

Dupont Hospital, LLC

(Doing Business as Dupont Hospital)

*Financial Statements as of and
for the Years Ended December 31, 2008 and 2007
And Independent Auditors' Report*

**DUPONT HOSPITAL, LLC
(DOING BUSINESS AS DUPONT HOSPITAL)**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of
Dupont Hospital, LLC
Ft. Wayne, Indiana

We have audited the accompanying balance sheets of Dupont Hospital, LLC (doing business as Dupont Hospital) (the "Company") as of December 31, 2008 and 2007, and the related statements of income, members' capital, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 29, 2009

DUPONT HOSPITAL, LLC
(DOING BUSINESS AS DUPONT HOSPITAL)
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS	2008	2007
CURRENT ASSETS:		
Cash	\$ 180,411	\$ 842,479
Due from Parent - cash management	46,288,634	47,856,341
Patient accounts receivable, net of allowance for doubtful accounts of \$5,287,342 and \$3,350,171 at December 31, 2008 and 2007, respectively	21,434,021	22,074,460
Estimated third-party payor settlements - Net Asset	-	54,034
Supplies	3,010,579	3,092,978
Prepaid expenses and other current assets	1,418,497	1,396,838
Total current assets	<u>72,332,142</u>	<u>75,317,130</u>
PROPERTY AND EQUIPMENT:		
Land and improvements	1,591,937	1,591,937
Buildings and improvements	54,972,755	51,890,486
Equipment and fixtures	43,584,650	40,934,137
Construction in progress	1,844,704	3,107,063
	<u>101,994,046</u>	<u>97,523,623</u>
Less—accumulated depreciation and amortization	(31,669,488)	(25,875,145)
Net property and equipment	<u>70,324,558</u>	<u>71,648,478</u>
GOODWILL	14,321,940	14,321,940
OTHER ASSETS - Net	28,491	140,772
TOTAL ASSETS	<u><u>\$ 157,007,131</u></u>	<u><u>\$ 161,428,320</u></u>
LIABILITIES AND MEMBERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,276,171	\$ 5,761,164
Accrued salaries and benefits	3,903,256	3,118,489
Accrued expenses	1,694,058	1,900,433
Due to affiliates	36,233,511	28,580,587
Current portion of long-term obligation due to Parent	2,287,203	2,226,440
Estimated third-party payor settlements - Net Liability	173,917	-
Other current liabilities	46,600	46,600
Total current liabilities	<u>48,614,716</u>	<u>41,633,713</u>
OTHER LIABILITIES	143,746	141,103
LONG-TERM OBLIGATION DUE TO PARENT	14,106,650	16,393,854
MEMBERS' CAPITAL	94,142,019	103,259,650
TOTAL LIABILITIES AND MEMBERS' CAPITAL	<u><u>\$ 157,007,131</u></u>	<u><u>\$ 161,428,320</u></u>

See notes to financial statements.

**DUPONT HOSPITAL, LLC
(DOING BUSINESS AS DUPONT HOSPITAL)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
NET PATIENT SERVICE REVENUE	\$ 132,605,991	\$ 121,223,664
OTHER REVENUE	<u>682,743</u>	<u>668,799</u>
Total net operating revenues	<u>133,288,734</u>	<u>121,892,463</u>
OPERATING COSTS AND EXPENSES:		
Salaries and benefits	36,246,500	32,386,771
Supplies	22,924,569	20,759,401
Other operating expenses	14,019,094	14,037,819
Provision for doubtful accounts	6,207,305	5,885,878
Management fees	2,659,412	2,392,444
Rent	2,045,750	1,931,801
Depreciation and amortization	6,083,961	6,173,193
Interest	<u>891,677</u>	<u>343,426</u>
Total operating costs and expenses	<u>91,078,268</u>	<u>83,910,733</u>
NET INCOME	<u>\$ 42,210,466</u>	<u>\$ 37,981,730</u>

See notes to financial statements.

**DUPONT HOSPITAL, LLC
(DOING BUSINESS AS DUPONT HOSPITAL)
STATEMENTS OF MEMBERS' CAPITAL
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	Members' Capital		Distributions	Accumulated Income	Total
	Units	Amount			
BALANCE-- December 31, 2006	6,099	\$ 79,170,000	\$ (55,135,164)	\$ 76,946,356	\$ 100,981,192
Net income	-	-	-	37,981,730	37,981,730
Distributions	-	-	(35,703,272)	-	(35,703,272)
BALANCE-- December 31, 2007	6,099	79,170,000	(90,838,436)	114,928,086	103,259,650
Net income	-	-	-	42,210,466	42,210,466
Distributions	-	-	(51,328,097)	-	(51,328,097)
BALANCE-- December 31, 2008	6,099	\$ 79,170,000	\$ (142,166,533)	\$ 157,138,552	\$ 94,142,019

See notes to financial statements.

DUPONT HOSPITAL, LLC
(DOING BUSINESS AS DUPONT HOSPITAL)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 42,210,466	\$ 37,981,730
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,083,961	6,173,193
Provision for doubtful accounts	6,207,305	5,885,878
Change in estimated fair value of deferred physician contracts	-	29,166
(Gain)/Loss on sale of equipment	44,337	(35,992)
Changes in operating assets and liabilities:		
Patient accounts receivable	(5,566,866)	(6,898,859)
Estimated third party payor settlements - Net	227,951	418,179
Supplies	82,399	(695,094)
Prepaid and other current assets	3,177	(251,962)
Accounts payable	352,371	(752,265)
Accrued salaries and benefits	784,767	828,868
Accrued expenses	(206,375)	(482,513)
Other current liabilities	-	(48,729)
Other liabilities	2,643	9,547
Net cash provided by operating activities	<u>50,226,136</u>	<u>42,161,147</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,620,641)	(3,501,749)
Proceeds from sale of property and equipment	66,344	64,300
Increase in due from Parent - cash management	1,567,707	(6,567,633)
Net cash used in investing activities	<u>(4,986,590)</u>	<u>(10,005,082)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on obligation to Parent	(2,226,441)	(2,202,333)
Advances from affiliates, net	7,652,924	6,159,321
Distributions paid to members	(51,328,097)	(35,703,272)
Net cash used in financing activities	<u>(45,901,614)</u>	<u>(31,746,284)</u>
NET CHANGE IN CASH	(662,068)	409,781
CASH AT BEGINNING OF YEAR	<u>842,479</u>	<u>432,698</u>
CASH AT END OF YEAR	<u>\$ 180,411</u>	<u>\$ 842,479</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 1,373,560</u>	<u>\$ 1,397,667</u>
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Other liability incurred to record patient receivable with recourse	<u>\$ 824,068</u>	<u>\$ 996,753</u>
Accounts payable incurred to acquire fixed assets	<u>\$ 859,595</u>	<u>\$ 2,696,959</u>

See notes to financial statements.

DUPONT HOSPITAL, LLC
(DOING BUSINESS AS DUPONT HOSPITAL)
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. BUSINESS

Dupont Hospital, LLC (the “Company”) was formed on December 21, 1999. Effective December 21, 1999, St. Joseph Health System (St. Joseph), a wholly - owned subsidiary of Quorum Health Group, Inc. (Quorum), and participating physicians (collectively known as members) entered into the Limited Liability Company Agreement of Dupont Hospital, LLC, (the agreement) whereby each member made an initial capital contribution to the Company. The Company provides health care services primarily in the northeastern area of Indiana. The Company has an infinite life unless dissolved by the majority of its members. The Company owns and operates Dupont Hospital (the “Hospital”). The construction of the Hospital began during 2000, and the Hospital was completed and began operations on April 9, 2001.

On July 25, 2007, a subsidiary of Community Health Systems, Inc., completed the acquisition of Triad Hospitals, Inc. (“Triad”), of which Quorum was a wholly-owned subsidiary. CHS/Community Health Systems, Inc., also a subsidiary of Community Health Systems, Inc., hereafter is referred to as “the Parent”. St. Joseph, now an indirect wholly-owned subsidiary of the Parent, owns approximately 72% of the Company. The Company continues to utilize its operating service and cash management agreements with the Parent or its subsidiaries, including St. Joseph.

Members of the Company are only liable for capital contributions that they have agreed to make and for their own acts and conduct. Directors and officers are not liable for the acts, debt, liabilities or other obligations of the Company (including employees and agents) or any other member of the Company. Within 120 days after the retirement or death of a member who is an individual, such member may require the Company to repurchase his or her units at a price as defined by the agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 revenue and expenses during the period. Actual results could differ from those estimates under different assumptions or conditions. Significant estimates included in these financial statements include the allowance for doubtful accounts and contractual allowances for patient receivables.

Cash - The Hospital’s cash receipts are deposited into a depository bank account from which the cash is then transferred to the Parent, under the Parent’s cash management program. Cash disbursements are funded by the Parent through a zero-balance bank account as checks are presented to the bank for payment. The balance of outstanding checks in the payroll cash account is included with accrued salaries and benefits on the accompanying balance sheet.

Supplies — Supplies consist mainly of medical supplies and drugs and are stated at the lower of cost or market using the FIFO (first-in, first-out) method.

Property and Equipment— Property and equipment are stated at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the land improvements (12 years), buildings and improvements (10 to 40 years) and equipment and fixtures (3 to 10 years). Expenditures for renovations and other significant improvements are capitalized; however, maintenance and repairs that do not improve or extend the useful lives of the respective assets are charged to operations as incurred. Depreciation expense was approximately \$5,997,000 and \$6,045,000 for the years ended December 31, 2008 and 2007, respectively. The Hospital capitalizes interest in accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 34, *Capitalization of Interest Costs*. During the years ended December 31, 2008 and 2007, the Hospital recorded \$25,164 and \$0, respectively to capitalized interest. In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying values of certain long-lived assets may be

impaired, the Hospital projects the undiscounted cash flows expected to be generated by these assets. If the projections indicate that the reported amounts are not expected to be recovered; such amounts are reduced to their estimated fair value based on a quoted market price, if available, or an estimate based on valuation techniques available in the circumstances. No impairment was recorded during 2008 or 2007.

Goodwill— Goodwill represents the excess cost over the fair value of net assets acquired. Goodwill arising from business combinations is accounted for under the provisions of SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Intangible Assets*, and, accordingly, is not amortized. SFAS No. 142 requires goodwill to be evaluated for impairment at the same time every year and when an event occurs or circumstances change such that it is reasonably possible that impairment may exist. The Hospital selected September 30th as its annual testing date. No impairment was recorded during 2008 or 2007.

Other Assets, Net - Other assets, net, consists primarily of costs associated with the recruitment of one physician, which are deferred and amortized over the term of the contract of 3.5 years, with a gross carrying amount of approximately \$299,000 and \$274,000 as of December 31, 2008 and 2007, respectively, and accumulated amortization of approximately \$271,000 and \$170,000 as of December 31, 2008 and 2007, respectively.

During 2007, the Hospital remeasured its estimates of the fair value of these other assets resulting in a write-down of approximately \$89,000, which is included in other operating expenses in the statement of income. Amortization expense for these other assets was approximately \$85,000 and \$128,000 for the years ended December 31, 2008 and 2007, respectively, and is included in depreciation and amortization expense on the statement of income. The estimated aggregate amortization expense for 2009 is approximately \$29,000.

Income Taxes— The Company was formed as a limited liability company, and is structured to be treated as a partnership for federal and state income tax purposes. As such, taxable income of the Company is the direct obligation of its members; therefore, no federal or state income tax provision is recorded in the Company's financial statements. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Company's tax status.

Other Long Term Liabilities - Other long-term liabilities consists of the deferred liability representing the effect of recording rental expense on a straight-line basis for operating leases that contain escalating rent clauses. The Hospital amortizes these liabilities over the life of the lease term as a reduction of rent expense.

Due From Parent – As a result of the net excess of funds transferred to the centralized cash management account of the Parent by the Hospital over funds transferred to or paid on behalf of the Hospital by the Parent, the Hospital recorded a Due from Parent receivable as of December 31, 2008 and 2007. Interest is earned on the net outstanding balance based upon prevailing rates as required by the joint venture agreement (see Note 6).

Due to affiliates – The Hospital has service agreements with other subsidiaries of the Parent (“affiliates”), under which the affiliates provide services to the Hospital (see Note 6). Payments due to affiliates under these arrangements are recorded in Due to affiliates in the accompanying balance sheet.

Due to Parent – The long term obligation is comprised of a loan provided to the Hospital by the Parent (see Note 6). Principal and interest payments due within one year of the balance sheet date are classified as current liabilities on the accompanying balance sheet.

Concentration of Credit Risk - The Hospital grants unsecured credit to its patients, most of who reside in the Hospital's service area and are insured under third-party payor agreements. The following table presents accounts receivable, net of the related contractual allowance:

	As of December 31, 2008			As of December 31, 2007		
	Medicare	Medicaid	Other	Medicare	Medicaid	Other
Gross accounts receivable	\$ 2,938,458	\$ 3,770,336	\$ 39,276,233	\$2,998,031	\$ 1,718,586	\$ 40,919,308
Contractual allowance	(2,221,549)	(774,814)	(16,267,300)	(1,949,142)	(1,151,095)	(17,111,057)
Accounts receivable, net of contractual allowance	<u>\$ 716,909</u>	<u>\$ 2,995,522</u>	<u>\$ 23,008,933</u>	<u>\$ 1,048,889</u>	<u>\$ 567,491</u>	<u>\$ 23,808,251</u>

Revenue and Deductions – Gross patient service revenue is recorded on the accrual basis in the period in which services are provided, at established rates. Net patient service revenue is recorded net of provisions for contractual allowances.

The components of net patient revenue from continuing operations for the years ended December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Gross Patient Revenue	\$291,036,180	\$249,596,863
Less contractuals adjustments and other deductions	(158,430,189)	(128,373,199)
Net Patient Service Revenue	<u>\$132,605,991</u>	<u>\$121,223,664</u>

Charity Care – In the ordinary course of business, the Hospital renders service to patients who are financially unable to pay for hospital care. Included in the provision for contractual allowances shown above is the value (at Hospital's standard charges) of these services, to patients who are unable to pay of approximately \$1,175,305 and \$408,000 for the years ended December 31, 2008 and 2007 respectively, which has been eliminated from gross patient service revenue to arrive at net patient service revenue. Also included in the provision for contractual allowance shown above is the value of administrative discounts provided to self-pay patients eliminated from net operating revenues which was approximately \$2,955,184 and \$2,244,716 for the years ended December 31, 2008 and 2007 respectively.

Allowance for Doubtful Accounts – Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. Substantially all of the Hospital's receivables are related to providing healthcare services to its patients.

Prior to the fourth quarter of 2007, the Hospital reserved a percentage of all self-pay accounts receivable without regard to aging category, based on collection history adjusted for expected recoveries and, if present, other changes in trends. For all other payor categories the Hospital reserved 100% of all accounts aging over 365 days from the date of discharge. In the fourth quarter of 2007, in conjunction with a process to conform and update estimation methodologies with those of the Parent and those of the former Triad hospital management, an analysis of the net realizable value of accounts receivable was completed. A change was made to both the estimate of contractual allowance rates and the indicated self-pay accounts receivable that will ultimately qualify as charity care, or that will ultimately qualify for Medicaid, indigent care or other specific governmental reimbursement. The impact of this change in estimate increased net operating revenue approximately \$1.3 million for the year ended December 31, 2007. As a result of the lower estimated collectability indicated by the updated analyses, the Hospital has recorded a decrease to its contractual reserves of \$1.3 million (as described above) and an increase to its allowance for doubtful accounts as of December 31, 2007 of approximately \$1.0 million. The Hospital believes this lower collectability is primarily the result of an increase in the number of patients qualifying for charity care, reduced enrollment in certain state Medicaid programs and an increase in the number of indigent non-resident aliens and worsening collection rates on self pay accounts.

Comprehensive Income – In accordance with SFAS No. 130, *Reporting Comprehensive Income*, the Hospital's comprehensive income and net income for the year ended December 31, 2008 were equal.

New Accounting Pronouncements – In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" ("SFAS No. 157"), which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require fair value measurement; it does not require any new fair value measurements. SFAS No. 157 was effective for fiscal years beginning after November 15, 2007, and was adopted by the Hospital as of January 1, 2008. The adoption of this statement did not have a material effect on the Hospital's results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115*" ("SFAS No. 159"). SFAS No. 159 expands the use of fair value accounting but does not affect existing standards that require assets or liabilities to be carried at fair value. SFAS No. 159 permits an entity, on a contract-by-contract basis, to make an irrevocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than historical cost, with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 was effective for fiscal years beginning after November 15, 2007. The Hospital adopted SFAS No. 159 as of January 1, 2008 and did not elect to re-measure any assets or liabilities. The adoption of this statement did not have a material effect on the Hospital's results of operations or financial position.

In December 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*" ("SFAS No. 141(R)"). SFAS No. 141(R) replaces SFAS No. 141 and addresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and noncontrolling interests in business combinations. This standard will require more assets and liabilities to be recorded at fair value and will require expense recognition (rather than capitalization) of certain pre-acquisition costs. This standard also will require any adjustments to acquired deferred tax assets and liabilities occurring after the related allocation period to be made through earnings. Furthermore, this standard requires this treatment of acquired deferred tax assets and liabilities also be applied to acquisitions occurring prior to the effective date of this standard. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008 and is required to be adopted prospectively with no early adoption permitted. SFAS No. 141(R) will be adopted by the Hospital in the first quarter of 2009. The Hospital does not believe the adoption of SFAS No. 141(R) will have a material impact on its results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*" ("SFAS No. 160"). SFAS No. 160 addresses the accounting and reporting framework for noncontrolling ownership interests in consolidated subsidiaries of the parent. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners and that require minority ownership interests be presented separately within equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by the Hospital in the first quarter of 2009. The Hospital does not believe the adoption of SFAS No. 160 will have a material impact on its results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities*" ("SFAS No. 161"). SFAS No. 161 expands the disclosure requirements for derivative instruments and for hedging activities in order to provide additional understanding of how an entity uses derivative instruments and how they are accounted for and reported in an entity's financial statements. The new disclosure requirements for SFAS No. 161 are effective for fiscal years beginning after November 15, 2008, and will be adopted by the Hospital in the first quarter of 2009. The Hospital does not believe the adoption of SFAS No. 161 will have a material on its financial statement disclosures.

3. 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. Net patient service revenue includes amounts estimated by management to be reimbursable by Medicare and Medicaid under prospective payment systems, provisions of cost-based reimbursement and other payment methods. Approximately 9.0% and 2.1% of net patient service revenue for the year ended December 31, 2008, and 9.3% and 2.2% for the year ended December 31, 2007, related to services rendered to patients covered by the Medicare and Medicaid programs, respectively. Medicare inpatient outlier payments included in the amounts received from Medicare represent approximately 0% of net patient service revenues for 2008 and 0.5% for 2007. In addition, the Hospital is reimbursed by non-governmental payors using a variety of payment methodologies. Amounts received by the Hospital for treatment of patients covered by such programs are generally less than the standard billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net patient service revenue. Final settlements under certain of these programs are subject to adjustment based on administrative review and audit by third parties. Adjustments to the estimated billings are recorded in the periods that such adjustments become known. Adjustments to previous program reimbursement estimates are accounted for as contractual allowance adjustments and reported in the periods in which final settlements are determined.

Adjustments related to final settlement or appeals were immaterial for the year ended December 31, 2008 and \$144,000 for the year ended December 31, 2007. Estimated net amounts due to third-party payors as of December 31, 2008 were approximately \$174,000. Estimated net amounts due from third-party payors as of December 31, 2007 were approximately \$54,000. These net amounts are included in the accompanying balance sheet. Medicare cost reports are final settled through March 31, 2007.

A summary of the payment arrangements with major third-party payors follows:

Medicare—Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. In addition, the Hospital is paid for inpatient capital costs incurred in the treatment of Medicare beneficiaries through a specific rate per discharge based on a federal rate adjusted for various factors.

Medicare reimburses the Hospital for outpatient services under regulations implementing a prospective payment system based on ambulatory payment classifications (“APCs”). Under the outpatient prospective payment system, each outpatient encounter could result in the assignment of multiple APC payments. These regulations also allow a provider to reduce or waive the beneficiary’s coinsurance, as well as provide for additional payments for certain new drugs, devices, or biologicals.

Medicaid - Inpatient hospital acute services rendered to Medicaid program beneficiaries are reimbursed on an interim prospectively-determined per diem rate. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on an interim prospectively-determined per visit amount. Final determination of amounts reimbursed is subject to review and settlement by appropriate governmental authorities or their agents.

Commercial Insurance Carriers and Preferred Provider Organizations - The Hospital has entered into payment agreements with certain commercial insurance carriers 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.

4. RETIREMENT PLAN

The Hospital participates in the defined contribution plan (“the Plan”) that was sponsored by Triad. The Parent is required to maintain the former Triad plan through December 31, 2008. The Plan is qualified under Section 401(k) of the Internal Revenue Code and covers all eligible employees at the Hospital. Participants may contribute a portion of their compensation not exceeding a limit set annually by the Internal Revenue Service. The Plan includes a provision for the Parent to match a portion of employee contributions and provide an annual supplementary contribution, determined primarily as a percentage of the participants’ annual wages. The Hospital’s expense under the Plan for the years ended December 31, 2008 and 2007 totaled approximately \$972,000 and \$881,000, respectively.

5. COMMITMENTS AND CONTIGENCIES

Litigation— The Hospital is subject to claims and suits arising in the ordinary course of business. The Parent or one of its affiliates on behalf of the Hospital is responsible for any liabilities arising from such suits that are covered by the Parent’s workers’ compensation and general and professional liability claim program (see Note 6). Any expense arising from other suits or claims, including defense costs, are borne by the Hospital. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Hospital’s financial position.

Physician Recruiting Commitments - As part of its physician recruitment strategy, the Hospital provides income guarantee agreements to certain physicians who agree to relocate to the community and commit to remain in practice there. Under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they collect in their practices up to the amount of the income guarantee. These income guarantee periods are typically for twelve months. Such payments are recoverable by the Hospital from physicians who do not fulfill their commitment periods, which is typically three years.

Operating Leases – The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2017. Total rental expense for the years ended December 31, 2008 and 2007 for all operating leases was approximately \$2,046,000 and \$1,932,000, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2008, that have initial or remaining lease terms in excess of one year:

2009	\$ 1,326,935
2010	1,304,027
2011	620,794
2012	480,942
2013	137,355
Thereafter	<u>395,606</u>
Total minimum payments required	<u>\$ 4,265,659</u>

6. RELATED PARTY TRANSACTIONS

Management Agreement - Prior to the acquisition of Triad by the Parent, the Hospital received certain services from Triad with regard to management and administration, financial management, clinical and patient care, medical staff relations, group purchasing programs, information technology, and other services. The Hospital reimbursed Triad for these services based on a management fee arrangement. Management fees are calculated monthly based on 2% of the Hospital's net revenue for the preceding month. The Parent assumed the management services relationship with the Hospital after the acquisition of Triad.

For the years ended December 31, 2008 and 2007, management fees to the Hospital totaled approximately \$2,659,000 and \$2,392,000, respectively, which are reported separately in the accompanying statement of income. The Hospital's

management believes that such services obtained from the Parent or its subsidiaries are significantly more cost effective than obtaining the services locally on a stand-alone basis.

Interest Expense - For the years ended December 31, 2008 and 2007, interest expense includes approximately \$1,374,000 and \$1,397,000, respectively, net of interest income of \$482,000 and \$1,054,000, respectively, of related party interest charged to the Hospital by the Parent for interest on the outstanding intercompany balance (see Note 2) and loan provided to the Hospital by the Parent.

The amount due from the Parent of \$46,289,000 and \$47,856,000 as of December 31, 2008 and 2007 respectively, represents the net excess of funds transferred to the centralized cash management account over funds transferred to or paid on behalf of the Hospital. The Parent generally makes payments for operating expenses, completed construction project additions, fees and services provided by the Parent, equity transactions, and other operating expenses, such as payroll, interest, and insurance. Generally, the balance is increased through daily cash deposits by the Hospital to the account and decreased for expenditures made on behalf of the Hospital. Net operating funds provided by the Hospital bear interest at prime minus 2%. During 2008 and 2007, the Hospital earned interest of \$482,000 and \$1,054,000, respectively, on this borrowing.

The long-term obligation is comprised of a loan provided to the Hospital by the Parent. The loan is secured by real and personal property of the Hospital. The loan, which was amended in April 2006, is due in monthly installments of principal and interest maturing in October 2014. The loan currently bears interest at 8.00%, but increases annually, through 2009, to 8.75% and remains fixed thereafter. The maturities of the long-term obligation with the Parent as of December 31, 2008, are approximately:

Year Ended December 31,	
2009	\$2,287,000
2010	2,464,000
2011	2,687,000
2012	2,932,000
Thereafter	6,024,000
Total	<u>\$16,394,000</u>

Service Agreements - Effective April 1, 2006, the Hospital entered into service agreements with St. Joseph and Lutheran Hospital of Indiana (Lutheran), both are indirect wholly-owned subsidiaries of the Parent, in which St. Joseph and Lutheran provide certain services to the Hospital. The Hospital is billed monthly based on actual expenses incurred by St. Joseph and Lutheran under the service agreements.

St Joseph provides services such as transcription, ethics and compliance, human resources administration, and other. The net expense recorded for these services provided was \$338,000 and \$359,000 for the years ended December 31, 2008 and 2007, respectively. The liability recorded was \$2,971,000 and \$3,076,000 as of December 31, 2008 and 2007, respectively, and is included in due to affiliates in the accompanying balance sheet.

Lutheran provides services to the Hospital such as providing information systems processing, accounting, business operations, and other. The net expense recorded for these services provided was \$1,465,000 and \$1,737,000 for the years ended December 31, 2008 and 2007, respectively. The liability recorded was \$15,554,000 and \$12,745,000 as of December 31, 2008 and 2007, respectively, and is included in due to affiliates in the accompanying balance sheet.

Insurance Programs - Substantially all of the professional and general liability risks of the Hospital are subject to a per occurrence deductible. Substantially all losses in periods prior to May, 1999 are insured through a wholly-owned insurance subsidiary of HCA, Inc., or HCA, Triad's owner prior to that time, and excess loss policies maintained by HCA. HCA has agreed to indemnify Triad in respect of claims covered by such insurance policies arising prior to May, 1999. After May 1999, Triad obtained insurance coverage on a claims incurred basis from HCA's wholly-owned insurance subsidiary with excess coverage obtained from other carriers that is subject to certain deductibles. Effective for claims

incurred after December 31, 2006, Triad began insuring its claims from \$1 million to \$5 million through its wholly-owned captive insurance company, which was acquired by the Parent as part of the Triad acquisition, replacing the coverage provided by HCA. Substantially all claims reported on or after January, 2008 are self-insured up to \$10 million per claim. Excess insurance is purchased through commercial insurance companies and includes coverage up to \$100 million per occurrence after the self-insured amount. The Parent's insurance is underwritten on a "claims-made basis" and the Parent accrues an estimated liability for its uninsured exposure and self-insured retention based on historical loss patterns and actuarial projections.

The Hospital participates in a self-insured program for health insurance, which is administered by the Parent. No reserve is recorded on the accompanying balance sheet for the health insurance program since the Parent assumes the liability for all claims incurred and maintains the reserve. The Parent is insured with a commercial carrier for individual workers' compensation claims with statutory limits that vary by state and employer's liability limits of \$1 million per occurrence.

For the year ended December 31, 2008, the Parent allocated to the Hospital insurance costs related to general and professional liability and workers' compensation claims of approximately \$724,000 and \$341,000, respectively, based on a budgeted formula that considers the Hospital's claims history and other factors, which was agreed upon by the Parent and all of its subsidiaries at the beginning of the year. For the year ended December 31, 2007, the Parent allocated to the Hospital insurance costs related to general and professional liability and workers' compensation claims of approximately \$516,000 and \$392,000, respectively. For the years ended December 31, 2008 and 2007, the Parent allocated to the Hospital insurance costs related to health and dental claims (net of employee insurance premiums) of approximately \$2,574,000 and \$1,881,000, respectively, based on the actual claims incurred by employees of the Hospital. Any unpaid amounts related to these insurance costs are included in the due from parent company balance in the accompanying balance sheet as of December 31, 2008 and 2007.

Lease Agreement – On March 1, 2006, the hospital entered into a sixty (60) month lease agreement with St. Joseph for the land, building, and parking spaces related to the Dupont Hospital campus. The Hospital pays approximately \$39,000 per month to St. Joseph in accordance with this agreement. The company accounts for rental expense on leases with rent escalations on a straight-line basis starting with the beginning of the lease term.

The following is a schedule by year of the future minimum lease payments under the lease with St. Joseph Health System, for each of the next five years and thereafter:

Year Ended December 31,	
2009	\$ 489,160
2010	503,834
2011	84,382
2012	-
2013	-
Thereafter	-
Total	<u>\$ 1,077,376</u>

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments as of December 31, 2008 and 2007:

The carrying amounts reported in the accompanying balance sheet for cash, patient accounts receivable, accounts payable, accrued salaries and benefits, and due from Parent approximate fair value due to the short term nature of the instrument. The carrying amount reported for long term obligation due to Parent approximates fair value as the interest rate approximates the weighted average interest rate of the Parent.

8. GUARANTEES

The Hospital has entered into agreements whereby it has guaranteed certain loans entered into by patients who had services performed at the Hospital. These loans are provided by a third-party financial institution. The Hospital is obligated to repay the financial institution if a patient fails to repay their loan. The Hospital would then pursue collections from the patient. At December 31, 2008 and 2007, the amounts subject to the guarantees were approximately \$824,000 and \$997,000, respectively. The Hospital recorded an allowance of approximately \$260,000 and \$299,000 (which is recorded in the allowance for doubtful accounts) at December 31, 2008 and 2007, respectively, for the estimated loan default that may need to be covered under the guarantees.

9. MEMBERS' CAPITAL

Pursuant to the LLC Agreement, each member's interest in the Company is denominated in membership units or fractions thereof, with each unit representing an initial capital contribution of \$25,000. Additional units may be issued for capital contributions based on terms and conditions as prescribed by the Board of Directors.