,470,748)
Other changes in unrestricted net assets	-0-	(445,404)
Change in unrestricted net assets	41,891,284	(11,755,961)
<b>Temporarily restricted net assets</b>		
Contributions, gifts and bequests	1,683,531	931,779
Net unrealized gain (loss) on investments	332,163	(23,091)
Investment income	91,609	227,017
Net assets released from restriction	(1,410,601)	(1,499,589)
Change in temporarily restricted net assets	696,702	(363,884)
<b>Consolidated change in net assets</b>	42,587,986	(12,119,845)
Less amount attributable to non-controlling interest	(4,703,236)	(1,928,105)
Change in net assets attributable to controlling interest	\$ 37,884,750	\$ (14,047,950)

See accompanying notes to consolidated financial statements.

## DEACONESS HEALTH SYSTEM, INC.

### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	Controlling Interest	Non-controlling Interest	Total
<b>Net assets</b>			
September 30, 2008	\$ 371,263,702	\$ 1,147,139	\$ 372,410,841
Consolidated change in net assets	(14,047,950)	1,928,105	(12,119,845)
Contributions	-0-	6,830,322	6,830,322
Distributions	-0-	(2,309,607)	(2,309,607)
September 30, 2009	357,215,752	7,595,959	364,811,711
Consolidated change in net assets	37,884,750	4,703,236	42,587,986
Contributions	-0-	255,286	255,286
Distributions	-0-	(4,261,267)	(4,261,267)
September 30, 2010	\$ 395,100,502	\$ 8,293,214	\$ 403,393,716

See accompanying notes to consolidated financial statements.

## DEACONESS HEALTH SYSTEM, INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
<b>Operating activities</b>		
Consolidated change in net assets	\$ 42,587,986	\$ (12,119,845)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	37,064,471	34,049,286
Provision for bad debts	26,567,615	31,990,056
Net realized and unrealized (gain) loss on investments	(7,546,941)	(2,624,566)
(Gain) loss on disposal of assets	166,138	(7,607,075)
Amortization of deferred financing costs and original issue discount	255,298	182,066
Pension related changes other than net periodic pension cost	(7,620,595)	48,470,748
Changes in operating assets and liabilities		
Patient accounts receivable	(33,670,580)	(51,299,595)
Other current assets	(2,113,847)	1,315,554
Accounts payable and other current liabilities	2,184,648	4,311,911
Salaries, wages and related liabilities	72,913	5,653,724
Estimated third-party payor settlements	3,908,553	3,650,085
Accrued interest	(23,684)	411,681
Pension liability and other	3,488,850	(1,126,412)
Net cash flows from operating activities	65,320,825	55,257,618
<b>Investing activities</b>		
Purchases of property and equipment	(76,311,502)	(52,491,729)
Proceeds from sale of assets	-0-	9,600,000
Transfers to/from trustee assets for principal, interest and construction draws	45,524,551	(80,028,298)
Change in board designated funds	2,409,174	(24,702,856)
Change in other investments	(364,539)	340,793
Change in investments in joint ventures and other	1,424,489	(19,697,809)
Net cash flows from investing activities	(27,317,827)	(166,979,899)
<b>Financing activities</b>		
Receipts from non-controlling interest investors	255,286	6,830,322
Distributions to non-controlling interest investors	(4,261,267)	(2,309,607)
Borrowings (payments) on line of credit, net	(4,706,015)	6,226,203
Payments for bond issuance costs	-0-	(2,708,550)
Proceeds from long-term debt	-0-	97,340,000
Repayments on long-term debt	(9,285,325)	(9,654,748)
Net cash flows from financing activities	(17,997,321)	95,723,620
Change in cash and cash equivalents	20,005,677	(15,998,661)
<b>Cash and cash equivalents</b>		
Beginning of year	36,087,733	52,086,394
End of year	\$ 56,093,410	\$ 36,087,733

See accompanying notes to consolidated financial statements.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

Deaconess Health System, Inc. (System) is granted the authority to provide overall direction and control of its subsidiaries, the most significant of which is Deaconess Hospital, Inc. through the bylaws of the System and its subsidiaries.

Deaconess Hospital, Inc. (Hospital), located in Evansville, Indiana, is a general acute care facility with an operational capacity of 496 beds and associated ancillary service departments.

On October 1, 2008, Deaconess Clinic, Inc. (Clinic) was formed as a new subsidiary corporation of the System. The Clinic is comprised of the Deaconess employed primary care physicians known as Deaconess Medical Group and the former Welborn Clinic, a multi-specialty physician group.

The Hospital holds majority ownership interests in the following entities:

- The Heart Hospital at Deaconess Gateway, LLC – 51%
- Heartcare Health System, LLC – 70%
- Progressive Health of Indiana, LLC – 51%
- Tri-State Radiation Oncology, LLC – 51%
- Deaconess Health Plans, LLC – 93%

The Heart Hospital at Deaconess Gateway, LLC is a 24 bed cardiovascular hospital providing a full spectrum of heart care such as; preventative care, medical care, emergent care, diagnostic testing, cardiovascular procedures, cardiovascular surgery and cardiac rehabilitation on an outpatient and inpatient basis.

#### Principles of Consolidation

The consolidated financial statements include the accounts of Deaconess Health System, Inc. and its wholly owned and controlled subsidiaries. All material inter-company accounts and transactions have been eliminated in consolidation.

#### Investments in Joint Ventures

The Hospital is a 50% owner in a joint venture (Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital) dedicated to providing healthcare services for women. The Hospital recorded an investment in The Women's Hospital of approximately \$2,379,000 and \$3,023,000 as of September 30, 2010 and 2009, respectively.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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The Hospital holds a 50% ownership interest in an ambulatory surgery center (Evansville Surgery Center Associates, LLC). The Hospital recorded an investment in Evansville Surgery Center Associates, LLC of approximately \$11,582,000 and \$13,432,000 as of September 30, 2010 and 2009, respectively.

The Hospital also holds a 22% ownership interest in an 80-bed rehabilitation facility (HealthSouth/Deaconess, LLC, d/b/a HealthSouth Deaconess Rehabilitation Hospital). The Hospital recorded an investment in the HealthSouth Deaconess Rehabilitation Hospital of approximately \$4,128,000 and \$3,868,000 as of September 30, 2010 and 2009, respectively.

Investments in organizations where the System's ownership percentage is equal to or less than 50% are included in investments in joint ventures and other assets on the consolidated balance sheets. The System's portion of income from unconsolidated organizations is reported with other revenue and was approximately \$10,523,000 and \$14,018,000 for 2010 and 2009, respectively.

### Non-controlling Interest

New accounting guidance relative to not-for-profit entities regarding the presentation of non-controlling interest in consolidated financial statements will become effective in fiscal 2011. Under the new guidance, non-controlling interest will be reported as a component of net assets in the consolidated balance sheets and consolidated statements of changes in net assets. Additionally, the consolidated change in net assets will be shown in two components to display the portions attributable to both the controlling interest and non-controlling interest on the consolidated statements of operations. The System is currently evaluating the effects of the new guidance and does not anticipate a material effect on the consolidated financial statements related to implementation.

### Use of Estimates

The preparation of the consolidated 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, estimated third-party payor settlements, defined pension plan obligations and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### Charity Care, Community Benefit and Assistance to the Uninsured

The System provides care to patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the System. Essentially, these policies define charity services as those services for which no payment or reduced payment based upon a graduated scale, is anticipated, up to 300% of Federal Poverty Income Guidelines, published by the Department of Health and Human Services and where incurred charges are considered significant when compared to the income of the patient. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue.

The System enhanced its charity care policy to more accurately reflect current economic conditions and other factors unique to the System's customer base. Charity care provided during 2010 and 2009, measured at established rates, was approximately \$61,118,000 and \$52,398,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The System receives reimbursements from certain governmental payors to assist in the funding of charity care.

The System has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self pay discounts provided to patients were approximately \$2,149,000 and \$2,866,000 in 2010 and 2009, respectively.

### Statements of Cash Flows

Cash and cash equivalents are defined as investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by arrangements under trust agreements, board designation or by donors. The System maintains its cash in accounts, which at times may exceed federally insured limits. The policy of the System is to collateralize deposits. The System has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Cash paid for interest, net of amount capitalized was approximately \$6,727,000 and \$6,942,000 in 2010 and 2009, respectively. Interest costs capitalized were approximately \$3,747,000 and \$2,067,000 in 2010 and 2009, respectively. Interest income capitalized was approximately \$569,000 and \$438,000 in 2010 and 2009, respectively. Noncash investing activities include property and equipment in liabilities of approximately \$2,205,000 and \$5,466,000 as of September 30, 2010 and 2009, respectively. Other noncash investing and financing activities include property and equipment acquired through capital leases and liability assumption of approximately \$-0- and \$17,654,000 for 2010 and 2009, respectively.

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# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### Patient Accounts Receivable, Estimated Third-Party Payor Settlements and Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others (principally insurers) for services rendered. Estimated retroactive adjustments under reimbursement agreements with certain third-party payors are included with estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Management estimates an allowance for uncollectible accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the System's customer base.

### Inventories

Inventories (principally pharmaceuticals and medical supplies) are stated at the lower of cost (first in, first out) or market.

### Property and Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset using the straight-line method. Equipment under capital leases is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, if shorter. Amortization is included with depreciation.

### Investments Limited as to Use

Investments are stated at fair value. Dividends, interest income and realized gains and losses on sales of investments are recorded as nonoperating investment income. Unrealized gains (losses) on investments are reported as other changes in net assets in the consolidated statements of operations and changes in net assets.

Investments consist of short-term investments (principally money market mutual funds), US Government and government agency obligations, marketable debt securities (corporate bonds and fixed income mutual funds), marketable equity securities (common and preferred corporate stock, equity mutual funds and private equity investments) and guaranteed investment contracts. Fair values for investments are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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Private equity investments consist of limited partnerships investing in common stock of small and medium capitalization companies and diversified pool of real estate holdings. Investments in those limited partnerships are reported at fair value as determined by the individual manager of each partnership. Although the manager uses its best judgment in estimating the fair value of the investments in the investment funds, there are inherent limitations in any estimation technique. Therefore, the values reported are not necessarily indicative of the amount that the investments funds could realize in a current transaction.

These estimated values may differ significantly from the values that would have been used had a ready market for the investments in the investment funds existed and the difference could be material. Private equity investments totaled approximately \$2,655,000 (1.7% of investment portfolio) and \$4,172,000 (1.8% of investment portfolio) as of September 30, 2010 and 2009, respectively.

Investments limited as to use include assets held by trustees under indenture agreements and amounts set aside by the Board of Directors for future capital improvements and retirement of debt over which the Board retains control and may at its discretion subsequently designate for other purposes. Amounts required to meet current liabilities of the System have been classified as current assets.

### Unamortized Debt Issuance Costs

Costs incurred in connection with the issuance of debt are amortized over the term of the related debt using the bonds outstanding method.

### Goodwill

As of September 30, 2010 and 2009, the System recorded goodwill of approximately \$23,013,000 and \$22,736,000, respectively, related to the acquisition of majority owned entities. Goodwill is included within investments in joint ventures and other assets on the consolidated balance sheets and is amortized over its estimated useful life. Amortization expense related to goodwill was approximately \$413,500 in both 2010 and 2009.

Under the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Not-for-Profit Entities topic, goodwill for not-for-profit entities was amortized over an estimated useful life. Beginning in fiscal year 2011, new accounting guidance related to goodwill for not-for-profit entities will supersede the existing guidance. The System is evaluating the effect of the new guidance on its financial reporting.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### Financial Instruments

Financial instruments consist of cash and cash equivalents, investments, investments limited as to use, accounts receivable, current liabilities, and long-term debt obligations. The historical costs reported in the balance sheets for accounts receivable and current liabilities approximate their fair value. Management's estimate of the fair value of the other financial instruments is described above and in Notes 3, 4 and 5 to the consolidated financial statements.

### Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act (Act) provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

Effective October 1, 2003, the System became a member in a Vermont captive insurance company, Indiana Healthcare Reciprocal Risk Retention Group, to fund the Hospital's required portion of the professional, physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. This 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 Hospital maintains a commercial umbrella/excess liability policy with a limit of \$15,000,000 each occurrence, \$15,000,000 aggregate per member and \$30,000,000 total policy aggregate.

### Performance Indicator

The consolidated statements of operations contain a performance indicator, net income. Consistent with industry practice, unrealized gain and loss on other than trading investments, pension related changes other than net periodic pension cost, equity transfers, contributions restricted for long-term purposes and certain other items are excluded from the performance indicator.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### Pension Plan

The System's defined benefit pension plan covers substantially all employees. The benefits are based on years of service and each employee's compensation during the years of employment. Contributions to the plan include amortization of past service costs plus interest thereon over approximately ten years and are currently funded.

### Income Taxes

The System and Hospital are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. The Clinic's application for tax-exempt status was approved by the IRS during 2010. The remaining consolidated subsidiaries are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability companies.

### Temporarily Restricted Net Assets

Temporarily restricted net assets include those assets whose use by the System has been temporarily limited primarily for capital projects or a specified time period or purpose. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restriction, which is included with other revenue.

### Advertising Costs

Advertising costs are expensed as incurred. Total expense for 2010 and 2009 was approximately \$1,521,000 and \$1,634,000, respectively.

### Functional Expenses

The System provides health care services to patients in the community and the surrounding areas. Health care services and other certain related expenses were approximately \$547,438,000 and \$544,982,000 for 2010 and 2009, respectively. General and administrative expenses were approximately \$50,160,000 and \$49,935,000 for 2010 and 2009, respectively.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### Reclassification

Certain 2009 amounts in the consolidated financial statements have been reclassified to conform to the 2010 presentation. The effect of these reclassifications had no effect on previously-reported net income or net assets.

### Subsequent Events

The System evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is November 30, 2010.

## 2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

### Medicare

Inpatient acute care services, outpatient services and physician services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Certain outpatient services and defined medical education costs related to Medicare beneficiaries are paid based on cost reimbursement methodologies. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Inpatient non-acute care services are generally reimbursed based upon cost reimbursement methodologies.

### Medicaid

Medicaid services are paid at prospectively determined rates per day or per discharge for inpatients or per occasion of service for outpatients. To the extent that services to Medicare and Medicaid program beneficiaries are reimbursed based on cost reimbursement methodologies, final settlement is determined after submission of annual cost reports and audits thereof by the fiscal intermediary.

Estimates for final settlements of all unaudited Medicare and Medicaid cost reports through September 30, 2010 have been recorded. Cost reports through September 30, 2006 have been audited and settled as of September 30, 2010.

## DEACONESS HEALTH SYSTEM, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

The Hospital has also entered into payment agreements with certain other 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.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the consolidated statements of operations for 2010 and 2009 is as follows:

	2010	2009
Patient service revenue	\$ 1,532,083,414	\$ 1,442,693,807
Adjustments		
Charity care revenue foregone	61,118,395	52,398,197
Uninsured self pay discounts	2,148,891	2,865,868
Contractual adjustments	881,521,361	805,971,975
Total adjustments	944,788,647	861,236,040
Net patient service revenue	\$ 587,294,767	\$ 581,457,767

Changes to any previous year's estimated settlement are reflected in the period the intermediary finalizes its audit of cost reports, or when additional information becomes available. Settlements related to prior year cost reports resulted in an increase to net patient service revenue of \$-0- in 2010 and 2009.

The following is mix of gross patient accounts receivable and gross patient service revenue for 2010 and 2009:

	Receivable		Revenue	
	2010	2009	2010	2009
Medicare	24%	30%	45%	46%
Medicaid	8%	8%	9%	8%
Commercial and managed care	45%	43%	40%	40%
Self pay and other	23%	19%	6%	6%
	100%	100%	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### 3. LONG-TERM DEBT

The following is a summary of long-term debt as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Hospital Revenue Bonds, Series 1992 Serial bonds, payable annually from January 2004 through January 2022 in amounts ranging from \$600,000 to \$1,700,000 plus interest at variable rates (.27% and .82% as of September 30, 2010 and 2009, respectively)	\$ 14,600,000	\$ 15,400,000
Hospital Revenue Refunding Bonds, Series 1993 Variable Rate Certificates with maturities beginning in 2004 and ending in 2015; interest rate at SIFMA plus 125 basis points (1.78% and 2.08% as of September 30, 2010 and 2009, respectively)	13,950,000	16,610,000
Hospital Revenue Refunding Bonds, Series 1999A Term bonds, payable from March 2010 through March 2029 in amounts ranging from \$605,000 to \$1,715,000 with interest; rates ranging from 5.50% to 5.75%	20,910,000	21,515,000
Hospital Revenue Bonds, Series 1999B (taxable) Serial bonds, payable annually from January 2003 through January 2019 in amounts ranging from \$600,000 to \$1,600,000 plus interest at variable rates (.30% as of September 30, 2010 and 2009)	11,200,000	12,100,000
Hospital Revenue Bonds, Series 2004A Term bonds, payable from March 2020 through March 2034 in amounts ranging from \$440,000 to \$8,065,000 with interest; rates ranging from 5.00% to 5.375%	54,765,000	54,765,000
Hospital Revenue Bonds, Series 2004B Serial bonds, payable annually from January 2010 through January 2029 in amounts ranging from \$870,000 to \$1,720,000 plus interest at variable rates (.28% and .90% as of September 30, 2010 and 2009, respectively)	24,130,000	25,000,000
Hospital Revenue Bonds, Series 2009A Term bonds, payable annually from March 2020 through March 2039 in amounts ranging from \$55,000 to \$12,110,000 with interest; fixed rate 6.75%	57,340,000	57,340,000

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# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

	2010	2009
Hospital Revenue Bonds, Series 2009B		
Serial bonds, payable annually from March 2016 through March 2039 in amounts ranging from \$195,000 to \$2,855,000 plus interest at variable rates (.28 % and .35% as of September 30, 2010 and 2009, respectively)	\$ 40,000,000	\$ 40,000,000
Original issue discounts and premiums, net	(1,533,085)	(1,598,764)
Capital lease obligations, payable in installments ranging from \$3,900 to \$385,000 with interest ranging from 5% to 11%, expiring through June 2013, secured by equipment	5,858,590	9,098,423
Notes payable, due in monthly installments through October 2014; interest ranging from 4.85% to 8.00%, secured by equipment	3,432,123	3,642,615
	244,652,628	253,872,274
Less current portion	9,241,622	10,102,296
Long-term debt, net of current portion	\$ 235,411,006	\$ 243,769,978

In 2004, the Hospital refinanced its existing Series 1993 Fixed Rate Bonds through the issuance of Variable Rate Certificates. As part of the refinancing:

- The Hospital obtained the appropriate approvals and documented amendments from the Trustee and called the Series 1993 Fixed Rate Bonds at the first optional call date in 2004 from the current bondholders, paying a call premium of 102.
- The Hospital sold the Series 1993 Fixed Rate Bonds to an unrelated third-party Financial Institution.
- The Financial Institution sold the Series 1993 Fixed Rate Bonds to a Trust (also a subsidiary of the Financial Institution).
- The Trust issued variable certificates, which will be remarketed and repriced weekly. Variable certificate holders will have the right to put their ownership interest in the Trust on a weekly basis at par.
- The Hospital entered into a Total Return Distribution Agreement with the Financial Institution under which the Hospital receives the fixed rate on the Series 1993 Fixed Rate Bonds and pays a variable rate equal to the SIFMA Index plus 125 basis points. This Agreement also includes a total return payment at termination equal to any gain (paid by the Financial Institution) or loss (paid by the Hospital) in the value of the Series 1993 Fixed Rate Bonds.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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The Trust is considered a special-purpose entity. The Hospital still bears the risks and rewards of ownership due to the nature of the Total Return Distribution Agreement as discussed above. Based on the structure of this transaction, the Hospital has consolidated the activities of the Trust. The net result of this series of transactions is that the Hospital converted its old fixed rate debt to lower variable rate debt with substantial future savings.

In addition, both the Total Return Distribution Agreement between the Hospital and the Financial Institution and the Financial Institution's residual interest in the Trust are considered derivative instruments and marked to market in accordance with the appropriate FASB ASC topic each period. The fair value of the derivative instruments are deemed immaterial. Therefore, any further fair value disclosures related to the derivative instruments are not included in these consolidated financial statements.

In 2010, the Series 1993 Bonds fell below par value and the System transferred approximately \$800,000 to a restricted account to serve as collateral. This amount is included in funds held by trustee on the consolidated balance sheet as of September 30, 2010.

The fair value of the fixed rate Hospital Revenue and Revenue Refunding Bonds (Series 1999A, 2004A and 2009A) approximated \$155,930,000 (carrying value of \$133,015,000) as of September 30, 2010. The fair value of the fixed rate obligations is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of variable rate debt (Series 1992, 1999B, 2004B, 2009B and Variable Rate Certificates) approximates its carrying value.

Interest rates for the variable rate Series 1992, 1999B, 2004B and 2009B bonds and the Variable Rate Certificates are determined on a weekly basis. As provided in the bond agreements, the interest rate determination is subject to conversion, as elected by the Hospital, to other interest modes which determine the frequency, dates, and calculation of interest payments. In addition, bondholders have the option to present the Series 1992 or 1999B bonds for purchase at various times during the year. Commercial banks have agreed, pursuant to two separate Standby Purchase and Credit Agreements (Agreements), to provide liquidity support should any of the Series 1992 or 1999B bonds presented by bondholders for purchase not be remarketed. The Agreements are subject to renegotiations and renewals.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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The Series 1992 letter of credit, in the amount of approximately \$14,600,000 with no outstanding balance as of September 30, 2010 expires in August 2013. In the event of a failed remarketing, a liquidity advance bears interest at the bank's prime rate plus 1%, payable monthly. Principal on the liquidity advance is due in twelve equal quarterly installments beginning 367 days after the liquidity advance. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

The Series 1999B letter of credit, in the amount of approximately \$11,200,000 with no outstanding balance as of September 30, 2010 expires in April 2012. In the event of a liquidity drawing, the System will reimburse the bank in quarterly installments through the termination date unless the bonds are remarketed, redeemed or purchased at which time the liquidity advance is due. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

The Series 2004B letter of credit, in the amount of approximately \$24,130,000 with no outstanding balance as of September 30, 2010 expires in August 2013. Any liquidity advance is due at the earlier of the stated expiration date of the letter of credit (August 2013), the date the pledged bonds are redeemed pursuant to the bond indenture, the date the pledged bonds are remarketed or purchased by the Hospital or the date an alternative credit facility is issued. Principal on the liquidity advance is due in twelve equal quarterly installments beginning 367 days after the liquidity advance. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

The Series 2009B letter of credit, in the amount of approximately \$40,000,000 with no outstanding balance as of September 30, 2010 expires in March 2012. Any liquidity advance is due at the earlier of the stated expiration date of the letter of credit (March 2012), the date the pledged bonds are redeemed pursuant to the bond indenture, the date the pledged bonds are remarketed or purchased by the Hospital or the date an alternative credit facility is issued. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

Additionally, the Series 1992, 1999A, 1999B, 2004A, 2004B, 2009A and 2009B bonds and the Variable Rate Certificates are secured by a security interest in the Hospital's revenue. The System covenants that it will not permit any lien or security interest on the Hospital facility other than certain permitted encumbrances. In addition, the various agreements require maintenance of certain debt service income ratios, limit additional borrowings, and require compliance with various other restrictive covenants.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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During 2009, the System entered into capital lease obligations. The asset cost on the capital leased assets as of September 30, 2010 and 2009 was approximately \$12,661,000. The accumulated amortization on the capital leased assets as of September 30, 2010 and 2009 was approximately \$3,259,000 and \$997,000, respectively.

As of September 30, 2010, the System had remaining construction commitments of approximately \$24,372,000.

Aggregate maturities of long-term debt are as follows:

<u>Year Ending September 30,</u>	
2011	\$ 9,241,622
2012	9,801,376
2013	8,917,093
2014	7,926,141
2015	5,909,481
Thereafter	<u>202,856,915</u>
	<u>\$ 244,652,628</u>

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

### 4. INVESTMENTS

Investments at fair value consisted of the following as of September 30:

	2010	2009
Board designated funds		
Cash and short-term investments	\$ 6,861,972	\$ 11,095,544
US Government and government agency obligations	19,959,599	17,018,835
Marketable debt securities	67,677,168	60,704,327
Marketable equity securities	53,224,471	54,076,570
Accrued interest and other	401,402	423,732
	148,124,612	143,319,008
Funds held by trustee		
Cash and short-term investments	13,107,751	14,124,034
Guaranteed investment contracts	17,030,927	61,573,630
US Government and government agency obligations	5,646,026	5,611,591
	35,784,704	81,309,255
Less current portion	32,280,782	53,878,232
	3,503,922	27,431,023
Temporarily restricted		
Cash and short-term investments	252,936	362,766
US Government and government agency obligations	793,515	883,954
Marketable debt securities	2,264,831	2,432,695
Marketable equity securities	4,809,753	3,744,776
Accrued interest and other	9,454	9,596
	8,130,489	7,433,787
Investments limited as to use, net	\$ 159,759,023	\$ 178,183,818

Investments reported as current assets are those that the System has made available for use in operations within the next twelve months. Investments limited as to use that are required for obligations classified as current liabilities are also reported in current assets.

## DEACONESS HEALTH SYSTEM, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

A detail of investment income and other nonoperating for 2010 and 2009 is as follows:

	2010	2009
Interest and dividends	\$ 5,051,475	\$ 5,338,469
Net realized loss	(292,727)	(1,871,654)
Investment income, net	4,758,748	3,466,815
Gain (loss) on sale of assets	(166,138)	7,607,075
	\$ 4,592,610	\$ 11,073,890

The following schedule summarizes the fair value of securities included in investments limited as to use that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of September 30, 2010 and 2009. The schedule further segregates the securities that have been in a gross unrealized position as of September 30, 2010 and 2009, 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 2011. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of September 30, 2010 and 2009. During 2010, the System did reclassify unrealized losses of approximately \$2,015,000 to realized losses for other than temporary impairment of investments.

Description of Securities	September 30, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government and government agency obligations	\$ 1,574,306	\$ 6,786	\$ -0-	\$ -0-	\$ 1,574,306	\$ 6,786
Marketable debt securities	5,267,374	99,056	134,064	27,599	5,401,438	126,655
Marketable equity securities	897,406	118,979	32,170,595	5,562,816	33,068,001	5,681,795
Total temporarily impaired securities	\$ 7,739,086	\$ 224,821	\$32,304,659	\$ 5,590,415	\$40,043,745	\$ 5,815,236

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Description of Securities	September 30, 2009					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government and government agency obligations	\$ 315,119	\$ 288	\$ 46,289	\$ 3,068	\$ 361,408	\$ 3,356
Marketable debt securities	1,538,736	87,498	1,246,531	125,048	2,785,267	212,546
Marketable equity securities	6,907,220	1,683,035	29,949,803	7,446,890	36,857,023	9,129,925
Total temporarily impaired securities	<u>\$ 8,761,075</u>	<u>\$ 1,770,821</u>	<u>\$31,242,623</u>	<u>\$ 7,575,006</u>	<u>\$40,003,698</u>	<u>\$ 9,345,827</u>

The System's investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

### 5. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for level 3 assets measured at fair value:

Guaranteed investment contracts are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit worthiness of the issuer.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Private equity investments, consisting of mainly limited partnerships, are valued at the percentage ownership of the net asset value as reported to the System by the individual managers. The limited partnerships invest in a variety of domestic and foreign equity and debt securities, managed accounts and other investment vehicles that employ diversified styles and strategies.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 are as follows:

	September 30, 2010			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments limited as to use				
Common stock	\$ 21,624,176	\$ 21,624,176	\$ -0-	\$ -0-
Mutual funds	33,754,794	33,754,794	-0-	-0-
US Government and government agency obligations	26,399,140	26,399,140	-0-	-0-
Corporate bonds	69,941,999	-0-	69,941,999	-0-
Guaranteed investment contracts	17,030,927	-0-	-0-	17,030,927
Private equity	2,655,254	-0-	-0-	2,655,254
	<u>171,406,290</u>	<u>\$ 81,778,110</u>	<u>\$ 69,941,999</u>	<u>\$ 19,686,181</u>
Cash and short-term investments	20,222,659			
Accrued interest and other	410,856			
Total investments limited as to use	<u>\$ 192,039,805</u>			

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 are as follows:

	September 30, 2009			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Investments limited as to use				
Common stock	\$ 23,967,172	\$ 23,967,172	\$ -0-	\$ -0-
Mutual funds	67,373,421	67,373,421	-0-	-0-
US Government and government agency obligations	23,514,380	-0-	23,514,380	-0-
Corporate bonds	25,445,521	-0-	25,445,521	-0-
Guaranteed investment contracts	61,573,630	-0-	-0-	61,573,630
Private equity	4,172,254	-0-	-0-	4,172,254
	<u>206,046,378</u>	<u>\$ 91,340,593</u>	<u>\$ 48,959,901</u>	<u>\$ 65,745,884</u>
Cash and short-term investments	25,582,344			
Accrued interest and other	433,328			
Total investments limited as to use	<u>\$ 232,062,050</u>			

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

The following table sets forth a summary of changes in the fair value of level 3 assets for the years ended September 30, 2010 and 2009:

	2010		2009	
	Guaranteed Investment Contracts	Private Equity	Guaranteed Investment Contracts	Private Equity
Beginning of year	\$ 61,573,630	\$ 4,172,254	\$ -0-	\$ 6,400,219
Unrealized and realized loss	-0-	(1,517,000)	-0-	(1,171,721)
Purchases and sales, net	(44,542,703)	-0-	61,573,630	(1,056,244)
End of year	\$ 17,030,927	\$ 2,655,254	\$ 61,573,630	\$ 4,172,254

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value.

Long-term debt: Fair value of the System's fixed rate revenue bonds is based on current transacted value. The fair value of the System's remaining long-term debt approximates carrying value.

## 6. LINE OF CREDIT

The Heart Hospital at Deaconess Gateway, LLC (Heart Hospital) has a line of credit available with a local financial institution. Amounts outstanding as of September 30, 2010 and 2009 were approximately \$1,520,000 and \$6,226,000, respectively. As of September 30, 2010, the line of credit maximum amount was \$4,000,000 bearing interest at the 30 day LIBOR rate plus 1.75%. Interest at September 30, 2010 was 3.00%. The line of credit is secured by accounts receivable, inventory and equipment and is due September 2011.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

### 7. PENSION PLANS

The System offers a noncontributory defined benefit pension plan covering all eligible employees. Benefits are based on each participant's years of service and compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

The following table sets forth the funded status of the defined benefit plan and amounts recognized in the financial statements as of and for the years ended September 30, 2010 and 2009.

	2010	2009
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 167,647,128	\$ 111,745,662
Service cost	7,858,330	4,554,299
Interest cost	9,278,210	8,247,461
Benefits paid	(3,369,472)	(2,938,630)
Actuarial (gain) loss	(3,257,575)	46,038,336
Benefit obligation, end of year	\$ 178,156,621	\$ 167,647,128
Changes in plan assets		
Fair value of plan assets, beginning of year	\$ 108,641,769	\$ 98,594,678
Actual return on plan assets	9,192,042	4,984,721
Employer contributions	8,004,000	8,001,000
Benefits paid	(3,369,472)	(2,938,630)
Fair value of plan assets, end of year	\$ 122,468,339	\$ 108,641,769
Funded status		
Funded status of the plan, end of year	\$ (55,688,282)	\$ (59,005,359)
Amounts recognized in the consolidated balance sheets consist of		
Other long-term liabilities	\$ (55,688,282)	\$ (59,005,359)

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

Other pension disclosures for 2010 and 2009 include:

	2010	2009
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Transition obligation asset (obligation)	\$ -0-	\$ -0-
Prior service cost	(86,312)	(106,063)
Accumulated loss	(66,013,839)	(73,614,683)
Other changes in unrestricted net assets	(66,100,151)	(73,720,746)
Cumulative employer contributions in excess of net periodic pension cost	10,411,869	14,715,387
Net amount recognized in the consolidated balance sheets	\$ (55,688,282)	\$ (59,005,359)
Components of net periodic benefit cost		
Service cost	\$ 7,858,330	\$ 4,554,299
Interest cost	9,278,210	8,247,461
Expected return on plan assets	(9,407,712)	(8,569,459)
Amortization of prior year service cost	19,751	29,993
Amortization of loss	4,558,939	1,122,333
Net periodic benefit cost	\$ 12,307,518	\$ 5,384,627
Other changes in unrestricted net assets		
Prior service cost arising during year	\$ -0-	\$ -0-
Net loss (gain) arising during year	(3,041,905)	49,623,074
Amortization of prior service (cost) credit	(19,751)	(29,993)
Amortization of gain (loss)	(4,558,939)	(1,122,333)
Total other changes in unrestricted net assets	\$ (7,620,595)	\$ 48,470,748
Estimated amounts that will be amortized from other changes in unrestricted net assets over the next fiscal year		
Amortization of transition (obligation) asset	\$ -0-	\$ -0-
Amortization of prior service (cost) credit	\$ (19,751)	\$ (19,751)
Amortization of loss	\$ (3,880,691)	\$ (4,577,292)
Weighted-average actuarial assumptions to determine benefit obligations of September 30		
Discount rate	5.50%	5.60%
Rate of compensation increase	3.50%	4.50%
Measurement date	9/30/10	9/30/09

## DEACONESS HEALTH SYSTEM, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

	2010	2009
Weighted-average actuarial assumptions to determine net periodic pension cost as of September 30		
Discount rate	5.60%	7.50%
Expected long-term rate of return	8.50%	8.50%
Rate of compensation increase	4.50%	4.50%
Additional year end information		
Projected benefit obligation	\$ 178,156,621	\$ 167,647,128
Accumulated benefit obligation	\$ 150,058,858	\$ 132,233,272
Fair value of plan assets	\$ 122,468,339	\$ 108,641,769

The following is a schedule by year of expected benefit payments as of September 30, 2010

Year Ending September 30,	
2011	\$ 4,108,000
2012	4,663,000
2013	5,274,000
2014	6,032,000
2015	6,788,000
2016-2020	47,666,000
	\$ 74,531,000

Determination of net periodic pension cost for the years ended September 30, 2010 and 2009 is based on assumptions and census data as of January 1, 2010 and 2009, respectively.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The plan allocation includes growth assets (60%) and fixed income (40%). In addition, active management strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan.

## DEACONESS HEALTH SYSTEM, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

The Plan's weighted-average, asset allocations as of September 30, 2010 and 2009, by asset category, are as follows:

	2010	2009
Mutual funds - equity funds	53%	49%
Mutual funds - bond funds	39%	39%
Marketable equity securities	4%	4%
Private equity	4%	8%
	100%	100%

The allocation strategy for the Plan currently comprises approximately 50% to 70% growth investments (target of 60%) and 30% to 50% fixed-income investments (target of 40%). Within the growth investment classification, the plan asset strategy encompasses equity and equity-like instruments that are expected to represent approximately 60% of the System's plan asset portfolio of both public and private market investments. The largest component of these equity and equity-like instruments is public equity securities that are well diversified and invested in U.S. and international companies.

The following is an analysis of fair value of the major classes of plan assets of September 30, 2010 and 2009:

	2010	2009
Level 1		
Mutual funds - equity funds	\$ 65,340,216	\$ 53,234,467
Mutual funds - bond funds	47,288,950	42,370,290
Marketable equity securities	5,032,092	4,345,671
Total level 1	117,661,258	99,950,428
Level 3		
Private equity	4,807,081	8,691,341
	\$ 122,468,339	\$ 108,641,769

Fair value of mutual funds and marketable equity securities are based on the quoted prices in active markets. The fair value of the private equity funds is valued at the percentage ownership of the net asset value as reported to the plan by the individual managers. The change in value on the private equity funds from between years consists of realized and unrealized gains and losses, purchases, and sales.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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The System expects to contribute in excess of the required funding amounts to its pension plan in 2011, currently approximating \$8,000,000.

The System also offers a 401k plan to eligible employees. Total expense for the System's matching contributions for eligible employees for 2010 and 2009 was approximately \$2,202,000 and \$1,883,000, respectively.

### 8. RELATED PARTY TRANSACTIONS

The System is a joint-owner of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital, a 74 bed full-service women's health care facility located in Newburgh, Indiana. The System owns the building in which The Women's Hospital is located and leases the space to The Women's Hospital currently at \$230,000 per month with an option to increase that amount annually through June 2030. The System also carries a note receivable from the facility of approximately \$357,000 and \$471,000 as of September 30, 2010 and 2009, respectively.

The System is a joint owner of Evansville Surgery Center Associates, LLC (Surgery Center). As of September 30, 2010 and 2009, the System recorded liabilities to the Surgery Center of approximately \$5,006,000 and \$8,700,000, respectively. Additionally, the System recorded contract service expense related to the Surgery Center of approximately \$30,175,000 in 2010 and \$36,235,000 in 2009.

# DEACONESS HEALTH SYSTEM, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2010 AND 2009

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### 9. COMMITMENTS AND CONTINGENCIES

#### Operating leases

The System leases various equipment and facilities under operating leases expiring at various dates through 2018. Total lease expense for 2010 and 2009 was approximately \$12,473,000 and \$13,679,000, respectively. The following are the minimum lease payments for the years after September 30, 2010:

<u>Year Ending September 30,</u>	
2011	\$ 9,631,000
2012	8,438,000
2013	7,727,000
2014	6,747,000
2015	6,540,000
Thereafter	<u>24,284,000</u>
	<u>\$ 63,367,000</u>

#### Litigation

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

#### Health Insurance

The System's employee health care insurance is provided through a combination of insured, self-insured and purchased re-insurance coverage from a commercial carrier. The System maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The self-insured health coverage carries a stop-loss maximum of \$200,000 per case with no aggregate limit.

SUPPLEMENTARY INFORMATION

# DEACONESS HEALTH SYSTEM, INC.

## CONSOLIDATING BALANCE SHEETS SEPTEMBER 30, 2010

Assets	Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic	Heart Care Health System, LLC	Progressive Health of Indiana, LLC	The Heart Hospital At Deaconess Gateway, LLC	Tri-State Radiation Oncology, LLC	Deaconess Health Plans, LLC
<b>Current assets</b>									
Cash and cash equivalents	\$ 56,093,410	\$ -	\$ 47,360,765	\$ -	\$ 179,801	\$ 1,183,693	\$ 3,083,768	\$ 1,941,801	\$ 2,323,582
Funds held by trustee, current portion	32,280,782	-	32,280,782	-	-	-	-	-	-
Patient accounts receivable, net	113,787,194	-	100,255,565	5,476,697	13,086	51,342	7,176,422	814,082	-
Inventories	6,110,441	-	5,359,268	-	-	4,600	746,573	-	-
Prepaid expenses and other current assets	12,498,906	(996,084)	7,957,779	4,412,894	-	959,538	73,539	91,240	-
Total current assets	220,770,733	(996,084)	193,234,159	9,889,591	192,887	2,199,173	11,060,302	2,847,123	2,323,582
<b>Investments limited as to use, less current portion</b>									
Board designated funds	148,124,612	-	148,124,612	-	-	-	-	-	-
Funds held by trustee	3,503,922	-	3,503,922	-	-	-	-	-	-
Temporarily restricted	8,130,489	-	8,130,489	-	-	-	-	-	-
Total investments limited as to use	159,759,023	-	159,759,023	-	-	-	-	-	-
<b>Property and equipment</b>									
Land and improvements	17,967,232	-	17,967,232	-	-	-	-	-	-
Buildings and fixed equipment	399,131,262	-	391,243,412	-	-	18,401	3,752,208	4,117,241	-
Movable equipment	194,671,499	-	188,355,192	4,972,005	1,030	116,719	-	1,032,151	194,402
Less allowances for depreciation	611,769,993	-	597,565,836	4,972,005	1,030	135,120	3,752,208	5,149,392	194,402
	351,694,604	-	346,532,684	1,705,021	1,030	54,274	1,795,007	1,450,403	156,185
	260,075,389	-	251,033,152	3,266,984	-	80,846	1,937,201	3,698,989	38,217
Construction in progress	90,473,250	-	89,671,005	801,172	-	-	1,073	-	-
Total property and equipment, net	350,548,639	-	340,704,157	4,068,156	-	80,846	1,938,274	3,698,989	38,217
<b>Other assets</b>									
Deferred financing costs	2,933,648	-	2,933,648	-	-	-	-	-	-
Investments in joint ventures and other	51,927,242	(15,178,125)	60,191,479	251,898	-	-	6,658,815	3,375	-
Total other assets	54,860,890	(15,178,125)	63,125,127	251,898	-	-	6,658,815	3,375	-
Total assets	\$ 785,939,265	\$ (16,174,209)	\$ 756,822,466	\$ 14,209,445	\$ 192,887	\$ 2,280,019	\$ 19,697,391	\$ 6,549,487	\$ 2,361,799

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# DEACONESS HEALTH SYSTEM, INC.

## CONSOLIDATING BALANCE SHEETS SEPTEMBER 30, 2010

Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic	Heart Care Health System, LLC	Progressive Health of Indiana, LLC	The Heart Hospital At Deaconess Gateway, LLC	Tri-State Radiation Oncology, LLC	Deaconess Health Plans, LLC
<b>Liabilities and net assets</b>								
<b>Current liabilities</b>								
Accounts payable and other current liabilities	\$ (996,084)	\$ 31,864,952	\$ 6,089,985	\$ 81,245	\$ 180,684	\$ 3,849,412	\$ 676,524	\$ 36,889
Salaries, wages and related liabilities	-	22,863,998	3,708,474	-	422,118	-	81,522	-
Estimated third-party payor settlements	-	4,041,446	-	-	-	1,484,551	-	-
Accrued interest	-	1,021,990	-	-	-	841	-	-
Line of credit	-	-	-	-	-	1,520,188	-	-
Current portion of long-term debt	-	8,415,087	-	-	-	-	826,535	-
Total current liabilities	(996,084)	68,207,473	9,798,359	81,245	602,802	6,854,992	1,584,561	36,889
<b>Long-term liabilities</b>								
Long-term debt, less current portion	-	232,805,418	-	-	-	-	2,605,588	-
Other long-term liabilities	-	60,709,075	(65,411)	-	-	-	318,642	-
Total long-term liabilities	-	293,514,493	(65,411)	-	-	-	2,924,230	-
Total liabilities	(996,084)	361,721,966	9,732,948	81,245	602,802	6,854,992	4,508,811	36,889
<b>Net assets</b>								
Unrestricted								
Temporarily restricted	(23,471,339)	386,970,013	4,476,497	111,642	1,677,217	12,842,399	2,040,676	2,322,910
Net assets - controlling interest	-	8,130,489	-	-	-	-	-	-
Non-controlling interest	(23,471,339)	395,100,502	4,476,497	111,642	1,677,217	12,842,399	2,040,676	2,322,910
Total net assets	(46,942,678)	785,939,295	14,209,445	192,887	2,280,019	19,687,391	6,549,487	2,361,799
Total liabilities and net assets	(16,174,209)	785,939,295	14,209,445	192,887	2,280,019	19,687,391	6,549,487	2,361,799

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# DEACONESS HEALTH SYSTEM, INC.

## CONSOLIDATING STATEMENTS OF OPERATIONS YEAR ENDED SEPTEMBER 30, 2010

	Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic	Heart Care Health System, LLC	Progressive Health of Indiana, LLC	The Heart Hospital At Deaconess Gateway, LLC	Tri-State Radiation Oncology, LLC	Deaconess Health Plans, LLC
<b>Unrestricted revenue and other support</b>									
Net patient service revenue	\$ 587,294,767	\$ -	\$ 497,439,701	\$ 48,401,716	\$ 399,813	\$ 1,853,081	\$ 39,200,456	\$ -	\$ -
Other revenue	32,473,481	2,898,458	7,963,179	481,818	-	11,064,293	60	8,853,090	1,212,583
Total unrestricted revenue and other support	619,768,248	2,898,458	505,402,880	48,883,534	399,813	12,917,374	39,200,516	8,853,090	1,212,583
<b>Expenses</b>									
Salaries and wages	231,983,800	-	180,941,725	40,394,914	238,766	8,072,591	-	1,624,862	710,922
Employee benefits	61,935,271	-	54,871,693	6,997,485	66,093	-	-	-	-
Supplies	105,977,878	-	89,132,397	4,271,940	3,988	150,737	12,404,489	-	-
Contract services	67,103,228	(12,763,246)	53,160,739	7,778,419	761,789	952,364	16,255,121	853,735	104,307
Repairs and maintenance	19,692,800	-	18,083,037	335,675	-	95,378	407,274	771,436	-
Provision for bad debts	26,567,615	-	23,754,974	1,003,040	-	80,464	1,729,117	-	-
Depreciation and amortization	37,064,471	-	34,355,808	851,795	-	18,219	809,618	943,039	85,992
Interest	6,703,105	-	6,374,865	1,307	-	-	43,079	283,854	-
Utilities	12,155,122	-	10,367,620	1,444,007	5,239	56,182	269,670	-	12,404
Other	28,414,384	(396,410)	16,873,121	6,588,852	135,728	511,007	3,230,848	1,338,647	132,591
Total expenses	597,597,674	(13,159,656)	487,915,979	69,667,434	1,211,603	9,836,962	35,149,216	5,815,593	1,060,543
Income (loss) from operations	22,170,574	16,058,114	17,486,901	(20,783,900)	(811,790)	2,980,412	4,051,300	3,037,497	152,040
<b>Nonoperating gains</b>									
Investment income and other nonoperating	4,592,610	-	4,573,047	13,708	-	-	1,203	-	4,652
Net income (loss)	26,763,184	16,058,114	22,059,948	(20,770,192)	(811,790)	2,980,412	4,052,503	3,037,497	156,692
<b>Other changes in unrestricted net assets</b>									
Net unrealized loss on investments	7,507,505	-	7,507,505	-	-	-	-	-	-
Pension related changes other than net periodic pension cost	7,620,595	-	7,620,595	-	-	-	-	-	-
Capital contributions	-	(19,022,270)	-	18,171,317	850,953	-	-	-	-
Distributions	-	8,696,465	-	-	-	(2,806,129)	(2,178,336)	(3,712,000)	-
Change in unrestricted net assets	41,891,284	5,732,309	37,188,048	(2,598,875)	39,163	174,283	1,874,167	(674,503)	156,692
<b>Temporarily restricted net assets</b>									
Contributions, gifts, and bequests	1,683,531	-	1,683,531	-	-	-	-	-	-
Net unrealized loss on investments	332,163	-	332,163	-	-	-	-	-	-
Investment income	91,609	-	91,609	-	-	-	-	-	-
Net assets released from restriction	(1,410,601)	-	(1,410,601)	-	-	-	-	-	-
Change in temporarily restricted net assets	696,702	-	696,702	-	-	-	-	-	-
<b>Consolidated change in net assets</b>									
Less amount attributable to non-controlling interest	42,587,986	5,732,309	37,884,750	(2,598,875)	39,163	174,283	1,874,167	(674,503)	156,692
Change in net assets attributable to controlling interest	(4,703,236)	(4,703,236)	-	-	-	-	-	-	-
Change in net assets attributable to controlling interest	\$ 37,884,750	\$ 1,029,073	\$ 37,884,750	\$ (2,598,875)	\$ 39,163	\$ 174,283	\$ 1,874,167	\$ (674,503)	\$ 156,692

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# DEACONESS HEALTH SYSTEM, INC.

## CONSOLIDATING BALANCE SHEETS – DEACONESS HEALTH SYSTEM OBLIGATED GROUP SEPTEMBER 30, 2010

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 47,380,765	\$ -0-	\$ 1,976,587	\$ 45,404,178
Funds held by trustee, current portion	32,280,782	-0-	-0-	32,280,782
Patient accounts receivable, net	100,255,565	-0-	-0-	100,255,565
Inventories	5,359,268	-0-	-0-	5,359,268
Prepaid expenses and other current assets	7,957,779	88,071	144,128	7,725,580
<b>Total current assets</b>	<b>193,234,159</b>	<b>88,071</b>	<b>2,120,715</b>	<b>191,025,373</b>
<b>Investments limited as to use, less current portion</b>				
'Board designated funds	148,124,612	-0-	-0-	148,124,612
Funds held by trustee	3,503,922	-0-	-0-	3,503,922
Temporarily restricted	8,130,489	-0-	-0-	8,130,489
<b>Total investments limited as to use</b>	<b>159,759,023</b>	<b>-0-</b>	<b>-0-</b>	<b>159,759,023</b>
<b>Property and equipment</b>				
Land and improvements	17,967,232	-0-	3,460,502	14,506,730
Buildings and fixed equipment	391,243,412	-0-	36,951,847	354,291,565
Movable equipment	188,355,192	-0-	224,545	188,130,647
Less allowances for depreciation	597,565,836	-0-	40,636,894	556,928,942
	346,532,684	-0-	25,107,635	321,425,049
Construction in progress	251,033,152	-0-	15,529,259	235,503,893
Total property and equipment, net	89,671,005	-0-	62,901	89,608,104
	340,704,157	-0-	15,592,160	325,111,997
<b>Other assets</b>				
Deferred financing costs	2,933,648	-0-	-0-	2,933,648
Investments in joint ventures and other	60,191,479	(73,229)	4,476,500	55,788,208
Total other assets	63,125,127	(73,229)	4,476,500	58,721,856
<b>Total assets</b>	<b>\$ 756,822,466</b>	<b>\$ 14,842</b>	<b>\$ 22,189,375</b>	<b>\$ 734,618,249</b>

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**DEACONESS HEALTH SYSTEM, INC.**

**CONSOLIDATING BALANCE SHEETS – DEACONESS HEALTH SYSTEM OBLIGATED GROUP  
SEPTEMBER 30, 2010**

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
<b>Liabilities and net assets</b>				
<b>Current liabilities</b>				
Accounts payable and other current liabilities	\$ 31,864,952	\$ 88,071	\$ 117,698	\$ 31,659,183
Salaries, wages and related liabilities	22,863,998	-0-	-0-	22,863,998
Estimated third-party payor settlements	4,041,446	-0-	-0-	4,041,446
Accrued interest	1,021,990	-0-	317,971	704,019
Current portion of long-term debt	8,415,087	-0-	-0-	8,415,087
<b>Total current liabilities</b>	<b>68,207,473</b>	<b>88,071</b>	<b>435,669</b>	<b>67,683,733</b>
<b>Long-term liabilities</b>				
Long-term debt, less current portion	232,805,418	-0-	-0-	232,805,418
Other long-term liabilities	60,709,075	-0-	-0-	60,709,075
<b>Total long-term liabilities</b>	<b>293,514,493</b>	<b>-0-</b>	<b>-0-</b>	<b>293,514,493</b>
<b>Total liabilities</b>	<b>361,721,966</b>	<b>88,071</b>	<b>435,669</b>	<b>361,198,226</b>
<b>Net assets</b>				
Unrestricted	386,970,011	(73,229)	21,753,706	365,289,534
Temporarily restricted	8,130,489	-0-	-0-	8,130,489
Net assets - controlling interest	395,100,500	(73,229)	21,753,706	373,420,023
Non-controlling interest	-0-	-0-	-0-	-0-
<b>Total net assets</b>	<b>395,100,500</b>	<b>(73,229)</b>	<b>21,753,706</b>	<b>373,420,023</b>
<b>Total liabilities and net assets</b>	<b>\$ 756,822,466</b>	<b>\$ 14,842</b>	<b>\$ 22,189,375</b>	<b>\$ 734,618,249</b>

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# DEACONESS HEALTH SYSTEM, INC.

## CONSOLIDATING STATEMENTS OF OPERATIONS – DEACONESS HEALTH SYSTEM OBLIGATED GROUP YEAR ENDED SEPTEMBER 30, 2010

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
<b>Unrestricted revenue and other support</b>				
Net patient service revenue	\$ 497,439,701	\$ -0-	\$ -0-	\$ 497,439,701
Other revenue (expense)	7,963,179	(1,464,256)	(17,442,585)	26,870,020
Total unrestricted revenue and other support	505,402,880	(1,464,256)	(17,442,585)	524,309,721
<b>Expenses</b>				
Salaries and wages	180,941,725	-0-	-0-	180,941,725
Employee benefits	54,871,693	-0-	-0-	54,871,693
Supplies	89,132,397	-0-	-0-	89,132,397
Contract services	53,160,739	-0-	991,896	52,168,843
Repairs and maintenance	18,083,037	-0-	112,988	17,970,049
Provision for bad debts	23,754,974	-0-	-0-	23,754,974
Depreciation and amortization	34,355,808	-0-	1,088,422	33,267,386
Interest	6,374,865	-0-	-0-	6,374,865
Utilities	10,367,620	-0-	529,414	9,838,206
Other	16,873,121	(1,464,256)	714,267	17,623,110
Total expenses	487,915,979	(1,464,256)	3,436,987	485,943,248
Income (loss) from operations	17,486,901	-0-	(20,879,572)	38,366,473
<b>Nonoperating gains</b>				
Investment income and other nonoperating	4,573,047	-0-	21,365	4,551,682
Net income (loss)	22,059,948	-0-	(20,858,207)	42,918,155
<b>Other changes in unrestricted net assets</b>				
Net unrealized gain on investments	7,507,505	-0-	-0-	7,507,505
Pension related changes other than net periodic pension cost	7,620,595	-0-	-0-	7,620,595
Transfers	-0-	-0-	18,171,317	(18,171,317)
Change in unrestricted net assets	37,188,048	-0-	(2,686,890)	39,874,938
<b>Temporarily restricted net assets</b>				
Contributions, gifts, and bequests	1,683,531	-0-	-0-	1,683,531
Net unrealized gain on investments	332,163	-0-	-0-	332,163
Investment income	91,609	-0-	-0-	91,609
Net assets released from restriction	(1,410,601)	-0-	-0-	(1,410,601)
Change in temporarily restricted net assets	696,702	-0-	-0-	696,702
<b>Consolidated change in net assets</b>				
	37,884,750	-0-	(2,686,890)	40,571,640
Less amount attributable to non-controlling interest	-0-	-0-	-0-	-0-
Change in net assets attributable to controlling interest	<u>\$ 37,884,750</u>	<u>\$ -0-</u>	<u>\$ (2,686,890)</u>	<u>\$ 40,571,640</u>

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