

2006

**LANDMARK HEALTH SYSTEMS, INC.
AND SUBSIDIARIES**
Consolidated Balance Sheets
September 30, 2006 and 2005

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 1,502,085	2,707,253
Investments	6,920,660	8,143,821
Receivables:		
Patient	17,961,429	14,671,108
Affiliate	(80)	—
Other	254,570	524,029
	<u>18,215,919</u>	<u>15,195,137</u>
Less estimated uncollectibles	6,653,600	4,733,797
Net receivables	<u>11,562,319</u>	<u>10,461,340</u>
Asset Provision for bad debt, net of recoveries	1,229,152	200,356
Prepaid expenses	712,696	1,068,659
Inventories	1,813,910	1,930,560
Total current assets	<u>23,740,822</u>	<u>24,511,989</u>
Assets limited as to use:		
	2,599,982	1,499,994
Self-insurance trust	20,564	74,239
Escrow	—	—
By donors for specific purposes	44,718	40,903
Total assets limited as to use	<u>2,665,264</u>	<u>1,615,136</u>
Less assets limited as to use that are required for current liabilities	1,229,152	200,356
Noncurrent assets limited as to use	<u>1,436,112</u>	<u>1,414,780</u>
Property and equipment, net	20,057,457	21,261,478
Investment in Joint Ventures	646,335	655,061
Goodwill and other intangible assets, net	—	—
Other assets:		
Deferred financing costs, net	360,335	413,316
Other real estate, net	261,239	295,780
Notes receivable, net of current portion	1,430,018	892,089
Total other assets	<u>2,051,592</u>	<u>1,601,185</u>
Total assets	<u>\$ 47,932,318</u>	<u>49,444,493</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 2,281,805	1,631,970
Current portion of deferred liability - gain on sale	230,386	230,386
Note payable	775,000	750,000
Accounts payable	10,450,096	8,447,296
Accrued expenses	7,863,840	6,658,602
Estimated third-party payor settlements	3,789,557	3,465,990
Total current liabilities	<u>25,390,684</u>	<u>21,184,244</u>
Long-term debt, net of current portion	16,313,678	18,604,469
Negative goodwill, net	—	82,831
Deferred liability – insurance reserve	1,126,305	1,112,673
Deferred liability – gain on sale	2,515,052	2,745,438
Estimated self-insurance costs	(96,500)	72,426
Physician interest in PHO	61,903	61,903
Additional minimum pension liability	4,175,164	6,085,503
Change in Acctg Prin FIN 47	864,044	—
Total liabilities	<u>50,350,330</u>	<u>49,949,487</u>
Net assets:		
Unrestricted	(2,462,743)	(545,910)
Temporarily restricted	44,731	40,916
Total net assets	<u>(2,418,012)</u>	<u>(504,994)</u>
Commitments and contingencies		
Total liabilities and net assets	<u>\$ 47,932,318</u>	<u>49,444,493</u>

**LANDMARK HEALTH SYSTEMS, INC.
AND SUBSIDIARIES**
Consolidated Statements of Operations
Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Unrestricted revenue:		
Net patient service revenue	\$ 127,740,776	115,206,654
Other revenue	2,228,829	2,159,694
Net assets released from restrictions	23,454	58,834
Total unrestricted revenue	<u>129,993,059</u>	<u>117,425,182</u>
Expenses		
Salaries and benefits	69,713,035	63,105,436
Medical/surgical supplies and drugs	18,902,095	15,107,568
Other supplies	1,336,577	1,416,950
Utilities	1,985,165	1,622,402
Purchased services	20,390,121	18,472,374
Professional fees	1,987,712	2,681,019
Insurance	2,841,362	2,306,274
Depreciation and amortization	3,234,904	2,814,251
Interest	1,013,340	1,150,902
Provision for bad debt, net of recoveries	9,883,443	6,995,649
Hospital license fee	2,888,704	2,424,192
Other	673,356	949,545
Total expenses	<u>134,849,814</u>	<u>119,046,562</u>
Deficiency of revenue over expenses before physician interest	(4,856,755)	(1,621,380)
Physician interest	—	—
Deficiency of revenue over expenses	<u>(4,856,755)</u>	<u>(1,621,380)</u>
Nonoperating gains (losses):		
Gain (loss) on disposal of assets	924,025	894,528
Gain (loss) on joint venture	(13,704)	(56,482)
Other	1,005,486	715,057
Loss on Extinguishment of Debt	—	(1,023,117)
Total nonoperating gains (losses)	<u>1,915,807</u>	<u>529,986</u>
Deficiency of revenue over expenses and gains (losses) \$	<u>(2,940,948)</u>	<u>(1,091,394)</u>

**LANDMARK HEALTH SYSTEMS, INC.
AND SUBSIDIARIES**
Consolidated Statements of Cash Flows
Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,913,018)	(1,138,140)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of Chg in Acctg Prin FIN47	864,044	
Depreciation and amortization	3,317,735	3,145,547
Amortization of intangible assets	—	—
Depreciation of other real estate	34,541	35,100
Amortization of deferred financing costs	52,981	57,749
Amortization of bond premium	(23,184)	—
Amortization of negative goodwill	(82,831)	(331,296)
(Gain)loss on disposal of property, plant, and equipment	(62,696)	(664,142)
Provision for bad debt, net of recoveries	9,883,443	6,995,649
Loss on Extinguishment of Debt	—	1,023,117
Change in net unrealized gains	22,180	(325,587)
Increase in patient receivables	(11,253,961)	(7,573,408)
Increase in receivables – affiliate	(131,190)	—
Decrease in receivables – other	269,459	67,331
Increase in prepaid expenses	355,963	(420,005)
Increase in inventories	116,650	(345,651)
Increase in notes receivable – other	(537,929)	(189,372)
Increase(decrease) in accounts payable	(2,002,800)	198,383
Increase(decrease) in accrued expenses	1,208,454	1,367,572
Increase in estimated third-party payor settlements	323,567	471,296
Increase in insurance reserves and costs	241,687	228,055
Increase in physician interest in PHO	—	2,800
Decrease deferred liability - gain on sale	(230,386)	(230,386)
Increase(decrease) in additional minimum pension liability	1,910,339	328,743
Net cash provided by operating activities	<u>2,363,048</u>	<u>2,703,355</u>
Cash flows from investing activities:		
Sales of investments, net	1,125,974	(54,020)
Purchase of property, plant, and equipment and RHRI property and equipment	(2,565,985)	(2,808,831)
Proceeds from sale of property, plant, and equipment	174,851	750,000
Investment in joint ventures	8,726	56,482
Net cash used by investing activities	<u>(1,256,434)</u>	<u>(2,056,369)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(1,307,806)	(17,078,806)
Change in debt service fund	(1,028,976)	1,885,946
Deferred financing costs of new long-term debt	—	(420,232)
Proceeds from long-term debt	—	14,316,958
Repayment of line of credit, net	25,000	300,000
Net cash used by financing activities	<u>(2,311,782)</u>	<u>(996,134)</u>
Net decrease in cash and cash equivalents	<u>(1,205,168)</u>	<u>(349,148)</u>
Cash and cash equivalents at beginning of year	2,707,253	3,056,401
Cash and cash equivalents at end of year	<u>\$ 1,502,085</u>	<u>2,707,253</u>

**LANDMARK HEALTH SYSTEMS, INC.
AND SUBSIDIARIES**
Consolidated Statements of Changes in Net Assets
Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Unrestricted net assets:		
Deficiency of revenues over expenses and gains (losses)	\$ (2,940,948)	(1,091,394)
Minority Interest in PHO	—	—
Net Assets released for Capital	—	—
Additional minimum pension liability	1,910,339	(328,743)
Change in net unrealized gains (losses)	(22,180)	325,587
Change in Acctg Prin FIN 47	(864,044)	—
Increase (decrease) in unrestricted net assets	<u>(1,916,833)</u>	<u>(1,094,550)</u>
Temporarily restricted net assets:		
Gifts and bequests	27,269	15,244
Net Assets released from restriction	(23,454)	(58,834)
Prov Increase (decrease) in temporarily restricted net assets	<u>3,815</u>	<u>(43,590)</u>
Increase (decrease) in net assets	(1,913,018)	(1,138,140)
Net assets, beginning of year	(504,994)	633,146
Net assets, end of year	<u>\$ (2,418,012)</u>	<u>(504,994)</u>