



Quarterly Report

May 2010





**Owensboro Medical Health System
Quarterly Report
May 2010**

Table of Contents

◦ Certificate of Compliance.....	2
◦ Management Discussion and Analysis.....	3
◦ Unaudited Consolidated Balance Sheet.....	5
◦ Unaudited Consolidated Statement of Operations and Changes in Net Assets.....	6
◦ Project Status Report.....	7
◦ Selected Operational and Statistical Information.....	8
◦ Liquidity and Debt Service Calculation.....	9
◦ Bond issue CUSIPs.....	10



Certificate of Compliance

July 30, 2010

Dear Institutional Investor:

We have completed and attached the schedules required by the Continuing Disclosure Agreement. The reader of this report is informed that these documents are unaudited and prepared from the records of Owensboro Medical Health System.

In connection with this report nothing came to our attention that would cause us to believe that Owensboro Medical Health System failed to comply with the terms, covenants, provisions, or conditions of Article IV of the Master Trust Indenture dated March 1, 2010 insofar as accounting matters, including the calculation of the historical maximum annual debt service coverage ratio and cash on hand requirement as evidenced by the schedules attached hereto.

We appreciate your interest in Owensboro Medical Health System. If we can provide any other information, please let us know.

A handwritten signature in blue ink, appearing to read "John Hackbarth", with a long horizontal flourish extending to the right.

John Hackbarth
VP and Chief Financial Officer
On behalf of Owensboro Medical Health System



Owensboro Medical Health System
Management Discussion and Analysis
For the Fourth Quarter Ended May 31, 2010

The discussion set forth below should be read in conjunction with the Owensboro Medical Health System ("OMHS") consolidated financial statements for the fiscal year ended May 31, 2010. The financial statements included with this report are unaudited.

OMHS provides directly and indirectly through its affiliates a broad range of primary, secondary and tertiary healthcare services. OMHS owns and operates a hospital located in Owensboro, Kentucky licensed for 447 acute care beds and 30 rehabilitation beds and operates outpatient clinics providing services in the eleven counties in its service area. OMHS is a nonstock, nonprofit Kentucky corporation and exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended and an organization described in Section 501(c)(3) Code. Its primary and secondary service areas include an eleven county region in Western Kentucky and Southern Indiana. The OMHS System has no direct hospital competitors in its primary service area (Daviness County) and maintains an approximate 90% market share in Daviness County. As such, it is a regional referral center and is also classified as a sole community hospital.

Basis of Presentation

The accompanying interim consolidated financial statements as of May 31, 2010 and for the twelve months then ended have been prepared in accordance with U.S. generally accepted accounting principles applied on a basis substantially consistent with that of the 2009 audited consolidated financial statements of OMHS. They do not include all of the information and footnotes required by the U.S. generally accepted accounting principles for complete consolidated financial statements. In the opinion of the management, all adjustments considered necessary for a fair presentation have been included.

OMHS presumes that users of this interim financial information have read or have access to OMHS's audited financial statements and that the adequacy of additional disclosures needed for a fair presentation may be determined in that context. OMHS's audited financial statements for the years ended May 31, 2009 and 2008 are on file as contained within the Official Statement dated February 19, 2010, pursuant to the OMHS's continuing disclosure requirements and the information contained therein is incorporated herein. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in OMHS's most recent audited financial statements have been omitted.

Seasonal variations caused by various factors can and do impact the volumes and net operating revenue of OMHS. Therefore, monthly and periodic operating results are not necessarily representative of the

operations for a full year when comparing a quarter's performance to a full year. These same variations need to also be considered and do apply when making year to year comparisons.

Results of Operations

For the fiscal year ended May 31, 2010, net operating income was \$ 38.4 million or 9.3% of total operating revenues, versus \$ 13.0 million or 3.5% for the same period in 2009.

Total operating revenues increased 11.2% to \$414.9 million due to increased outpatient volumes. Admissions actually softened 1.5% compared to the previous year and resulted in a comparable drop in the average daily census. This is primarily the result of advances in technology for previously treated inpatient services which are now accommodated in an outpatient modality. Robotic surgical cases are minimally invasive type cases and result in patients frequently being observed and released within 24 hours. An increase in the Medicare Case Mix Index from 1.6525 in 2009 to 1.8011 for 2010 is an indication of more complex inpatient cases. This is further validated with the increase in inpatient surgery cases of 8.8 %. The increased outpatient volume in key areas has more than made up for the slight drop in inpatient non-surgical (medical/nonsurgical) patient activity. Cardiac Cath lab cases increased 6.2% and outpatient lab tests increased 18.0%. Consequently, outpatient revenue outpaced inpatient revenue with a 15.4% increase over the prior year.

Total operating expenses increased a modest 4.5% or \$16.3 million. Salaries and employee benefits increased 6.6%. Cost reductions in renegotiated and GPO purchase agreement contracts held drugs and supplies to an achieved level of increase at 7.4% for the year. Also, improvements in risk management and quality initiatives drove claims and required reserves for insurance to a positive variance of \$2.4 million compared to the previous year and accounts for most of the 8.3% decrease in other operating expense. Bad debt expense increased \$2.6 million and as a % of net operating revenue is consistent with the previous year level at 6.4%. Interest expense is \$3.6 million less than the previous year due to the retirement and partial refinance of the previous outstanding bond issue to a fixed rate. Also, the capitalization of interest expense in the amount of \$6.9 million associated with the construction project is reflected in this decrease as well.

Non-operating revenue and expense was \$17.9 million for fiscal year ended May 31, 2010 compared to a (loss) of (\$48.3) million for 2009. This is an improvement of \$66.2 million. The improvement in the market and the unrealized losses and gains associated with investments drove \$61.9 million of this change. There was a (loss) of (\$4.6) million on the early extinguishment of debt attributed to the refunded bond issue.

In summary, Consolidated operating margin was 9.3% and the improved operating income by \$25.4 million is driven by both volume increases and expense reductions explained above. The EBITDA improved from the 11.6% in 2009 to 16.2% in 2010.



**OWENSBORO MEDICAL HEALTH SYSTEM, INC
AND AFFILIATED ENTITIES**

Consolidated Balance Sheet Information
(in thousands)

	(Unaudited)	
	Fiscal Year Ended May 31	
	FY 2010	FY 2009
<u>Assets</u>		
Current Assets		
Cash and Cash Equivalents	\$ 74,301	28,560
Investments	124,845	212,360
Patient Accounts Receivable, net	49,209	46,396
Inventories	7,477	6,219
Prepaid Expenses and Other Current Assets	9,842	6,148
Total Current Assets	265,674	299,683
Assets Limited as to Use	437,485	-
Property and Equipment, net	191,935	179,076
Deferred Compensation Plan Assets	2,479	1,694
Goodwill, net	13,715	15,554
Other Assets	11,863	7,226
Total Assets	\$ 923,151	503,233
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Current Maturities of Long-Term Debt	\$ 430	5,340
Accounts Payable	13,145	12,770
Accrued Payroll and Related Liabilities	18,691	16,348
Other Current Liabilities	35,796	19,088
Due to Third-Party Payors	22,502	9,050
Total Current Liabilities	90,564	62,596
Deferred Compensation Plan Obligations	2,479	1,694
Long-Term Debt, Less Current Maturities	523,515	179,136
Accrued Pension Cost	38,461	30,175
Obligations Under Derivative Instruments	-	17,852
Other Long-Term Liabilities	527	513
Minority Interest	743	740
Total Liabilities	656,289	292,706
<u>Net Assets</u>		
Unrestricted	266,862	209,439
Temporarily Restricted	-	1,088
Total Net Assets	266,862	210,527
Total Liabilities and Net Assets	\$ 923,151	503,233



**OWENSBORO MEDICAL HEALTH SYSTEM, INC
AND AFFILIATED ENTITIES**

Consolidated Statements of Operations and Changes in Net Assets Information
(in thousands)

	(Unaudited)	
	Fiscal Year Ended May 31	
	4th Quarter 2010	4th Quarter 2009
	(12 months)	(12 months)
<u>Unrestricted Revenue:</u>		
Net Patient Service Revenue	\$ 401,065	363,274
Other Operating Revenue	13,828	9,949
Total Unrestricted Revenue	<u>414,893</u>	<u>373,223</u>
<u>Patient Service and Other Expenses:</u>		
Personnel	173,689	162,936
Professional Fees	26,231	25,297
Drugs and Supplies	81,098	75,513
Provision for Bad Debts	26,416	23,838
Plant Maintenance and Operation	13,356	12,701
Kentucky Provider Tax	3,550	4,113
Other	23,222	25,336
Depreciation and Amortization	23,462	21,419
Interest	5,444	9,001
Total Patient Service and Other Expenses	<u>376,468</u>	<u>360,154</u>
Operating Income	<u>38,425</u>	<u>13,069</u>
<u>Nonoperating Gains (Losses):</u>		
Investment Loss, net	25,808	(25,448)
Change in Fair Value of Derivative Instruments	2,061	(8,549)
Contributions and Other	663	48
Equity in Income (Loss) of Affiliate	(80)	(751)
Extraordinary Gain (Loss) on Early Extinguishment of Debt	(4,614)	-
Nonoperating Gains (Losses)	<u>23,838</u>	<u>(34,700)</u>
Excess (Deficiency) of Revenue and Gains over Expenses and Losses before Minority Interest	62,263	(21,631)
Minority Interest	<u>(502)</u>	<u>(512)</u>
Excess (Deficiency) of Revenue and Gains over Expenses and Losses	61,761	(22,143)
Accrued Pension Cost Adjustment	(5,426)	(11,518)
Effect of Adoption of Statement No. 158	<u>-</u>	<u>(1,540)</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 56,335</u>	<u>(35,201)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	-	103
Net Assets, Beginning of Period	<u>210,527</u>	<u>245,625</u>
Net Assets, End of Period	<u>\$ 266,862</u>	<u>210,527</u>

Quarterly Project Status Report

Project Name: Owensboro Medical Health System New Hospital Project

Project Description: Construction of a 9-story, 781,000 square foot facility on 147 acres of land with 477 patient care beds in Owensboro, KY

Recent Achievements

- Design Development documents complete
- Site preparation/underground utilities on going
- Foundation installation started
- Project is within budget and on schedule

Challenges/Risks

- None



Financial Status

	Budget	Projected Cost	Paid
Site Assessment	\$ 67,700	567,700	123,773
Professional Fees	26,108,417	25,786,845	11,472,608
Construction	245,277,640	261,624,151	264,956
Medical Equipment	35,000,000	35,000,000	-
Technology	15,000,000	15,000,000	-
FFE	9,500,000	6,873,260	-
Fees, Testing, Inspections, Admin	10,919,334	10,345,609	3,345,095
IPD Team Contingency	22,785,676	15,209,438	-
Owner Contingency	20,341,233	14,592,997	-
Total	\$ 385,000,000	385,000,000	15,206,432

*Note: Funds Available to complete the project at 5/31/10:

Bonds	\$327,080,132
Unrestricted cash	\$185,475,000

Schedule Status

	Target	Actual
Design Start	9/14/2009	9/14/2009
Design Complete	12/31/2010	
Construction Start	4/5/2010	4/5/2010
Construction Finish	2/28/2013	
Open for Patients	4/25/2013	

Project Team

Program Manager:	KLMK Group, LLC
Architect:	HGA Architects and Engineers, LLC
MEP&T Engineer:	Smith Seckman Reid, LLC
Construction Manager:	Turner Universal



**OWENSBORO MEDICAL HEALTH SYSTEM, INC
AND AFFILIATED ENTITIES**

Selected Operational and Statistical Information

	(Unaudited)	
	Fiscal Year Ended May 31	
	FY 2010	FY 2009
Admissions	18,343	18,624
Patient Days	81,830	83,476
Adjusted Patient Days	169,861	167,658
Average Length of Stay	4.46	4.48
Average Daily Census	224	229
Emergency Department Visits	63,592	63,298
Inpatient Surgeries	4,714	4,331
Outpatient Surgeries	8,856	9,011
Endoscopy - Inpatient	1,509	1,662
Endoscopy - Outpatient	3,745	3,680
Cath Lab Procedures	3,415	3,217
Paid Hours	5,011,244	4,920,276
Outpatient Factor	2.08	2.01
FTE's-Paid	2,409.25	2,359.04
FTE's per Adjusted Occupied Bed	5.18	5.14
CMI - Total	1.5146	1.3837
CMI - Medicare	1.8011	1.6525

Liquidity of Obligated Group
 (dollars in thousands)

	Ending May 31	
	4th Quarter	YTD 2010
Unrestricted Cash and Investments:		
Total Cash and Cash Equivalent	\$ 61,188	61,188
Investments	124,287	124,287
Total	<u>185,475</u>	<u>185,475</u>
Expenses:		
Total patient service and other expenses	91,705	367,001
Less: Depreciation and Amortization	(5,810)	(22,326)
Less: Interest	(1,265)	(5,260)
Total	<u>\$ 84,630</u>	<u>339,415</u>
Days in Year	92	365
Daily Expenses	\$ 920	930
Days Cash on Hand Ratio	202	199
Bond Covenant Requirement:		
Days Cash on Hand (Obligated Group)	70	70
· below 70 = obtain report from an independent consultant		
· below 50 days = will trigger an Event of Default		

Debt Service Calculation for Obligated Group
 (dollars in thousands)

	Ending May 31	
	4th Quarter	YTD 2010
Income Available for Debt Service:		
Excess (Deficiency) of Revenue and Gains over Expenses and Losses	(1,675)	56,296
Plus:		
Interest Expense	1,265	5,260
Depreciation and Amortization	5,810	22,326
Net realized (Gains) Losses on investments	(4,114)	(11,850)
Net Unrealized (Gains) Losses on investments	1,237	(16,845)
Net (Gains) Losses on sale and disposals of property and equipment	(0)	(1)
Change in Fair Value of Derivative Instruments	14,379	5,426
Loss on debt refinancing	4,614	4,614
Equity in (Income) of Affiliates	(1,594)	(328)
Net Income Available for Debt Service	<u>19,920</u>	<u>64,898</u>
Historical Actual Maximum Annual Debt Service Requirements	1,265	5,260
Historical Maximum Annual Debt Service Coverage Ratio	15.75	12.34
Pro Forma Maximum Annual Debt Service Requirements	9,478	37,913
Pro Forma Maximum Annual Debt Service Coverage Ratio	2.10	1.71
Bond Covenant Requirement:		
Historical Actual Debt Service Coverage Ratio (Obligated Group)	1.20	1.20
below 1.2 but above 1.00 for one year = obtain and independent consultant's report		
below 1 for one year = constitute an Event of Default		

\$527,340,000

Kentucky Economic Development Finance Authority
(Owensboro Medical Health System, Inc.)

\$460,645,000

Kentucky Economic Development Finance Authority
Hospital Revenue Bonds, Series 2010A
(Owensboro Medical Health System, Inc.)

\$66,695,000

Kentucky Economic Development Finance Authority
Hospital Revenue Refunding Bonds, Series 2010B
(Owensboro Medical Health System, Inc.)



**Maturities, Principal Amounts, Interest Rates,
Prices, Yields and CUSIPs**

<u>Maturity</u> <u>June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP®</u>
2013	4,565,000	5.000%	105.816	3.100%	49126KGY1
2014	4,800,000	5.000%	105.863	3.500%	49126KGM7
2015	5,045,000	5.000%	104.682	4.000%	49126KGN5
2016	5,305,000	5.000%	102.688	4.500%	49126KGP0
2017	5,580,000	5.000%	100.899	4.850%	49126KGQ8
2018	5,860,000	5.000%	99.193	5.120%	49126KGR6
2019	6,165,000	5.000%	97.678	5.320%	49126KGS4
2020	6,490,000	5.250%	98.283	5.470%	49126KGT2
2021	6,845,000	5.500%	99.328	5.580%	49126KGZ8

\$14,835,000 5.250% Term Bonds Due: June 1, 2023, Priced at 95.399 to Yield 5.750% CUSIP®: 49126KHA2
\$16,565,000 5.750% Term Bonds Due: June 1, 2025, Priced at 98.101 to Yield 5.940% CUSIP®: 49126KGU9
\$51,125,000 6.000% Term Bonds Due: June 1, 2030, Priced at 96.916 to Yield 6.270% CUSIP®: 49126KGV7
\$165,585,000 6.375% Term Bonds Due: June 1, 2040, Priced at 96.739 to Yield 6.625% CUSIP®: 49126KGW5
\$161,880,000 6.500% Term Bonds Due: March 1, 2045*, Priced at 96.658 to Yield 6.750% CUSIP®: 49126KGX3

<u>Maturity</u> <u>June 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP®</u>
2013	\$1,045,000	4.000%	102.753	3.100%	49126KHB0
2014	1,085,000	4.000%	101.951	3.500%	49126KHC8
2015	1,130,000	4.000%	100.000	4.000%	49126KHD6
2016	1,180,000	4.500%	99.724	4.550%	49126KHE4
2017	1,235,000	4.875%	99.841	4.900%	49126KHF1
2018	1,300,000	5.000%	98.862	5.170%	49126KHG9
2019	1,365,000	5.125%	98.224	5.370%	49126KHH7
2020	1,440,000	5.375%	98.867	5.520%	49126KHJ3
2021	1,520,000	5.500%	98.918	5.630%	49126KHK0
2022	1,605,000	5.500%	98.072	5.720%	49126KHL8
2023	1,700,000	5.500%	97.153	5.810%	49126KHM6

\$3,695,000 5.750% Term Bonds Due: June 1, 2025, Priced at 97.514 to Yield 6.000% CUSIP®: 49126KHN4
\$11,420,000 6.000% Term Bonds Due: June 1, 2030, Priced at 96.361 to Yield 6.320% CUSIP®: 49126KHP9
\$36,975,000 6.375% Term Bonds Due: March 1, 2040*, Priced at 96.760 to Yield 6.625% CUSIP®: 49126KHQ7