MARION GENERAL HOSPITAL, INC.
AND SUBSIDIARY

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KPMG LLP
2400 First Indiana Plaza
135 North Pennsylvania Street
Indianapolis, IN 46204-2452

Independent Auditors' Report

The Board of Directors
Marion General Hospital, Inc. and subsidiary:

We have audited the accompanying consolidated balance sheets of Marion General Hospital, Inc. and subsidiary (Hospital) as of June 30, 2007 and 2006, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marion General Hospital, Inc. and subsidiary as of June 30, 2007 and 2006, and the results of their operations, changes in net assets, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 10 to the financial statements, effective June 30, 2007, the Hospital adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

KPMG LLP

October 5, 2007

Liabilities and Net Assets		2007	2006
Current liabilities:			
Accounts payable	$	4,389,684	3,310,545
Accrued liabilities:			
Salaries and related liabilities		4,327,775	5,049,133
Interest		773,373	773,373
Other		249,904	605,135
Estimated third-party settlements		225,021	100,000
Post-retirement obligation - current portion		400,000	—
Total current liabilities		10,365,757	9,838,186
Long-term debt		53,154,643	53,125,447
Post-retirement obligation - long term portion		4,395,948	2,186,601
Other		1,568,976	924,805
Total liabilities		69,485,324	66,075,039
Net assets:			
Unrestricted		153,474,481	136,780,482
Temporarily restricted		24,184	26,698
Permanently restricted		10,155	10,155
Total net assets		153,508,820	136,817,335
Total liabilities and net assets	$	222,994,144	202,892,374

MARION GENERAL HOSPITAL, INC.
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Consolidated Statements of Operations

Years ended June 30, 2007 and 2006

	2007	2006
Unrestricted revenue and support:		
Net patient service revenue	$ 118,264,803	116,837,776
Other revenue, net	3,192,029	3,018,646
Net assets released from restrictions used for operations	2,514	4,934
Total revenue and support	121,459,346	119,861,356
Expenses:		
Salaries and wages	37,916,480	39,045,174
Employee benefits	11,113,034	14,852,977
Physician services	6,062,090	5,318,243
Professional services	5,595,554	4,827,909
Medical supplies	8,607,805	8,360,578
Drugs and IV solutions	10,352,594	9,532,501
Food	25,567	304,445
Purchased services	6,101,543	4,444,795
Rent	1,226,501	1,170,856
Plant and equipment maintenance	3,559,366	2,982,894
Utilities	1,703,345	1,760,450
Nonmedical supplies	1,748,122	1,716,236
Leased property expenses	951,585	1,106,575
Other expenses	1,314,917	929,388
Insurance	816,004	1,079,803
Interest	2,539,229	3,175,817
Depreciation and amortization	11,718,978	11,106,206
Provision for bad debts	6,358,938	6,899,097
Total expenses	117,711,652	118,613,944
Operating income	3,747,694	1,247,412
Other nonoperating gains:		
Investment income and other, net	6,468,075	6,701,467
Excess of revenue, support, and gains over expenses	10,215,769	7,948,879
Change in net unrealized gains and (losses) on investments	5,709,150	(276,196)
Change in minimum pension liability	10,410,182	3,962,771
Cumulative effect of change in accounting principle:		
Net periodic pension cost for April 1, 2006 - June 30, 2006	(184,956)	—
Items not yet recognized as a component of periodic pension and post-retirement costs:		
Unrecognized prior service cost	4,702,084	—
Unrecognized net actuarial loss	(13,340,614)	—
Unrecognized transition obligation	(823,018)	—
Net assets released from restriction for the purchase of property and equipment	5,402	25,353
Increase in unrestricted net assets	$ 16,693,999	11,660,807

See accompanying notes to consolidated financial statements.

MARION GENERAL HOSPITAL, INC.
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Consolidated Statements of Changes in Net Assets

Years ended June 30, 2007 and 2006

		2007	2006
Unrestricted net assets:			
Excess of revenue, support, and gains over expenses	$	10,215,769	7,948,879
Change in net unrealized gains and losses on investments		5,709,150	(276,196)
Change in minimum pension liability		10,410,182	3,962,771
Net periodic pension cost for April 1, 2006 - June 30, 2006		(184,956)	—
Items not yet recognized as a component of periodic pension and post-retirement costs:			
Unrecognized prior service cost		4,702,084	—
Unrecognized net actuarial loss		(13,340,614)	—
Unrecognized transition obligation		(823,018)	—
Net assets released from restriction for the purchase of property and equipment		5,402	25,353
Increase in unrestricted net assets		16,693,999	11,660,807
Temporarily restricted net assets:			
Temporarily restricted contributions		5,402	25,353
Net assets released from restrictions		(7,916)	(30,287)
Decrease in temporarily restricted net assets		(2,514)	(4,934)
Increase in net assets		16,691,485	11,655,873
Net assets at beginning of year		136,817,335	125,161,462
Net assets at end of year	$	153,508,820	136,817,335

See accompanying notes to consolidated financial statements.

MARION GENERAL HOSPITAL, INC.
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Consolidated Statements of Cash Flows

Years ended June 30, 2007 and 2006

		2007	2006
Cash flows from operating activities:			
Increase in net assets	$	16,691,485	11,655,873
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		11,718,978	11,106,206
Amortization of bond issuance costs and bond discount		155,163	626,794
Provision for bad debts		6,358,938	6,899,097
Loss on disposal of property and equipment		329,954	26,968
Investment return, net		(12,177,225)	(7,311,050)
Dividends received from joint ventures		1,423,602	1,621,947
Change in minimum pension liability		(10,410,182)	(3,962,771)
Cumulative effect of change in accounting principle		9,646,504	—
Changes in assets and liabilities:			
Accounts receivable		(8,324,797)	(7,664,259)
Accrued interest, inventories, and prepaid expenses		(117,244)	601,786
Other long term assets		(119,214)	(261,399)
Pension liability		(1,477,934)	(9,385,888)
Accounts payable and accrued liabilities		3,256,068	274,135
Estimated third-party settlements		125,021	(101,232)
Net cash provided by operating activities		17,079,117	4,126,207
Cash flows from investing activities:			
Additions to property and equipment		(9,253,675)	(7,043,076)
Proceeds from sale of property and equipment		232,723	4,650
Proceeds from the sale or maturity of investments		85,171,318	56,185,145
Purchases of investments		(94,545,838)	(46,660,581)
Purchase of PMI		—	(11,855,238)
Issuance of mortgage loan to YMCA		—	(114,221)
Change in notes receivable, net		(448,282)	(19,525)
Net cash used in investing activities		(18,843,754)	(9,502,846)
Cash flows from financing activities:			
Additions to debt		—	24,000,000
Repayment of long-term debt		—	(16,180,000)
Bond issuance costs		—	(927,822)
Net cash provided by financing activities		—	6,892,178
Net increase (decrease) in cash and cash equivalents		(1,764,637)	1,515,539
Cash and cash equivalents at beginning of year		15,107,264	13,591,725
Cash and cash equivalents at end of year	$	13,342,627	15,107,264
Supplemental disclosure of cash flow information:			
Interest paid, net of amounts capitalized of $40,625 and $49,915 in 2007 and 2006, respectively	$	2,384,066	2,173,649

See accompanying notes to consolidated financial statements.

MARION GENERAL HOSPITAL, INC.
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Notes to Consolidated Financial Statements

June 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

The consolidated financial statements include the accounts of Marion General Hospital, Inc. (Hospital), and its wholly owned subsidiary, Professional Arts Pharmacy, Inc. (Pharmacy). The Hospital is a not-for-profit acute care hospital. The Pharmacy is organized as a for-profit enterprise. All significant intercompany balances and transactions have been eliminated in consolidation.

The Hospital provides inpatient and outpatient services primarily to residents from the Grant County area. Expenses related to directly providing these services were approximately 90% of total expenses for the years ended June 30, 2007 and 2006.

(b) Estimates and Uncertainties

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

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of a cash management fund and demand deposit accounts, all with an original maturity of three months or less.

(d) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities and a hedge fund are measured at fair value in the consolidated balance sheets. Investment income, net (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenue, support, and gains over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue, support, and gains over expenses unless the unrealized loss on investment security is considered other-than-temporary.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to excess of revenue, support, and gains over expenses and a new cost basis for the security is established. Management continually reviews the investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. A critical factor in this evaluation is the length of time and extent to which the market value of the individual security has been less than cost. Other factors considered include recommendations of investment advisors and conditions specific to the issuer or industry in which the issuer operates. For the years ended June 30, 2007 and 2006, the Hospital has not recorded a provision for other-than-temporary declines in the fair value of its investments.

(Continued)

(e) Inventories

Inventories are stated on the weighted average cost method, which approximates market value.

(f) Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside by the board of directors for future capital improvements and other purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Assets held by trustees under indenture agreements are also included within this caption and are classified as current assets as they are to be used to pay for current liabilities.

Restricted assets include assets whose use by the Hospital has been limited by donors to a specific purpose or to be held in perpetuity.

(g) Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated to the Hospital are recorded as additions to temporarily restricted net assets at their fair value at the date of receipt and as a transfer to unrestricted net assets when the assets are placed in service.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method using a half-year convention in the year of acquisition and disposal.

The Hospital capitalizes interest cost as a component cost of significant construction and renovation projects. Investment income earned on unexpended bond proceeds administered by a trustee for specific projects is offset against the amount of interest cost capitalized. There was no such investment income in 2007 or 2006.

(h) Unamortized Bond Issuance Costs and Original Issue Discounts

The costs incurred and capitalized in issuing the Series 2005 and Series 2002, Hospital Revenue Bonds are amortized by the bonds outstanding method over the respective term of each bond series.

The discount incurred in issuing the Series 2002 Hospital Revenue Bonds is classified as a reduction to long-term debt and is amortized into interest expense using the effective interest method over the respective term of the bond issue.

(i) Notes Receivable

Notes receivable are comprised of loans and advances to certain physicians, tuition advances to various employees and prospective employees, and recruitment loan advances to various employees. The allowance for uncollectible notes receivable is \$179,540 and \$317,228 at June 30, 2007 and 2006, respectively.

(Continued)

(j) ***Business Combinations and Goodwill and Other Intangible Assets***

The Hospital accounts for a business combination using the purchase method of accounting and accordingly, the assets of the acquired entity are recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of assets, including the amount assigned to identifiable intangible assets. Goodwill and other intangible assets are amortized on a straight-line basis over a period of 5 years.

(k) ***Temporarily Restricted and Permanently Restricted Net Assets***

Restricted net assets, the use of which is restricted by donors or grantors, are used to differentiate from unrestricted net assets on which donors or grantors place no restrictions or that arise as a result of the operations of the Hospital for its stated purposes. Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted net assets at fair market value at the date of donation.

Resources restricted by donors for property and equipment replacement or expansion are added to unrestricted net assets to the extent expended within the period.

Unrestricted donations totaled $21,989 and $34,271 for the years ended June 30, 2007 and 2006, respectively, and are included in other revenue.

(l) ***Excess of Revenue, Support, and Gains over Expenses***

The consolidated statements of operations include excess of revenue, support, and gains over expenses. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue, support, and expenses. Transactions incidental to the provision of patient care services are reported as gains and losses. Changes in unrestricted net assets which are excluded from the excess of revenue, support, and gains over expenses, consistent with industry practice, include unrealized gains and losses on investments in other than trading securities, changes in the minimum pension liability, cumulative effect of change in accounting principle (adoption of FAS 158), and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets).

(m) ***Net Patient Service Revenue***

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(n) ***Patient Assistance***

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

(Continued)

(o) ***Donor-Restricted Gifts***

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included with other revenue in the accompanying consolidated financial statements.

(p) ***Pension Plan***

The Hospital has a noncontributory defined benefit pension plan (Plan) covering substantially all employees of the Hospital. The funding policy is to contribute annually at least the minimum contribution required to comply with ERISA regulations.

Effective June 30, 2007, the Hospital adopted the recognition and disclosure provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (Statement 158). Statement 158 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in the year in which the changes occur through unrestricted net assets to the extent those changes are not included in the net periodic cost. The funded status reported on the balance sheet as of June 30, 2007 under Statement 158 was measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis (note 10). The adoption of Statement 158 did not impact the Hospitals' compliance with debt covenants or its cash position.

(q) ***Estimated Malpractice Costs***

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for the self insured portion of both reported claims and claims incurred but not reported.

(r) ***Income Taxes***

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from Federal taxes on related business income pursuant to Section 501(a) of the Code. The Pharmacy is a for-profit enterprise and is subject to income taxes. The Pharmacy's tax accounts and balances are not material to the consolidated financial statements.

(s) ***Reclassifications***

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

(Continued)

(2) Net Patient Services Accounts Receivable

Net patient services accounts receivable consists of the following as of June 30:

		2007	2006
Gross patient services accounts receivable	$	33,217,745	32,042,510
Allowance for estimated contractual adjustments		(11,905,000)	(11,388,000)
Allowance for uncollectible accounts		(3,246,000)	(4,459,000)
Net patient services accounts receivable	$	18,066,745	16,195,510

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payment to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party payment programs represent the differences between the Hospital's billings at standard rates and amounts paid by third-party payors. They also include any differences between estimated third-party settlements for prior years and subsequent final settlements. A summary of the payment arrangements with major third-party payors follows:

(a) Medicare

Under the Medicare program, the Hospital receives payment under a prospective payment system (PPS) for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group (DRG). When the estimated cost of treatment for certain patients is higher than the average cost, providers may receive additional "outlier" payments. A prospective outpatient system provides for payment for most outpatient services based on service groups called ambulatory payment classifications (APC's). Other procedures are paid on a fee schedule.

(b) Medicaid

The Hospital is paid for Medicaid inpatient services under a prospectively determined rate per discharge. The differences between standard charges and payments are recorded as contractual adjustments.

Payment for Medicaid outpatient services is based on predetermined rates. Medicaid payments are not subject to retroactive cost-based settlements.

(c) Other Payment Arrangements

The Hospital also has 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 and discounts from established rates. Charges from one particular commercial health insurer were approximately 15% and 16% of gross patient service revenue in 2007 and 2006, respectively.

(Continued)

A summary of net patient service revenue, contractual adjustments, and patient service revenue forgone for patient assistance, at standard charges, for the years ended June 30, 2007 and 2006 follows:

		2007	2006
Patient service revenue:			
Inpatient	$	65,990,995	67,270,365
Outpatient:			
Ancillary services		183,490,097	159,393,463
Physician practices		7,541,831	6,786,839
Patient assistance		(9,751,899)	(8,384,147)
Patient service revenue		247,271,024	225,066,520
Contractual adjustments		(129,006,221)	(108,228,744)
Net patient service revenue	$	118,264,803	116,837,776

(4) Third-Party Settlements

For the years ended June 30, 2007 and 2006, Medicare gross patient service revenue was approximately $118,200,000 and $101,700,000, respectively. Estimated third-party settlements for this program reflect the differences between interim reimbursement and reimbursement as determined by reports filed after the end of each year, and any differences owing to or by the Hospital after such reports have been audited. At June 30, 2007, Medicare reports have been audited and final settled with the fiscal intermediary through June 30, 2006.

In fiscal year 2007, net patient service revenue was reduced by approximately $381,000 due to an adjustment to third-party settlement estimates related to open cost reports and miscellaneous appeal settlements. In fiscal year 2006, approximately $378,000 of additional net patient service revenue was recognized due to an adjustment to third-party settlement estimates related to open cost reports and miscellaneous appeal settlements.

(5) Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are generally insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2007 and 2006 follows:

	2007	2006
Medicare	35%	36%
Commercial insurance	26	28
Patients	19	19
Blue Cross	11	10
Medicaid	9	7
	100%	100%

(6) Assets Limited as to Use or Restricted

Assets limited as to use include funds held by trustee subject to indenture agreements and assets set aside by the board of directors for future capital improvements and other purposes. All investments are considered available-for-sale.

Assets limited as to use that are required for certain obligations classified as current liabilities are reported in current assets.

The funds held by trustee subject to indentures consist of the following at June 30, 2007 and 2006:

	2007	2006
Indiana Health Facility Financing Authority Hospital Revenue Bonds, Series 2005:		
Bond Sinking Fund	$ 51,380	51,751
Construction fund	—	1,045,137
	51,380	1,096,888
Indiana Health Facility Financing Authority Hospital Revenue Bonds, Series 2002 – interest fund	792,933	786,713
Total trustee funds	844,313	1,883,601
Less current portion	844,313	1,883,601
	$ —	—

(Continued)

MARION GENERAL HOSPITAL, INC.
AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2007 and 2006

A description and the carrying value of the assets limited as to use by the board of directors are as follows at June 30:

		2007	2006
Cash and cash equivalents	$	74,401	11,271
Exchange Traded Fund		4,212,792	—
International mutual funds		20,998,294	6,773,565
Mutual funds		66,568,428	66,928,073
Hedge Fund		4,444,377	—
Assets limited as to use by board of directors	$	96,298,292	73,712,909

At June 30, 2007 and 2006, assets limited as to use under indenture agreements and other restricted assets are invested in cash and cash equivalents. At June 30, 2007 and 2006, other assets include investments in mutual funds with a market value of $33,649 and $704,357, respectively.

Investment return for cash and investments are comprised of the following for the years ending June 30:

		2007	2006
Other nonoperating gains:			
Investment income and other, net:			
Interest and dividends	$	4,894,779	4,564,324
Net realized gains on sale of investments		894,422	1,581,374
Gain on equity in joint ventures		670,307	1,441,548
Other		8,567	(885,779)
	$	6,468,075	6,701,467
Unrealized gains and (losses):			
Net unrealized gains and (losses) on investments	$	5,709,150	(276,196)

(Continued)

The following is a description of the Hospital's investments for which market value is less than cost at June 30 for which a continuous unrealized loss position has been less than twelve months:

	2007		2006	
	Unrealized loss	Aggregate fair value of investments with unrealized losses	Unrealized loss	Aggregate fair value of investments with unrealized losses
Mutual funds	$ 321,141	3,794,900	373,065	6,050,915
Total	$ 321,141	3,794,900	373,065	6,050,915

The following is a description of the Hospital's investments for which market value is less than cost at June 30 for which a continuous unrealized loss position has been more than twelve months:

	2007		2006	
	Unrealized loss	Aggregate fair value of investments with unrealized losses	Unrealized loss	Aggregate fair value of investments with unrealized losses
Mutual funds	$ 2,322,467	40,063,596	2,141,142	34,689,033
Total	$ 2,322,467	40,063,596	2,141,142	34,689,033

At June 30, 2007, there are two mutual funds for which a continuous unrealized loss position is less than twelve months. The market value of the mutual funds is 93.59% and 90.87% of cost, respectively. The decline is considered temporary.

At June 30, 2007, there are two mutual funds for which a continuous unrealized loss position is more than twelve months. At June 30, 2007 the market value is 94.75% and 92.84% of the cost and is not considered severe. The Hospital considers the decline to be temporary.

(7) Investment in Joint Ventures

In 1997, the Hospital invested $937,500 to purchase a 50% ownership in a joint venture, which operates an ambulatory surgery center (Surgery Center of NorthCentral Indiana, LLC dba River View Surgery Center (River View)) in Marion, Indiana. Since 1997, River View issued additional shares resulting in the reduction of the Hospital's ownership to 46.3% as of June 30, 2007. The Hospital accounts for the investment under the equity method of accounting. As a result, the Hospital recognized a gain of $377,746 and $859,671 related to its investment in River View for the years ended June 30, 2007 and 2006, respectively, which is included in investment income, net in the consolidated statements of operations.

(Continued)

The following is the unaudited condensed financial information of River View as of and for the years ending June 30, 2007 and 2006:

		2007	2006
Total assets	$	2,759,609	3,520,020
Total equity		2,499,729	3,324,863
Total net revenue		5,485,558	6,505,770
Net income		764,987	1,764,153

River View entered into a 15-year lease to rent a portion of a medical office building owned by the Hospital. Rent payments received by the Hospital in 2007 and 2006 from River View approximated $520,000 and $509,000, respectively, and are reported in other revenue.

In 2003, the Hospital invested $3,000,000 to purchase 50% ownership in a joint venture to operate a new cancer care center (Progressive Cancer Center, LLC) in Marion, Indiana. The building began construction in August 2004 and was completed in May 2005 when operations began. Since 2003, the number of outstanding shares in Progressive Cancer Center, LLC decreased thereby increasing the Hospital's ownership to 51.06% as of June 30, 2007. The Hospital accounts for the investment under the equity method of accounting, as the governance structure is such that the Hospital cannot exercise control. As a result, the Hospital recognized a gain of $292,561 and $581,876 related to its investment in Progressive Cancer Center, LLC for the years ended June 30, 2007 and 2006, respectively. This is included in investment income, net in the consolidated statements of operations.

The following is the unaudited condensed financial information of Progressive Cancer Care, LLC as of and for the years ending June 30, 2007 and 2006:

		2007	2006
Total assets	$	5,871,822	6,730,315
Total equity		4,594,492	5,189,871
Total net revenue		2,354,900	2,813,058
Net income		521,321	1,105,431

(Continued)

(8) Property and Equipment

Property and equipment and their estimated useful lives are as follows at June 30:

	2007	2006	Range of estimated useful lives
Land	$ 2,915,126	2,707,011	
Land improvements	1,355,310	1,568,103	10–20 years
Buildings	51,583,418	51,579,283	5–40 years
Medical office buildings	10,926,763	12,262,080	5–40 years
Building service equipment	24,414,761	33,213,397	5–25 years
Leasehold improvements	144,188	72,827	15–20 years
Fixed equipment	1,712,851	3,380,907	10–20 years
Major movable equipment	49,902,148	57,030,240	2–20 years
Vehicles	685,996	643,276	4 years
	143,640,561	162,457,124	
Less accumulated depreciation	(73,197,509)	(89,650,067)	
Construction in progress	2,400,412	1,254,921	
	$ 72,843,464	74,061,978	

Construction in progress at June 30, 2007 primarily relates to the remodeling of the Cardiac Cath Lab, replacement of the domestic hot water heater, modernization of elevators 4 & 5, and irrigation and landscaping of the ACC Building. Estimated costs to complete these projects at June 30, 2007, are approximately $275,000, of which the majority has been contractually committed.

(9) Long-Term Debt

Long-term debt consists of the following at June 30:

	2007	2006
Indiana Health and Educational Facility Financing Authority		
Hospital Revenue Bonds, Series 2005:		
Auction rate securities, payable through July 2035 applicable ARS interest rate of 3.9% at June 30, 2007 and 3.7% at June 30, 2006	$ 24,000,000	24,000,000
Revenue Bonds, Series 2002:		
Serial bonds, payable through July 1, 2013, interest from 4.0% to 4.5%	2,425,000	2,425,000
Term bonds with final redemption on July 1, 2019, interest at 5.625%	3,240,000	3,240,000
Term bonds with final redemption on July 1, 2023, interest at 5.25%	2,810,000	2,810,000
Term bonds with final redemption on July 1, 2027, interest at 5.25%	6,530,000	6,530,000
Term bonds with final redemption on July 1, 2032, interest at 5.25%	14,685,000	14,685,000
	29,690,000	29,690,000
Unamortized discount	(535,357)	(564,553)
	29,154,643	29,125,447
Total long-term debt	$ 53,154,643	53,125,447

On July 20, 2005, the Hospital issued $24,000,000 of auction rate revenue bonds, Series 2005, through the Indiana Health and Educational Financing Authority. The funds were used to refinance and retire the Series 1995 bonds, and to finance routine capital expenditures at the Hospital facilities, including a helipad, ambulance garage, and construction of the acute rehabilitation unit. All of the bonds are dated July 1, 2005 and bear interest from July 20, 2005, with the interest payable weekly. The Series 2005 bonds are further secured through a commercial bond insurance policy.

On May 1, 2002, the Hospital issued $29,690,000 of revenue bonds, Series 2002, through the Indiana Health Facility Financing Authority, at a discount of $686,204. The funds were used to finance the construction of a consolidated Intensive Care and Coronary Care Nursing Unit, an addition to the fourth and fifth floors, remodeling of certain units, including the emergency room, and to refinance and retire the Series 1997 bonds. All of the bonds are dated and bear interest from May 1, 2002, with interest payable semiannually on January 1 and July 1. The Series 2002 bonds are further secured through a commercial bond insurance policy.

(Continued)

The Hospital granted a security interest in its gross revenue (as defined) as collateral for the Series 2005 and 2002 bonds. In addition to various financial covenants, the Hospital covenants that it will not permit any lien or security interest on the Hospital's property and equipment other than certain permitted encumbrances.

The following is a schedule of maturities on long-term debt as of June 30, 2007 for the next five years:

2008	$ —
2009	1,065,000
2010	1,100,000
2011	1,120,000
2012	1,190,000

On December 1, 2006, the Hospital entered into a $2,000,000 variable interest line of credit maturing on September 30, 2007 at prime interest rate. At June 30, 2007 there were no outstanding draws on this line of credit. It is the intent of the Hospital to renew this line of credit for a one-year term.

(10) Pension and Other Benefits

The Hospital maintains a defined benefit plan (Pension Plan), which covers substantially all employees of the Hospital hired or rehired before December 31, 2006. The Pension Plan provides retirement and death benefits, with disability benefits though December 31, 2005. Effective January 1, 2006, the Pension Plan was amended and does not offer disability benefits for terminations occurring on or after January 1, 2006. The amendment also changed the formula by limiting the compensation that is used to calculate pension benefits. The effect of this amendment was a reduction of the projected benefit obligation of approximately $5,400,000 which is reflected in the June 30, 2006 pension obligation. The Hospital contributes amounts necessary to provide funds sufficient to meet the benefits to be paid to participants under the Pension Plan.

Effective December 31, 2006, the Pension Plan was amended to freeze participation for employees hired or rehired after December 31, 2006, and to freeze benefit accruals for participants with less than five years of vesting service as of December 31, 2006.

The Hospital also has a defined benefit health plan (Health Plan) for early retirees, which provides for health benefits, subject to certain eligibility requirements, from the date of early retirement (but not prior to age 55) to the date the retiree becomes Medicare eligible. This Health Plan also provides for certain coinsurance and deductibles to be paid by the retiree, same as all participants.

At June 30, 2007, the Hospital adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

The incremental effect of applying Statement 158 on the Hospital's financial position as of June 30, 2007 was as follows:

		Before application of Statement 158	Adjustments	After application of Statement 158
Prepaid pension cost	$	10,227,451	(7,243,786)	2,983,665
Post retirement obligation - non current portion		(2,578,186)	(1,817,762)	(4,395,948)
Post retirement obligation - current portion		—	(400,000)	(400,000)
Unrestricted net assets		—	(9,461,548)	(9,461,548)

The following tables set forth the plans (Pension Plan and Health Plan) change in benefit obligation, change in plan assets, and weighted average assumptions as of March 31, 2006 and June 30, 2007, for the Pension Plan and June 30 for the Health Plan (Measurement Dates):

	Pension benefits		Health plan benefits	
	June 30, 2007	**March 31, 2006**	**June 30, 2007**	**June 30, 2006**
Change in benefit obligation:				
Benefit obligation at beginning of period	$ 61,929,562	64,640,326	4,751,481	5,092,379
Service cost	2,020,388	2,005,992	310,649	589,662
Interest cost	4,440,152	3,583,686	261,551	248,073
Plan amendment	(759,493)	(5,436,784)	—	—
Actuarial loss (gain)	(1,012,663)	(244,790)	(135,433)	(811,457)
Benefits paid	(3,344,512)	(2,618,868)	(392,300)	(367,176)
Benefit obligation at end of period	63,273,434	61,929,562	4,795,948	4,751,481
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	52,731,718	46,188,490	—	—
Actual return on plan assets	7,669,893	5,203,353	—	—
Employer contribution	9,200,000	3,958,743	—	—
Benefits paid	(3,344,512)	(2,618,868)	—	—
Fair value of plan assets at end of year	66,257,099	52,731,718	—	—
Funded status	$ 2,983,665	(9,197,844)	(4,795,948)	(4,751,481)
Unrecognized net actuarial loss		16,611,656		1,667,042
Unrecognized transition obligation		—		897,838
Unrecognized prior service cost		(5,461,577)		—
Fourth quarter contributions		9,200,000		—
Prepaid (accrued) benefit cost		11,152,235		(2,186,601)
Additional minimum liability		(10,410,182)		—
Prepaid (accrued) benefit cost		$ 742,053		(2,186,601)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid pension cost	$ 2,983,665	742,053	—	—
Post-retirement benefit obligation - current	—	—	400,000	—
Post-retirement benefit obligation - noncurrent	—	—	4,395,948	2,186,601
Items not yet recognized as a componenet of periodic pension and post-retirement cost - accumulated charge to unrestricted net assets	(8,638,530)	—	—	—

	Pension benefits		Health plan benefits	
	June 30, 2007	**March 31, 2006**	**June 30, 2007**	**June 30, 2006**
Weighted average assumptions used to determine benefit obligations:				
Discount rate	6.10%	5.85%	5.75%	6.00%
Rate of compensation increase	—*	—*	—	—
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	5.85%	5.65%	—%	—%
Expected return on plan assets	8.25	8.25	—	—
Rate of compensation increase	—*	—*	—	—

* Future salaries for Plan purposes have been restricted to a maximum amount as defined in Amendment effective January 1, 2006.

The Hospital recognizes the cost related to employee service using the projected unit credit actuarial cost method and funds at least the minimum as calculated under the Employee Retirement Income Security Act of 1974.

The Hospital recognized a minimum pension liability at June 30, 2006 as a result of the pension plan being underfunded. The minimum pension liability will change from year to year as a result of revisions to actuarial assumptions, experience gains or losses, contributions to the plan, amendments to the plan, and settlement rate changes. The minimum liability is equal to the excess of the accumulated benefit obligation over plan assets. The Hospital has recognized a minimum pension liability at June 30, 2007 and 2006 of $0 and $10,410,182, respectively. Changes to the minimum pension liability are taken directly through unrestricted net assets.

The following table sets forth the components of net periodic benefit cost for the years ending June 30, 2007 and 2006 for the Pension Plan and the Health Plan:

		Pension benefits		Health plan benefits	
		2007	2006	2007	2006
Components of net periodic benefit cost:					
Service cost	$	1,616,310	2,005,992	310,649	589,662
Interest cost		3,552,122	3,583,686	261,551	248,073
Actual loss (return) on plan assets		(6,135,914)	(5,203,353)	127,601	269,024
Amortization of transition amount		—	—	74,820	74,820
Amortization of prior service cost		(607,594)	(430,219)	—	—
Amortization of (gain) or loss		1,126,322	1,408,541	—	—
Recognized net actuarial (gain) loss		1,188,582	1,367,498	—	—
Net periodic benefit cost	$	739,828	2,732,145	774,621	1,181,579

The following are the components of the net periodic pension cost. As a result of implementing FAS 158 the measurement date was changed from March 31 to June 30. Three fifteenths of the cost is a direct change to unrestricted net assets.

Net periodic pension cost for:		15 Months	3 Months	12 Months
Service cost	$	2,020,388	404,078	1,616,310
Interest cost		4,440,152	888,030	3,552,122
Acuital return on plan assets		(7,669,893)	(1,533,979)	(6,135,914)
Amortization of prior service cost		(759,493)	(151,899)	(607,594)
Amortization of loss		1,407,903	281,581	1,126,322
Recognized net actuarial loss		1,485,727	297,145	1,188,582
Net periodic pension cost	$	924,784	184,956	739,828

For measurement purposes of the Health Plan, a 10% annual rate of increase in the per-capita cost of covered health care benefits was assumed for 2007 and 2006. The rate was assumed to decrease gradually to 6% over a 10-year period.

(Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

		1-percentage-point increase	1-percentage-point decrease
Effect on total of service and interest cost components	$	58,626	(52,569)
Effect on postretirement benefit obligation		293,825	(271,067)

The pension plan asset target allocation for 2007, as well as the allocation at June 30, 2007 and March 31, 2006, by asset category are as follows:

Asset category	Target allocation 2007	Percentage of plan assets at June 30, 2007	March 31, 2006
Equity securities	55–65%	57%	62%
Debt securities	35–45%	37	37
Other	0–5%	6	1
Total		100%	100%

The investment policy covering pension assets is approved by the Finance Committee of the Board of Directors for the Hospital. This committee meets on a bi-monthly basis and makes periodic changes to the policy. The approved investment structure includes various asset classes, investment management styles, asset allocation, and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long term. Investment managers are reviewed on an ongoing basis.

The Hospital is not expected to contribute to the Pension Plan in fiscal year 2008.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the Pension Plan:

2008	$	2,664,756
2009		2,764,710
2010		2,962,032
2011		3,191,852
2012 through 2015		3,385,897
	$	20,190,449

(11) Medical Office Buildings – Operating Leases

The Hospital owns medical office buildings in Gas City, Indiana; Swayzee, Indiana; and in Marion, Indiana, and leases the buildings to physicians, physician groups, and others under various operating leases. Lease rental income of $987,366 and $981,625 is included in other revenue for the years ended June 30, 2007 and 2006, respectively.

The Hospital is scheduled to receive future minimum rental payments under these lease agreements for the next five years as follows:

2008	$	763,762
2009		640,528
2010		577,090
2011		573,048
2012		544,440

(12) Lease Obligations

The Hospital leases various equipment and space under noncancelable operating leases expiring in various years through 2025. Total rental expense amounted to approximately $806,000 and $812,000 for 2007 and 2006, respectively. Future minimum payments under the operating leases with initial terms in excess of one year as of June 30, 2007 are as follows:

2008	$	663,727
2009		424,424
2010		389,035
2011		377,908
2012		377,908

(13) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments* (SFAS 107), requires disclosure of the fair value of financial assets and liabilities for which it is practicable to estimate. Fair value is defined in SFAS 107 as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Hospital believes the carrying amount of its financial instruments (excluding long-term debt) approximates their fair values due to the relatively short maturity of these instruments. Long-term debt based on quoted market value of similar debt instruments has an aggregate fair value of $54,764,869 and $54,788,244 at June 30, 2007 and 2006, respectively.

(14) Malpractice Insurance

The Hospital participates in the Indiana Medical Malpractice Act (the Act), which limits the maximum recovery for medical malpractice claims to $1,250,000 per occurrence, of which, the first $250,000 is the responsibility of the Hospital, with the balance paid by the State of Indiana Patient Compensation Fund.

(Continued)

The Hospital maintains malpractice insurance coverage for the $250,000 deductible. Prior to October 1, 2002, the Hospital's malpractice insurance coverage was under an occurrence basis policy.

As of October 1, 2002, the Hospital malpractice insurance coverage changed to a claims-made policy, which includes coverage for all claims incurred prior to October 1, 2002 that were not reported to the previous insurance carrier. This previous insurance carrier, which provided coverage through September 30, 2002, is insolvent. As of June 30, 2006, all claims reported for that time period have been resolved.

Effective July 1, 2005, the Hospital became a member of a Vermont insurance company, Indiana Healthcare Reciprocal Risk Retention Group (IHRRRG) formerly known as VHA Central (a Reciprocal Risk Retention Group), as a means to comply with the Hospital's required portion of the insurance coverage pursuant to the Act, as well as its liability insurance. Membership in IHRRRG currently includes nine (9) Indiana Hospitals. The Hospital's investment in IHRRRG of $295,934 and $178,623 is included in other assets as of June 30, 2007 and 2006, respectively.

The Hospital has estimated the reserve for loss contingencies using actuarial valuations in determining the estimated reserve for loss contingencies, including the incurred but not reported claims. In management's opinion, an adequate reserve for loss contingencies is recorded as of June 30, 2007 and 2006.

(15) Business Combination

On May 12, 2006, the Hospital purchased certain assets, which constituted the on-going business, of Progressive Medical Imaging, LLC (PMi), a medical imaging facility located in Marion, Indiana for $11,757,000. The purchase of such assets is accounted for using the purchase method of accounting. The hospital began its operations at the PMi facility on May 25, 2006, thereby including the results of operations in the income statement from then until June 30, 2006.

The Hospital acquired the following assets with the applicable useful lives. Depreciation of property and equipment is provided over the estimated useful life or each class of depreciable asset and is computed on straight-line method using a half-year convention in the year of acquisition and disposal. Goodwill and other intangible assets are amortized using the straight-line depreciation.

	Cost	Range of estimated useful lives
Land	$ 157,948	
Land improvements	12,088	4-6 years
Building	1,229,964	36 years
Building services equipment	3,000	6 years
Major movable equipment	1,383,000	2-6 years
Minor equipment and furniture and supplies	35,000	1 year
Noncompete agreement	100,000	5 years
Servicemark	559,757	5 years
Goodwill	8,374,481*	5 years

* Includes $98,238 of direct costs of acquisition outside of the acquired assets.

(16) Mortgage Loan Receivable

On June 30, 2006, the Hospital entered into a non-interest bearing $1,000,000 mortgage loan with The Young Men's Christian Association of Grant County, Indiana, Inc., an Indiana nonprofit corporation (the YMCA). This mortgage loan is intended to help the YMCA complete the renovation and construction of the YMCA's new facility. In return, the YMCA has agreed to ground lease a portion of the YMCA property to the Hospital and allow the Hospital to construct a sports medicine facility on the ground leased parcel. When construction commenced, the Hospital reduces the outstanding principal of the mortgage loan by the fair value of the monthly lease amount, in lieu of payment. In addition, the Hospital is allowed to use the YMCA facility for Hospital and Hospital-sponsored events, with the fair value of renting this facility for any such event used as a reduction to the principal balance of the mortgage loan, in lieu of payment.

The non-interest bearing mortgage loan is secured by a first priority mortgage lien on YMCA property and all improvements and fixtures thereon. The balance of the mortgage loan is due in full in 2036. The Mortgage loan was discounted at 7.5%, which the Hospital believes to be the market interest rate for the mortgage loan, to a balance of $144,221 as of June 30, 2006. The $855,799 difference between the $1,000,000 face amount of the mortgage loan and the $144,221 initial balance of the mortgage loan receivable is included in investment income and other, net in the June 30, 2006, consolidated statement of operations. The balance of the loan as of June 30, 2007 was $120,098.

(17) Related-Party Transactions

The Hospital has entered into various agreements in the normal course of business for legal and other services with companies for which certain officers of these companies are also members of the Hospital's board of directors.

(18) Employee Benefit Plan

The Hospital established a 403(b) Employer Contributory Plan (Plan) on January 1, 2007, which permits employees of the Hospital to contribute to the Plan, on a pretax basis, up to the applicable limitations under Section 402(g)(1) of the Internal Revenue Code of 1986. The contributions made by each employee are fully vested immediately and are not subject to forfeiture. As defined by the Plan, the Hospital makes matching contributions of 50% of the employee's contribution up to 6% of qualifying wages for benefit eligible employees not vested in the Pension Plan. The Hospital makes matching contributions of 50% of the employee's contribution up to 2% of qualifying wages for benefit eligible employees who are vested in the Pension Plan. Contributions made by the Hospital during 2007 amounted to $264,440.

(19) Commitments and Contingencies

(a) Regulatory Investigations

The U.S. Department of Justice, the Internal Revenue Service, and other Federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters, which may have a material adverse effect on the Hospital's financial position or results of operations.

(b) Legal Matters

The Hospital is involved in various legal actions in the normal course of its operations. Management believes that any liability resulting from these matters will not have a material impact on the financial position or results of operations of the Hospital.

(c) Guarantees

The Hospital provides gross receipts guarantee agreements to certain physicians who agree to relocate to our community to fill a need in the Hospital's service area and commit to remain in practice there. Under such agreements, the Hospital is required to make payments to the physicians in excess of the amounts they collect in their practice up to the amount of gross receipts guarantee. The gross receipts guarantee period is typically 12-24 months. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically two to three years. At June 30, 2007, the maximum potential amount of future payments under these guarantees was approximately $5,120,000 of which $1,244,487 has been accrued in other liabilities. In accordance with FASB Staff position FIN 45-3, *Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Grant to a Business or Its Owners*, the Hospital analyzed its potential liability as the fair value of the obligation in issuing the guarantees.

MARION GENERAL HOSPITAL, INC.
AND SUBSIDIARY

Consolidated Balance Sheets

June 30, 2007 and 2006

Assets		**2007**	**2006**
Current assets:			
Cash and cash equivalents	$	13,342,627	15,107,264
Assets limited as to use – required for current liabilities		844,313	1,883,601
Accounts receivable:			
Patient services, net		18,066,745	16,195,510
Physician practices, net		619,033	652,717
Other		592,703	464,395
Accrued interest		3,053	7,209
Inventories		406,826	435,269
Current portion of notes receivable		736,188	593,726
Prepaid expenses		1,071,849	922,006
Total current assets		35,683,337	36,261,697
Assets limited as to use or restricted:			
By board of directors		96,298,292	73,712,909
Other restricted assets		34,339	36,853
Total assets limited as to use or restricted		96,332,631	73,749,762
Property and equipment, net		72,843,464	74,061,978
Other assets:			
Investment in joint ventures		3,503,406	4,256,701
Unamortized bond issuance costs		2,135,729	2,261,696
Notes receivable, net		1,972,139	1,657,753
Prepaid pension cost		2,983,665	742,053
Goodwill and other intangibles		7,010,291	8,819,757
Other assets		529,482	1,080,977
Total other assets		18,134,712	18,818,937
Total assets	$	222,994,144	202,892,374

See accompanying notes to consolidated financial statements.