

CALUMET SURGERY, LLC
REVIEWED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

CALUMET SURGERY, LLC

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To the Members
Calumet Surgery, LLC
Munster, Indiana

We have reviewed the accompanying balance sheets of Calumet Surgery, LLC as of December 31, 2008 and 2007, and the related statements of income and members' equity and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the membership's management.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying Schedules I and II is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

McMahon, Associates CPAs, PC

Certified Public Accountants
Munster, Indiana

March 27, 2009



CALUMET SURGERY, LLC

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

(See Accountants' Review Report)

ASSETS

	<u>2008</u>	<u>2007</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 0	\$ 630,013
Accounts receivable - net of allowance of \$270,904	419,659	1,008,345
Insurance payment receivable	723,809	0
Prepaid supplies	24,890	28,339
Prepaid expenses	87,651	209,917
Construction in progress	0	2,656,984
Total current assets	<u>1,256,009</u>	<u>4,533,598</u>
<u>MEDICAL EQUIPMENT AND BUILDING IMPROVEMENTS</u>	<u>1,193,552</u>	<u>669,826</u>
	<u>3,582,762</u>	<u>153,546</u>
	<u>4,776,314</u>	<u>823,372</u>
Less: Accumulated depreciation	603,964	361,838
Total medical equipment and building improvements	<u>4,172,350</u>	<u>461,534</u>
<u>OTHER ASSETS</u> - Goodwill	<u>390,221</u>	<u>390,221</u>
<u>TOTAL ASSETS</u>	<u>\$ 5,818,580</u>	<u>\$ 5,385,353</u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES:

Provider advances	153,466	252,862
Accounts payable	704,834	171,238
Due to York Group PRO - P/R	20,338	52,849
PTO payable	42,617	50,602
Accrued expenses	1,073,538	168,102
Leases payable	169,267	0
Note payable - member buy-outs	245,913	245,913
Note payable	1,745,777	331,721
Total current liabilities	<u>4,155,750</u>	<u>1,273,287</u>

LONG-TERM DEBT:

Note payable - member buy-outs	0	150,410
Note payable	1,868,666	2,016,618
Total long-term debt	<u>1,868,666</u>	<u>2,167,028</u>
Total liabilities	<u>6,024,416</u>	<u>3,440,315</u>

MEMBERS' EQUITY

	<u>(205,836)</u>	<u>1,945,038</u>
<u>TOTAL LIABILITIES AND MEMBERS' EQUITY</u>	<u>\$ 5,818,580</u>	<u>\$ 5,385,353</u>

CALUMET SURGERY, LLCSTATEMENTS OF INCOME AND MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(See Accountants' Review Report)

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
<u>REVENUE:</u>			
Gross charges	\$ 9,960,364	\$ 15,375,986	\$ (5,415,622)
Estimated contractuals	<u>(6,679,538)</u>	<u>(10,008,534)</u>	<u>3,328,996</u>
Net revenue	<u>3,280,826</u>	<u>5,367,452</u>	<u>(2,086,626)</u>
<u>OPERATING EXPENSES:</u>			
Patient care	2,574,007	2,088,576	485,431
Facility operation	1,287,888	1,100,705	187,183
Selling, general and administrative expenses	<u>1,061,867</u>	<u>764,729</u>	<u>297,138</u>
Total operating expenses	<u>4,923,762</u>	<u>3,954,010</u>	<u>969,752</u>
INCOME (LOSS) FROM OPERATIONS	<u>(1,642,936)</u>	<u>1,413,442</u>	<u>(3,056,378)</u>
<u>OTHER INCOME (EXPENSE):</u>			
Interest income	0	13,809	(13,809)
Miscellaneous income	4,650	11,682	(7,032)
Interest expense	(200,601)	(106,164)	(94,437)
Casualty loss	(301,015)	0	(301,015)
Loss on disposal of assets	<u>(10,972)</u>	<u>0</u>	<u>(10,972)</u>
Total other income (expense)	<u>(507,938)</u>	<u>(80,673)</u>	<u>(427,265)</u>
NET INCOME (LOSS)	(2,150,874)	1,332,769	(3,483,643)
MEMBERS' EQUITY - BEGINNING OF YEAR	1,945,038	2,139,663	(194,625)
Distributions to partners	<u>0</u>	<u>(1,527,394)</u>	<u>1,527,394</u>
<u>MEMBERS' EQUITY - END OF YEAR</u>	<u>\$ (205,836)</u>	<u>\$ 1,945,038</u>	<u>\$ (2,150,874)</u>

CALUMET SURGERY, LLCSTATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(See Accountants' Review Report)

	<u>2008</u>	<u>2007</u>
<u>OPERATING ACTIVITIES:</u>		
Net income (loss)	\$ (2,150,874)	\$ 1,332,769
Add: Non - cash items		
Depreciation	305,661	118,741
Decrease (Increase) in assets:		
Accounts receivable - net of allowance of \$270,904	588,686	394,060
Insurance payment receivable	(723,809)	0
Prepaid supplies	3,449	150,400
Prepaid expenses	122,266	(151,022)
Increase (Decrease) in liabilities:		
Provider advances	(99,396)	(44,651)
Accounts payable	533,596	54,693
Due to York Group PRO - P/R	(32,511)	(16,092)
PTO payable	(7,985)	17,753
Accrued expenses	905,436	100,241
Leases payable	169,267	0
Net cash provided (used) by operating activities	<u>(386,214)</u>	<u>1,956,892</u>
<u>INVESTING ACTIVITIES:</u>		
Equipment and construction in progress	(1,370,465)	(2,510,526)
Loss on disposal of assets	10,972	0
Net cash used by investing activities	<u>(1,359,493)</u>	<u>(2,510,526)</u>
<u>FINANCING ACTIVITIES:</u>		
Borrowings	1,571,422	2,332,596
Repayment of borrowings	(455,728)	(18,046)
Distributions to partners	0	(1,527,394)
Net cash provided by financing activities	<u>1,115,694</u>	<u>787,156</u>
NET INCREASE (DECREASE) IN CASH	(630,013)	233,522
CASH - BEGINNING OF PERIOD	630,013	396,491
<u>CASH - END OF PERIOD</u>	<u>\$ 0</u>	<u>\$ 630,013</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>		
Cash paid for interest	\$ <u>(200,601)</u>	\$ <u>(106,164)</u>

CALUMET SURGERY, LLC

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Calumet Surgery, LLC, an Indiana limited liability company, operates an outpatient surgery center beginning July 1, 2003 when a portion of the assets and the operations of Calumet Surgery Center, LP were purchased.

Basis of Accounting - The Company's policy is to prepare its financial statements on the accrual basis of accounting. This means that income is recognized as it is earned and expenses are recognized as they are incurred whether or not cash is received or paid out at the time.

Accounts Receivable - The Company carries its accounts receivable at a cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs and collections and current credit conditions.

Medical Equipment and Building Improvements - The cost of medical equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight line method for financial reporting purposes and on the accelerated methods for income tax purposes.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When equipment and furnishings are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Income Taxes - The Membership is a Limited Liability Company under both federal and state law. This type of organization is taxed as though a general partnership, but the members are afforded the limited liability of a corporation. The Membership is not subject to federal and state income taxes and, accordingly, no provision for taxes on income is made in the accompanying financial statements. The members must include their proportionate share of the Membership's taxable income on their individual tax returns.

Cash Equivalent - For purposes of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalent.

Advertising - Advertising costs are charged to operations when incurred. Advertising expense was \$27,968 and \$8,139 in 2008 and 2007, respectively.

Use of Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CALUMET SURGERY, LLC

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Concentration of Credit Risk - The Membership has balances in bank accounts that exceed federally insured limits.

Reclassifications - Certain amounts for the year ended December 31, 2007 have been reclassified in the comparative financial statements to be comparable to the presentation for the year ended December 31, 2008. These reclassifications had no effect on net income.

Goodwill - The Company tests goodwill for impairment on an annual basis, relying on a number of factors including operating results, business plans and future cash flows. Recoverability of goodwill is evaluated using a two-step process.

The first step involves a comparison of the fair value of the Company with its carrying value. If the carrying amount of the Company exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the good will of the Company. If the carrying value of the goodwill of the Company exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

Contractual Arrangements With Third-Party Payers and Net Patient Service Revenue - The LLC provides care to certain patients under Medicare, Medicaid, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and other contractual arrangements. Contractual arrangements with various HMOs, PPOs, and other arrangements call for the LLC to be paid for covered services at predetermined rates. Medicare and Medicaid also reimburse at predetermined rates. Changes in the Medicare and Medicaid programs and reduction of funding levels could have an adverse effect on the LLC.

Provision has been made in the financial statements for contractual adjustments, representing the difference between standard charges for services and actual or estimated payment.

NOTE 2 - MEDICAL EQUIPMENT AND BUILDING IMPROVEMENTS

The cost of medical equipment and building improvements with accumulated depreciation and book value as of December 31, 2008 is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Medical Equipment	\$ 1,193,552	\$ 486,287	\$ 707,265
Building Improvements	<u>3,582,762</u>	<u>117,677</u>	<u>3,465,085</u>
Total	<u>\$ 4,776,314</u>	<u>\$ 603,964</u>	<u>\$ 4,172,350</u>

Depreciation expense for the years 2008 and 2007 was \$305,661 and \$118,741, respectively.

CALUMET SURGERY, LLC

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 3 - SALE / TRANSFER TO CALUMET SURGERY, LLC

On July 1, 2003, the Company purchased equipment and goodwill from Calumet Surgery Center, LP. Calumet Surgery, LLC was formed with other unrelated investors to operate the surgery center at the Partnership's location. The Company purchased the equipment for \$485,000 which resulted in goodwill of \$391,221.

Net assets with a fair value of \$509,648 (tax basis book value of \$31,642) were transferred in a tax free exchange for a \$515,000 investment in the Calumet Surgery, LLC representing 51.5% ownership in the new LLC. In September of 2003, the Partnership sold 1.5% of its ownership to an unrelated investor for \$15,000 in cash.

The following assets were sold / transferred in exchange for the 51.5% investment and \$485,000 in cash on July 1, 2003:

	Fair Value
Cash	\$ 100,000
Cash - escrow	8,048
Accounts receivable	333,960
Prepaid supplies	201,425
Prepaid liability insurance	5,125
Equipment - net of depreciation	100,132
Accounts payable	(30,874)
Accrued payroll	(26,279)
Grabow note payable	(73,710)
Escrow liability	<u>(8,048)</u>
Total sold / transferred	609,779
Cash received	(485,000)
Capital investment received	<u>(515,000)</u>
Goodwill on transaction	<u>\$ (390,221)</u>

NOTE 4 - TRANSACTIONS WITH RELATED PARTIES

On June 30, 2003, the Company entered into a 10 year lease agreement with Calumet Surgery, LP which states that during the first year of the Term, until the Company is licensed as a surgical hospital, if such licensure occurs within the first year of the Term, base rent will be \$315,939. If such licensure occurs within the first year of the Term, then beginning on the date of such licensure, and prorated to such date, base rent shall be \$374,266. During the second year of the term, base rent shall be \$374,266. During the third year of the term, base rent shall be \$420,000. Rent is due monthly. During the fourth year of the term, and for each year of the term thereafter including each year of renewal of the term, base rent shall be increased each year by the Consumer Price Index amount.

CALUMET SURGERY, LLC

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 4 - TRANSACTIONS WITH RELATED PARTIES - (Continued)

This lease is renewable for four additional five year terms. This lease is a "triple net" lease. Under a separate arrangement, the Company is paying the Partnership \$13,616 per month for its pro-rata share based upon square footage, of the building costs, utilities, real estate taxes, etc. A lease option exists that allows the Company to lease the entire building space, based upon the same lease amount per square foot, pro-rated for the additional space, upon 180 days notice.

A purchase option exists that allows the Company the option to purchase, anytime after June 30, 2004 and prior to termination of this lease, upon 90 days written notice, the greater of \$4,560,000 or the fair market value of the Building as determined by appraisal.

The Company paid \$552,365 in rent payments and \$0 in expense reimbursements to Calumet Surgery, LP for the remainder of the surgery center facility.

Future minimum lease payments to be received from leases extending more than one year is as follows:

2009	\$ 552,365
2010	552,365
2011	552,365
2012	552,365
2013	<u>552,365</u>
	<u>\$ 2,761,825</u>

7905 Calumet Building, LLC owns 93.82% of the outstanding units of the Partnership. Members of 7905 Calumet Building, LLC consist primarily of doctors of the Hammond Clinic, LLC. Some of these doctors are also individual owners of units of the Partnership. Hammond Clinic doctors are the primary users of the Calumet Surgery, LLC; however the facility use is open to all doctors who are credentialed by the Surgery Center. Members of 7905 Calumet Building, LLC also sit on the board of Calusurg, LLC, the general partner of Calumet Surgery Center, L.P.

All employees are leased from an entity that shares indirect common ownership with the Company. Total amount paid for salaries, payroll taxes, and administrative costs was \$1,601,947 and \$1,341,345 at December 31, 2008 and 2007, respectively.

NOTE 5 - PROVIDER ADVANCES

At December 31, 2008 and 2007 the LLC had received \$153,466 and \$252,862, respectively of advanced payments from certain providers in anticipation of reconciling to unprocessed claims. A liability is recorded upon receipt of the payment. When the benefits statement is received at a later date, the patient receivable is reduced and the liability for provider advances is reduced, by a like amount. At any time, a provider may request that all advanced funds be returned in excess of processed claims.

CALUMET SURGERY, LLC

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 6 - CAPITAL LEASES

The Company leases datascopes and G/I equipment under two separate agreements over terms of sixty and thirty six months, respectively.

The following is a schedule of future minimum lease payments:

2009	\$	59,328
2010		59,328
2011		59,328
2012		23,928
2013		<u>23,928</u>
Total	\$	<u>225,840</u>

NOTE 7 - LONG-TERM DEBT

Long-term debt at December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Note payable with First Midwest bearing interest at 7.00%, maturing June 15, 2011, secured by the assets of the business.	\$ 3,114,443	\$ 2,498,749
Note payable with First Midwest bearing interest of 5.00%, maturing December 15, 2009.	500,000	0
Note payable to former member bearing interest of 5.5%, payable in annual installments of \$45,367.	45,367	45,367
Note payable to former member bearing interest of 8.25%, payable in annual installments of \$50,137.	<u>200,546</u>	<u>200,546</u>
Total Debt	3,860,356	2,744,662
Less: current portion	<u>1,991,690</u>	<u>577,634</u>
Total Long-Term Debt	<u>\$ 1,868,666</u>	<u>\$ 2,167,028</u>

CALUMET SURGERY, LLC

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 7 - LONG-TERM DEBT - (Continued)

Maturities of long-term debt in each of the next three years are as follows:

2009	\$ 1,991,690
2010	1,245,777
2011	<u>622,889</u>
Total	<u>\$ 3,860,356</u>

During the years ended December 31, 2008 and 2007, interest expense was \$200,601 and \$106,164, respectively.

NOTE 8 - LOSS - FLOOD DAMAGE

During 2008 the Company suffered asset losses from a flood on September 13, 2008. The total amount of damage incurred was \$301,015.

Further, because the Hospital was not able to re-open until December of 2008, operating income was significantly impacted.

CALUMET SURGERY, LLC

SUPPLEMENTARY INFORMATION

CALUMET SURGERY, LLCSCHEDULE I - SCHEDULES OF PATIENT CARE AND FACILITY OPERATION EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(See Accountants' Review Report)

	2008	2007	Increase (Decrease)
<u>PATIENT CARE EXPENSES:</u>			
Nursing salaries	\$ 1,446,748	\$ 1,217,730	\$ 229,018
Payroll taxes	116,319	84,735	31,584
Employee benefits	185,523	130,764	54,759
Laundry	30,957	31,571	(614)
Implants	42,650	58,979	(16,329)
Supplies	670,721	479,149	191,572
Small instruments	48,886	16,480	32,406
Pharmacy	32,203	69,168	(36,965)
<u>TOTAL PATIENT CARE EXPENSES</u>	<u>\$ 2,574,007</u>	<u>\$ 2,088,576</u>	<u>\$ 485,431</u>
<u>FACILITY OPERATION EXPENSES:</u>			
Depreciation	\$ 305,661	\$ 118,741	\$ 186,920
Housekeeping	51,999	53,029	(1,030)
Lease payments	56,860	0	56,860
Rent	552,365	597,557	(45,192)
Repairs and maintenance	110,252	144,307	(34,055)
Utilities	157,550	121,572	35,978
Waste removal	7,338	5,884	1,454
Personal property and real estate taxes	45,863	59,615	(13,752)
<u>TOTAL FACILITY OPERATION EXPENSES</u>	<u>\$ 1,287,888</u>	<u>\$ 1,100,705</u>	<u>\$ 187,183</u>

CALUMET SURGERY, LLC

SCHEDULE II - SCHEDULES OF SELLING, GENERAL AND
ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(See Accountants' Review Report)

	2008	2007	Increase (Decrease)
<u>SELLING, GENERAL AND ADMINISTRATIVE:</u>			
Advertising	\$ 27,968	\$ 8,139	\$ 19,829
Bank charges	6,780	3,120	3,660
Billing service	0	3,738	(3,738)
Charitable contributions	0	250	(250)
Computer services and supplies	127,456	40,517	86,939
Dues and publications	10,027	2,941	7,086
Education	1,825	2,826	(1,001)
Freight	9,417	218	9,199
Insurance - liability / w.c.	90,333	51,706	38,627
Legal and accounting	14,890	64,574	(49,684)
Licenses and misc taxes	9,870	59,146	(49,276)
Management expense	128,364	249,416	(121,052)
Office expense	55,840	31,541	24,299
Patient / employee relations	17,532	18,427	(895)
Payroll service fees	34,424	30,237	4,187
Payroll taxes	2,880	2,880	0
Postage	13,287	13,544	(257)
Purchased services	418,045	125,982	292,063
Salaries - administrative	36,000	36,000	0
Telephone	24,140	4,827	19,313
Travel and entertainment	32,789	14,700	18,089
	<u>\$ 1,061,867</u>	<u>\$ 764,729</u>	<u>\$ 297,138</u>
<u>TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</u>			