

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

Auditor's Report and Financial Statements  
December 31, 2014 and 2013

**Deaconess Women’s Hospital of Southern Indiana, LLC**  
**d/b/a The Women's Hospital**  
December 31, 2014 and 2013

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital (Hospital), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, in 2014, the Hospital adopted new accounting guidance that provides alternative accounting for the subsequent measurement of goodwill. Our opinion is not modified with respect to this matter.

*BKD, LLP*

Indianapolis, Indiana  
February 16, 2015

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

## Balance Sheets December 31, 2014 and 2013

### Assets

	2014	2013
<b>Current Assets</b>		
Accounts receivable, net of allowance for uncollectible accounts; 2014 - \$2,091,335, 2013 - \$2,282,528	\$ 10,798,155	\$ 10,722,718
Supplies	521,526	498,198
Prepaid expenses and other current assets	4,443,839	926,211
Total current assets	15,763,520	12,147,127
<b>Property and Equipment, at cost</b>		
Leasehold improvements	1,499,872	1,424,503
Equipment	15,255,347	13,380,500
Construction in progress	23,384	-
	16,778,603	14,805,003
Less accumulated depreciation	(11,560,891)	(10,648,814)
	5,217,712	4,156,189
<b>Other Assets</b>		
Other assets	1,194,795	898,663
Investment in variable interest entity	303,566	529,121
Goodwill	3,861,023	295,800
	5,359,384	1,723,584
Total assets	\$ 26,340,616	\$ 18,026,900

### Liabilities and Members' Equity

<b>Current Liabilities</b>		
Checks in process of clearing	\$ 1,138,828	\$ 488,772
Line of credit	-	2,994,234
Current maturities of long-term debt	1,478,072	512,225
Accounts payable	2,906,744	3,558,028
Accrued expenses	4,043,254	2,741,080
Total current liabilities	9,566,898	10,294,339
<b>Long-Term Debt</b>		
	6,540,614	1,474,880
<b>Members' Equity</b>		
Contributed capital	3,500,000	3,500,000
Accumulated earnings	6,733,104	2,757,681
Total members' equity	10,233,104	6,257,681
Total liabilities and members' equity	\$ 26,340,616	\$ 18,026,900

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

**Statements of Income  
Years Ended December 31, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 81,957,536	\$ 67,580,969
Provision for uncollectible accounts	(2,242,127)	(2,572,672)
Net patient service revenue less provision for uncollectible accounts	79,715,409	65,008,297
Other operating income	1,079,923	825,999
Total revenues	80,795,332	65,834,296
<b>Expenses and Losses</b>		
Salaries and wages	27,117,337	24,169,217
Employee benefits	6,532,905	6,163,986
Medical supplies	4,817,769	4,435,766
General supplies	1,621,279	1,357,193
Purchased services and professional fees	11,673,092	11,174,892
Rent expense	4,402,016	3,845,722
Depreciation and amortization	1,491,981	1,208,756
Interest expense	180,826	130,948
Provider hospital assessment fee	4,256,405	1,811,074
Loss on sale of property and equipment	26,987	4,782
Other	3,864,626	3,494,655
Total expenses and losses	65,985,223	57,796,991
<b>Operating Income</b>	14,810,109	8,037,305
<b>Other Income</b>		
Interest income	30,537	36,301
<b>Net Income</b>	\$ 14,840,646	\$ 8,073,606

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

**Statements of Members' Equity  
Years Ended December 31, 2014 and 2013**

	<u>Contributed Capital</u>	<u>Accumulated Earnings</u>	<u>Total</u>
<b>Balance, January 1, 2013</b>	\$ 3,500,000	\$ 6,590,417	\$ 10,090,417
Net income	-	8,073,606	8,073,606
Distributions to members	-	<u>(11,906,342)</u>	<u>(11,906,342)</u>
<b>Balance, December 31, 2013</b>	3,500,000	2,757,681	6,257,681
Net income	-	14,840,646	14,840,646
Distributions to members	-	<u>(10,865,223)</u>	<u>(10,865,223)</u>
<b>Balance, December 31, 2014</b>	<u>\$ 3,500,000</u>	<u>\$ 6,733,104</u>	<u>\$ 10,233,104</u>

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

## Statements of Cash Flows Years Ended December 31, 2014 and 2013

	2014	2013
<b>Operating Activities</b>		
Net income	\$ 14,840,646	\$ 8,073,606
Items not requiring cash		
Depreciation and amortization	1,491,981	1,208,756
Provision for uncollectible accounts	2,242,127	2,572,672
Loss on sale of property and equipment	26,987	4,782
Loss on investment in variable interest entity	226,103	516,011
Changes in		
Patient accounts receivable	(2,317,564)	(4,076,589)
Supplies	(23,328)	(51,160)
Accounts payable and accrued expenses	650,890	1,083,534
Prepaid expenses and other assets	(2,362,760)	807,507
Net cash provided by operating activities	14,775,082	10,139,119
<b>Investing Activities</b>		
Proceeds from sale of property and equipment	545	24,509
Purchase of property and equipment	(696,667)	(675,540)
Investment in variable interest entity	(548)	(1,045,132)
Net cash used in investing activities	(696,670)	(1,696,163)
<b>Financing Activities</b>		
Increase in checks in process of clearing	650,056	395,374
Net borrowings (payments) under line of credit agreement	(2,994,234)	2,569,169
Distributions to members	(10,865,223)	(11,906,342)
Proceeds from issuance of long-term debt	-	1,048,102
Principal payments on long-term debt and capital leases	(869,011)	(549,259)
Net cash used in financing activities	(14,078,412)	(8,442,956)
<b>Change in Cash</b>	-	-
<b>Cash, Beginning of Year</b>	-	-
<b>Cash, End of Year</b>	\$ -	\$ -
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 178,269	\$ 130,137
Capital lease obligation incurred for property and equipment	146,820	214,217
Long-term debt incurred for property and equipment	1,412,336	-
Long-term debt incurred for business acquisitions	5,341,436	-

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

## **Notes to Financial Statements December 31, 2014 and 2013**

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

#### ***Nature of Operations***

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

#### ***Use of Estimates***

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

#### ***Variable Interest Entity***

A legal entity is referred to as a variable interest entity (VIE) if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

A VIE must be consolidated by the Hospital if it is deemed to be the primary beneficiary of the VIE. The Hospital VIE is not consolidated because the Hospital is not the primary beneficiary.

All facts and circumstances are taken into consideration when determining whether the Hospital has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Hospital's financial statements. In some cases, it may be qualitatively clear based on whether the Hospital has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether the Hospital is obligated to absorb significant losses of or has a right to receive significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis may be required to make such a determination.

The Hospital monitors the unconsolidated VIE to determine if any reconsideration events have occurred that could cause it to no longer be a VIE. The Hospital reconsiders whether it is the primary beneficiary of the VIE on an ongoing basis.

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

## **Notes to Financial Statements December 31, 2014 and 2013**

### ***Risk Management***

The Hospital is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters.

### ***Supplies***

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

### ***Property and Equipment***

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

### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Charity care is not reported as revenue. Charges excluded from revenue under the Hospital's charity care policy were \$450,850 and \$1,001,428 for 2014 and 2013, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$192,000 and \$469,000 for 2014 and 2013, respectively.

### ***Cash***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014, the Hospital did not have any cash equivalents.

At December 31, 2014, the Hospital's cash accounts did not exceed federally insured limits.

### ***Checks in Process of Clearing***

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

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

## Notes to Financial Statements December 31, 2014 and 2013

### ***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides a contractual allowance, an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients was approximately 63% and 62% of self-pay accounts receivable at December 31, 2014 and 2013. This was a result of comparable experience in the collection of amounts from self-pay patients in fiscal year 2014 and 2013.

### ***Goodwill and Change in Accounting Principle***

Effective January 1, 2014, the Hospital elected the accounting alternative provided in *ASU 2014-02, Intangibles - Goodwill and Other (Topic 350): Accounting for Goodwill*. Under this alternative, goodwill is amortized on a straight-line basis over ten years. The Hospital evaluates the recoverability of the carrying value of goodwill at the entity level whenever events or circumstances indicate the carrying amount may not be recoverable. This change was applied prospectively as of the beginning of the period of adoption. The effect in 2014 was to increase amortization expense and accumulated amortization by \$185,876 and decrease net income by \$185,876.

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

## Notes to Financial Statements December 31, 2014 and 2013

In testing goodwill for impairment, the Hospital has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the Hospital can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the entity with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of an entity, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

The carrying basis and accumulated amortization of goodwill at December 31, 2014 and 2013, were:

	2014		2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	\$ 4,046,899	\$ 185,876	\$ 295,800	\$ -

Amortization expense for the years ended December 31, 2014 and 2013 was \$185,876 and \$0, respectively. Estimated annual amortization expense will be \$549,793 through 2024, which includes the amortization of additional goodwill that was recognized on January 1, 2015.

There were no changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013.

### ***Long-Lived Asset Impairment***

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2014 and 2013.

### ***Limited Liability Company***

The Hospital is organized as an Indiana limited liability company and is governed by an eight-member board of managers. The board of managers is generally responsible for the direction and management of the Hospital. The Hospital is owned by two members, each with 50% ownership.

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

## Notes to Financial Statements December 31, 2014 and 2013

### ***Income Taxes***

The Hospital's members have elected to have the Hospital's income taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes is included in these financial statements. The Hospital's tax years still subject to examination by taxing authorities are years subsequent to December 31, 2010.

### ***Self Insurance***

The Hospital has elected to self-insure certain costs related to employee health programs. Costs resulting from noninsured losses are charged to income when incurred. The Hospital has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to \$100,000.

### ***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

## **Note 2: Net Patient Service Revenue**

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. These payment arrangements include:

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

**Medicaid.** Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient reimbursement is based on prospectively established fee schedule allowances and rates for surgery groups. Laws and regulations governing the Medicaid program are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

## Notes to Financial Statements December 31, 2014 and 2013

The Hospital received approximately \$10.1 million and \$3.5 million during 2014 and 2013 due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statements of income. As of December 31, 2014, accounts receivable related to this revenue of approximately \$1,200,000 was included in prepaid and other current assets. Approximately \$5.2 million of the 2014 payments were related to the Hospital's fiscal year 2013. During 2014 and 2013, the Hospital paid approximately \$4.3 million and \$1.8 million into this Medicaid program, which is recorded as an operating expense in the statements of income. Approximately \$1.5 million of the 2014 payments to the Medicaid program were related to the Hospital's fiscal year 2013 but are included in 2014 expenses as a result of when the assessment program was approved.

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized \$1,328,603 and \$2,702,035 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2014 and 2013, respectively.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2014 and 2013 was:

	<b>2014</b>	<b>2013</b>
Medicare	\$ 2,254,236	\$ 365,598
Medicaid	13,186,976	6,751,558
Managed care and other third-party payers	63,575,955	56,773,185
Patients	2,940,369	3,690,628
	\$ 81,957,536	\$ 67,580,969

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

## Notes to Financial Statements December 31, 2014 and 2013

### Note 3: Concentration of Credit Risk

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

	2014	2013
Medicare	3%	4%
Medicaid	14	12
Other third-party payers	70	69
Patients	13	15
	100%	100%

### Note 4: Line of Credit

The Hospital has a \$6,000,000 revolving line of credit expiring in June 2015. At December 31, 2014 and 2013, there was \$0 and \$2,994,234, respectively, borrowed under this line of credit. The line of credit is collateralized by substantially all of the Hospital's assets. Interest varies with the London Interbank Offered Rate (LIBOR) plus 1.9% and is payable monthly. The interest rate was 2.15% on December 31, 2014.

### Note 5: Long-Term Debt

	2014	2013
Note payable, bank (A)	\$ 386,126	\$ 509,084
Note payable, bank (B)	69,696	101,340
Capital lease obligations (C)	358,547	449,157
Note payable, bank (D)	635,392	700,673
Note payable, bank (E)	127,448	226,851
Note payable, bank (F)	3,681,254	-
Note payable, bank (G)	1,435,427	-
Note payable (H)	1,324,796	-
	8,018,686	1,987,105
Less current maturities	1,478,072	512,225
	\$ 6,540,614	\$ 1,474,880

(A) Due December 2017; payable \$11,107 monthly including interest at 2.25%; secured by equipment. The Hospital is required to comply with certain financial covenants.

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

## Notes to Financial Statements December 31, 2014 and 2013

- (B) Due January 2017; payable \$2,907 monthly including interest at 3.68%; secured by equipment. The Hospital is required to comply with certain financial covenants.
- (C) Capital leases for various equipment for terms ranging from 4 to 15 years. The leases assume interest rates of 3.0% to 8.25%. The leases are payable in monthly installments ranging from \$968 to \$5,295 and are secured by the leased equipment.
- (D) Due March 2023; payable \$7,356 monthly including interest at 3.38%; secured by leasehold improvements. The Hospital is required to comply with certain financial covenants.
- (E) Due March 2016; payable \$8,607 monthly including interest at 2.11%; secured by substantially all assets.
- (F) Due July 2021; payable \$51,481 monthly including interest at 3.0%; secured by substantially all assets. The Hospital is required to comply with certain financial covenants.
- (G) Due November 2021; payable \$19,200 monthly including interest at 3.0%; secured by substantially all assets. The Hospital is required to comply with certain financial covenants.
- (H) Due August 2019; payable \$26,422 monthly including interest at 4.48%; secured by equipment.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2014 were:

	<b>Long-Term Debt (Exc. Leases)</b>	<b>Capital Lease Obligations</b>
2015	\$ 1,289,793	\$ 198,107
2016	1,254,467	106,635
2017	1,238,621	34,691
2018	1,143,601	36,485
2019	1,078,154	-
Thereafter	1,655,503	-
	\$ 7,660,139	375,918
Less amount representing interest		17,371
Present value of future minimum lease payments		\$ 358,547

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

## Notes to Financial Statements December 31, 2014 and 2013

Property and equipment include the following property under capital leases:

	<b>2014</b>	<b>2013</b>
Equipment	\$ 1,880,740	\$ 2,033,582
Less accumulated depreciation	1,612,088	1,692,002
	\$ 268,652	\$ 341,580

### **Note 6: Operating Leases**

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

Future minimum lease payments at December 31, 2014 were:

2015	\$ 4,330,178
2016	4,188,466
2017	4,123,665
2018	4,094,184
2019	3,756,302
Later years	41,418,195
	\$ 61,910,990

Rent expense for all operating leases was \$4,402,016 and \$3,845,722 for the years ended December 31, 2014 and 2013, respectively.

### **Note 7: Profit-Sharing Plan**

The Hospital has a 401(k) profit-sharing plan (Plan) covering substantially all employees. The Hospital's contributions to the Plan are determined annually by the board of managers. Contributions to the Plan were \$568,506 and \$455,612 for 2014 and 2013, respectively.

### **Note 8: Deferred Compensation Agreements**

The Hospital has a deferred compensation agreement with the chief executive officer that provides certain benefits upon disability or retirement. The present value of total estimated deferred compensation is being accrued using the straight-line method over the remaining years to the full eligibility date based on vesting rates. Expense for 2014 and 2013 was \$14,506 and \$39,890, respectively.

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

## Notes to Financial Statements December 31, 2014 and 2013

### Note 9: Related Party Transactions

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

- Capital lease arrangements - The Hospital leases various equipment under capital lease arrangements from DHI. Payments related to these leases totaled \$40,713 and \$53,377 for 2014 and 2013, respectively. Amounts owed at December 31, 2014 and 2013 totaled \$45,136 and \$80,524, respectively, and the net book value of the related equipment was \$27,387 and \$50,862 for 2014 and 2013, respectively. These leases are also included and described in Note 5.
- Operating lease arrangements - The Hospital leases its hospital, education and office space from DHI under noncancellable leases ranging from 10 to 30 years. Total payments under these arrangements were \$3,276,081 and \$3,246,811 in 2014 and 2013, respectively. These leases are also included and described in Note 6.
- Other services - The Hospital contracts with DHI for pharmacy, lab, transcription, coding and other services. Payments made to DHI under these agreements totaled \$3,212,873 and \$3,066,736 in 2014 and 2013, respectively. Amounts included in accounts payable for these services at year end totaled \$620,821 and \$1,082,111 in 2014 and 2013, respectively.

The Hospital owns 50% of Boston IVF Fertility Services at The Women's Hospital, LLC (BIVF at TWH). BIVF at TWH formed as a new entity during 2012 and began operations in 2013 (see Note 12). The Hospital engages in various transactions with BIVF at TWH, which are summarized below:

- Operating lease arrangement - The Hospital subleases to BIVF at TWH the operating and office space under a ten-year operating lease agreement. Total payments received under the sublease agreement by TWH and remitted to the landlord were \$162,270 and \$160,380 in 2014 and 2013, respectively.
- Other services - BIVF at TWH contracts with the Hospital for personnel, accounting and other services. Expenses incurred under these agreements approximated \$1,607,000 and \$1,114,000 in 2014 and 2013, respectively. Amounts included in other assets due from BIVF at TWH at December 31, 2014 and 2013 were \$855,424 and \$600,179, respectively.

### Note 10: Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is also fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap.

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

## **Notes to Financial Statements December 31, 2014 and 2013**

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents occurring during the year by estimating the probable ultimate costs of the incidents.

Estimated accrued reserves for professional liability claims were approximately \$389,000 and \$336,000 at December 31, 2014 and 2013 and is included in accrued expenses in the accompanying balance sheets. Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective balance sheet dates. The reserve for unpaid losses and loss expenses are estimated using individual case-basis valuations. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The time period required to resolve these claims can vary depending upon whether the claim is settled or litigated. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, we believe the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The Hospital's professional liability risks, in excess of certain per claim and aggregate deductible amounts, are insured through the policies described above. The amounts receivable under these insurance contracts included \$389,000 and \$336,000 included in prepaid expenses and other assets at December 31, 2014 and 2013.

### **Note 11: Significant Estimates and Concentrations**

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

#### ***Allowance for Net Patient Service Revenue Adjustments***

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

#### ***Admitting Physicians***

The Hospital is served by one group of admitting physicians whose patients comprise approximately 41% and 33% of the Hospital's net patient service revenue for 2014 and 2013, respectively.

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

## Notes to Financial Statements December 31, 2014 and 2013

### ***Deferred Compensation Agreement***

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

### ***Litigation and Disputes***

In the normal course of business, the Hospital is subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

### **Note 12: Unconsolidated Variable Interest Entity (VIE)**

During 2012, the Hospital entered into formation and operating agreements with Boston IVF, Inc. to provide reproductive services at the Hospital. The joint venture, named Boston IVF Fertility Services at The Women's Hospital, LLC (BIVF at TWH), began operations in January 2013.

During 2013, the Hospital provided capital contributions of \$1,045,132. Those contributions consisted of a nominal initial cash capitalization and facilities, including leasehold improvements within the Hospital's campus for the operations of the joint venture.

The Hospital is a 50% partner in this joint venture and the Hospital is not the primary beneficiary of BIVF at TWH, as the Hospital does not have the sole power to impact the VIE's economic performance and is not deemed to have controlling interest of the VIE. The Hospital's interest in the VIE is accounted for using the equity method and is reflected in the balance sheets with a carrying amount of \$303,566 and 529,121 at December 31, 2014 and 2013, respectively. The Hospital's maximum exposure to losses of the VIE is the amount of its investment therein as well as amounts due from the VIE as of year end. The Hospital is not obligated to make any further capital contributions to the VIE.

In connection with the provisions of facility and leasehold improvements, the Hospital entered into a ten year lease agreement with Deaconess Hospital for the office space located within the Hospital's campus. Aggregate annual payments for the facility are approximately \$160,000. The Hospital entered into a sublease agreement with the joint venture in 2013, as described in Note 9.

The Hospital is also the guarantor of a line of credit benefitting the joint venture in the amount of \$250,000. The line of credit is scheduled to expire in March 2015 and had approximately \$215,900 and 208,000 drawn against it as of December 31, 2014 and 2013, respectively.

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

## Notes to Financial Statements December 31, 2014 and 2013

### Note 13: Business Acquisitions

#### *Mammography Services*

On August 1, 2014, the Hospital acquired the assets of a mammography service business that provides mammography services in the Evansville area. As a result of the acquisition, the Hospital will have an opportunity to expand its services offered. The acquisition was accomplished by the Hospital acquiring the service line for approximately \$3,900,000.

The Hospital incurred approximately \$117,000 of third-party acquisition-related costs in connection with this acquisition. These costs are included in purchased services and professional fees in the 2014 statement of income.

The goodwill of \$3,751,099 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Hospital and the mammography services. Of that total amount, approximately \$250,000 is expected to be deductible for tax purposes.

The following table summarizes the amounts of the assets acquired and recognized at the acquisition date. The Hospital obtained a third-party valuation of intangible assets; concluding there were no other intangible assets that qualify for separate recognition.

Property and equipment	\$	139,307
Goodwill		3,751,099

#### *2015 Acquisition*

On November 24, 2014, the Hospital entered into a purchase agreement to acquire the assets of a mammography service business that provides mammography services in the Evansville area, with an effective date of transaction as January 1, 2015. As a result of the acquisition, the Hospital will have an opportunity to expand its services offered. The acquisition was accomplished by the Hospital acquiring the service line for approximately \$1,451,000. This amount is included within other current assets on the balance sheet as of December 31, 2014, and will be recognized as goodwill on the effective date of January 1, 2015.

The Hospital incurred approximately \$43,500 of third-party acquisition-related costs in connection with this acquisition. These costs are included in purchased services and professional fees in the 2014 statement of income.

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

## **Notes to Financial Statements December 31, 2014 and 2013**

The goodwill of \$1,451,000 will be recognized as of January 1, 2015. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Hospital and the mammography services. Of that total amount, approximately \$97,000 is expected to be deductible for tax purposes.

The asset acquired and recognized at the effective date of January 1, 2015 is goodwill of \$1,451,000. The Hospital obtained a third-party valuation of intangible assets; concluding there were no other intangible assets that qualify for separate recognition.