

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

Independent Auditor's Report and Financial Statements  
December 31, 2015 and 2014

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

December 31, 2015 and 2014

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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, 2015 and 2014, 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015 and 2014, 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.

*BKD, LLP*

Indianapolis, Indiana  
February 11, 2016

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

## Balance Sheets December 31, 2015 and 2014

### Assets

	2015	2014
<b>Current Assets</b>		
Accounts receivable, net of allowance for uncollectible accounts; 2015 - \$2,382,000, 2014 - \$2,091,000	\$ 12,516,400	\$ 10,798,155
Supplies	525,411	521,526
Prepaid expenses and other current assets	1,711,168	4,443,839
Total current assets	14,752,979	15,763,520
<b>Property and Equipment, at cost</b>		
Leasehold improvements	2,698,517	1,499,872
Equipment	19,523,486	15,255,347
Construction in progress	-	23,384
	22,222,003	16,778,603
Less accumulated depreciation	(13,080,627)	(11,560,891)
	9,141,376	5,217,712
<b>Other Assets</b>		
Other assets	1,332,000	1,194,795
Investment in variable interest entity	221,931	303,566
Goodwill	4,762,233	3,861,023
	6,316,164	5,359,384
Total assets	\$ 30,210,519	\$ 26,340,616

### Liabilities and Members' Equity

<b>Current Liabilities</b>		
Checks in process of clearing	\$ 792,302	\$ 1,138,828
Line of credit	61,840	-
Current maturities of long-term debt	2,257,626	1,478,072
Accounts payable	3,108,722	2,906,744
Accrued expenses	5,083,081	4,043,254
Total current liabilities	11,303,571	9,566,898
<b>Long-Term Debt</b>	9,463,794	6,540,614
<b>Members' Equity</b>		
Contributed capital	3,500,000	3,500,000
Accumulated earnings	5,943,154	6,733,104
Total members' equity	9,443,154	10,233,104
Total liabilities and members' equity	\$ 30,210,519	\$ 26,340,616

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

**Statements of Income  
Years Ended December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Revenues</b>		
Patient service revenue (net of contractual discounts and allowances)	\$ 86,001,656	\$ 81,957,536
Provision for uncollectible accounts	(2,506,477)	(2,242,127)
Net patient service revenue less provision for uncollectible accounts	83,495,179	79,715,409
Other operating income	1,318,022	1,079,923
Total revenues	84,813,201	80,795,332
<b>Expenses and Losses</b>		
Salaries and wages	30,747,223	27,117,337
Employee benefits	7,555,812	6,532,905
Medical supplies	5,215,333	4,817,769
General supplies	1,737,709	1,621,279
Purchased services and professional fees	12,742,573	11,673,092
Rent expense	4,645,265	4,402,016
Depreciation and amortization	2,269,106	1,491,981
Interest expense	360,104	180,826
Provider hospital assessment fee	2,852,051	4,256,405
Other	4,134,972	3,891,613
Total expenses and losses	72,260,148	65,985,223
<b>Operating Income</b>	12,553,053	14,810,109
<b>Other Income</b>		
Interest income	11,499	30,537
<b>Net Income</b>	\$ 12,564,552	\$ 14,840,646

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

**Statements of Members' Equity  
Years Ended December 31, 2015 and 2014**

	<u>Contributed Capital</u>	<u>Accumulated Earnings</u>	<u>Total</u>
<b>Balance, January 1, 2014</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>	3,500,000	6,733,104	10,233,104
Net income	-	12,564,552	12,564,552
Distributions to members	-	<u>(13,354,502)</u>	<u>(13,354,502)</u>
<b>Balance, December 31, 2015</b>	<u>\$ 3,500,000</u>	<u>\$ 5,943,154</u>	<u>\$ 9,443,154</u>

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

## Statements of Cash Flows Years Ended December 31, 2015 and 2014

	2015	2014
<b>Operating Activities</b>		
Net income	\$ 12,564,552	\$ 14,840,646
Items not requiring cash		
Depreciation and amortization	2,269,106	1,491,981
Provision for uncollectible accounts	2,506,477	2,242,127
Loss on investment in variable interest entity	83,191	226,103
Changes in		
Patient accounts receivable	(4,224,722)	(2,317,564)
Accounts payable and accrued expenses	1,241,805	650,890
Prepaid expenses and other assets	1,145,914	(2,359,101)
Net cash provided by operating activities	15,586,323	14,775,082
<b>Investing Activities</b>		
Purchase of property and equipment	(1,550,559)	(696,122)
Investment in variable interest entity	(1,556)	(548)
Net cash used in investing activities	(1,552,115)	(696,670)
<b>Financing Activities</b>		
Increase (decrease) in checks in process of clearing	(346,526)	650,056
Net borrowings (payments) under line of credit agreement	61,840	(2,994,234)
Distributions to members	(13,354,502)	(10,865,223)
Proceeds from issuance of long-term debt	1,278,123	-
Principal payments on long-term debt and capital leases	(1,673,143)	(869,011)
Net cash used in financing activities	(14,034,208)	(14,078,412)
<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	\$ 349,480	\$ 178,269
Capital lease obligation incurred for property and equipment	-	146,820
Long-term debt incurred for property and equipment	4,097,754	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, 2015 and 2014**

### **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, 2015 and 2014**

### ***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 \$324,053 and \$450,850 for 2015 and 2014, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$147,000 and \$192,000 for 2015 and 2014, respectively.

### ***Cash***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015, the Hospital did not have any cash equivalents.

At December 31, 2015, 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, 2015 and 2014

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

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability 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 46% and 44% of self-pay accounts receivable at December 31, 2015 and 2014. This was a result of comparable experience in the collection of amounts from self-pay patients in fiscal year 2015 and 2014.

### ***Goodwill***

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.

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

## Notes to Financial Statements December 31, 2015 and 2014

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, 2015 and 2014, were:

	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	\$ 5,497,899	\$ 735,666	\$ 4,046,899	\$ 185,876

Amortization expense for the years ended December 31, 2015 and 2014 was \$549,790 and \$185,876, respectively. Estimated annual amortization expense will be \$549,793 through 2024.

Additional goodwill of \$1,451,000 was recognized on January 1, 2015, which is more fully described in Note 13.

### ***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, 2015 and 2014.

### ***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, 2015 and 2014

### ***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, 2011.

### ***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.

### ***Reclassifications***

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net earnings.

### ***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.

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

## Notes to Financial Statements December 31, 2015 and 2014

**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.

The Hospital received approximately \$5.3 million and \$10.1 million during 2015 and 2014 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, 2015, accounts receivable related to this revenue of approximately \$575,000 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 2015 and 2014, the Hospital paid approximately \$2.9 million and \$4.3 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 \$2,383,244 and \$1,328,603 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2015 and 2014, respectively.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2015 and 2014 was:

	<b>2015</b>	<b>2014</b>
Medicare	\$ 2,791,491	\$ 2,254,236
Medicaid	12,496,527	13,186,976
Managed care and other third-party payers	68,914,723	63,575,955
Patients	1,798,915	2,940,369
	\$ 86,001,656	\$ 81,957,536

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

## Notes to Financial Statements December 31, 2015 and 2014

### 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:

	2015	2014
Medicare	1%	3%
Medicaid	12	14
Other third-party payers	76	70
Patients	11	13
	100%	100%

### Note 4: Line of Credit

The Hospital has a \$6,000,000 revolving line of credit expiring in June 2016. At December 31, 2015 and 2014, there was \$61,840 and \$0, 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, 2015.

### Note 5: Long-Term Debt

	2015	2014
Note payable, bank (A)	\$ 260,335	\$ 386,126
Note payable, bank (B)	36,850	69,696
Capital lease obligations (C)	170,269	358,547
Note payable, bank (D)	567,838	635,392
Note payable, bank (E)	25,897	127,448
Note payable, bank (F)	3,168,325	3,681,254
Note payable, bank (G)	1,246,054	1,435,427
Note payable (H)	1,065,046	1,324,796
Note payable, bank (I)	235,358	-
Note payable (J)	99,151	-
Note payable, bank (K)	190,092	-
Note payable, bank (L)	839,015	-
Note payable, bank (M)	3,817,190	-
	11,721,420	8,018,686
Less current maturities	2,257,626	1,478,072
	\$ 9,463,794	\$ 6,540,614

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

## Notes to Financial Statements December 31, 2015 and 2014

- (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.
- (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.
- (I) Due March 2020; payable \$4,883 monthly including interest at 2.6%; secured by substantially all assets.
- (J) Due March 2023 to a related party; payable \$1,361 monthly including interest at 5.00%; secured by leasehold improvements.
- (K) Due April 2025; payable \$2,019 monthly including interest at 3.75%; secured by substantially all assets.
- (L) Due October 2025; payable in 60 monthly payments of \$8,235, including interest at 3.00%, 60 monthly payments of principal and interest at a floating rate of the one-year U.S. Treasury index plus 3.25% and one balloon payment equal to the final indebtedness on October 2, 2020; secured by assets relating to the EPIC project.
- (M) Due October 2020; payable \$70,851.79 monthly including interest at 3.00%; secured by assets relating to the EPIC project.

In connection with certain agreements noted above, the Hospital is required to comply with certain financial covenants. At December 31, 2015, the Hospital was not in compliance with certain covenants. The financial institution formally waived noncompliance through January 1, 2017.

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

## Notes to Financial Statements December 31, 2015 and 2014

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2015 were:

	<b>Long-Term Debt (Exc. Leases)</b>	<b>Capital Lease Obligations</b>
2016	\$ 2,155,195	\$ 106,632
2017	2,167,321	34,691
2018	2,101,109	36,485
2019	2,065,370	-
2020	1,728,911	-
Thereafter	1,333,245	-
	\$ 11,551,151	177,808
Less amount representing interest		7,539
Present value of future minimum lease payments		\$ 170,269

Property and equipment include the following property under capital leases:

	<b>2015</b>	<b>2014</b>
Equipment	\$ 1,774,501	\$ 1,880,740
Less accumulated depreciation	1,638,398	1,612,088
	\$ 136,103	\$ 268,652

### 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, 2015 were:

2016	\$ 4,518,770
2017	4,529,585
2018	4,469,562
2019	4,127,943
2020	4,074,488
Later years	38,120,027
	\$ 59,840,375

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

## Notes to Financial Statements December 31, 2015 and 2014

Rent expense for all operating leases was \$4,645,265 and \$4,402,016 for the years ended December 31, 2015 and 2014, 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 \$647,184 and \$568,506 for 2015 and 2014, 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 2015 and 2014 was \$27,198 and \$14,506, respectively.

### **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 for 2015 and 2014. Amounts owed at December 31, 2015 and 2014 totaled \$6,717 and \$45,136, respectively, and the net book value of the related equipment was \$3,912 and \$27,387 for 2015 and 2014, 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 \$3,499,422 and \$3,276,081 in 2015 and 2014, respectively. These leases are also included and described in Note 6.
- Leasehold improvement loan - During 2015, the Hospital received a loan of \$110,223 for renovations relating to an operating lease arrangement for hospital space payable over the remaining life of the lease. Total payments under this arrangement were \$11,073 in 2015. Amounts owed at December 31, 2015 totaled \$99,150.
- Other services - The Hospital contracts with DHI for pharmacy, lab, transcription, coding and other services. Payments made to DHI under these agreements totaled \$3,210,625 and \$3,212,873 in 2015 and 2014, respectively. Amounts included in accounts payable for these services at year end totaled \$1,434,584 and \$620,821 in 2015 and 2014, respectively.

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

## Notes to Financial Statements December 31, 2015 and 2014

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 \$110,975 and \$162,270 in 2015 and 2014, respectively.
- Other services - BIVF at TWH contracts with the Hospital for personnel, accounting and other services. Expenses incurred under these agreements approximated \$1,893,000 and \$1,607,000 in 2015 and 2014, respectively. Amounts included in other assets due from BIVF at TWH at December 31, 2015 and 2014 were \$943,293 and \$855,424, 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.

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 \$101,000 and \$389,000 at December 31, 2015 and 2014 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.

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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 \$101,000 and \$389,000 included in prepaid expenses and other assets at December 31, 2015 and 2014.

### **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 42% and 41% of the Hospital's net patient service revenue for 2015 and 2014, respectively.

#### ***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.

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## Notes to Financial Statements December 31, 2015 and 2014

### **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 \$221,931 and \$303,566 at December 31, 2015 and 2014, 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 2016 and had approximately \$198,000 and \$215,900 drawn against it as of December 31, 2015 and 2014, respectively.

### **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.

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## Notes to Financial Statements December 31, 2015 and 2014

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 was included within other assets on the balance sheet as of December 31, 2014, and was 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.

The goodwill of \$1,451,000 recognized as of January 1, 2015 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.