# Dupont Hospital, LLC

(Doing Business as Dupont Hospital)

Financial Statements as of and for the
Years Ended December 31, 2010 and 2009,
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
Fort Wayne, Indiana

We have audited the accompanying balance sheets of Dupont Hospital, LLC (doing business as Dupont Hospital) (the "Company") as of December 31, 2010 and 2009, 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, 2010 and 2009, 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, 2011

# DUPONT HOSPITAL, LLC
## (Doing Business as Dupont Hospital)

### BALANCE SHEETS
### DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash | $ 24,446 | $ 62,293 |
| Due from Parent and Affiliates | 13,494,199 | 8,185,307 |
| Patient accounts receivable — net of allowance for doubtful accounts of $8,563,489 and $4,665,304 at 2010 and 2009, respectively | 22,151,589 | 24,669,642 |
| Estimated third-party payor settlements | 657,044 | 121,104 |
| Supplies | 2,946,475 | 2,876,822 |
| Prepaid expenses and other current assets | 1,578,045 | 1,375,819 |
| Total current assets | 40,851,798 | 37,290,987 |
| PROPERTY AND EQUIPMENT : | | |
| Land and improvements | 1,625,516 | 1,602,213 |
| Buildings and improvements | 55,055,604 | 54,798,246 |
| Leasehold improvements | 1,108,937 | 1,108,937 |
| Equipment and fixtures | 46,212,773 | 45,395,597 |
| Construction in progress | 2,401,292 | 311,359 |
| | 106,404,122 | 103,216,352 |
| Less accumulated depreciation and amortization | (42,965,939) | (37,134,993) |
| Net property and equipment | 63,438,183 | 66,081,359 |
| GOODWILL | 14,321,940 | 14,321,940 |
| OTHER ASSETS — Net | 838,109 | 248,732 |
| TOTAL ASSETS | $ 119,450,030 | $ 117,943,018 |
| **LIABILITIES AND MEMBERS' CAPITAL** | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 5,275 | $ 5,346 |
| Current portion of long-term obligation due to Parent | 2,687,244 | 2,462,885 |
| Accounts payable | 7,789,106 | 2,779,736 |
| Accrued salaries and benefits | 3,411,936 | 3,535,436 |
| Accrued expenses | 912,636 | 1,833,530 |
| Estimated third-party payor settlements | - | 804,046 |
| Other current liabilities | 1,094,659 | - |
| Total current liabilities | 15,900,856 | 11,420,979 |
| OTHER LIABILITIES | 142,406 | 143,323 |
| LONG-TERM DEBT | 17,436 | 22,742 |
| LONG-TERM OBLIGATIONS DUE TO PARENT | 8,956,521 | 11,643,766 |
| COMMITMENTS AND CONTINGENCIES (Note 5) | | |
| MEMBERS' CAPITAL | 94,432,811 | 94,712,208 |
| TOTAL LIABILITIES AND MEMBERS' CAPITAL | $ 119,450,030 | $ 117,943,018 |

See notes to financial statements.

## DUPONT HOSPITAL, LLC
### (Doing Business as Dupont Hospital)

**STATEMENTS OF INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

| | 2010 | 2009 |
|---|---|---|
| NET PATIENT SERVICE REVENUE | $ 134,764,032 | $ 137,326,520 |
| OTHER REVENUE | 634,867 | 620,547 |
| Total net operating revenues | 135,398,899 | 137,947,067 |
| OPERATING COSTS AND EXPENSES: | | |
| Salaries and benefits | 35,406,229 | 36,362,405 |
| Supplies | 18,983,674 | 22,300,741 |
| Other operating expenses | 15,751,482 | 14,534,727 |
| Provision for doubtful accounts | 8,514,769 | 6,304,696 |
| Management fees | 2,698,920 | 2,737,107 |
| Rent | 2,435,258 | 2,232,421 |
| Depreciation and amortization | 6,361,128 | 6,438,716 |
| Interest | 1,044,430 | 1,182,723 |
| Total operating costs and expenses | 91,195,890 | 92,093,536 |
| NET INCOME | $ 44,203,009 | $ 45,853,531 |

## DUPONT HOSPITAL, LLC
### (Doing Business as Dupont Hospital)

**STATEMENTS OF MEMBERS' CAPITAL**
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

| | Members' Capital | | | Accumulated | |
|---|---|---|---|---|---|
| | Units | Amount | Distributions | Income | Total |
| BALANCE — December 31, 2008 | 6,099 | $ 79,170,000 | $ (142,166,533) | $ 157,138,552 | $ 94,142,019 |
| Net income | - | - | - | 45,853,531 | 45,853,531 |
| Distributions | - | - | (45,283,342) | - | (45,283,342) |
| BALANCE — December 31, 2009 | 6,099 | 79,170,000 | (187,449,875) | 202,992,083 | 94,712,208 |
| Net income | - | - | - | 44,203,009 | 44,203,009 |
| Distributions | - | - | (44,482,406) | - | (44,482,406) |
| BALANCE — December 31, 2010 | 6,099 | $ 79,170,000 | $ (231,932,281) | $ 247,195,092 | $ 94,432,811 |

See notes to financial statements.

# DUPONT HOSPITAL, LLC
## (Doing Business as Dupont Hospital)

### STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 44,203,009 | $ 45,853,531 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,352,768 | 6,438,716 |
| Provision for doubtful accounts | 8,514,769 | 6,304,696 |
| Loss on sale of property and equipment | 75,649 | 84,442 |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable — net | (5,801,312) | (9,540,317) |
| Estimated third-party payor settlements — net | (1,339,986) | 509,025 |
| Supplies | (69,653) | 133,757 |
| Prepaid expenses and other current assets | (202,226) | 42,678 |
| Accounts payable | 4,808,745 | (1,021,493) |
| Accrued salaries and benefits | (123,500) | (367,819) |
| Accrued expenses | (1,116,298) | 139,472 |
| Other current liabilities | 1,094,659 | (46,600) |
| Other liabilities | (917) | (423) |
| Net cash provided by operating activities | 56,395,707 | 48,529,665 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (3,419,260) | (2,689,396) |
| Proceeds from sale of property and equipment | 11,330 | 67,800 |
| Increase in other assets | (771,441) | (325,459) |
| (Increase) decrease in Due from Parent and Affiliates — net | (5,308,892) | 1,869,816 |
| Net cash used in investing activities | (9,488,263) | (1,077,239) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments on obligation to Parent | (2,462,885) | (2,287,202) |
| Distributions paid to members | (44,482,406) | (45,283,342) |
| Net cash used in financing activities | (46,945,291) | (47,570,544) |
| NET CHANGE IN CASH | (37,847) | (118,118) |
| CASH — Beginning of year | 62,293 | 180,411 |
| CASH — End of year | $ 24,446 | $ 62,293 |
| SUPPLEMENTAL CASH FLOW INFORMATION — Cash paid for interest | $ 1,220,395 | $ 1,328,693 |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Other liability incurred to record guarantee on loans (Note 8) | $ 812,038 | $ 616,633 |
| Accounts payable incurred to acquire fixed assets | $ 585,278 | $ 384,653 |

See notes to financial statements.

## 1. BUSINESS

Dupont Hospital, LLC (the “Company”) was formed on November 19, 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, “members”) entered into the Limited Liability Company Agreement of the Company (the “agreement”) whereby each member made an initial capital contribution to the Company. The Company owns, operates, and does business as Dupont Hospital (the “Hospital”). The construction of the Hospital began during 2000, and the Hospital was completed and began operations on April 9, 2001. The Company provides healthcare services primarily in the northeastern area of Indiana. The Company has a perpetual term, unless dissolved by the majority of its members.

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 liable only 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, or their heirs or assigns, 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 within accrued salaries and benefits on the accompanying balance sheet.

**Supplies** — Supplies consist primarily of pharmaceuticals and medical supplies and are stated at the lower of cost or market using the 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 (three 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. When the utility of assets is determined to be less than originally estimated, the depreciable lives are adjusted accordingly. Depreciation expense was approximately $6,171,000 and $6,333,000 for the years ended December 31, 2010 and 2009, respectively. Interest capitalized related to construction in progress was approximately $47,000 and $36,000 for the years ended December 31, 2010 and 2009, respectively.

**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.

**Goodwill —** Goodwill represents the excess cost over the fair value of net assets acquired. Goodwill arising from business combinations is not amortized. Goodwill is required 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 an impairment may exist. The Hospital has selected December 31st as its annual testing date.

**Other Assets — Net** — Other assets, net, consist primarily of system conversion costs and physician recruitment costs, which are deferred and amortized over the term of the contract of three years. The gross carrying amount of system conversion costs are approximately $516,000 and $123,000 as of December 31, 2010 and 2009, respectively, and accumulated amortization of approximately $145,000 and $54,000 as of December 31, 2010 and 2009, respectively. The gross carrying amount of the physician recruitment costs are approximately $418,000 and $203,000 as of December 31, 2010 and 2009, respectively, with accumulated amortization of approximately $114,000 and $23,000 as of December 31, 2010 and 2009, respectively. Gross costs and the related accumulated amortization are written off when such costs become fully amortized.

Amortization expense for these other assets was approximately $182,000 and $105,000 for the years ended December 31, 2010 and 2009, respectively, and is included in depreciation and amortization expense in the statements of income. The aggregate amortization expense for 2011, 2012, and 2013 is estimated to be approximately $494,000, $385,000, and $230,000, respectively.

**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.

Accounting principles generally accepted in the United States of America require Company management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) if the Company has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Company has analyzed the tax positions taken by the Company, and has concluded that as of December 31, 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Company believes it is no longer subject to income tax examinations for years prior to 2007.

**Other Long-Term Liabilities** — Other long-term liabilities consist 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, 2010 and 2009. Interest is earned on the net outstanding balance based upon prevailing rates as required by the joint venture agreement (see Note 6).

**Transactions With 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 or from Affiliates under these arrangements are recorded and presented net in the due from Parent and Affiliates account following the cash management procedures of the Parent.

**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 sheets.

**Concentration of Credit Risk** — The Hospital grants unsecured credit to its patients, most of whom reside in the Hospital's service area and are insured under third-party payor agreements. Because of the economic diversity of the payors that comprise the other classification, the Company has deemed it does not have a concentration of credit risk. Accounts receivable, net of the related contractual allowance as of December 31, 2010 and 2009, is as follows:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Medicare | Medicaid | Other | Medicare | Medicaid | Other |
| Gross accounts receivable | $ 4,443,347 | $ 4,465,071 | $ 46,552,028 | $ 2,784,097 | $5,570,274 | $ 43,827,283 |
| Contractual allowance | (3,502,603) | (3,731,081) | (17,511,684) | (2,147,650) | (4,527,406) | (16,171,652) |
| Accounts receivable — net of contractual allowance | $ 940,744 | $ 733,990 | $ 29,040,344 | $ 636,447 | $1,042,868 | $ 27,655,631 |

**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, 2010 and 2009, are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| Gross patient service revenue | $ 352,416,148 | $ 323,837,394 |
| Less contractual allowance adjustments and other deductions | (217,652,116) | (186,510,874) |
| Net patient service revenue | $ 134,764,032 | $ 137,326,520 |

**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 $1,204,000 and $1,439,000 for the years ended December 31, 2010 and 2009, respectively, which has been eliminated from gross patient service revenue to arrive at net patient service revenue. Also included in the provision for contractual allowances shown above is the value of administrative and other discounts provided to self-pay patients eliminated from net operating revenues, which was approximately $5,939,000 and $2,824,000 for the years ended December 31, 2010 and 2009, 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.

The Hospital estimates the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable without regard to aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. For all other non-self-pay payor categories, the Hospital reserves 100% of all accounts aging over 365 days from the date of discharge. The percentage used to reserve for all self-pay accounts is based on the Hospital's collection history. The Hospital collects substantially all of its third-party insured receivables, which include receivables from governmental agencies.

Collections are impacted by the economic ability of patients to pay and the effectiveness of the Hospital's collection efforts. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the Hospital's collection of accounts receivable. The process of estimating the allowance for doubtful accounts requires the Hospital to estimate the collectability of self-pay accounts receivable, which is primarily based on its collection history, adjusted for expected recoveries and, if available, anticipated changes in collection trends. Significant change in payor mix, business office operations, economic conditions, trends in federal and state governmental healthcare coverage or other third-party payors could affect the Hospital's estimates of accounts receivable collectability. The Hospital also continually reviews its overall reserve adequacy by monitoring historical cash collections as a percentage of trailing net revenue less provision for bad debts, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, and the impact of recent acquisitions and dispositions.

During 2010, the Company expanded the ongoing collection efforts within the Company on its accounts receivable balance using the Company's internal collection agency. Since gross accounts receivable balances are written off when such amounts are placed with outside agencies, the amount of reserve required on accounts receivable balances held at the Company increased in 2010. This change in policy had no impact on the provision for bad debts and does not impact net accounts receivable as reflected on the accompanying balance sheets.

**Comprehensive Income —** The Hospital's comprehensive income and net income for the years ended December 31, 2010 and 2009 were equal.

**Subsequent Events** — The Hospital has evaluated events and transactions that occurred after the balance sheet date for potential recognition or disclosure in the financial statements through April 29, 2011.

**Recent Accounting Pronouncements** — In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries (a consensus of the FASB Emerging Issues Task Force)*, which provides clarification to companies in the healthcare industry on the accounting for professional liability insurance. This ASU states that receivables related to insurance recoveries should not be netted against the related claim liability and such claim liabilities should be determined without considering insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010. The Hospital participates in a self-insured program for health insurance, which is administered by the Parent, and therefore, no reserve is recorded on the accompanying balance sheets for the health insurance program since the Parent assumes the liability for all claims incurred and maintains the reserves. Therefore, this ASU will have no impact on the Hospital's results of operations.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure — a consensus of the FASB Emerging Issues Task Force*, which requires a company in the healthcare industry to use its direct and indirect costs of providing charity care as the measurement basis for charity care disclosures. This ASU also requires additional disclosures of the method used to identify such costs. This ASU is effective for fiscal years beginning after December 15, 2010, and will be adopted by the Hospital in the first quarter of 2011. The adoption of this ASU will have no impact on the Hospital's results of operations and financial position.

## 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 8.9% and 3.6% of net patient service revenue for the year ended December 31, 2010, and 9% and 3.4% for the year ended December 31, 2009, 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 0.1% of net patient service revenues for 2010 and 0.5% for 2009. In addition, the Hospital is reimbursed by nongovernmental 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. The amount of adjustment is based on prior experience of contractual taken and judgment for known future impacts. 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 adjustments and reported in the periods in which final settlements are determined.

Adjustments related to final settlement or appeals are immaterial for the years ending December 31, 2010 and 2009, respectively. Estimated net amounts due from or due to third-party payors were approximately $657,000 (due from) and $683,000 (due to) as of December 31, 2010 and December 31, 2009, respectively. 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 a defined contribution plan sponsored by the Parent ("CHS Plan") which 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 determined primarily as a percentage of the participants' annual wages. The Hospital's expense under the plan for the years ended December 31, 2010 and 2009, totaled approximately $656,000 and $744,000, respectively.

## 5. COMMITMENTS AND CONTINGENCIES

**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 programs (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 its communities 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 12 months. Such payments are recoverable by the Hospital from physicians who do not fulfill their commitment period, which is typically three years. At December 31, 2010, the maximum potential amount of future payments under these guarantees was equal to the liability recorded of approximately $390,000.

**Operating Leases** — The Hospital leases equipment and facilities under operating leases expiring at various dates through 2017. Total rental expense for the years ended December 31, 2010 and 2009, for all operating leases was approximately $2,435,000 and $2,232,000, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2010, that have initial or remaining lease terms in excess of one year:

| **Year Ending December 31** | |
|---|---|
| 2011 | $ 893,787 |
| 2012 | 719,375 |
| 2013 | 431,133 |
| 2014 | 304,860 |
| 2015 | 303,176 |
| Thereafter | 577,162 |
| | $3,229,493 |

## 6. RELATED-PARTY TRANSACTIONS

**Management Agreement** — The Hospital receives certain services from an affiliate of the Parent 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 reimburses the affiliate of the Parent for these services based on a management fee arrangement through an offset to the due to Parent account. Management fees are calculated monthly based on 2% of the Hospital's net revenue for the preceding month.

For the years ended December 31, 2010 and 2009, management fees to the Hospital totaled approximately $2,699,000 and $2,737,000, respectively, which are reported separately in the accompanying statements of income. The Hospital's management believes that such services obtained from the affiliate of 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, 2010 and 2009, interest expense includes approximately $1,228,000 and $1,346,000, respectively, net of interest income of approximately $183,000 and $163,000, 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 and Affiliates of approximately $13,494,000 and $8,185,000 as of December 31, 2010 and 2009, 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 expenditures such as operating expenses, completed construction project additions, fees, and services provided by the Parent or Affiliates, 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 excess operating funds provided by the Hospital earn interest at prime minus 2%. During 2010 and 2009, the Hospital earned interest of approximately $176,000 and $146,000, respectively, on this borrowing.

The long-term obligation due to the Parent 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 interest rate on the loan increased annually, through 2009, to 8.75% and remained fixed thereafter. The maturities of the long-term obligation due to the Parent as of December 31, 2010, are approximately as follows:

| **Year Ending December 31** | |
|---|---|
| 2011 | 2,687,000 |
| 2012 | 2,932,000 |
| 2013 | 3,199,000 |
| 2014 | 2,826,000 |
| Total | $ 11,644,000 |

**Service Agreements** — Effective April 1, 2006, the Hospital entered into service agreements with St. Joseph and Lutheran Hospital of Indiana ("Lutheran"), who are both 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. These expenses are paid by the Parent through the centralized cash management account.

St. Joseph provides services, such as transcription, ethics and compliance monitoring, human resources administration, and other. The net expense recorded for these services provided was approximately $228,000 and $276,000 for the years ended December 31, 2010 and 2009, respectively.

Lutheran provides services to the Hospital, such as information systems processing, accounting, business operations, and other. The net expense recorded for these services provided was approximately $1,213,000 and $1,426,000 for the years ended December 31, 2010 and 2009, respectively.

**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. (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 replaced the coverage previously provided by HCA and began insuring its claims from $1 million to $9 million through its wholly owned captive insurance company, which was acquired by the Parent as part of the Triad acquisition. Substantially, all claims reported on or after January 2008 are self-insured up to $5 million per claim. Excess insurance is purchased through commercial insurance companies and includes coverage up to $145 million per occurrence, and in the aggregate, 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 pays an annual fee for participation in a self-insured program for health insurance, which is administered by the Parent. No reserve is recorded on the accompanying balance sheets for the health insurance program since the Parent assumes the liability for all claims incurred and maintains the reserve in exchange for the fee. 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, 2010, the Parent allocated to the Hospital costs related to general and professional liability and workers' compensation claims of approximately $740,000 and $226,000, 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, 2009, the Parent allocated to the Hospital costs related to general and professional liability and workers' compensation claims of approximately $853,000 and $379,000, respectively. For the years ended December 31, 2010 and 2009, the Parent allocated to the Hospital costs related to health and dental claims (net of employee cost sharing contributions) of approximately $3,198,000 and $3,208,000, respectively, based a formula that considers the Hospital's claims history and other factors. Any unpaid amounts related to these costs are included in the due from Parent and Affiliates balance in the accompanying balance sheets as of December 31, 2010 and 2009.

**Lease Agreement —** On March 1, 2006, the Hospital entered into a 60-month lease agreement with St. Joseph for the land, building, and parking spaces related to the Hospital campus. On December 15, 2008, the Hospital entered into a 120-month lease agreement with St. Joseph and on October 1, 2009, the Hospital entered into a 12-month lease agreement with St. Joseph. These new leases are for the land, building, and parking spaces related to the Hospital campus. The Hospital pays approximately $60,000 per month to St. Joseph in accordance with these agreements. The Hospital 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 as of December 31, 2010, for each of the next five years and thereafter as follows:

| **Year Ending December 31** | |
|---|---|
| 2011 | $ 323,441 |
| 2012 | 204,469 |
| 2013 | 208,469 |
| 2014 | 212,589 |
| 2015 | 210,905 |
| Thereafter | 304,658 |
| Total | $ 1,464,531 |

## 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, 2010 and 2009:

The carrying amounts reported in the accompanying balance sheets for cash, patient accounts receivable, accounts payable, accrued salaries and benefits, guarantees on certain loans of patients and due from Parent and Affiliates 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, 2010 and 2009, the amounts subject to the guarantees were approximately $812,000 and $617,000, respectively. The Hospital recorded an allowance of approximately $251,000 and $205,000 (which is recorded in the allowance for doubtful accounts) at December 31, 2010 and 2009, respectively, for the estimated loan default that may need to be covered under the guarantees.

## *9.* MEMBERS' CAPITAL

Pursuant to the 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.

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