

ATTACHMENT B

**THE INFORMATION IN THIS ATTACHMENT
RELATES ONLY TO
BETHESDA HOSPITAL, INC. AND SUBSIDIARIES**

**Bethesda Hospital alone represents approximately
5% of the Total Assets of the CHI Reporting Group and
4% of the Total Revenues of the CHI Reporting Group
For the Fiscal Year Ended June 30, 2009**



CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Bethesda Hospital, Inc. and Subsidiaries
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Bethesda Hospital, Inc. and Subsidiaries
Consolidated Financial Statements and Other Financial Information
June 30, 2009 and 2008

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Report of Independent Auditors

The Board of Trustees
of Bethesda Hospital, Inc. and Subsidiaries

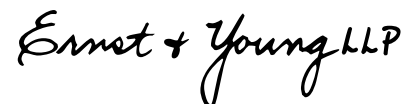
We have audited the accompanying consolidated balance sheets of Bethesda Hospital, Inc. and Subsidiaries (the Hospital), a subsidiary of Bethesda, Inc., as of June 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included 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 Hospital'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bethesda Hospital, Inc. and Subsidiaries at June 30, 2009 and 2008, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note H to the consolidated financial statements, in 2008 the Hospital adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)* and changed its method for accounting for employee benefit plans.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The unaudited community benefit information in Note B is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we do not express any assurances on such information.



October 7, 2009

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30	
	2009	2008
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 35,006	\$ 16,224
Net patient accounts receivable, less allowance of \$16,939 in 2009 and \$15,047 in 2008	33,410	39,139
Other accounts receivable	2,006	1,557
Current portion of assets limited as to use <i>(Note D)</i>	23,400	16,903
Inventories	1,529	1,282
Prepaid and other	2,232	2,163
Network affiliation receivable <i>(Note K)</i>	3,029	-
Total current assets	100,612	77,268
Assets limited as to use and investments <i>(Note D)</i> :		
Assets limited as to use:		
Internally designated for capital and other funds	224,332	270,833
Restricted by donors	2,570	3,095
Trustee held funds under professional liability funding arrangement	17,889	19,587
Investments	16,941	8,306
Total investment and assets limited as to use	261,732	301,821
Property and equipment, net <i>(Note E)</i>	274,331	277,991
Investments in unconsolidated organizations <i>(Note L)</i>	1,583	2,675
Due from related organizations, net <i>(Note J)</i>	23,789	27,571
Other assets	451	562
Total assets	\$ 662,498	\$ 687,888

	June 30	
	2009	2008
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	\$ 18,448	\$ 18,007
Third-party liabilities	5,748	3,713
Accounts payable and accrued expenses	20,849	24,312
Network affiliation payable <i>(Note K)</i>	–	10,851
Current portion of long-term debt <i>(Note F)</i>	10,460	6,283
Current portion of due to related organizations, net <i>(Note J)</i>	20,810	2,062
Total current liabilities	76,315	65,228
Accrued professional liability expense	15,567	13,435
Pension liability <i>(Note H)</i>	48,298	10,323
Long-term compensation and benefits and other liabilities	14,972	14,253
Long-term debt <i>(Note F)</i>	224,159	222,984
Total liabilities	379,311	326,223
Net assets:		
Unrestricted	272,701	351,026
Temporarily restricted	10,486	10,639
Total net assets	283,187	361,665
Total liabilities and net assets	\$662,498	\$687,888

See accompanying notes.

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2009	2008
	<i>(In Thousands)</i>	
Revenue		
Net patient service revenue:		
Acute inpatient	\$ 252,874	\$ 237,952
Outpatient	209,919	195,639
Other patient	29,295	26,619
Total net patient service revenue	<u>492,088</u>	460,210
Non-patient (loss) revenue:		
Loss from unconsolidated organizations	(5,828)	(1,658)
Operating loss from network affiliation <i>(Note K)</i>	(6,598)	(13,830)
Other revenue, net	15,969	17,866
Total revenue	<u>495,631</u>	462,588
Expenses		
Salaries and wages	161,900	155,745
Employee benefits	35,697	33,437
Medical professional fees	2,868	2,636
Purchased services	21,513	18,553
Supplies	98,916	92,323
Bad debts	36,743	27,303
Utilities	5,396	5,102
Insurance	4,819	5,295
Rental, leases, and maintenance	11,171	10,992
Depreciation and amortization	20,746	19,487
Interest	12,126	10,047
Shared service allocation <i>(Note L)</i>	55,904	51,474
Other, net	6,000	5,296
Total operating expenses	<u>473,799</u>	437,690
Income from operations	<u>21,832</u>	24,898
Nonoperating income (loss):		
Income from network affiliation <i>(Note K)</i>	9,627	2,979
Investment loss <i>(Note D)</i>	(48,107)	(5,438)
Total nonoperating loss	<u>(38,480)</u>	(2,459)
Excess of (expenses over revenue) revenue over expenses	\$ (16,648)	\$ 22,439

(Continued on next page)

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended June 30	
	2009	2008
	<i>(In Thousands)</i>	
Excess of (expenses over revenue) revenue over expenses	\$ (16,648)	\$ 22,439
Effect of adoption of FASB Statement No. 158 <i>(Note H)</i>	–	5,705
Change in plan assets and benefit obligation of pension plan <i>(Note H)</i>	(50,718)	(20,055)
Change in funded status of TriHealth pension plan	(10,305)	(2,396)
Other changes in net assets, net	(807)	358
(Decrease) increase in net assets	<u>(78,478)</u>	<u>6,051</u>
Net assets at beginning of year	361,665	355,614
Net assets at end of year	<u>\$ 283,187</u>	<u>\$ 361,665</u>

See accompanying notes.

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2009	2008
	<i>(In Thousands)</i>	
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (78,478)	\$ 6,051
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Provision for bad debt	36,743	27,303
Depreciation and amortization	20,746	19,487
Loss from unconsolidated organizations	5,828	1,658
Effect of adoption of FASB Statement No. 158	–	(5,705)
Change in plan assets and benefit obligation of pension plan	50,718	20,055
Change in funded status of TriHealth pension plan	10,305	2,396
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	(31,463)	(26,517)
Other current assets	(3,345)	286
Current liabilities	6,198	(7,855)
Other changes, net	(5,999)	(6,017)
Net cash provided by operating activities, before net change in assets limited as to use and investments	11,253	31,142
Net decrease (increase) in assets limited as to use and investments	33,592	(23,131)
Net cash provided by operating activities	44,845	8,011
Cash flows from investing activities		
Additions to property and equipment, net	(16,374)	(25,511)
Change in investments in unconsolidated organizations	(15,041)	(1,953)
Net cash used in investing activities	(31,415)	(27,464)
Cash flows from financing activities		
Proceeds from long-term debt	12,535	39,869
Repayment of long-term debt	(7,183)	(5,982)
Net cash provided by financing activities	5,352	33,887
Increase in cash and cash equivalents	18,782	14,434
Cash and cash equivalents at beginning of year	16,224	1,790
Cash and cash equivalents at end of year	\$ 35,006	\$ 16,224

See accompanying notes.

Bethesda Hospital, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

June 30, 2009 and 2008

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies

Organization

Bethesda Hospital, Inc. and Subsidiaries (the Hospital), a subsidiary of Bethesda, Inc., is a tax-exempt Ohio corporation. The mission of the Hospital is to provide health care and related services through its inpatient, outpatient, and community based facilities and programs. The Hospital has a long-term commitment to medical education through its support of the physician residency program and healthcare training programs for technicians, as well as patient education in disease management and awareness.

The Hospital is a part of a network affiliation agreement, with The Good Samaritan Hospital of Cincinnati, Ohio (the Partner), a tax-exempt Ohio corporation under section 501(c)(3) of the Internal Revenue Code. The agreement provides for, among other things, joint management of the combined operations of the facilities of the Hospital and the Partner. The Hospital and the Partner share the excess of (expenses over revenue) revenue over expenses as defined in the network affiliation agreement. The Hospital and the Partner also own 50% each of a joint venture, TriHealth, Inc. (Note L). The Hospital accounts for TriHealth, Inc. using the equity method of accounting.

Basis of Presentation

The consolidated financial statements of the Hospital include the accounts of Bethesda Hospital, Inc. (including Bethesda Northeast Cardiac Center, LLC, a consolidated majority owned joint venture), Senior Services, a division of Bethesda Hospital, Inc., and Hospice of Cincinnati Inc. and Subsidiary and Bethesda Properties, Inc., subsidiaries of Bethesda Hospital, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides a new definition of fair value establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Hospital adopted the provisions of SFAS No. 157 as of July 1, 2008. The adoption of SFAS No. 157 did not have a material effect on the Hospital's consolidated financial position as of July 1, 2008 or June 30, 2009 or on the consolidated statements of operations and changes in net assets or cash flows for the year ended June 30, 2009. See Note M for related fair value disclosures.

In February 2009, the FASB issued FASB Staff Position FAS 157-2 (FSP FAS 157-2), which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, the Hospital will apply the provisions of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities beginning with the fiscal year ended June 30, 2010.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and also requires enhanced disclosures for all endowment funds, including funds designated as endowments by the Board of Trustees. The Hospital adopted FSP FAS 117-1 on July 1, 2008. The adoption of FSP FAS 117-1 did not have a material effect on the Hospital's consolidated financial position as of June 30, 2009 or on the statement of operations and changes in net assets or cash flows for the year then ended.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase.

Net Patient Accounts Receivable

Net patient accounts receivable and net patient service revenue have been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Management periodically assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience. The results of these reviews are used to modify as necessary the provisions for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, the Hospital follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Hospital. Bad debt expense was \$36,743 and \$27,303 for the years ended June 30, 2009 and 2008, respectively.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist primarily of non-governmental patient accounts receivable. The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at June 30 approximated the following:

	2009	2008
Medicare	20%	20%
Medicaid	2	2
Managed care	15	14
Self pay	29	25
Commercial and other	34	39
	100%	100%

Inventories

Inventories, primarily consisting of pharmacy drugs and medical and surgical supplies, are stated at the lower of cost (first-in, first-out method) or market.

Assets Limited as to Use and Investments

Assets limited as to use and investments include assets set aside for future long-term purposes, including capital improvements and amounts contributed by donors with stipulated restrictions.

Substantially all of the Hospital's assets limited as to use are held in the Bethesda Master Trust which is professionally managed under the administration of Bethesda, Inc. (and the Bethesda Investment Committee). The Hospital's investments are represented by percentage ownership rather than specific securities. The Hospital accounts for its investments in the Bethesda Master Trust under the equity method of accounting.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

Assets limited as to use and investments held outside the Bethesda Master Trust investment programs include cash and cash equivalents, marketable debt securities, marketable equity securities, mutual funds and hedge funds.

Investment loss (including realized gains and losses on investments, interest and dividends and changes in unrealized gains and losses on investments designated as trading) is included in excess of (expenses over revenue) revenue over expenses unless the income or loss is restricted by donor or by law.

The credit and liquidity crisis in the United States of America and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. Certain of the Hospital's assets and liabilities are exposed to various risks such as interest rate, market, and credit risks.

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair market value at the date of receipt or determination. Depreciation is provided over the estimated useful life of each class of depreciable asset which range from 2 to 40 years, and is computed using the straight line method. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment and is included in depreciation and amortization expense. Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets.

The cost and related accumulated depreciation of property and equipment that is sold or retired are removed from the respective accounts and the resulting gain or loss is recorded in other revenue, net. In accordance with SFAS No. 95, *Statement of Cash Flows*, select property and equipment of \$712 and \$744 purchased prior to year-end are excluded from the additions to property and equipment, net in the consolidated statements of cash flows as cash payment was not made as of June 30, 2009 and 2008, respectively.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

Investments in Unconsolidated Organizations

The Hospital maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. These investments are accounted for using the equity method of accounting.

Net Assets

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of (expenses over revenue) revenue over expenses as other revenue, net. Other gifts are reported as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as other revenue, net when restricted for operations or as unrestricted net assets when restricted for property and equipment. Temporarily restricted net assets are primarily restricted for strategic capital projects and in support of the Hospital's mission.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, review and investigations. The differences between the estimated and actual adjustments are recorded as part of net patient service revenue in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews and investigations.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

Charity Care

As an integral part of its mission, the Hospital accepts and treats all patients without regard to the ability to pay. Services to patients are classified as charity care in accordance with established criteria. Charity care represents services rendered for which partial or no payment is expected and, as such is not included in net patient service revenue in the consolidated statements of operations and changes in net assets. The amount of charity care provided, as determined on the basis of charges, was \$37,878 and \$34,008 in 2009 and 2008, respectively.

Other Revenue, Net

Other revenue, net includes, cafeteria revenue, rental income, auxiliary and gift shop revenue, program support from Bethesda Foundation, Inc., gains and losses on the sale or disposal of property and equipment and revenue from other miscellaneous sources.

Income Taxes

The Hospital is recognized as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as a charitable organization qualifying under Internal Revenue Code Section 501(c)(3).

The Hospital follows the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109* (FIN No. 48). The Hospital completed an analysis of its tax positions at June 30, 2009 and 2008, and determined that no amounts were required to be recognized under FIN No. 48 in the consolidated financial statements at June 30, 2009 or 2008.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results could vary from those estimates.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

Litigation

During the normal course of business, the Hospital may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements consistent with SFAS No. 5, *Accounting for Contingencies*. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of the Hospital.

Healthcare Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes the Hospital is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

Reclassifications

Certain reclassifications were made to the 2008 consolidated financial statement presentation to conform to the 2009 presentation.

B. Community Benefit (Unaudited)

In accordance with its mission and philosophy, the Hospital commits substantial resources to sponsor a broad range of services to both the poor as well as the broader community. Community benefit provided to the poor includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of: traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

B. Community Benefit (Unaudited) (continued)

Community benefit provided to the broader community includes the costs of providing services to other populations who may not qualify as poor but may need special services and support. This type of community benefit includes the costs of: services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

A summary of the cost of community benefit provided for both the poor and the broader community for the year ended June 30 is as follows:

	2009	2008
Cost of community benefit provided to the poor:		
Cost of charity care provided	\$ 11,778	\$ 10,950
Unpaid cost of public programs, Medicaid and other indigent care programs	7,587	4,223
Non-billed services for the poor	27	3
Cash and in-kind donations for the poor	–	3
	19,392	15,179
Cost of community benefit provided to the broader community:		
Non-billed services for the community	390	386
Education and research provided for the community	715	2,454
Other benefit provided to the community	3,494	2,369
	4,599	5,209
Total cost of community benefit	\$ 23,991	\$ 20,388

The above summary has been prepared in accordance with the policy document of the Catholic Health Association of the United States (CHA), *Community Benefit Program – A Revised Resource for Social Accountability*. Community benefit is measured on the basis of total cost, net of any offsetting revenue, donations or other funds used to defray cost.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

C. Net Patient Service Revenue

Net patient service revenue is derived from services provided to patients who are directly responsible for payment or are covered by various insurance or managed care programs. The Hospital receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs and from patients themselves. A summary of payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic and other factors.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan, and are paid at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules or discounts from established charges.

Other – The Hospital has also 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.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

C. Net Patient Service Revenue (continued)

The Hospital's Medicare, Medicaid and other payor utilization percentages, based upon net patient service revenue, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Medicare – Traditional	25%	26%
Medicaid – Traditional	2	2
Managed care	70	69
Self pay	1	1
Commercial and other	2	2
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of \$999 and \$1,041 at June 30, 2009 and 2008, respectively, are included in third-party liabilities. Net patient service revenue has increased by \$240 in 2009 and \$3,779 in 2008 due to favorable changes in estimates related to prior-years' cost report settlements and other third-party payor activity.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

D. Assets Limited as to Use and Investments

The following is a summary of the carrying value of assets limited as to use and investments as of June 30:

	<u>2009</u>	<u>2008</u>
Bethesda Master Trust	\$ 263,339	\$ 298,563
Outside of Bethesda Master Trust:		
Cash and cash equivalents	200	8,008
Marketable debt securities	19,664	11,568
Marketable equity securities	492	585
Mutual funds	1,437	—
	<u>285,132</u>	<u>318,724</u>
Less current portion of assets limited as to use	23,400	16,903
	<u>\$ 261,732</u>	<u>\$ 301,821</u>

Substantially all of the Hospital's assets limited as to use are held in the Trust. The carrying value of the assets held by participants is an allocation of the underlying carrying value of the assets in the Trust, based on the asset allocation specific to each participant and its relative percentage ownership. The asset allocation specific to the Hospital at June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	3%	6%
Marketable equity securities	32	42
Marketable debt securities	15	11
Mutual funds	15	14
Real estate investment trust	2	2
Alternative investments:		
Hedge funds	8	9
Limited liability company	9	8
Private equity/limited partnerships	16	8
	<u>100%</u>	<u>100%</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

D. Assets Limited as to Use and Investments (continued)

The carrying value of cash equivalents, marketable debt securities, marketable equity securities, and mutual funds included in the Trust, substantially all of which are traded on national exchanges and over-the-counter markets, is based on the last reported sales price on the last business day of the fiscal year.

The carrying value of hedge funds, limited liability company, and private equity/limited partnerships are based on valuations provided by the administrators of the specific financial instruments. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives and private equity instruments. The underlying investments themselves are subject to various risks including market, credit, liquidity and foreign exchange risk. Bethesda, Inc. believes the carrying amount of these financial instruments in the consolidated balance sheets is a reasonable estimate of value. Because these financial instruments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a market for such financial instruments existed. Such differences could be material.

Investment loss from the Trust, including interest income, dividends, realized gains and losses and the change in unrealized gains or losses, is distributed to participants based on their relative percentage ownership. The following is a summary of total investment loss for the year ended June 30:

	<u>2009</u>	<u>2008</u>
Dividend and interest income (net of expenses)	\$ 6,808	\$ 6,931
Net realized (losses) gains on investments	(33,355)	3,502
Net change in unrealized losses on investments	(21,560)	(15,871)
	<u>\$ (48,107)</u>	<u>\$ (5,438)</u>

The Hospital's relative ownership, based on the carrying value of the underlying assets of the entire Trust was approximately 74% and 71% at June 30, 2009 and 2008, respectively.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

E. Property and Equipment

The following is a summary of property and equipment as of June 30:

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 14,457	\$ 14,250
Buildings and improvements	307,327	297,838
Equipment	176,536	168,028
	<u>498,320</u>	480,116
Less accumulated depreciation	242,604	216,853
	<u>255,716</u>	263,263
Construction in progress	18,615	14,728
	<u>\$ 274,331</u>	<u>\$ 277,991</u>

FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN No. 47) requires the recognition of a liability for the fair value of asset retirement obligations in instances where there is a legal liability and the amount can be reasonably estimated. Management has recorded asset retirement obligations of \$3,921 and \$3,980 at June 30, 2008 and June 30, 2007 respectively.

The Hospital evaluates whether events and circumstances have occurred that indicate the remaining useful life of property, equipment and certain other intangible assets may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Management determined there were no material impairment issues in 2009 or 2008.

Included in property and equipment, net at June 30, 2009 and 2008 are \$5,801 and \$10,462 of net property and equipment owned by the Hospital and used by TriHealth, Inc. The depreciation associated with this property and equipment is recorded by TriHealth, Inc. and allocated back to the Hospital based on estimated usage.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

F. Long-Term Debt

Substantially all of the Hospital's long-term debt is in the form of notes payable to CHI. The Hospital participates in a unified CHI credit governed agreement under a Capital Obligation Document (COD). Under the COD, CHI is the sole obligor on all debt. Debt under the COD is evidenced by a promissory note between the Hospital and CHI, which include monthly installments of interest and may be repaid in advance without penalty. The Hospital is defined as a participant under the COD and has agreed to certain financial and nonfinancial covenants. Subsequent to June 30, 2009, the Hospital and CHI amended the Hospital's participation agreement with respect to the Hospital's debt service coverage requirements. This amendment was retroactive to June 30, 2008. The Hospital was in compliance with all covenants at June 30, 2009 and 2008.

The following is a summary of long-term debt as of June 30:

	2009	2008
Note payable to CHI (Phase II), due 2029	\$ 138,200	\$ 115,331
Note payable to CHI (2006 Asset Support), due 2029	—	11,234
Note payable to CHI (Project Fund) due 2017	18,398	20,382
Note payable to CHI (Phase I) due 2026	8,085	8,397
Note payable to CHI (2001 Refinance) due 2022	68,844	72,748
Note payable to bank due 2018, fixed-rate debt, annual interest rate of 6.10%	1,092	1,175
	234,619	229,267
Less current portion of long-term debt	10,460	6,283
	\$ 224,159	\$ 222,984

All of the notes payable to CHI are variable rate debt with interest rates of 5.25% to 5.75% in 2009. The variable-rate associated with the notes payable to CHI is based on a blended rate of the underlying fixed and variable-rate debt held by CHI.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

F. Long-Term Debt (continued)

A summary of scheduled principal payments on long-term debt for the next five years and thereafter is as follows:

<u>Year Ending June 30</u>	<u>Amounts Due</u>
2010	\$ 10,460
2011	11,157
2012	11,716
2013	12,303
2014	12,920
Thereafter	<u>176,063</u>
	<u>\$ 234,619</u>

Interest paid on all long-term debt was \$12,382 and \$10,834 for the years ended June 30, 2009 and 2008, respectively. Total rental expense under all operating leases for the years ended June 30, 2009 and 2008 was \$5,400 and \$5,536, respectively.

The Hospital maintains a line of credit with Fifth Third Bank for \$10,000. No draws were made on the line of credit during fiscal year 2009 and no amounts are outstanding as of June 30, 2009 or 2008.

G. Functional Expenses

The Hospital provides health care services to individuals within the tri-state area including inpatient, outpatient, ambulatory, long-term care, and community-based services. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services and other functions that are supported centrally for all of the Hospital. The following summarizes the expenses related to providing those services for the year ended June 30:

	<u>2009</u>	<u>2008</u>
Health care services	\$ 417,895	\$ 386,216
Support services	<u>55,904</u>	<u>51,474</u>
	<u>\$ 473,799</u>	<u>\$ 437,690</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

H. Retirement Plan

The Hospital has a qualified noncontributory defined benefit retirement plan (the Plan) covering substantially all Bethesda Hospital, Inc. employees and those of certain other subsidiaries of Bethesda Hospital, Inc. and Bethesda, Inc. Under the Plan, employee benefits are based on employees' years of service, retirement age, and compensation. Vesting occurs over a three-year period. Annual contributions are made to the Plan sufficient to satisfy legal funding requirements.

The Hospital accounts for the Plan in accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires the Hospital to recognize the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of the Plan in the consolidated balance sheets, with a corresponding adjustment to unrestricted net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension expense in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension expense on the same basis as the amounts recognized in unrestricted net assets at the adoption of SFAS No. 158.

On July 1, 2007, the Hospital adopted the provisions of SFAS No. 158 regarding elimination of an early measurement date for plan assets and obligations, such that plan assets were re-measured as of the Hospital's year-end. The change in measurement date also permitted a change in the discount rate used by the Hospital to value plan obligations from 5.75% to 6.00%. These changes resulted in a reduction in the pension liability and an increase in unrestricted net assets of \$5,705.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

H. Retirement Plan (continued)

A summary of the changes in the benefit obligation, fair value of plan assets and funded status of the Plan at June 30:

	<u>2009</u>	<u>2008</u>
Accumulated benefit obligation	<u>\$ 184,289</u>	<u>\$ 168,412</u>
Change in benefit obligation:		
Benefit obligation at beginning of period	\$ 178,772	\$ 168,284
Impact from change of measurement date	–	(2,065)
Service cost	8,375	7,861
Interest cost	10,346	9,611
Actuarial losses	4,978	3,157
Benefits paid	(7,249)	(8,076)
Benefit obligation at end of period	<u>195,222</u>	<u>178,772</u>
Change in plan assets:		
Fair value of plan assets at beginning of period	168,449	172,984
Impact from change of measurement date	–	3,640
Actual loss on plan assets	(33,976)	(6,099)
Hospital contributions	19,700	6,000
Benefits paid	(7,249)	(8,076)
Fair value of plan assets at end of period	<u>146,924</u>	<u>168,449</u>
Under funded status	<u>\$ (48,298)</u>	<u>\$ (10,323)</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

H. Retirement Plan (continued)

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension expense as of June 30:

	<u>2009</u>	<u>2008</u>
Net prior service cost	\$ 1,502	\$ 1,791
Net actuarial loss	100,204	49,197
	<u>\$ 101,706</u>	<u>\$ 50,988</u>

The net prior service cost and net actuarial loss included in unrestricted net assets that is expected to be recognized in net periodic pension expense during the fiscal year ended June 30, 2010 is \$274 and \$3,463, respectively.

The following amounts related to plan activity have been recognized as increase (decrease) in unrestricted net assets for the year ended June 30:

	<u>2009</u>	<u>2008</u>
Amortization of prior service cost	\$ 289	\$ 289
Net actuarial loss	(53,245)	(22,655)
Amortization of net actuarial loss	2,238	2,311
	<u>\$ (50,718)</u>	<u>\$ (20,055)</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

H. Retirement Plan (continued)

A summary of the components of net periodic pension expense for the Plan, which is included in employee benefits expense in the consolidated statements of operations for the year ended June 30, is as follows:

	<u>2009</u>	<u>2008</u>
Service cost	\$ 8,375	\$ 7,861
Interest cost	10,346	9,611
Expected return on plan assets	(14,291)	(13,399)
Amortization of prior service cost	289	289
Amortization of net actuarial loss	2,238	2,311
	<u>\$ 6,957</u>	<u>\$ 6,673</u>

The following weighted-average assumptions were used to determine the benefit obligation as of June 30:

	<u>2009</u>	<u>2008</u>
Discount rate	6.00%	6.00%
Rate of compensation increase	3.50% to 6.50 %	3.50% to 6.50%

The following weighted-average assumptions were used to determine net periodic pension expense for the year ended June 30:

	<u>2009</u>	<u>2008</u>
Discount rate	6.00%	5.75%
Expected return on plan assets	8.25%	8.25%
Rate of compensation increase	3.50% to 6.50%	3.50% to 6.50%

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

H. Retirement Plan (continued)

In selecting the expected return on plan assets, the Hospital considered historical returns as well as adherence to future asset allocations set forth in the Plan's investment policies. This basis is consistent with prior year.

The target and range asset allocations for the plan assets set forth in the Plan's investment policies are as follows:

	<u>Target</u>	<u>Range</u>
Marketable debt securities	17.5%	12.5 – 22.5%
Marketable equity securities	50	45 – 55
Limited liability companies/limited partnerships	7.5	2.5 – 12.5
Hedge/private equity funds	15	10 – 20
Other	10	5 – 15

A summary of the fair value of plan assets as of June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 8,998	\$ 4,516
Marketable equity securities:		
United States	34,251	53,567
Foreign	6,659	14,596
Marketable debt securities:		
U.S. Government	2,718	–
Mutual funds	18,563	20,900
Real estate investment trust	3,605	3,377
Alternative investments:		
Hedge funds	20,750	32,730
Limited liability company	12,194	12,388
Private equity/limited partnerships	39,186	26,375
	<u>\$ 146,924</u>	<u>\$ 168,449</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

H. Retirement Plan (continued)

The Hospital's plan assets are managed by the Bethesda, Inc. The fair value of marketable debt and equity securities are based on quoted market prices. The carrying value of hedge funds, limited liability company and private equity/limited partners, collectively alternative investments, are based on valuations provided by the administrators of the specific financial instruments. Amounts recorded represent the percentage ownership in the net asset value of the respective alternative investment. SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* requires plan assets, whether marketable equity or debt securities, alternative investments or other, to be measured at their fair value as of the measurement date. As a result, and based on management's adoption of SFAS No. 157 in the current year, additional analysis was performed by management to determine that the fair value of alternative investments approximated the percentage ownership of the net asset value of the respective alternative investments held in plan assets. Because alternative investments are not readily marketable, management considered a hypothetical market in making this determination.

The plan assets are invested in a portfolio designed to preserve principal and obtain competitive investment returns with long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles, retaining multiple investment managers with complementary philosophies, styles, and approaches. The use of leverage is prohibited except as specifically directed in the alternative investment allocation.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

H. Retirement Plan (continued)

Similar to assets whose use is limited, the Hospital participates in securities lending arrangements within the Retirement Trust with its custodian whereby the Retirement Trust lends a portion of its marketable securities to various brokers or financial institutions in exchange for cash or non-cash collateral for the marketable securities loaned. Cash collateral received in connection with the securities lending arrangements is invested in a short-term pooled fund (Pooled Fund) maintained by the Retirement Trust's custodian (US Bank). The Pooled Fund, which is structured similar to that of a money market financial instrument, consists primarily of short-term marketable debt securities and cash equivalents, which are stated at fair value, as determined by the administrator of the Pooled Fund, based on readily determinable market values of the underlying securities. The fair value of cash collateral held for loaned marketable securities and the obligation to return the collateral is shown net in plan assets. The Hospital is required to fund any decline in the underlying market value of invested collateral below the initial amount provided by the various brokers or financial institutions. At June 30, 2009 and 2008 the fair value of the collateral was \$6,900 and \$31,000 respectively. At June 30, 2009 and 2008 the obligation to return the collateral was \$7,800 and \$31,600 respectively.

The Hospital expects to contribute \$6,000 to the Plan in 2010.

The expected benefits to be paid to the Plan participants and beneficiaries are as follows:

Year Ending June 30	Estimated Payments
2010	\$ 15,013
2011	14,494
2012	15,996
2013	17,210
2014	18,464
2015-2019	110,845

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

I. Self-Insured Liabilities

Effective April 16, 1987, Bethesda, Inc. adopted a self-insurance program for the primary layer of professional liability coverage. Coverage is provided to participants on a claims-made basis. For the period April 16, 1986 through April 15, 1987, the primary layer of insurance was in the form of a claims-made commercial insurance policy. Prior to April 16, 1986, all professional liability coverage was written on an occurrence basis, with a provision that premiums be rated retrospectively. This provision remains in effect for any claim arising in the future from those policy years.

Self-insurance limits with respect to the primary layer of professional liability coverage are \$3,000 per occurrence and \$12,000 in the annual aggregate. Insurance in excess of the primary layer, including excess liability coverage, is provided by commercial insurance carriers on a claims-made basis. In addition, management maintains current claims-made insurance coverage to cover any known incidents that may be asserted.

The consolidated financial statements include an actuarially determined accrual for asserted and reported claims and other claims which may result from past services provided to patients discounted at a rate of 4.00% and 5.00% for the years ended June 30, 2009 and 2008, respectively. The actuarially determined accrual for the Hospital's professional liability coverage is an estimate.

The possibility exists that the estimate will be revised by a material amount in the future. The expense for the Hospital's professional liability coverage amounted to \$3,938 and \$2,927 for the years ended June 30, 2009 and 2008, respectively.

The participants contribute amounts to a trust fund to provide for the actuarially determined liability under the primary layer of professional liability coverage. The contributed assets are held in an irrevocable trust for future professional liability claims. Total contributions to the irrevocable trust for future professional liability claims were approximately \$2,889 and \$3,500 for the years ended June 30, 2009 and 2008, respectively.

Certain Hospital entities are self-insured for employee health benefits. Employee health benefits are paid through a local claims processor based on plan coverage determined by the Hospital. An estimated liability of \$2,889 and \$3,631 for outstanding and incurred but not reported claims has been included in compensation and benefits as of June 30, 2009 and 2008, respectively, and is believed by management to be adequate for the cost of potential losses.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

I. Self-Insured Liabilities (continued)

Certain Hospital entities are self-insured for workers' compensation coverage. Workers' compensation claims are processed and paid through CHI. An estimated liability for outstanding and incurred but not reported workers' compensation claims of \$2,127 and \$2,332 has been included in other liabilities as of June 30, 2009 and 2008, respectively. Management believes this amount to be adequate for the cost of potential losses.

J. Related-Party Transactions

The Hospital enters into various related party transactions in the ordinary course of business with Bethesda, Inc. and Subsidiaries and the Partner. Information related to the annual settlement under the network affiliation agreement is disclosed in Note K. All other significant activity that occurs in the normal course of business with Bethesda, Inc. and Subsidiaries and the Partner are disclosed in this note.

The following is a summary of the net amounts due from/(due to) related organizations as of June 30:

	2009	2008
Bethesda Foundation, Inc.	\$ 8,837	\$ 8,107
The Good Samaritan Hospital of Cincinnati, Ohio	(7,693)	(1,093)
Bethesda Healthcare, Inc.	14,767	14,506
TriHealth, Inc.	(13,117)	(969)
Bethesda, Inc.	185	4,958
	2,979	25,509
Less current portion of due to related organizations	(20,810)	(2,062)
	\$ 23,789	\$ 27,571

Bethesda Foundation, Inc. (the Foundation) is a wholly owned subsidiary of Bethesda, Inc., which engages in fundraising activities and invests the resulting assets to support the operations of the Hospital, as well as other related entities. The receivable from the Foundation represents amounts held by the Foundation on behalf of the Hospital. The Foundation charges an administrative fee to Hospice for fundraising services. The amount recognized in the consolidated statements of operations by the Hospital related to these services was \$577 and \$648 for the years ended June 30, 2009 and 2008, respectively.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

J. Related-Party Transactions (continued)

The amount due to the Partner represents an accumulation of overhead costs, payroll, accounts payable, and other centrally managed processes creating a corresponding payable that is relieved periodically by a transfer of cash, and is short term in nature.

The amount due from Bethesda Healthcare, Inc. represents an accumulation of operating losses and capital investments as well as note payable paid by the Hospital on behalf of Bethesda Healthcare, Inc. to the Partner. Bethesda, Inc. has guaranteed the payment of the amounts due to the Hospital from Bethesda Healthcare, Inc.

The amount due to TriHealth, Inc. represents contributed capital to TriHealth, Inc. on behalf of the Hospital.

The amount due from Bethesda, Inc. represents the amount borrowed from Hospital for the purchase of a parcel of land as well as other operating expenses.

Due to the Hospital's relationship with the Foundation, summary financial information has been included. The following is a summary of the Foundation's assets, liabilities and net assets as of June 30:

	<u>2009</u>	<u>2008</u>
Investments	\$ 77,120	\$ 98,057
Other assets	2,198	1,658
Total assets	<u>\$ 79,318</u>	<u>\$ 99,715</u>
Liabilities	\$ 9,523	\$ 8,896
Net assets	<u>69,795</u>	<u>90,819</u>
Total liabilities and net assets	<u>\$ 79,318</u>	<u>\$ 99,715</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

J. Related-Party Transactions (continued)

The following is a summary of the Foundation's results of operations for the year ended June 30:

	2009	2008
Unrestricted loss	\$ (17,678)	\$ (2,459)
Expenses:		
Support to related parties	892	781
Other	2,323	2,093
Total expenses	3,215	2,874
Excess of losses and expenses over unrestricted revenue	(20,893)	(5,333)
Other changes in net assets, net	(131)	65
Decrease in net assets	(21,024)	(5,268)
Net assets at beginning of year	90,819	96,087
Net assets at end of year	\$ 69,795	\$ 90,819

Liabilities of the Foundation, at June 30, 2009 and 2008 include \$8,838 and \$8,107, respectively, due to the Hospital.

K. Network Affiliation Agreement

Under the agreement described in Note A, the Hospital recognized income (expense) related to the sharing of the excess of revenue over expenses of the Hospital and the Partner for the years ended June 30, 2009 and 2008. The revenue share is computed on patient and non-patient revenue, only for entities defined in the network affiliation agreement and the resulting impact is recorded by the Hospital. The network affiliation agreement excludes changes in net unrealized losses and gains on investments designated as trading.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

K. Network Affiliation Agreement (continued)

Net income (expense) from network affiliation and the network affiliation receivable (payable) related to the sharing of excess of (expenses over revenue) revenue over expenses between the Hospital and the Partner for the year ended June 30 are as follows:

	2009	2008
Operating loss from network affiliation	\$ (6,598)	\$ (13,830)
Non operating income from network affiliation	9,627	2,979
	\$ 3,029	\$ (10,851)

The network affiliation agreement requires the network affiliation payable or receivable be settled within 90 days after the close of the year. During 2008, \$11,508 was paid by the Hospital to the Partner related to the 2007 network affiliation agreement settlement. During 2009, \$10,851 was paid by the Hospital to the Partner related to the 2008 network affiliation agreement.

L. Investments in Unconsolidated Organizations

The Hospital maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. These investments are accounted for using the equity method of accounting. The following is a summary of the investments in unconsolidated organizations as of June 30:

	2009	2008
TriHealth, Inc.	\$ 56	\$ 1,200
Other	1,527	1,475
	\$ 1,583	\$ 2,675

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

L. Investments in Unconsolidated Organizations (continued)

TriHealth, Inc. (TriHealth) is a joint venture equally owned by the Hospital and the Partner. TriHealth was formed to provide a comprehensive and integrated provider base to optimize the health status of the community. TriHealth operates various healthcare related businesses, including physician practices, property management and other physician support services companies. In addition, TriHealth provides administrative support services for both the Hospital and the Partner. Administrative support services include general administration, information systems, finance, human resources, and other general support services. TriHealth cash flows are funded equally by the Hospital and the Partner. The Hospital and the Partner each contributed \$15,500 and \$5,000 for the years ended June 30, 2009 and 2008, respectively to TriHealth.

The following administrative support services costs were allocated to the Hospital and recorded as expense for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Salaries and wages	\$ 22,792	\$ 21,340
Employee benefits	6,274	7,018
Purchased services	10,665	10,428
Depreciation and amortization	3,832	4,087
Supplies and other	12,341	8,601
	<u>\$ 55,904</u>	<u>\$ 51,474</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

L. Investments in Unconsolidated Organizations (continued)

The following is a summary of TriHealth's assets, liabilities and net assets as of June 30 (from its unaudited consolidated financial statements):

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 1,877	\$ 679
Net patient accounts receivable	8,611	9,560
Property and equipment, net	22,535	21,717
Due from related organizations	25,423	1,918
Goodwill and other intangible assets, net	12,199	13,057
Other assets	3,012	3,508
Total assets	<u>\$ 73,657</u>	<u>\$ 50,439</u>
Liabilities and net assets		
Compensation and benefits	\$ 25,730	\$ 21,738
Accounts payable and accrued expenses	19,264	15,859
Pension liability	21,971	4,203
Other liabilities	6,580	6,239
Total liabilities	<u>73,545</u>	<u>48,039</u>
Net assets	<u>112</u>	<u>2,400</u>
Total liabilities and net assets	<u>\$ 73,657</u>	<u>\$ 50,439</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

L. Investments in Unconsolidated Organizations (continued)

The following is a summary of TriHealth's results of operations for the year ended June 30 (from its unaudited consolidated financial statements):

	<u>2009</u>	<u>2008</u>
Revenue:		
Net patient service revenue	\$ 121,691	\$ 116,028
Other revenue, net	27,116	26,555
Total revenue	<u>148,807</u>	142,583
Expenses:		
Salaries and wages	143,894	127,523
Employee benefits	26,633	27,429
Purchased services	28,271	25,477
Supplies	28,820	30,008
Depreciation and amortization	11,017	12,042
Rental and maintenance	18,118	16,272
Utilities	6,544	5,767
Insurance	4,351	4,427
Other	11,874	12,233
Shared service allocation	<u>(118,037)</u>	<u>(110,115)</u>
Total expenses	<u>161,485</u>	151,063
Excess of expenses over revenue	(12,678)	(8,480)
Cash contributions	31,000	10,000
Change in funded status of pension plan	<u>(20,610)</u>	<u>(4,792)</u>
Decrease in net assets	<u>(2,288)</u>	<u>(3,272)</u>
Net assets at beginning of year	<u>2,400</u>	5,672
Net assets at end of year	<u>\$ 112</u>	<u>\$ 2,400</u>

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

L. Investments in Unconsolidated Organizations (continued)

The Board of Trustees of TriHealth approved a revocable commitment for up to \$8,000 non-recourse loan over 7 years to Uptown Consortium Inc. The Uptown Consortium, Inc. is a non-profit community development corporation dedicated to the human, social, economic and physical improvement of Uptown Cincinnati. These funds will be used to invest in commercial and residential projects in the uptown area. TriHealth has provided \$3,276 and \$1,629 as of June 30, 2008, and 2007, respectively, of funding in relation to this commitment.

M. Fair Value Measurements

Effective January 1, 2008, the Hospital adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS No. 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS No. 157 expands disclosures about instruments measured at fair value. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS No. 157 did not require any new fair value measurements. Adopting SFAS No. 157 did not have a material impact on the Hospital's consolidated financial position and results of operations.

The carrying amount reported in the consolidated balance sheets for current assets and current liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. These financial instruments are not required to be marked to fair value on a recurring basis and therefore are not disclosed in the accompanying table under SFAS No. 157. The Bethesda Master Trust is accounted for similar to the equity method of accounting. The carrying amount of the Bethesda Master Trust approximates fair value.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (SFAS No. 159), which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The Hospital did not elect fair value accounting for any asset or liabilities that are not currently required to be measured at fair value.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

M. Fair Value Measurements (continued)

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumption in fair value measurements, and as noted above, SFAS No. 157 establishes a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs utilize quoted market prices in active markets for identical assets or liabilities that the Hospital has the ability to access.
- Level 2 – inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.
- Level 3 – inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Hospital's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The financial instruments carried at fair value, on the consolidated balance sheet by SFAS No. 157 valuation hierarchy as of June 30, 2009 represent cash and cash equivalents of \$200, marketable equity securities of \$492, and mutual funds of \$1,437 classified as level 1, as well as marketable debt securities of \$19,664 classified as level 2.

Bethesda Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollar Amounts in Thousands)

N. Subsequent Events

Effective June 30, 2009, the Hospital adopted the provisions of SFAS No. 165, *Subsequent Events* (SFAS No. 165). The objective of SFAS No. 165 is to establish general standards of accounting for and disclosure of events that occur after the consolidated balance sheet date but before the consolidated financial statements are issued or are available to be issued. The Hospital has evaluated and disclosed any subsequent events through October 7, 2009, which is the date the consolidated financial statements were issued.

Report of Independent Auditors on Other Financial Information

The Board of Trustees
of Bethesda Hospital, Inc. and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subject to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

October 7, 2009

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2009
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass- ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ (194)	\$ 992	\$ 34,208	\$ -	\$ 35,006
Net patient accounts receivable, less allowance of \$16,939	-	69	4,579	28,762	-	33,410
Other accounts receivable	-	-	-	2,386	(380)	2,006
Current portion of assets limited as to use	-	-	-	23,400	-	23,400
Inventories	-	-	-	1,529	-	1,529
Prepaid and other	-	-	13	2,219	-	2,232
Network affiliation receivable	-	-	-	3,029	-	3,029
Total current assets	-	(125)	5,584	95,533	(380)	100,612
Assets limited as to use and investments:						
Assets limited as to use:						
Internally designated for capital and other funds	-	-	6,969	217,363	-	224,332
Restricted by donors	-	-	-	2,570	-	2,570
Trustee held funds under professional liability funding arrangement	-	-	-	17,889	-	17,889
Investments	-	-	-	16,941	-	16,941
Total investment and assets limited as to use	-	-	6,969	254,763	-	261,732
Property and equipment, net	29,565	125	9,091	235,550	-	274,331
Investments in unconsolidated organizations	-	-	-	6,311	(4,728)	1,583
Due from related organizations, net	-	-	540	7,781	15,468	23,789
Other assets	-	-	-	1,051	(600)	451
Total assets	\$ 29,565	\$ -	\$ 22,184	\$ 600,989	\$ 9,760	\$ 662,498

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2009
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass- ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Liabilities and net assets						
Current liabilities:						
Compensation and benefits	\$ 32	\$ -	\$ 1,313	\$ 17,103	\$ -	\$ 18,448
Third-party liabilities	-	-	-	5,748	-	5,748
Accounts payable and accrued expenses	911	4,671	1,746	13,521	-	20,849
Current portion of long-term debt	87	-	-	10,373	-	10,460
Current portion of due to (from) related organizations, net	10,281	(31,231)	866	25,426	15,468	20,810
Total current liabilities	11,311	(26,560)	3,925	72,171	15,468	76,315
Accrued professional liability expense	-	-	-	15,567	-	15,567
Pension liability	-	-	-	48,298	-	48,298
Long-term compensation and benefits and other liabilities	2,493	1,657	-	11,202	(380)	14,972
Long-term debt	1,005	-	600	223,154	(600)	224,159
Total liabilities	14,809	(24,903)	4,525	370,392	14,488	379,311
Net assets:						
Unrestricted	14,756	24,903	16,998	220,651	(4,607)	272,701
Temporarily restricted	-	-	661	9,946	(121)	10,486
Total net assets	14,756	24,903	17,659	230,597	(4,728)	283,187
Total liabilities and net assets	\$ 29,565	\$ -	\$ 22,184	\$ 600,989	\$ 9,760	\$ 662,498

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2008
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass- ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ (334)	\$ 422	\$ 16,136	\$ -	\$ 16,224
Net patient accounts receivable, less allowance of \$15,047	-	65	4,678	34,396	-	39,139
Other accounts receivable	12	-	-	2,061	(516)	1,557
Current portion of assets limited as to use	-	-	-	16,903	-	16,903
Inventories	-	-	-	1,282	-	1,282
Prepaid and other	-	1	30	2,132	-	2,163
Total current assets	12	(268)	5,130	72,910	(516)	77,268
Assets limited as to use and investments:						
Assets limited as to use:						
Internally designated for capital and other funds	-	-	8,697	262,136	-	270,833
Restricted by donors	-	-	-	3,095	-	3,095
Trustee held funds under professional liability funding arrangement	-	-	-	19,587	-	19,587
Investments	-	-	-	8,306	-	8,306
Total investment and assets limited as to use	-	-	8,697	293,124	-	301,821
Property and equipment, net	30,737	181	9,843	237,230	-	277,991
Investments in unconsolidated organizations	-	-	-	7,768	(5,093)	2,675
Due from related organizations, net	-	-	886	7,394	19,291	27,571
Other assets	-	-	-	1,362	(800)	562
Total assets	\$ 30,749	\$ (87)	\$ 24,556	\$ 619,788	\$ 12,882	\$ 687,888

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2008
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass- ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Liabilities and net assets						
Current liabilities:						
Compensation and benefits	\$ 33	\$ -	\$ 1,282	\$ 16,692	\$ -	\$ 18,007
Third-party liabilities	-	-	-	3,713	-	3,713
Accounts payable and accrued expenses	988	5,221	1,952	16,151	-	24,312
Network affiliation payable	-	-	-	10,851	-	10,851
Current portion of long-term debt	83	-	-	6,200	-	6,283
Current portion of due to (from) related organizations, net	12,862	(25,051)	1,947	(6,987)	19,291	2,062
Total current liabilities	13,966	(19,830)	5,181	46,620	19,291	65,228
Accrued professional liability expense	-	-	-	13,435	-	13,435
Pension liability	-	-	-	10,323	-	10,323
Long-term compensation and benefits and other liabilities	2,431	1,325	-	11,013	(516)	14,253
Long-term debt	1,092	-	800	221,892	(800)	222,984
Total liabilities	17,489	(18,505)	5,981	303,283	17,975	326,223
Net assets:						
Unrestricted	13,260	18,418	17,567	306,753	(4,972)	351,026
Temporarily restricted	-	-	1,008	9,752	(121)	10,639
Total net assets	13,260	18,418	18,575	316,505	(5,093)	361,665
Total liabilities and net assets	\$ 30,749	\$ (87)	\$ 24,556	\$ 619,788	\$ 12,882	\$ 687,888

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2009

(In Thousands)

	Bethesda Properties, Inc.	Senior Services, Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass- ifications/ Elimination	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Revenue						
Net patient service revenue:						
Acute inpatient	\$ -	\$ -	\$ 7,969	\$248,606	\$ (3,701)	\$ 252,874
Outpatient	-	2,863	26,331	178,704	2,021	209,919
Other patient	-	27,310	-	2,412	(427)	29,295
Total net patient service revenue	<u>\$ -</u>	<u>\$ 30,173</u>	<u>\$ 34,300</u>	<u>\$429,722</u>	<u>\$ (2,107)</u>	<u>\$ 492,088</u>
Non-patient (loss) revenue:						
Loss from unconsolidated organizations	-	-	-	(5,828)	-	(5,828)
Operating loss from network affiliation	-	-	-	(6,598)	-	(6,598)
Other revenue, net	6,115	1,024	7,360	8,620	(7,150)	15,969
Total revenue	<u>6,115</u>	<u>31,197</u>	<u>41,660</u>	<u>425,916</u>	<u>(9,257)</u>	<u>495,631</u>
Expenses						
Salaries and wages	347	7,244	22,584	135,426	(3,701)	161,900
Employee benefits	81	1,784	5,265	29,350	(783)	35,697
Medical professional fees	-	1,748	357	834	(71)	2,868
Purchased services	417	7,123	2,727	11,673	(427)	21,513
Supplies	341	3,563	3,545	93,602	(2,135)	98,916
Bad debts	-	26	78	36,639	-	36,743
Utilities	828	174	538	3,856	-	5,396
Insurance	-	112	4	4,703	-	4,819
Rental, leases, and maintenance	-	720	3,099	9,130	(1,778)	11,171
Depreciation and amortization	1,920	165	848	17,813	-	20,746
Interest	262	1	48	11,863	(48)	12,126
Shared service allocation	-	-	-	55,904	-	55,904
Other, net	430	2,052	1,465	2,367	(314)	6,000
Total operating expenses	<u>4,626</u>	<u>24,712</u>	<u>40,558</u>	<u>413,160</u>	<u>(9,257)</u>	<u>473,799</u>
Income from operations	1,489	6,485	1,102	12,756	-	21,832
Nonoperating income (loss):						
Income from network affiliation	-	-	-	9,627	-	9,627
Investment loss	-	-	(1,724)	(46,383)	-	(48,107)
Total nonoperating loss	<u>-</u>	<u>-</u>	<u>(1,724)</u>	<u>(36,756)</u>	<u>-</u>	<u>(38,480)</u>
Excess revenue over expenses (expenses over revenue)	1,489	6,485	(622)	(24,000)	-	(16,648)
Change in plan assets and benefit obligation of pension plan	-	-	-	(50,718)	-	(50,718)
Change in funded status of TriHealth pension plan	-	-	-	(10,305)	-	(10,305)
Other changes in net assets, net	7	-	(294)	(885)	365	(807)
Increase (decrease) in net assets	<u>1,496</u>	<u>6,485</u>	<u>(916)</u>	<u>(85,908)</u>	<u>365</u>	<u>(78,478)</u>
Net assets at beginning of year	13,260	18,418	18,575	316,505	(5,093)	361,665
Net assets at end of year	<u>\$ 14,756</u>	<u>\$ 24,903</u>	<u>\$ 17,659</u>	<u>\$230,597</u>	<u>\$ (4,728)</u>	<u>\$ 283,187</u>

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2008

(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass- ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Revenue						
Net patient service revenue:						
Acute inpatient	\$ -	\$ -	\$ 7,367	\$ 236,038	\$ (5,453)	\$ 237,952
Outpatient	-	2,844	25,133	166,256	1,406	195,639
Other patient	-	24,593	-	2,505	(479)	26,619
Total net patient service revenue	\$ -	\$ 27,437	\$ 32,500	\$ 404,799	\$ (4,526)	\$ 460,210
Non-patient (loss) revenue:						
Loss from unconsolidated organizations	-	-	-	(1,658)	-	(1,658)
Operating loss from network affiliation	-	-	-	(13,830)	-	(13,830)
Other revenue, net	6,522	835	7,485	9,926	(6,902)	17,866
Total revenue	6,522	28,272	39,985	399,237	(11,428)	462,588
Expenses						
Salaries and wages	260	6,998	21,504	131,277	(4,294)	155,745
Employee benefits	61	1,698	5,130	27,470	(922)	33,437
Medical professional fees	-	1,330	370	1,008	(72)	2,636
Purchased services	438	5,823	2,702	10,048	(458)	18,553
Supplies	398	3,311	3,563	87,597	(2,546)	92,323
Bad debts	-	(109)	(1)	28,569	(1,156)	27,303
Utilities	868	186	525	3,523	-	5,102
Insurance	-	67	-	5,228	-	5,295
Rental, leases, and maintenance	8	643	3,304	8,645	(1,608)	10,992
Depreciation and amortization	1,485	142	760	17,100	-	19,487
Interest	265	-	60	9,782	(60)	10,047
Shared service allocation	-	-	-	51,474	-	51,474
Other, net	479	1,972	1,358	1,799	(312)	5,296
Total operating expenses	4,262	22,061	39,275	383,520	(11,428)	437,690
Income from operations	2,260	6,211	710	15,717	-	24,898
Nonoperating income (loss):						
Income from network affiliation	-	-	-	2,979	-	2,979
Investment income (loss)	2	-	(292)	(5,148)	-	(5,438)
Total nonoperating income (loss)	2	-	(292)	(2,169)	-	(2,459)
Excess revenue over expenses	2,262	6,211	418	13,548	-	22,439
Effect of adoption of FASB Statement No. 158	-	-	-	5,705	-	5,705
Change in plan assets and benefit obligation of pension plan	-	-	-	(20,055)	-	(20,055)
Change in funded status of TriHealth pension plan	-	-	-	(2,396)	-	(2,396)
Other changes in net assets, net	165	-	(66)	(1,210)	1,469	358
Increase (decrease) in net assets	2,427	6,211	352	(4,408)	1,469	6,051
Net assets at beginning of year	10,833	12,207	18,223	320,913	(6,562)	355,614
Net assets at end of year	\$ 13,260	\$ 18,418	\$ 18,575	\$ 316,505	\$ (5,093)	\$ 361,665

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