February 18, 2008

BKD, LLP
Certified Public Accountants
201 N. Illinois Street Suite 700
Indianapolis, Indiana 46244

We are providing this letter in connection with your audits of our combined financial statements as of and for the years ended September 30, 2007 and 2006. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.

2. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

3. We have made available to you:

   (a) All financial records and related data.

   (b) All minutes of directors' meetings held through the date of this letter.

   (c) All significant contracts and grants.

(d) All peer review organizations, fiscal intermediary and third-party payer reports and information.

4. We have informed you of all current risks of a material amount that are not adequately prevented or detected by company procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets or liabilities.

5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

6. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.

7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

8. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

   (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others.

10. Except as reflected in the financial statements, there are no:

   a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

   b) Material transactions omitted or improperly recorded in the financial records.

c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

d) Events occurring subsequent to the balance sheet date requiring adjustment or disclosure in the financial statements.

e) Related party transactions, balances, arrangements, or guarantees.

f) Agreements to purchase assets previously sold.

g) Violations of law, regulations or requirements of regulatory agencies for which losses should be accrued or matters disclosed in the financial statements.

h) Unasserted claims or assessments that our attorneys have advised us are probable of assertion.

i) Restrictions on cash balances or compensating balance agreements.

j) Guarantees, whether written or oral, under which the Organization is contingently liable.

11. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.

12. Adequate provisions and allowances have been accrued for any material losses from:

(a) Uncollectible receivables.

(b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.

(c) Reducing obsolete or excess inventories to estimated net realizable value.

(d) Purchase commitments in excess of normal requirements or above prevailing market prices.

13. Except as disclosed in the financial statements, the Hospital has:

(a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

(b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect financial statements.

14. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:

(a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.

(b) All known incidents have been reported to the appropriate medical malpractice insurer.

(c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents' being uninsured.

(d) Management does not expect any claims to exceed malpractice insurance limits.

15. With respect to any nonattest services you have provided us during the year, including preparation of the financial statements::

(a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

(b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

(c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

(d) We have evaluated the adequacy of the services performed and any findings that resulted.

16. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of AICPA Statement of Position 98-2.

17. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

18. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year.

19. The fair values of financial instruments, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period taking into account any changes in circumstances. The significant assumptions appropriately reflect our present intent and ability to carry out specific courses of action relevant to and inherent in those assumptions.

20. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

21. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

22. With regard to cost reports filed with Medicare, Medicaid or other third parties:

    (a) All required reports have been properly filed.

    (b) Management is responsible for the accuracy and propriety of those reports.

    (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.

    (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

    (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

    (f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.

22. Provision has been made for known asset retirement obligations associated with asbestos remediation. We believe that such estimate is reasonable based on available information. We have no knowledge of any known or suspected asset retirement obligation other than asbestos remediation.

Emmit Schuster, Chief Executive Officer

Greg Schulten, Chief Financial Officer

Gibson General Hospital
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Adjusted for Misstatements	% Change
Current Assets	7,876,895	82,127	7,959,022	1.04%
Non-Current Assets	11,835,053	0	11,835,053	0.00%
Current Liabilities	(2,811,022)	0	(2,811,022)	0.00%
Non-Current Liabilities	(7,099,008)	0	(7,099,008)	0.00%
Current Ratio	2.802		2.831	1.03%
Total Assets	19,711,948	82,127	19,794,075	0.42%
Net Assets	(9,801,918)	(82,127)	(9,884,045)	0.84%
Revenues & Income	(28,219,100)	(82,127)	(28,301,227)	0.29%
Costs & Expenses	27,033,544	45,251	27,078,795	0.17%
Net Increase	(1,185,556)	(36,876)	(1,222,432)	3.11%
Net Increase - Three-Year Average	(460,494)	(36,876)	(497,370)	8.01%

Client: Gibson General Hospital
Period Ending: September 30, 2007

SCHEDULE OF UNCORRECTED MISSTATEMENTS

Description	Assets – Current DR (CR)	Assets – Non-Current DR (CR)	Liabilities – Current DR (CR)	Liabilities – Non-Current DR (CR)	(X) Non Tax	Revenues & Income DR (CR)	Costs & Expenses DR (CR)	Net Assets (Beg. of year) DR (CR)	Net Effect on Following Year – Net Increase DR (CR)	Net Effect on Following Year – Net Assets DR (CR)
Reverse prior year overstatement of accounts payable					X		45,251	(45,251)		
Record HCI income and receivable that was not received until November 2007. Estimate not deemed available until payment received.	82,127				X	(82,127)			(82,127)	82,127
Taxable passed adjustments						0	0	0	(82,127)	82,127
Times (1 - estimated tax rate of 00%)						100%	100%	100%		
Taxable passed adjustments net of tax impact			0			0	0	0		
Nontaxable passed adjustments	82,127	0	0	0		(82,127)	45,251	(45,251)		
Total passed adjustments, net of tax impact (if any)	82,127	0	0	0		(82,127)	45,251	(45,251)		

Impact on Net Increase	**(36,876)**
Impact on Net Assets	**(82,127)**

Gibson General Hospital, Inc. and Affiliate

Accountants' Report and Combined Financial Statements

September 30, 2007 and 2006

D R A F T

February 15, 2008

Gibson General Hospital, Inc. and Affiliate

September 30, 2007 and 2006

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Gibson General Hospital, Inc. and Affiliate
Princeton, Indiana

We have audited the accompanying combined balance sheets of Gibson General Hospital, Inc. and Affiliate (Hospital) as of September 30, 2007 and 2006, and the related combined statements of operations, 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2007 and 2006, and the results of its operations, 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.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying supplementary information including the combining information is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, and results of operations of the individual entities. The supplementary information has been subjected to the procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

_______________ __, _____

Gibson General Hospital, Inc. and Affiliate

Combined Balance Sheets
September 30, 2007 and 2006

Assets

	2007	2006
Current Assets		
Cash and cash equivalents	$ 1,980,394	$ 2,243,089
Patient accounts receivable, net of allowance; 2007 - $1,131,775; 2006 - $878,497	4,561,385	3,979,727
Contributions receivable - current	52,165	11,050
Estimated amounts due from third-party payers	220,000	-
Other receivables	446,601	331,797
Supplies	448,885	260,002
Prepaid expenses and other	167,465	167,624
Total current assets	7,876,895	6,993,289
Investments		
Certificates of deposit	50,612	29,643
Long-term investments	-	8,938
	50,612	38,581
Property and Equipment, net	11,549,952	8,334,552
Other Assets		
Beneficial interest in assets at Community Foundation Alliance	63,521	54,045
Contributions receivable	103,159	36,979
Deferred financing costs	67,809	71,663
	234,489	162,687
Total assets	$ 19,711,948	$ 15,529,109

Liabilities and Net Assets

	2007	2006
Current Liabilities		
Current maturities of long-term debt	$ 718,279	$ 290,703
Accounts payable	458,960	545,865
Accrued expenses	1,291,544	1,183,541
Estimated amounts due to third-party payers	-	173,166
Deferred revenue	31,541	53,539
Accrued self-insurance liabilities	310,698	265,682
Total current liabilities	2,811,022	2,512,496
Long-Term Debt	7,099,008	4,400,251
Total liabilities	9,910,030	6,912,747
Net Assets		
Unrestricted	9,471,580	8,463,061
Temporarily restricted	266,817	99,256
Permanently restricted	63,521	54,045
Total net assets	9,801,918	8,616,362
Total liabilities and net assets	$ 19,711,948	$ 15,529,109

Gibson General Hospital, Inc. and Affiliate

Combined Statements of Operations
Years Ended September 30, 2007 and 2006

	2007	2006
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	$ 27,927,884	$ 26,957,340
Other	291,216	293,704
Total unrestricted revenues, gains and other support	28,219,100	27,251,044
Expenses and Losses		
Salaries and wages	11,883,224	12,806,930
Employee benefits	2,937,486	3,194,318
Contracted services	1,717,816	1,847,837
Supplies	1,781,265	1,802,970
Physician fees	1,111,612	737,933
Insurance	576,131	778,940
Lease expense	623,857	473,198
Utilities	582,826	618,681
Other	681,855	647,523
Depreciation and amortization	1,172,958	776,762
Professional fees	253,278	212,468
Interest	322,794	236,045
Maintenance and repair	591,896	548,098
Provision for uncollectible accounts	2,236,727	2,053,803
Advertising	241,137	237,634
Recruiting	443,779	230,928
Collection	248,564	226,848
Minor equipment	235,951	150,350
Gain on sale of property and equipment	(4,329)	(2,607)
Total expenses and losses	27,638,827	27,578,659
Operating Income (Loss)	580,273	(327,615)
Other Income		
Contributions received	256,531	174,238
Investment income	126,804	48,632
Fundraising, net	44,911	44,063
Total other income	428,246	266,933
Excess (Deficiency) of Revenues Over Expenses Before Cumulative Effect of Change in Accounting Principle	1,008,519	(60,682)
Cumulative Effect of Change in Accounting Principle	-	(23,821)
Increase (Decrease) in Unrestricted Net Assets	$ 1,008,519	$ (84,503)

Gibson General Hospital, Inc. and Affiliate

Combined Statements of Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Increase (Decrease) in Unrestricted Net Assets	$ 1,008,519	$ (84,503)
Temporarily Restricted Net Assets - contributions received	167,561	84,379
Permanently Restricted Net Assets - change in beneficial interest in assets at Community Foundation Alliance	9,476	776
Change in Net Assets	1,185,556	652
Net Assets, Beginning of Year	8,616,362	8,615,710
Net Assets, End of Year	$ 9,801,918	$ 8,616,362

Gibson General Hospital, Inc. and Affiliate

Combined Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	2007	2006
Operating Activities		
Change in net assets	$ 1,185,556	$ 652
Items not requiring (providing) cash		
Gain on sale of property and equipment	(4,329)	(2,607)
Cumulative effect of change in accounting principle	-	23,821
Depreciation and amortization	1,172,958	776,762
Change in beneficial interest in assets at Community Foundation Alliance	(9,476)	(776)
Provision for uncollectible accounts	2,236,727	2,053,803
Changes in		
Patient accounts receivable, net	(2,818,385)	(1,420,898)
Contributions receivable	(107,295)	(48,029)
Estimated amounts due from and to third-party payers	(393,166)	171,109
Accounts payable and accrued expenses	66,114	183,467
Other current assets and liabilities	(321,672)	66,658
Net cash provided by operating activities	1,007,032	1,803,962
Investing Activities		
Purchase of property and equipment	(4,384,029)	(774,138)
Purchase of certificates of deposit	(50,612)	(863)
Proceeds from sale of property and equipment	38,581	-
Net cash used in investing activities	(4,396,060)	(775,001)
Financing Activities		
Principal payments on long-term debt	(519,521)	(273,749)
Proceeds from issuance of long-term debt	3,645,854	118,239
Net cash provided by (used in) financing activities	3,126,333	(155,510)
Increase (Decrease) in Cash and Cash Equivalents	(262,695)	873,451
Cash and Cash Equivalents, Beginning of Year	2,243,089	1,369,638
Cash and Cash Equivalents, End of Year	$ 1,980,394	$ 2,243,089
Supplemental Cash Flows Information		
Interest paid	$ 322,794	$ 236,045

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
September 30, 2007 and 2006

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

Nature of Operations

Gibson General Hospital, Inc. (Hospital) primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Gibson County, Indiana. It also operates a home health agency in the same geographic area. The Hospital is affiliated with the Gibson General Health Foundation, Inc. (Foundation) through individuals holding common memberships of their respective governing bodies and through the dedication of fundraising efforts by the Foundation for the benefit of the Hospital.

Use of Estimates

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

Principles of Combination

The accompanying financial statements present the combination of the financial statements of Gibson General Hospital, Inc. and the financial statements of its affiliate, Gibson General Health Foundation, Inc., both of which are under common control. Material intercompany transactions and balances have been eliminated.

Cash Equivalents

The Hospital and the Foundation consider all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2007 and 2006, cash equivalents consisted primarily of sweep accounts and money market funds.

Risk Management

The Hospital is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self insured portion of employee health claims and include an estimate of the ultimate costs for both reported and claims incurred but not yet reported.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements
September 30, 2007 and 2006

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

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

Property and Equipment

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements
September 30, 2007 and 2006

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital and the Foundation have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital and the Foundation in perpetuity.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received. Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements
September 30, 2007 and 2006

Medical Malpractice Claims

The Hospital is a qualified health care provider under the Indiana Medical Malpractice Act and is fully insured under a claims-made policy on a fixed premium basis. The Indiana Medical Malpractice Act limits a qualified provider's liability for an occurrence to the amount of required insurance. The Indiana patient compensation fund is liable for the excess up to an overall damage cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Beneficial Interest in Assets of Community Foundation Alliance

Community Foundation Alliance (Alliance) and the Hospital are financially interrelated organizations as defined in Statement of Financial Accounting Standards No. 136. The Alliance seeks private support for and holds net assets on behalf of the Hospital. The Hospital accounts for its interest in the net assets of the Alliance (Interest) in a manner similar to the equity method. The Interest is stated at fair value, and changes in the Interest are included in change in net assets. Transfers of assets between the Alliance and the Hospital are recognized as increases or decreases in the Interest.

Income Taxes

The Hospital and the Foundation have been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital and the Foundation are subject to federal income tax on any unrelated business taxable income.

Note 2: Contributions Receivable

Contributions receivable consisted of the following as of September 30, 2007:

	Temporarily Restricted 2007	Temporarily Restricted 2006
Due within one year	$ 52,165	$ 11,050
Due in one to five years	119,634	43,150
	171,799	54,200
Unamortized discount	(16,475)	(6,171)
	$ 155,324	$ 48,029

The discount rate was 5.76% and 6% for 2007 and 2006.

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements
September 30, 2007 and 2006

Note 3: Property and Equipment

The Hospital's property and equipment consist of the following:

	2007	2006
Land and land improvements	$ 402,265	$ 406,531
Building and improvements	13,021,467	12,528,670
Furniture, fixtures and medical equipment	9,730,997	8,570,654
Construction in progress	83,118	247,483
Total cost	23,237,847	21,753,338
Less accumulated depreciation and amortization	(11,687,895)	(13,418,786)
	$ 11,549,952	$ 8,334,552

Note 4: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is designated by Medicare as a critical access hospital (CAH). Inpatient acute care and swing bed services, and most outpatient services, are reimbursed based on a cost reimbursement methodology. Interim per diem rates for inpatient services and percent of charges for outpatient services are reimbursed throughout the year, with final settlement determined after submission of the annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge for inpatient services and per occasion for outpatient services.

Approximately 51% and 38% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2007 and 2006, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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.

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
September 30, 2007 and 2006

Note 5: Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at September 30, 2007 and 2006, is:

	2007	2006
Medicare	21%	24%
Medicaid	3%	7%
Other third-party payers	52%	39%
Patients	24%	30%
	100%	100%

The Hospital maintains a substantial portion of its cash and investments in one local financial institution. At September 30, 2007, the Hospital's cash accounts exceeded federally insured limits by approximately $2,300,000.

Note 6: Investments and Investment Return

Investments

Investments include:

	2007	2006
Certificate of deposits	$ 50,612	$ 29,643
Other	-	8,938
Total investments	$ 50,612	$ 38,581

Total investment return is comprised of the following:

	2007	2006
Interest and dividends	$ 126,804	$ 48,632
Unrealized gain on beneficial interest in assets at Community Foundation Alliance	9,476	776
Total investment return	$ 136,280	$ 49,408

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2007	2006
Unrestricted net assets - investment income	$ 126,804	$ 48,632
Permanently restricted net assets	9,476	776
	$ 136,280	$ 49,408

Beneficial Interest in Assets at Community Foundation Alliance

The Hospital and the Foundation transferred assets to the Community Foundation Alliance (Foundation Alliance) and retained a beneficial interest in those assets. The Hospital and the Foundation are to receive interest annually, but none of the principal. Variance power was granted to the Foundation Alliance; however, the Foundation Alliance will consult with the Hospital and the Foundation at such times as reasonably requested concerning the investment of the fund, and allow input concerning the investment of the fund.

Note 7: Long-Term Debt and Line of Credit

	2007	2006
Revenue bonds (A)	$ 4,996,001	$ 3,956,190
Note payable (B)	328,420	359,878
Note payable (C)	2,232,777	-
Capital lease obligations (D)	260,089	374,886
	7,817,287	4,690,954
Less current maturities	(718,279)	(290,703)
	$ 7,099,008	$ 4,400,251

(A) The revenue bonds (Bonds) consist of City of Princeton Revenue Bonds in the original amount of $7,100,000 dated June 2005, which bear a variable interest rate based on LIBOR. The interest rate is adjusted every five years. The interest rate at September 30, 2007 was 4.15%. The Bonds are payable in monthly installments through June 2025, and are secured by substantially all assets of the Hospital. The Hospital drew down $3,200,000 to retire previously issued Series 2000 bonds and $700,000 to finance certain capital improvements in fiscal year 2005. The Hospital also drew down approximately $1,000,000 during fiscal year 2007 for software and equipment purchases. The indenture agreement also requires the Hospital to comply with certain restrictive covenants including maintaining a historical debt-service coverage ratio of at least 1.5 to 1.

(B) Due in June 2025, payable $4,647 monthly, including interest at 6.11%; secured by Commercial Real Estate Second Mortgage.

(C) Bonds issued on March 1, 2007 by the Indiana Health and Educational Facility Financing Authority and obligating the Hospital are due in March 2012, payable $46,642 monthly, including interest at 4.57%; secured by certain diagnostic equipment and the facility improvements incurred to house the diagnostic equipment.

(D) At varying rates of imputed interest from 6.0% to 7.4%, due through July 22, 2009; collateralized by property and equipment. Property and equipment include the following property under capital leases:

	2007	2006
Equipment	$ 619,203	$ 619,203
Less accumulated depreciation	(362,478)	(247,681)
	$ 256,725	$ 371,522

Aggregate annual maturities of long-term debt and payments on capital lease obligations at September 30, 2007, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2008	$ 598,416	$ 140,326
2009	623,157	113,084
2010	861,271	26,669
2011	636,949	-
2012	333,898	-
Thereafter	4,503,507	-
	$ 7,557,198	280,079
Less amount representing interest		(19,990)
Present value of future minimum lease payments		260,089
Less: current maturities		(119,863)
Noncurrent portion		$ 140,226

The Hospital has a $1,000,000 revolving line of credit with no borrowings against the line at September 30, 2007 and 2006. Interest is charged at the bank's prime rate less .50% and the line is secured by assets of the Hospital.

Gibson General Hospital, Inc. and Affiliate
Notes to Combined Financial Statements
September 30, 2007 and 2006

Note 8: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	2007	2006
Purchase of equipment	$ 266,817	$ 99,256

Permanently restricted net assets are restricted to:

	2007	2006
Investments to be held in perpetuity, the income of which is unrestricted	$ 63,521	$ 54,045

Note 9: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2007	2006
Health care services	$ 23,724,173	$ 23,319,270
General and administrative	3,914,654	4,259,389
	$ 27,638,827	$ 27,578,659

Gibson General Hospital, Inc. and Affiliate

Notes to Combined Financial Statements
September 30, 2006 and 2005

Note 10: Operating Leases

Noncancellable operating leases for primary care outpatient offices expire in various years through 2012. These leases generally require the Hospital to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at September 30, 2007, were:

2008	$	143,215
2009		90,186
2010		52,858
2011		39,995
2012		4,200
Future minimum lease payments	$	330,454

Rental expense for all operating leases was $623,857 and $473,198 for 2007 and 2006, respectively.

Note 11: Pension Plan

The Hospital has a defined-contribution pension plan covering substantially all employees. The Hospital matches employee contributions at 50% of employee contributions up to 4% of employee eligible compensation. Pension expense was $152,218 and $157,767 for 2007 and 2006, respectively.

Note 12: Asset Retirement Obligation

The Hospital adopted FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*, for its fiscal year ended September 30, 2006. FIN 47 requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Hospital's conditional asset retirement obligations primarily relate to asbestos contained in buildings that the Hospital owns. Environmental regulations require the Hospital to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

The result of the FIN 47 adoption resulted in recognition of certain assets and liabilities in the Hospital's financial statements with $23,821 reported as a 2006 Cumulative Effect of Change in Accounting Principle in the accompanying Statement of Operations.

Note 13: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 4.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 1.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes); for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Management is not aware of any such matters and accordingly has not recognized a liability in the accompanying financial statements. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 14: Subsequent Event

Issuance of Debt

On October 31, 2007, the Hospital issued $2,096,000 of tax-exempt bonds to finance improvements to the utility system of the Hospital. These bonds are due July 1, 2023 with payments of interest beginning December 1, 2007, and payments of interest and principal beginning August 1, 2008. Interest on these bonds is based on LIBOR and is adjusted every five years.

D R A F T

February 15, 2008

Supplementary Information

Gibson General Hospital, Inc. and Affiliate

Combining Balance Sheet Information
September 30, 2007

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Total	Eliminations	Total
Current Assets					
Cash and cash equivalents	$ 1,881,490	$ 98,904	$ 1,980,394	$ -	$ 1,980,394
Patient accounts receivable, net of allowance; 2007 - $1,131,775; 2006 - $878,497	4,561,385	-	4,561,385	-	4,561,385
Contributions receivable - current	-	52,165	52,165	-	52,165
Estimated amounts due from third-party payers	220,000	-	220,000	-	220,000
Other recievables	446,601	-	446,601	-	446,601
Supplies	448,885	-	448,885	-	448,885
Prepaid expenses and other	167,465	-	167,465	-	167,465
Total current assets	7,725,826	151,069	7,876,895	-	7,876,895
Investments - certificate of deposit	-	50,612	50,612	-	50,612
Property and Equipment, net	11,549,952	-	11,549,952	-	11,549,952
Other Assets					
Beneficial interest in assets at Community Foundation Alliance	49,882	13,639	63,521	-	63,521
Contributions receivable	-	103,159	103,159	-	103,159
Deferred financing costs	67,809	-	67,809	-	67,809
	117,691	116,798	234,489	-	234,489
Total assets	$ 19,393,469	$ 318,479	$ 19,711,948	$ -	$ 19,711,948
Current Liabilities					
Current maturities of long-term debt	$ 718,279	$ -	$ 718,279	$ -	$ 718,279
Accounts payable	450,705	8,255	458,960	-	458,960
Accrued expenses	1,289,859	1,685	1,291,544	-	1,291,544
Deferred revenue	31,541	-	31,541	-	31,541
Accrued self-insurance liabilities	310,698	-	310,698	-	310,698
Total current liabilities	2,801,082	9,940	2,811,022	-	2,811,022
Long-Term Debt	7,099,008	-	7,099,008	-	7,099,008
Total liabilities	9,900,090	9,940	9,910,030	-	9,910,030
Net Assets					
Unrestricted	9,443,497	28,083	9,471,580	-	9,471,580
Temporarily restricted	-	266,817	266,817	-	266,817
Permanently restricted	49,882	13,639	63,521	-	63,521
Total net assets	9,493,379	308,539	9,801,918	-	9,801,918
Total liabilities and net assets	$ 19,393,469	$ 318,479	$ 19,711,948	$ -	$ 19,711,948

Gibson General Hospital, Inc. and Affiliate

Combining Statement of Operations Information
Year Ended September 30, 2007

	Gibson General Hospital, Inc.	Gibson General Health Foundation, Inc.	Total	Eliminations	Total
Unrestricted Revenues, Gains and Other Support					
Net patient service revenue	$ 27,927,884	$ -	$ 27,927,884	$ -	$ 27,927,884
Other	291,216	-	291,216	-	291,216
Total unrestricted revenues, gains and other support	28,219,100	-	28,219,100	-	28,219,100
Expenses and Losses					
Salaries and wages	11,859,621	23,603	11,883,224	-	11,883,224
Employee benefits	2,937,486	-	2,937,486	-	2,937,486
Contracted services	1,717,816	-	1,717,816	-	1,717,816
Supplies and other	1,781,265	-	1,781,265	-	1,781,265
Physician fees	1,111,612	-	1,111,612	-	1,111,612
Insurance	576,131	-	576,131	-	576,131
Lease expense	623,857	-	623,857	-	623,857
Utilities	582,826	-	582,826	-	582,826
Other	681,663	192	681,855	-	681,855
Depreciation and amortization	1,172,958	-	1,172,958	-	1,172,958
Professional fees	253,278	-	253,278	-	253,278
Interest	322,794	-	322,794	-	322,794
Maintenance and repair	591,896	-	591,896	-	591,896
Provision for uncollectible accounts	2,236,727	-	2,236,727	-	2,236,727
Advertising	241,137	-	241,137	-	241,137
Recruiting	443,779	-	443,779	-	443,779
Collection	248,564	-	248,564	-	248,564
Minor equipment	235,951	-	235,951	-	235,951
Gain on sale of property and equipment	(4,329)	-	(4,329)	-	(4,329)
Total expenses and losses	27,615,032	23,795	27,638,827	-	27,638,827
Operating Income (Loss)	604,068	(23,795)	580,273	-	580,273
Other Income (Expense)					
Contributions received	283,629	6,698	290,327	(33,796)	256,531
Investment income	122,924	3,880	126,804	-	126,804
Fundraising, net	-	44,911	44,911	-	44,911
Contributions	-	(33,796)	(33,796)	33,796	-
Total other income	406,553	21,693	428,246	-	428,246
Increase (Decrease) in Unrestricted Net Assets	$ 1,010,621	$ (2,102)	$ 1,008,519	$ -	$ 1,008,519

Board of Directors and Finance Committee
Gibson General Hospital, Inc. and Affiliate
Princeton, Indiana

As part of our audit of the combined financial statements of Gibson General Hospital, Inc. and Affiliate (Hospital) as of and for the year ended September 30, 2007, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

Significant Accounting Policies

The Hospital's significant accounting policies are described in Footnote 1 of the audited financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowances for uncollectible accounts
- Allowances for contractual allowances
- Accrual for incurred but not reported employee health insurance expense

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed including those which management recorded, include:

- Record Hospital Care for the Indigent payment received subsequent to year end.
- Adjust the fair market value of the Hospital's beneficial interest in trust.
- Adjust third-party payer amounts due to the Hospital as of year-end.

Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Disagreements With Management

There were no disagreements with management during the audit.

Difficulties Encountered in Performing the Audit

There were no serious difficulties encountered related to the performance and completion of the audit.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the combined financial statements of Gibson General Hospital, Inc. and Affiliate (Hospital) as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control. As such, our consideration of internal controls would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the Hospital's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Hospital's financial statements will not be prevented or detected by the Hospital's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously, we made observations as a result of our 2006 audit engagement in a letter dated October 31, 2006.

Material Weaknesses

During the audit, management recorded an adjustment of approximately $825,000 related to the estimate of amounts due from Medicare on the 2007 cost report. While we understand management employs certain controls to estimate amounts due to or from Medicare on a periodic basis, we encourage management to re-visit these controls to ensure accurate interim reporting.

Significant Deficiencies

No matters are reportable.

Control Deficiencies

Internal Controls Over Payroll Cycle

The payroll clerk has conflicting duties within the payroll cycle. This employee has the ability to generate payroll disbursements, change on-line payroll entries and records payroll activity. This employee cannot add employees to the payroll system but could inappropriately adjust pay rates or hours worked for employees.

Internal Controls Over Cash Disbursements Cycle

The accounting supervisor has access to the mechanical signature plate, is responsible for recording electronic funds transfers (EFT's) and journal entries and is also responsible for reconciling the bank account. This employee could potentially create a fictitious disbursement. The mitigating factors are that the chief financial officer is involved with approval of disbursements and is responsible for reviewing the monthly bank reconciliation.

Internal Controls Over Cash Receipts Cycle

Within the cash receipts cycle, the cashier is responsible for receiving payments and preparing the cash receipts log. Additionally, this employee has the ability to credit patient accounts for discounts or adjustments and is involved in the preparation of billings. Controls could be further strengthened if this employee did not have the ability to record discounts or adjustments.

Account Reconciliations

The Hospital should ensure that detailed balance sheet reconciliations be performed and reviewed for all significant balance sheet accounts on a monthly basis. Review of these reconciliations should be documented to ensure supporting documentation is maintained on all month end balances and to ensure a secondary employee is involved in the reconciliation. It is BKD's belief that such reconciliations and reviews are not currently done every month for all material accounts.

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Arbitrage Calculation on Outstanding Debt

Some of the debt issued by the Hospital appears to be tax-exempt arbitrage financing. The Hospital should ensure that arbitrage calculations are performed as required by the debt agreements or internal revenue service guidelines.

Bond Covenant Calculation - 2005 Bonds

In connection with the 2005 revenue bonds, the Hospital is required to maintain compliance with certain financial covenants. The trustee of the bonds is monitoring such covenants differently than the covenants are described in the bond agreements. The financial institution has issued correspondence suggesting the monitored covenants are sufficient to demonstrate compliance. We recommend the Hospital seek legal counsel to ensure the Hospital is in legal compliance with the bond agreements.

Update on Current Internal Revenue Service (IRS) Initiatives

The IRS is responding to continued abuse in the tax-exempt area with renewed enforcement efforts and new initiatives meant to preserve the integrity of tax-exempt organizations. Currently, the Tax Exempt and Government Entities Division (TE/GE) of the IRS is concentrating on identifying and penalizing organizations that abuse their tax-exempt status or that are being used by others for tax avoidance and other unintended purposes. More specifically, areas of focus include political intervention, abusive transactions (e.g., excessive deductions for the donation of patents or conservation easements), compensation, and credit counseling. With regard to its compensation initiative, the IRS has begun a second phase, which will include auditing loans to insiders.

Intermediate Sanctions

As a reminder, currently the most significant recourse available to the IRS is to impose “intermediate sanctions” on an exempt organization. In 1996, Congress enacted legislation related to new excise taxes, called “intermediate sanctions”, on certain transactions between exempt organizations and individuals who are in positions to exercise substantial influence over the affairs of the organization. On August 4, 1998, the IRS issued proposed regulations detailing the authority by which the IRS will impose these taxes on insiders who improperly benefit from dealings with exempt organizations.

Intermediate sanctions are imposed on an "excess benefit transaction" between the exempt organization and a "disqualified person". An excess benefit transaction is any transaction with a disqualified person where the value of the economic benefit provided by the exempt entity exceeds the value of the consideration received for providing such benefit. An excess benefit transaction could include transactions involving either the transfer of property or services. A disqualified person is one who is in a position to exercise substantial influence over the affairs of the entity. The regulations identify certain persons (such as the Executive Director or Business Manager) who are automatically considered disqualified. For most others, the determination is made on a case-by-case basis, looking at all the facts and circumstances. Independent contractors may or may not be considered disqualified persons depending on their roles within the organization. For example, if the independent contractor has managerial authority or serves as a key advisor to a person with managerial authority, that contractor may be a disqualified person.

There are three taxes which may be imposed. The first is a 25% tax on the amount of the excess benefit. The second is a 200% tax on the amount of the excess benefit if the transaction is not corrected within a prescribed amount of time. Both of these taxes are imposed on the recipients of the excess benefit. The third tax, equal to the lesser of 10% of the excess benefit or $10,000, is imposed upon the entity's managers who knowingly participate or approve the transaction. The intermediate sanctions may be imposed in lieu of or in addition to other sanctions, including possible revocation of exempt status. In circumstances where certain requirements are satisfied, it may be possible to establish rebuttable presumption of reasonableness as indicated in the regulations.

New Auditing Standards

The Sarbanes-Oxley Act and other events have dramatically affected the setting of auditing standards and the focus of the audit process primarily for public companies. Not surprisingly, the focus has been extended to non-public entities. In 2006, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA), the standard setting body for audits of non-public entities, issued eleven new auditing standards. These auditing standards include a documentation standard, a suite of eight risk assessment standards, a standard that defines professional requirements in statements on auditing standards, and a standard that provides guidance on communicating matters related to an entity's internal control over financial reporting. The following provides a summary of the risk assessment standards:

Risk Assessment Standards (SAS 104-111)

Statements on Auditing Standards (SAS) No. 104-111 relate to the assessment of risk in an audit of financial statements. These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

The primary objective of these Statements is to enhance auditors' application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statement and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.

- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

These Statements will be effective for audits of financial statements for periods beginning on or after December 15, 2006.

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include items which we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Finance Committee, the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.