ELKHART GENERAL HOSPITAL, INC.

FINANCIAL STATEMENTS
December 31, 2008 and 2007

ELKHART GENERAL HOSPITAL, INC.
Elkhart, Indiana

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CONTENTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Elkhart General Hospital, Inc.
Elkhart, Indiana

We have audited the accompanying balance sheets of Elkhart General Hospital, Inc., (the Hospital) as of December 31, 2008 and 2007, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elkhart General Hospital, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
May 19, 2009

ELKHART GENERAL HOSPITAL, INC.
BALANCE SHEETS
December 31, 2008 and 2007

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 11,739,837	$ 12,289,285
Short-term investments	9,239,763	10,186,115
Patient accounts receivable, less allowance for doubtful accounts of $7,763,000 in 2008 and $10,749,000 in 2007	49,930,816	47,348,818
Inventories	6,078,560	5,877,247
Prepaid expenses and other current assets	7,701,476	6,960,225
Total current assets	84,690,452	82,661,690
Assets limited as to use, less current portion	109,644,521	153,059,054
Long-term investments	1,456,918	1,876,286
Property and equipment, net	157,177,692	160,532,857
Investments in and advances to affiliates	973,413	1,205,162
Deferred bond issuance costs and other assets	1,265,021	2,838,509
	$ 355,208,017	$ 402,173,558
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 13,520,853	$ 14,301,283
Employee compensation and related liabilities	14,325,178	10,669,916
Estimated payables to third-party payors	1,476,017	1,024,391
Capital lease obligations	-	58,861
Current maturities of long-term debt	1,900,000	1,810,000
Accrued interest	888,290	983,726
Total current liabilities	32,110,338	28,848,177
Noncurrent liabilities		
Accrued pension liability	35,964,161	10,713,599
Long-term debt	88,555,000	89,855,000
Other long-term benefit obligations	4,563,689	4,496,720
Total liabilities	161,193,188	133,913,496
Net assets		
Unrestricted	190,410,672	262,898,945
Permanently restricted	3,604,157	5,361,117
Total net assets	194,014,829	268,260,062
	$ 355,208,017	$ 402,173,558

See accompanying notes to financial statements.

ELKHART GENERAL HOSPITAL, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2008 and 2007

	2008	2007
Unrestricted revenues, gains and other support		
Net patient service revenue	$ 264,522,177	$ 251,963,268
Other operating revenue	10,693,252	11,312,147
	275,215,429	263,275,415
Expenses		
Salaries and wages	89,671,329	86,256,188
Employee benefits	36,896,743	35,455,860
Purchased services-medical laboratory	11,559,243	12,693,503
Supplies	45,215,409	36,446,441
Provision for doubtful accounts	13,699,509	13,961,650
Depreciation and amortization	19,258,795	17,821,028
Other expense	50,498,758	48,251,931
	266,799,786	250,886,601
Operating revenue in excess of expenses	8,415,643	12,388,814
Nonoperating		
Nonoperating income/ expense, net	(10,616,641)	17,429,393
Other	(2,012,486)	(226,756)
	(12,629,127)	17,202,637
Revenue in excess of expenses	(4,213,484)	29,591,451
Other changes in unrestricted net assets		
Change in unrealized investment gains/losses, net	(36,944,696)	(10,272,310)
Effect of adoption of recognition and measurement provisions of FAS statement 158	-	(4,558,456)
Pension adjustment	(31,330,092)	-
	(68,274,788)	(14,830,766)
Change in unrestricted net assets	(72,488,272)	14,760,685
Permanently restricted net assets		
Investment income, net of trustees	113,904	126,258
Realized investment gains/losses	(587,882)	559,074
Change in unrealized investment gains/ losses, net	(1,142,983)	(194,501)
Investment income released from restriction	(140,000)	(119,000)
Change in permanently restricted net assets	(1,756,961)	371,831
Change in net assets	(74,245,233)	15,132,516
Net assets at beginning of year	268,260,062	253,127,546
Net assets at end of year	$ 194,014,829	$ 268,260,062

See accompanying notes to financial statements.

ELKHART GENERAL HOSPITAL, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	$ (74,245,233)	$ 15,132,516
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	19,258,785	17,821,028
Provision for doubtful accounts	13,699,509	13,961,650
Undistributed equity in earnings of investments in affiliates	(1,258,968)	(1,422,869)
Net realized and change in unrealized investment gains/losses, net	52,820,690	(4,828,497)
Proceeds (losses) from restricted contributions and gains (losses) on investments, net of investment income released from restrictions	1,756,961	(371,854)
Pension adjustment and adoption of provisions of FAS 158	31,330,092	4,558,456
Loss on sale of property and equipment	169,548	277,035
Retirement of loan costs	1,836,430	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(16,281,507)	(23,494,824)
Prepaid expenses	881,664	(2,127,617)
Other assets	(1,824,255)	495,909
Accounts payable, accrued expenses, accrued pension and other	(4,273,038)	3,905,128
Estimated payables to third-party payors	451,626	(512,670)
Net cash provided by operating activities	24,322,304	23,393,391
Cash flows from investing activities		
Purchases of investments	(214,938,248)	(413,751,779)
Sales of investments	206,897,811	407,851,382
Purchase of property and equipment	(14,945,081)	(12,791,598)
Proceeds from the sale of property and equipment	28,574	42,906
Change in investment in and advances to affiliates	1,490,717	2,168,718
Net cash used in investing activities	(21,466,227)	(16,480,371)
Cash flows from financing activities		
Payments of long-term debt	(49,010,000)	(1,705,000)
Change in capital lease obligation	(58,861)	(171,427)
Proceeds (loss) from restricted contributions and gains (losses) on investments, net of investment income released from restrictions	(1,756,961)	371,854
Proceeds from issuance of debt	47,800,000	-
Cash paid for debt issuance costs	(379,713)	-
Net cash used in financing activities	(3,405,535)	(1,504,573)
Change in cash and cash equivalents	(549,458)	5,408,447
Cash and cash equivalents at beginning of year	12,289,285	6,880,838
Cash and cash equivalents at end of year	$ 11,739,827	$ 12,289,285
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 3,827,470	$ 4,139,598
Property and equipment acquired through accounts payable	1,039,900	1,091,300

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Elkhart General Hospital, Inc. (the Hospital), a not-for-profit corporation, is a community hospital located in Elkhart, Indiana, and is exempt from federal income taxes on related income pursuant to Section 501(c)(3) of the Internal Revenue Code.

Mission Statement: The Hospital's mission is to create a healthier community by being a premier provider of healthcare; promoting the health and well being of individuals and families by providing education that may aid in detection and prevention of disease; conducting its activities with compassion and respect; acting with the recognition that health is holistic and embraces the body, mind and spirit; seeking and partnering with those who share its mission, continuously improving the quality and cost-effectiveness of services; and maintaining the financial viability of the Hospital while continuing its charitable role in the community.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less when purchased, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Patient Accounts Receivable, Estimated Payables to Third-Party Payors, and Net Patient Service Revenue: Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payors, and others (principally insurers) for services rendered.

The Hospital evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, payor class, historical experience, an assessment of business and economic conditions, and trends in healthcare coverage. Accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectible.

Estimated retroactive adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies, are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Forgivable Loans: The Hospital has loans to employed and associated physicians that provide for forgiveness over a specified period of time. Compensation expense will be recorded in accordance with the agreement upon completion of the specified period. Forgivable loans recorded in prepaid expenses and other current assets on the balance sheets at December 31, 2008 and 2007 were $455,964 and $432,918.

Short-Term and Long-Term Investments: Investments in equity securities with readily determinable fair value and all investments in debt securities are measured at fair value in the balance sheets. Fair value is based on quoted market prices. Investment income is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. The long-term investment represents assets held in trust related to a deferred compensation plan.

Assets Limited as to Use: Assets limited as to use consist of investments set aside by the Board of Directors (the Board) for specific projects or purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use that are required to meet current liabilities are reported as current assets. Additionally, assets limited as to use include investments held by trustees under debt agreements.

Inventories: Inventories, primarily consisting of pharmaceuticals and other supplies, are stated at cost (first-in, first-out method) and are valued at lower of cost or market value.

Life Insurance: In September 7, 2006, the Emerging Issues Task Force (EITF) reached a conclusion on Issue No. 06-5, "Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with Financial Accounting Standards Board (FASB) Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance" ("EITF 06-5"). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of "key persons." The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. Adoption of EITF 06-5 did not have a material impact on the Hospital's financial statements.

Property and Equipment: Property and equipment are recorded on the basis of cost or, if donated, at fair value at the date of donation. Depreciation is provided by using the straight-line method based on expected useful lives, ranging from 3 to 40 years, of the various classes of assets. The amount of depreciation expense for the years ended December 31, 2008 and 2007 was $19,142,024 and $17,701,150. Routine maintenance, repairs, renewals, and replacement costs are charged to expense as incurred. Expenditures which materially increase values or extend useful lives are capitalized. Costs and related accumulated depreciation of property sold or otherwise retired are removed from the accounts.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalized Interest: Interest costs capitalized during the construction period of various projects aggregated $325,407 and $413,645 at December 31, 2008 and 2007.

Investment in Affiliates: The Hospital accounts for its investment in less than majority-owned and controlled affiliates using the equity method of accounting.

Deferred Financing Cost: Financing costs are capitalized and amortized by the effective interest method over the term of the related bonds. The gross costs being amortized are $1,708,173 and $3,595,409 at December 31, 2008 and 2007. The accumulated amortization was $443,692 and $756,900 at December 31, 2008 and 2007. Amortization expense is estimated at approximately $59,930 per year for 2009 through 2013. During 2008, the Hospital recorded a loss related to the write-down of debt issuance costs for its Series 2003 Bonds (see Note 5).

Permanently Restricted Net Assets: Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. In accordance with the donor's restriction, a majority of the investment income and investment gains or losses are to be reinvested with the principal in perpetuity. A specified portion of income earned by permanently restricted net assets is released from restriction and used for operations and, therefore, is included in the statements of operations and changes in net assets as other revenue.

In August 2008, the FASB issued FASB Staff Position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of 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), which, among other things, 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 Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In 2007, the State of Indiana adopted UPMIFA. The following disclosures are made as required by FSP FAS 117-1.

The Hospital has one endowment established for patient care purposes. The Hospital has established investment and spending policies related to the preservation and appreciation of this endowment. Should the underlying assets fall below this targeted amount, as is the case at December 31, 2008, the Hospital pursues actions consistent with established policies to return the endowment to the targeted amount. Based upon these policies, endowment amounts are permanently restricted until Board authorized release of funds for patient care purposes is approved.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the endowment funds, consisting principally of the funds included as permanently restricted net assets of the Hospital, for the fiscal years ended December 31, 2007 and 2008, are detailed within the statements of operations and changes in net assets, respectively. At December 31, 2007 and 2008, other than the permanently-restricted endowment described above, no other Board-designated assets limited as to use are being accounted for as Board-designated endowments as they do not meet applicable criteria.

Revenue in Excess of Expenses: The statements of operations and changes in net assets include revenue in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of expenses, include the change in unrealized gains and losses on investments and net assets released from restrictions.

Nonoperating income/expense, net primarily consists of investment income, net of interest expense.

Community Commitment: The Hospital provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care or uninsured policies. The criteria for charity care takes into consideration Health & Human Services Federal Poverty Guidelines, family assets, family size, employment status, ordinary family expenses, and other related information.

The net cost of charity care provided was approximately $4,847,000 in 2008 and $6,553,000 in 2007. This cost estimate was based upon the Hospital-wide cost to charge ratio.

In 2008, the Hospital implemented a new policy to provide discounts to the uninsured. The estimated unpaid costs of providing services under this program was approximately $4,653,000 in 2008. This cost estimate was based upon the Hospital-wide cost to charge ratio.

Relative to gross charges, the Hospital provided charity care and uninsured discounts at a rate of 3.8% and 2.8% in 2008 and 2007, respectively.

In addition to charity care, the Hospital provided services under the Medicaid and Medicare programs for financially needy, elderly and disabled patients, for which the payments received were less than the cost of providing the services. The unpaid costs attributable to providing services under the Medicaid and Medicare programs were estimated to be:

	2008	2007
Unreimbursed Medicare cost	$ 30,470,350	$ 28,180,556
Unreimbursed Medicaid cost	15,200,892	13,861,740
	$ 45,671,242	$ 42,042,296

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, the Hospital is involved in many community-benefit activities. These activities are wide-ranging and include health education, health screenings, support groups, seminars, and speakers. These activities are conducted free of charge or below the cost of providing them. The estimated cost of these activities was approximately $2,622,000 and $2,295,000 in 2008 and 2007, respectively. The estimated cost of physician recruitment was approximately $142,000 and $211,000 in 2008 and 2007, respectively.

Medical Malpractice Insurance: Medical malpractice insurance coverage is provided under a claims-made policy, which has a $50,000 deductible effective February 1, 2005, and a $5,000 deductible prior to February 1, 2005. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of $750,000 per occurrence for professional liability, $100,000 of which would be paid through the Hospital's malpractice insurance coverage, and the balance would be paid by the State of Indiana Patient Compensation Fund. As of July 1999, the Indiana Medical Malpractice Act provides recovery up to $1,250,000 per occurrence, with the first $250,000 covered by the Hospital's insurance. While the ultimate result of any claim or action cannot be determined, management does not believe that the outcome of any claim or action will have a material adverse effect on the financial position or results of operations of the Hospital.

Advertising: Advertising costs are expensed as incurred. Advertising costs were $1,934,187 and $1,553,696 for 2008 and 2007, respectively.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation.

Adoption of New Accounting Standard: In 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 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards and expands the disclosure of the methods used and the effect of fair value measurements on earnings. This Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Hospital adopted applicable portions of this standard for the year ended December 31, 2008.

NOTE 2 - NET PATIENT SERVICE REVENUE

The Hospital provides care to certain patients under payment arrangements with Medicare, Medicaid, and various health maintenance and preferred provider organizations at amounts different from its established rates. Services provided under those arrangements are paid at prospectively determined rate per discharge, reimbursable costs, discounted charges, and per diem rates. Reported costs and/or services provided under certain arrangements are subject to the audit by the administering agencies. Changes in the Medicare and Medicaid programs and reduction of funding levels could have an adverse effect on the future amounts recognized as net patient service revenue.

Combined revenues received under the Medicare, Medicaid, and Wellpoint, Inc. payment arrangements account for 69.3% and 66.9% of net patient service revenue for the years ended December 31, 2008 and 2007, respectively. Provision has been made in the financial statements for contractual adjustments, representing the difference between standard charges for services and actual or estimated payments.

Net patient service revenue is summarized as follows for the years ended December 31:

	2008	2007
Gross patient service revenue, excluding charity care and forgone charges		
Inpatient		
Routine	$ 84,995,209	$ 76,818,278
Ancillary	229,239,261	193,938,414
Total inpatient	314,234,470	270,756,692
Outpatient	239,313,513	214,103,250
	553,547,983	484,859,942
Less contractual allowances	289,025,806	232,896,674
Net patient service revenue	$ 264,522,177	$ 251,963,268

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. Major components of gross patient accounts receivable include 30.2% from Medicare, 11.4% from Medicaid, and 15.6% from Wellpoint, Inc. at December 31, 2008 and 17.9% from Medicare, 8.4% from Medicaid, and 14.7% from Wellpoint, Inc. at December 31, 2007.

NOTE 2 - NET PATIENT SERVICE REVENUE (Continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

NOTE 3 - ASSETS LIMITED AS TO USE AND OTHER FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS No. 157) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Hospital's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS No. 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTE 3 - ASSETS LIMITED AS TO USE AND OTHER FINANCIAL INSTRUMENTS (Continued)

The following tables present the Hospital's assets measured at fair value on a recurring basis under SFAS 157 at December 31, 2008:

	Fair Value Measurements at December 31, 2008 Using Quoted Prices in: Significant Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Short Term Investments	$ 9,239,763	$ -	$ -	$ 9,239,763
Long Term Investments	$ 1,456,918	$ -	$ -	$ 1,456,918
Assets Limited to Use	$ 109,644,521	$ -	$ -	$ 109,644,521
	$ 120,341,202	$ -	$ -	$ 120,341,202

The composition of assets limited as to use and short-term and long-term investments is as follows at December 31:

	2008 Fair value	2008 Cost	2007 Fair value	2007 Cost
Cash and cash equivalents	$ 1,836,150	$ 1,836,150	$ 16,107,619	$ 16,106,537
Mutual funds	65,370,043	90,995,419	98,762,369	92,883,899
Marketable equity securities	6,108,011	6,647,173	9,638,937	8,451,622
Bonds	47,026,998	50,842,377	40,612,530	39,907,657
	$ 120,341,202	$ 150,321,119	$ 165,121,455	$ 157,349,715

NOTE 3 - ASSETS LIMITED AS TO USE AND OTHER FINANCIAL INSTRUMENTS (Continued)

Assets limited as to use, which are carried at fair value based on quoted market prices, consist of the following at December 31:

	2008	2007
Permanently restricted	$ 3,604,157	$ 5,361,117
Unrestricted-board-designated	105,706,694	147,697,937
Bond funds	333,670	-
	$ 109,644,521	$ 153,059,054

The unrestricted board-designated assets represent funds designated by the Board for future replacement and acquisition of property and equipment and the payment of principal on long-term debt.

Investment returns for assets limited as to use, cash and cash equivalents, and short-term investments comprise the following for the years ended December 31:

	2008	2007
Interest and dividend income	$ 7,896,882	$ 7,702,528
Interest expense	(985,821)	(1,267,530)
Net realized gains/(losses)	(14,733,010)	15,295,307
Net change in unrealized gains/(losses)	(38,087,680)	(10,466,810)
	$ (45,909,629)	$ 11,263,495

NOTE 3 - ASSETS LIMITED AS TO USE AND OTHER FINANCIAL INSTRUMENTS (Continued)

Investment returns are included in the statements of operations and changes in net assets for the years ended December 31 as follows:

	2008	2007
Investment income and expense, and realized investment gains / (losses) included in nonoperating income / expense, net	$ (7,347,972)	$ 21,044,951
Other changes in unrestricted net assets- net change in unrealized gains / (losses), net	(36,944,696)	(10,272,310)
Permanently restricted net assets investment income, net of trust fees, realized investment gains / (losses), and change in unrealized gains / (losses), net	(1,616,961)	490,854
	$ (45,909,629)	$ 11,263,495

Nonoperating income/expense, net included $3,268,671 and $3,615,580 in interest expense related to long-term borrowing for 2008 and 2007, respectively.

Over the past several years, the public equity markets experienced significant fluctuations, which impacted investments held by the Hospital. Management continually reviews its investment portfolio and evaluates whether declines in the fair value of the securities should be considered other than temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, and the length of time and extent to which the market value has been less than cost. Management recognized $15,822,458 and $2,352,000 of losses related to other-than-temporary impairments of investments in 2008 and 2007, respectively.

NOTE 3 - ASSETS LIMITED AS TO USE AND OTHER FINANCIAL INSTRUMENTS (Continued)

The following tables summarize the unrealized losses on investments held at December 31:

	Less than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2008				
Common stock	$ 2,849,560	$ 781,274	$ 1,337,147	$ 352,622
Mutual funds	85,128,466	21,159,060	17,789,957	7,203,652
Bonds	517,860	36,860	-	-
Total	$ 88,495,886	$ 21,977,194	$ 19,127,104	$ 7,556,274
2007				
Common stock	$ 1,419,155	$ 519,602	$ 177,567	$ 26,110
Mutual funds	1,237,672	120,081	-	-
Total	$ 2,656,827	$ 639,683	$ 177,567	$ 26,110

The carrying values reported in the balance sheets for cash and cash equivalents, patient accounts receivable, investments in and advances to affiliates, accounts payable and accrued expenses, and estimated payables to third-party payors approximate their fair values at December 31, 2008 and 2007. The fair value of the Hospital's debt based on quoted market prices for same or similar issues was $83,577,996 and $92,277,009 at December 31, 2008 and 2007, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31 are summarized as follows:

	2008	2007
Land and improvements	$ 2,784,973	$ 4,437,235
Property held for future expansion	3,701,749	2,799,386
Building and improvements	171,896,166	192,386,499
Equipment	107,161,365	116,091,546
Construction-in-progress	4,099,927	6,421,576
	289,644,180	322,136,242
Less allowance for depreciation	132,466,488	161,603,385
	$ 157,177,692	$ 160,532,857

NOTE 5 - LONG-TERM DEBT

Long-term debt at December 31 is summarized as follows:

	2008	2007
Hospital Authority of Elkhart County (the Authority), Hospital Revenue Bonds, Series 1998, interest rates ranging from 4.68% to 5.25%	$ 42,655,000	$ 43,790,000
Hospital Authority of Elkhart County, Hospital Revenue Bonds, Series 2003, interest rates ranging from 0.175% to 4.5%	-	47,875,000
Hospital Authority of Elkhart County, Hospital Revenue Bonds, Series 2008, interest rates ranging from 0.65% to 1.10%	47,800,000	-
	90,455,000	91,665,000
Less current maturities	1,900,000	1,810,000
	$ 88,555,000	$ 89,855,000

NOTE 5 - LONG-TERM DEBT (Continued)

The Authority issued $49,330,000 of Series 1998 Hospital Revenue Bonds (Series 1998 Bonds). The Hospital borrowed the proceeds of the sale of the Series 1998 Bonds and evidenced this loan with a loan agreement, issued under the Trust Indenture date November 15, 1998, between the Authority and Bank One, N.A., as trustee. A portion of the proceeds of the Series 1998 Bonds was issued to retire interest payments and principal payments of certain previously outstanding Series 1992 Bonds. The remaining proceeds were used to reimburse the Hospital for certain capital expenditures. The Series 1998 Bonds are unsecured general obligations of the Hospital.

The Authority issued $50,000,000 of Series 2003 Hospital Revenue Bonds (Series 2003 Bonds). The Hospital borrowed the proceeds of the sales of the Series 2003 Bonds and evidenced this loan with a loan agreement, issued under the Trust Indenture dated April 2, 2003, between the Authority, and Bank One, N.A, as trustee. The proceeds of the loan were used to pay or reimburse the cost of construction and acquisition of certain capital assets. The Series 2003 Bonds are unsecured general obligations of the Hospital. These bonds were retired by the proceeds from the Series 2008 Bonds noted below.

The Authority issued $47,800,000 of Series 2008 Hospital Revenue Bonds (Series 2008 Bonds). The Hospital borrowed the proceeds of the sale of the Series 2008 bonds and evidenced this loan with a loan agreement, issued under the Trust Indenture dated December 1, 2008. The proceeds of the Series 2008 Bonds was issued to retire interest and principal payments of all previously outstanding Series 2003 Bonds. The Hospital recorded a loss of $1,836,430 related to the write-down of debt issuance costs for its Series 2003 Bonds. The loss is recorded in Other expense on the income statement. The Series 2008 Bonds require the Hospital to hold a letter of credit with JP Morgan Chase Bank, N.A. in the amount of $48,475,748. The letter of credit expires on December 9, 2011. The letter of credit decreases by the amount of any draws on the letter of credit. There were no draws on the letter of credit as of December 31, 2008.

The loan agreements require maintenance of a certain debt service coverage ratio, limit additional borrowings, and require compliance with various other restrictive covenants. The Hospital was in compliance with all covenants.

Required annual principal payments of long-term debt for each of the next five years are as follow: 2009-$1,900,000; 2010-$2,000,000; 2011-$2,085,000; 2012-$2,195,000; 2013-$2,450,000.

Interest paid during 2008 and 2007 was $3,827,470 and $4,139,598, respectively.

NOTE 6 - LEASE OBLIGATIONS

The Hospital leases various equipment for use in operations. Total rental expense was $4,595,000 and $4,465,000 in 2008 and 2007, respectively. At December 31, 2008 minimum future rental payments under non-cancelable operating leases are as follows:

2009	$ 709,995
2010	605,553
2011	491,491
2012	271,413
2013	141,600
	$ 2,220,052

NOTE 7 - BENEFIT PLAN

The Hospital maintains a defined-benefit pension plan that covers a majority of its employees as of December 31. A plan measurement date of January 1 is utilized for this plan.

On September 29, 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158 (Statement 158), Employers' Accounting for Defined Benefit Pension and Other Post Retirement Benefit Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This Standard requires the overfunded or underfunded status of a defined benefit post-retirement plan to be recognized as an asset or liability in its statement of operations and change in net assets and to recognize changes in that funded status in the year in which the changes occur through the statement of operations and change in net assets. Since the effective date of adoption was for statements with fiscal years ended after June 15, 2007, the 2007 determination also included the required liability recognition under the new FASB 158 Standard.

A summary of the changes in the projected benefit obligation and plan assets and the resulting funded status of the defined-benefit pension plan are as follows:

NOTE 7 - BENEFIT PLAN (Continued)

	2008	2007
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 98,278,550	$ 103,842,030
Service cost	990,077	3,869,630
Interest cost	6,079,753	6,131,129
Curtailments	-	(8,803,064)
Actuarial (gain) loss	(691,903)	(4,007,711)
Benefits paid	(2,945,270)	(2,753,464)
Projected benefit obligation at year-end	$ 101,711,207	$ 98,278,550
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 87,564,951	$ 82,682,871
Actual return on plan assets	(24,576,710)	6,303,217
Employer contributions	6,172,443	2,030,438
Benefits paid	(2,945,270)	(2,753,464)
Expenses	(468,368)	(698,111)
Fair value of plan assets at year-end	$ 65,747,046	$ 87,564,951
Funded status of the plan	$ (35,964,161)	$ (10,713,599)
Unrecognized prior service cost	16,944	19,856
Unrecognized net loss	42,638,209	10,900,872
Prepaid benefit cost	$ 6,690,992	$ 207,129
Net periodic pension cost comprises the following		
Service cost	$ 990,077	$ 3,869,630
Interest cost	6,079,753	6,131,129
Expected return on plan assets	(7,384,162)	(7,180,693)
Recognized loss due to curtailments	-	216,579
Net amortization and deferrals	2,912	591,535
Net periodic pension cost	$ (311,420)	$ 3,628,180

NOTE 7 - BENEFIT PLAN (Continued)

Estimated benefit costs in the next fiscal year:

Prior service Cost	$ 2,912
Net loss	2,951,553

The accumulated benefit obligation for the defined-benefit pension plan was $97,388,971 and $92,564,340 at December 31, 2008 and 2007, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	2008	2007
Discount rate	6.37 %	6.37 %
Rate of compensation increase	3.00	4.00/3.00

Weighted average assumptions used to determine net periodic pension cost for years end December 31 are as follows:

	2008	2007
Discount rate	6.37 %	6.12 %
Expected long-term return on plan assets	8.50	8.50
Rate of compensation increase (until 40/thereafter)	3.00	4.00/3.00

The Hospital's pension plan weighted-average asset allocations at December 31 by asset category are as follows:

	2008	Actual	
	Target	2008	2007
Asset category			
Equity securities	75.00 %	57.00 %	74.00 %
Debt securities	24.00	36.00	23.00
Other	1.00	7.00	3.00
	100.00 %	100.00 %	100.00 %

NOTE 7 - BENEFIT PLAN (Continued)

The plan exists to provide retirement benefits for covered employees of the Hospital consistent with the long-term interests of plan participants and their beneficiaries. The plan's investment objectives may include, but are not limited to maintaining, the purchasing power of current assets and all future contributions by producing positive real rates of return on plan assets; having the ability to pay all benefit and expense obligations when due; maximizing return within reasonable and prudent levels of risk in order to minimize contributions; and controlling costs in administering the plan and managing the investments. Effective December 31, 2007 the Hospital froze the plan for all participants who have not attained the age of 50 and accumulated 15 years of vesting service as of December 31, 2007. Participants who are at least 50 years old and had accumulated 15 years of vesting service at December 31, 2007 will continue to accrue benefits under the terms of the plan. No new participants are allowed to enter the plan. A new employee benefit plan was initiated (Note 8).

Contributions: Plan contributions made for 2008 and 2007 were $6,172,443 and $2,030,438, respectively. Any contributions made for the 2009 plan year will be discretionary or as required by applicable law.

Estimated Future Benefit Payments: The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	Pension Benefits
2009	$ 3,317,883
2010	3,621,328
2011	3,957,168
2012	4,418,194
2013	4,803,031
Thereafter	31,066,027
	$ 51,183,631

NOTE 8 - EMPLOYEE BENEFIT PLANS

The Hospital maintains a tax sheltered annuity plan, provided for in Internal Revenue Code Sections 401(a) and 403(b), for all eligible employees. The amount of the contribution to the plan represents a matching of employee contributions of 1% to 6% of an employee's compensation to a tax-deferred annuity. The contribution percentages used are based on the age of the employees as well as the years of service. For the years ended December 31, 2008 and 2007, Hospital contributions were $4,346,125 and $108,169, respectively. The Hospital has accrued $2,570,619 in employee compensation and related liabilities at December 31, 2008. There was no liability recorded at December 31, 2007.

NOTE 9 - FUNCTIONAL EXPENSES

The Hospital provides general inpatient and outpatient healthcare services to its surrounding community. Expenses related to providing these services are as follows:

	2008	2007
Healthcare services	$ 245,654,560	$ 230,605,003
General and administrative	21,145,226	20,281,598
	$ 266,799,786	$ 250,886,601

NOTE 10 - INVESTMENTS IN NONCONSOLIDATED AFFILIATES

The Hospital owns a 33% interest in Partners National Health Plans of Indiana, Inc., a health maintenance organization (HMO), at December 31, 2008 and 2007. On January 23, 2003, the HMO announced a phase-out plan. In March 2007, the Hospital received a $700,000 return of investment. It is expected that the phase-out will be finalized during 2009. The Hospital does not anticipate that the dissolution of the HMO will have a material adverse effect on its operations or financial condition.

The Hospital owns a 40% interest in Northern Indiana Ambulatory Surgery Center, LLC, d/b/a RiverPointe Surgery Center (the Surgery Center). The Surgery Center was formed during 1996 by the Hospital and individual physicians to own and operate an ambulatory surgery center in space leased from the Hospital.

The Hospital owns 50% of RiverPointe Cardiovascular Lab, LLC (the Cardiovascular Lab). The Cardiovascular Lab is owned by the Hospital and the Elkhart Clinic to operate a cardiovascular laboratory in space leased from the Hospital.

NOTE 10 - INVESTMENTS IN NONCONSOLIDATED AFFILIATES (Continued)

The Hospital also owns 25% of Community Occupational Medicine, LLC, an occupational healthcare facility located in Elkhart, Indiana.

The Hospital owns 42% of Wakarusa Medical Clinic, LLC, which owns the Wakarusa Medical Clinic facility and leases it to the Hospital.

The Hospital is a guarantor for a portion the debt of an unconsolidated joint venture, Community Occupational Medicine, LLC, in which the Hospital records an equity interest. The portion of the debt guaranteed by the Hospital is estimated at $686,000 at December 31, 2008. No amounts have been paid or accrued pursuant to this guarantee as of December 31, 2008. The Hospital has set aside corresponding funds, which are recorded as short-term investments on the balance sheets.

Aggregate financial information (unaudited) relating to these investments is as follows:

	2008	2007
Assets	$ 6,786,462	$ 7,011,311
Liabilities	3,776,561	3,455,173
Net income	2,845,367	3,163,023

NOTE 11 - RELATED PARTY TRANSACTIONS

Elkhart General Hospital Foundation (the Foundation) was founded in 1966 to obtain funds through charitable contributions and is authorized by the Hospital to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts to be distributed to the Hospital, the timing of such distributions, and the purposes for which such funds are to be used. In addition, the Foundation directs the investment activities of the Jonathan Primley Fund (permanently restricted assets), which released $140,000 and $119,000 to Hospital operations in 2008 and 2007, respectively.

The Hospital provides certain services in the ordinary course of business to the Surgery Center. Revenue recognized by the Hospital in connection with this arrangement for the years ended December 31, 2008 and 2007, was $83,000 and $81,000, respectively. In addition, the Hospital received rental income from physicians and the Surgery Center occupying the RiverPointe Medical Office Building of $1,569,000 and $1,476,000 for the years ended December 31, 2008 and 2007, respectively. Revenue recognized by the Hospital in connection with both arrangements is included in other operating revenue in the statements of operations and changes in net assets.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Environmental Liabilities: In January 1989, the Hospital received a notice letter from the U.S. Environmental Protection Agency (the EPA) indicating that it is one of numerous potentially responsible parties (PRP's) that may be liable for the cost to clean up the former Himco, Inc. (Himco) waste disposal site in Elkhart, Indiana. Since that time, the PRP's and the EPA have performed numerous studies to determine what, if any, hazardous substances were at the site. The EPA, based upon the studies, has issued several Records of Decisions (RODs) over the years, with the final ROD being less than the previous ROD's.

In 2007, Bayer Corporation, Himco, and the PRP Group of which the Hospital is a member negotiated a Consent Decree with the EPA and a separate Settlement Agreement with Bayer Corporation. A key point of the Consent Decree is that the 30 Settling Parties other than Bayer and Himco are collectively responsible to pay $2,675,000 to be used to remediate the landfill. The share for the Hospital and each other “large” contributor is approximately $123,000. As part of the Settlement Agreement with Bayer Corporation, the Hospital and its two insurers (Hartford and St. Paul Insurance) decided to pay Bayer Corporation for its potential share plus a premium of 40% in exchange for Bayer Corporation indemnifying the Hospital against future potential liability for the Contingent Remedial Action.

The Hartford and St. Paul Insurance agencies, each of which issued liability insurance policies to the Hospital covering the time when it is believed the Hospital used the Himco landfill, has reimbursed the Hospital for all of its settlement costs and its legal defense costs.

Laboratory Services: The Hospital entered into a pathology and clinical laboratory services agreement (agreement) effective July 2007 through June 2012 unless terminated sooner per the terms of the agreement with a third party. The agreement requires base compensation for services rendered of $12,000,000 in year 1, and $10,800,000 in year 2. The agreement requires a mutual agreement on future year compensation methodologies. If a mutual agreement cannot be reached the third party has the option, with 30 days written notice prior to year 2 contract end, to extend the contract through year 3 at the year 2 rate plus the lesser of 3% or the Consumer Price Index as described in the agreement. If a mutual compensation methodology is not reached prior to the end of contract year 3 the agreement shall terminate on June 30, 2010. The Hospital paid $11,400,000 for pathology and clinical laboratory services under the agreement in 2008. The expenses are included in purchased services - medical laboratory in operating expenses.

Self Funded Health Insurance: The Hospital provides a self-funded health insurance plan to its employees. The Hospital has stop-loss insurance to reduce its exposure under this plan. The plan includes $250,000 specific stop-loss insurance per individual per year with an aggregate limit of $2,000,000. The individual is responsible for all claims after the $2,000,000 aggregate limit. The Hospital accrues for the estimated uninsured portion of pending claims, both known and incurred but not reported. These accruals are provided based on management's evaluation

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

of the nature and severity of claims and the Hospital's historical claims experience. The liability accrued at December 31, 2008 and 2007 was $2,643,343 and $1,902,043, respectively, and is included in accounts payable and accrued expenses. The expense, which is included in employee benefits in operating expenses, associated with the self-funded health insurance plan was $13,563,462 and $14,290,159 for 2008 and 2007, respectively.

Non-compete: For a period of one year after termination of employment from the Hospital, no former physician may establish, operate, or provide medical services within a certain geographic area, as further described in the operating agreement.

IT Services: The Hospital entered into an Information Services agreement (ISA) with CareTech Solutions, Inc. effective February 2008 to provide information technology services through January 2012. The agreement automatically renews for two successive three year terms unless either party provides 180 days written notice. The Hospital may terminate the agreement for any reason with 180 days written notice. The agreement requires a base service fee of $3,975,000 in year one, which will be reduced by 0.5% in years two and three and 0.25% in years four and five. The agreement calls for an annual increase of the base fee by the Consumer Price Index, as defined in the agreement, after the reduction in the base fee each year. Base fees paid totaled $3,643,750 for the year ended December 31, 2008.

NOTE 13 - SUBSEQUENT EVENT

Hospitalist Services: Effective January, 2009, the Hospital entered into a Hospitalist Services Coverage agreement ("Hospitalist Agreement") with a third party provider. The Hospitalist Agreement guarantees $328,400 of annual cash receipts per full time equivalent (FTE) physician. The Hospitalist Agreement stipulates a mutual intent of 8 FTE physicians. The initial term of the Hospitalist Agreement is through December 31, 2010 with automatic one year extensions unless terminated by either party within a 120 days written notice.