

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

Auditor's Report and Financial Statements
December 31, 2012 and 2011

Deaconess Women’s Hospital of Southern Indiana, LLC
d/b/a The Women's Hospital
December 31, 2012 and 2011

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital (Hospital), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, in 2012, the Hospital changed its method of presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts in accordance with Accounting Standards Update 2011-07.

BKD, LLP

Indianapolis, Indiana
February 11, 2013

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

Balance Sheets December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Accounts receivable, net of allowance for uncollectible accounts; 2012 - \$1,260,013, 2011 - \$924,793	\$ 9,218,801	\$ 8,291,220
Supplies	447,038	383,429
Prepaid expenses and other current assets	2,400,926	592,996
Total current assets	12,066,765	9,267,645
Property and Equipment, at cost		
Leasehold improvements	1,349,089	1,222,167
Equipment	12,614,885	12,036,037
Construction in progress	146,108	205,323
	14,110,082	13,463,527
Less accumulated depreciation	(9,605,603)	(9,204,329)
	4,504,479	4,259,198
Other Assets		
Other assets	231,455	191,213
Goodwill	295,800	295,800
	527,255	487,013
Total assets	\$ 17,098,499	\$ 14,013,856

Liabilities and Members' Equity

Current Liabilities		
Checks in process of clearing	\$ 93,398	\$ 686,336
Line of credit	425,065	1,521,870
Current maturities of long-term debt	423,256	439,911
Accounts payable	2,907,434	2,846,740
Accrued expenses	2,308,140	1,874,532
Total current liabilities	6,157,293	7,369,389
Long-Term Debt		
	850,789	512,948
Members' Equity		
Contributed capital	3,500,000	3,500,000
Accumulated earnings	6,590,417	2,631,519
Total members' equity	10,090,417	6,131,519
Total liabilities and members' equity	\$ 17,098,499	\$ 14,013,856

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

**Statements of Income
Years Ended December 31, 2012 and 2011**

	2012	2011
Revenues		
Patient service revenue (net of contractual discounts and allowances)	\$ 66,947,932	\$ 49,598,541
Provision for uncollectible accounts	(1,907,685)	(1,246,561)
Net patient service revenue less provision for uncollectible accounts	65,040,247	48,351,980
Other operating income	1,671,269	1,687,597
Total revenues	66,711,516	50,039,577
Expenses and Losses		
Salaries and wages	21,142,528	18,787,617
Employee benefits	5,680,195	5,352,363
Medical supplies	3,945,304	3,647,233
General supplies	1,204,241	1,158,156
Purchased services and professional fees	10,553,175	10,148,273
Rent expense	3,812,818	3,620,278
Depreciation and amortization	1,130,214	1,154,675
Interest expense	78,448	123,352
Provider hospital assessment fee	4,132,685	-
(Gain) loss on disposal of equipment	92,321	(5,295)
Other	3,225,019	3,088,798
Total expenses and losses	54,996,948	47,075,450
Operating Income	11,714,568	2,964,127
Other Income		
Interest income	23,252	5,765
Net Income	\$ 11,737,820	\$ 2,969,892

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

**Statements of Members' Equity
Years Ended December 31, 2012 and 2011**

	<u>Contributed Capital</u>	<u>Accumulated Earnings</u>	<u>Total</u>
Balance, January 1, 2011	\$ 3,500,000	\$ 7,915,511	\$ 11,415,511
Net income	-	2,969,892	2,969,892
Distributions to members	-	(8,253,884)	(8,253,884)
Balance, December 31, 2011	3,500,000	2,631,519	6,131,519
Net income	-	11,737,820	11,737,820
Distributions to members	-	(7,778,922)	(7,778,922)
Balance, December 31, 2012	<u>\$ 3,500,000</u>	<u>\$ 6,590,417</u>	<u>\$ 10,090,417</u>

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

Statements of Cash Flows Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Net income	\$ 11,737,820	\$ 2,969,892
Items not requiring (providing) cash		
Depreciation and amortization	1,130,214	1,154,675
Provision for uncollectible accounts	1,907,685	1,246,561
(Gain) loss on sale of property and equipment	92,321	(5,295)
Changes in		
Patient accounts receivable	(2,835,266)	(2,015,697)
Supplies	(63,609)	(9,473)
Accounts payable and accrued expenses	494,302	467,070
Prepaid expenses and other assets	(1,848,172)	(287,101)
Net cash provided by operating activities	10,615,295	3,520,632
Investing Activities		
Proceeds from sale of property and equipment	150	9,705
Purchase of property and equipment	(679,796)	(424,256)
Net cash used in investing activities	(679,646)	(414,551)
Financing Activities		
Increase (decrease) in checks in process of clearing	(592,938)	686,336
Net borrowings (payments) under line of credit agreement	(1,096,805)	1,521,870
Distributions to members	(7,778,922)	(8,253,884)
Principal payments on long-term debt and capital leases	(466,984)	(562,958)
Net cash used in financing activities	(9,935,649)	(6,608,636)
Change in Cash	-	(3,502,555)
Cash, Beginning of Year	-	3,502,555
Cash, End of Year	\$ -	\$ -
Supplemental Cash Flows Information		
Interest paid	\$ 79,728	\$ 127,554
Debt incurred for property and equipment	788,170	-
Capital lease obligation incurred for property and equipment	-	34,480

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

Notes to Financial Statements December 31, 2012 and 2011

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

Nature of Operations

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

Use of Estimates

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

Risk Management

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

Supplies

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

Property and Equipment

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Charity care is not reported as revenue. Charges excluded from revenue under the Hospital's charity care policy were \$209,559 and \$231,152 for 2012 and 2011, respectively. Total cost for these charges based on the Hospital's overall cost-to-charge ratio was approximately \$97,675 and \$105,752 for 2012 and 2011, respectively.

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

Notes to Financial Statements December 31, 2012 and 2011

Cash

At December 31, 2012, the Hospital's cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Checks in Process of Clearing

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

Patient Accounts Receivable

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

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

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

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

Notes to Financial Statements December 31, 2012 and 2011

The Hospital's allowance for doubtful accounts for self-pay patients was approximately 52% and 51% of self-pay accounts receivable at December 31, 2012 and 2011. This was the result of comparable experience in the collection of amounts from self-pay patients in fiscal year 2012 and 2011.

Goodwill

Goodwill is tested annually for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Long-Lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2012 and 2011.

Limited Liability Company

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

Change in Accounting Principle

In 2012, the Hospital changed its method of presentation and disclosure of patient service revenue, provision for bad debts and the allowance for doubtful accounts in accordance with Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The major changes associated with ASU 2011-07 are the reclassification of the provision for uncollectible accounts related to patient service revenue to a deduction from patient service revenue and the enhancement of disclosures around the Hospital's policies related to uncollectible accounts. The change had no effect on prior year net income.

Total expenses and losses were previously reported in 2011 as \$48,322,011, and total unrestricted revenues, gains and other support were previously reported as \$51,286,138. Both 2011 previously reported values were reduced by the provision for uncollectible accounts of \$1,246,561.

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

Notes to Financial Statements December 31, 2012 and 2011

Income Taxes

The Hospital's members have elected to have the Hospital's income taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns and no provision for federal and state income taxes is included in these financial statements. The Hospital's tax years still subject to examination by taxing authorities are years subsequent to December 31, 2008.

Subsequent Events

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

Note 2: Net Patient Service Revenue

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

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

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

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

Notes to Financial Statements December 31, 2012 and 2011

The Hospital received approximately \$10.5 million during 2012 due to the enactment of a state specific provider assessment program to increase Medicaid payments to hospitals. This revenue is recorded within net patient service revenue in the statement of income for 2012. As of December 31, 2012, accounts receivable related to this revenue of approximately \$525,000 was included in prepaid and other current assets. Approximately \$3.5 million of these increased payments were related to the Hospital's fiscal year 2011. The Hospital paid approximately \$4.1 million into this Medicaid program, which is recorded as an operating expense in the statement of income. Approximately \$1.4 million of the payments to the Medicaid program were related to the Hospital's fiscal year 2011 but are included in 2012 expenses as a result of when the assessment program was approved. There is no assurance this program will continue to be implemented in the future.

The Hospital also qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana law and, as such, is eligible to receive supplemental Medicaid payments. The amounts of these supplemental payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care and various other factors. Supplemental payments have been made by the State of Indiana, and the Hospital records such amounts as revenue when it has been reasonably determined that the funds will be received. The Hospital recognized \$867,219 and \$2,443,285 within net patient service revenue related to this supplemental payment program for the years ended December 31, 2012 and 2011, respectively.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2012 and 2011 was:

	2012	2011
Medicare	\$ 259,409	\$ 306,225
Medicaid	13,293,928	2,999,969
Managed care and other third-party payers	50,498,522	43,479,604
Patients	2,896,073	2,812,743
	\$ 66,947,932	\$ 49,598,541

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

Notes to Financial Statements December 31, 2012 and 2011

Note 3: Concentration of Credit Risk

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

	2012	2011
Medicare	2%	1%
Medicaid	19	13
Other third-party payers	63	73
Patients	16	13
	100%	100%

Note 4: Line of Credit

The Hospital has a \$4,000,000 revolving line of credit expiring in August 2013. At December 31, 2012 and 2011, there was \$425,065 and \$1,521,870, respectively, borrowed under this line of credit. The line of credit is collateralized by substantially all of the Hospital's assets. Interest varies with the London Interbank Offered Rate (LIBOR) plus 1.9% and is payable monthly. The interest rate was 2.15% on December 31, 2012.

Note 5: Long-Term Debt

	2012	2011
Note payable, bank (A)	\$ -	\$ 83,969
Capital lease obligations (B)	472,096	760,225
Note payable, bank (C)	131,827	-
Note payable, bank (D)	629,270	-
Note payable (E)	40,852	108,665
	1,274,045	952,859
Less current maturities	423,256	439,911
	\$ 850,789	\$ 512,948

(A) Paid in full during 2012; was payable \$14,758 monthly including interest at 6.64%.

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

Notes to Financial Statements December 31, 2012 and 2011

- (B) Capital leases for various equipment for terms ranging from 4 to 20 years. The leases assume interest rates of 2.98% to 8.25%. The leases are payable in monthly installments ranging from \$968 to \$6,332 and are secured by the leased equipment.
- (C) Due January 2017; payable \$2,907 monthly including interest at 3.68%; secured by equipment. The Hospital is required to comply with certain financial covenants.
- (D) Due December 2017; payable \$11,107 monthly including interest at 2.25%; secured by equipment. The Hospital is required to comply with certain financial covenants.
- (E) Due July 2013; payable \$5,907 monthly including interest at 3.88%; secured by equipment.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2012 were:

	Long-Term Debt (Exc. Leases)	Capital Lease Obligations
2013	\$ 191,526	\$ 251,303
2014	154,601	158,617
2015	158,637	92,863
2016	162,765	7,327
2017	134,420	-
	\$ 801,949	510,110
Less amount representing interest		38,014
Present value of future minimum lease payments		\$ 472,096

Property and equipment include the following property under capital leases:

	2012	2011
Equipment	\$ 1,885,513	\$ 2,209,327
Less accumulated depreciation	1,470,623	1,556,766
	\$ 414,890	\$ 652,561

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

Notes to Financial Statements December 31, 2012 and 2011

Note 6: Operating Leases

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

Future minimum lease payments at December 31, 2012 were:

2013	\$ 3,703,630
2014	3,641,057
2015	3,592,128
2016	3,452,089
2017	3,439,488
Later years	<u>46,790,743</u>
	<u>\$ 64,619,135</u>

Rent expense for all operating leases was \$3,812,818 and \$3,620,278 for the years ended December 31, 2012 and 2011, respectively.

Note 7: Profit-Sharing Plan

The Hospital has a 401(k) profit-sharing plan (Plan) covering substantially all employees. The Hospital's contributions to the Plan are determined annually by the board of managers. Contributions to the Plan were \$408,415 and \$379,453 for 2012 and 2011, respectively.

Note 8: Deferred Compensation Agreement

The Hospital has a deferred compensation agreement with the chief executive officer that provides certain benefits upon disability or retirement. The present value of total estimated deferred compensation is being accrued using the straight-line method over the remaining years to the full eligibility date. Expense for 2012 and 2011 was \$18,380.

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

Notes to Financial Statements December 31, 2012 and 2011

Note 9: Related Party Transactions

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

- Capital lease arrangements - The Hospital leases various equipment under capital lease arrangements from DHI. Payments related to these leases totaled \$116,699 and \$122,114 for 2012 and 2011. Amounts owed at December 31, 2012 and 2011 totaled \$125,653 and \$227,383, respectively, and the net book value of the related equipment was \$82,414 and \$154,357 for 2012 and 2011, respectively. These leases are also included and described in Note 5.
- Operating lease arrangements - The Hospital leases its hospital, education and office space from DHI under noncancellable leases ranging from 10 to 30 years. Total payments under these arrangements were \$3,256,162 and \$3,143,838 in 2012 and 2011, respectively. These leases are also included and described in Note 6.
- Other services - The Hospital contracts with DHI for pharmacy, lab, transcription, coding and other services. Payments made to DHI under these agreements totaled \$2,798,230 and \$2,581,881 in 2012 and 2011, respectively. Amounts included in accounts payable for these services at year end totaled \$925,133 and \$934,041 in 2012 and 2011, respectively.

Note 10: Medical Malpractice Claims

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

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

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

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Estimated accrued reserves for professional liability claims were \$145,000 and \$198,000 at December 31, 2012 and 2011 and is included in accrued expenses in the accompanying balance sheets. Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective balance sheet dates. The reserve for unpaid losses and loss expenses are estimated using individual case-basis valuations. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The time period required to resolve these claims can vary depending upon whether the claim is settled or litigated. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, we believe the reserves for losses and loss expenses are adequate based on information currently known. It is reasonably possible that this estimate could change materially in the near term.

The Hospital's professional liability risks, in excess of certain per claim and aggregate deductible amounts, are insured through the policies described above. The amounts receivable under these insurance contracts included \$145,000 and \$198,000 included in prepaid expenses and other assets at December 31, 2012 and 2011.

Note 11: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Admitting Physicians

The Hospital is served by one group of admitting physicians whose patients comprise approximately 38% and 30% of the Hospital's net patient service revenue for 2012 and 2011, respectively.

Deferred Compensation Agreement

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

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Notes to Financial Statements December 31, 2012 and 2011

Litigation and Disputes

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

The Hospital has filed a demand for arbitration against one of the Hospital's significant commercial insurance payers as a result of the payer's unilateral decision to attempt to recoup certain payments made to the Hospital under the payer's insurance plan. The Hospital intends to vigorously contest the matter and believes it has a meritorious position. As such, no amounts have been accrued as of December 31, 2012 for potential loss from this matter.

Note 12: Joint Venture Commitment

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

Terms of the agreements require the Hospital to provide a nominal initial cash capitalization and facilities, including leasehold improvements within the Hospital's campus for the operations of the joint venture. Actual capitalization levels will be determined once the equipment purchases, installation and leasehold improvements are complete during 2013.

In connection with the provisions of facility and leasehold improvements, the Hospital entered into a ten year lease agreement with Deaconess Hospital for the office space located within the Hospital's campus. Aggregate annual payments for the facility are expected not to exceed \$240,450. Terms of the formation and operating agreement provide for the newly formed joint venture to execute a sub-lease agreement, related to the above noted lease.

The Hospital is also the guarantor of a line of credit benefitting the joint venture in the amount of \$250,000. The line of credit is scheduled to expire on December 31, 2013 and does not have any amounts drawn against it as of December 31, 2012.