JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2007 AND 2006

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

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DECEMBER 31, 2007 AND 2006

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Jackson County Schneck Memorial Hospital
and Affiliated Organizations
Seymour, Indiana

We have audited the accompanying consolidated balance sheets of Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) and Affiliated Organizations (collectively the "Medical Center"), component units of Jackson County, as of December 31, 2007 and 2006, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Medical Center'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 the auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 the Medical Center as of December 31, 2007 and 2006, and the results of its operations and 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.

Management's discussion and analysis on pages i through vii is not a required part of the basic consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

April 16, 2008

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2007 AND 2006

Management's discussion and analysis of the financial performance of Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) (the "Hospital") and Affiliated Organizations (collectively the "Medical Center") provides an overview of the Medical Center's financial activities and performance for the years ended December 31, 2007 and 2006. This discussion and analysis should be read in conjunction with the accompanying Medical Center's consolidated financial statements.

FINANCIAL HIGHLIGHTS

The Medical Center's net assets increased $15,765,960 from 2006 to 2007 and include income from operations of $9,985,763.

During 2007, the Medical Center's total operating revenue increased by 10.8% to $79,385,240 with total operating expenses increasing by 9.0% to $69,399,477.

In 2006, the Hospital began construction on an expansion and renovation project with an anticipated total cost of $60,354,228. The project involves construction of an 84,000 square foot addition to the existing Hospital facility, along with renovation of 90,600 square feet of existing space. During 2007, a total of $17,661,006 was spent toward the project. Of the total, $17,372,473 utilized bond funds.

In 2007, the Hospital completed construction of a 16,000 square foot cancer services center on the current Hospital campus at a final cost of $8,842,929. The center opened in August 2007 and expanded the Hospital's oncology services to include radiation oncology. Net patient service revenue generated by the addition of radiation oncology services was $504,409.

In June 2007, the Hospital began providing outpatient behavioral health services in an offsite location near the main hospital campus. Net patient revenues generated by the addition were approximately $77,000.

In October 2007, the Hospital terminated their contractual arrangement with the then existing physician radiology group and entered into a new contractual arrangement with a different physician group. The new physician group participates with managed care plans whereas the former group did not.

Effective November 1, 2007, the Hospital employed both a gastroenterologist and a pulmonologist on a full time basis. Net patient service revenue generated by the addition of these physician services was $91,344.

An overall rate increase of 8.5% effective January 1, 2007 was implemented.

FINANCIAL STATEMENTS

The consolidated financial statements of the Medical Center present information about the Medical Center using financial reporting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information. The Consolidated Balance Sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Medical Center's creditors (liabilities). It also provides the basis for compiling rate of return, evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center. All of the current and prior year's revenues and expenses are accounted for in the Consolidated Statements of Operations and Changes in Net Assets. This statement measures the financial results of the Medical Center's operations and presents revenues earned and expenses incurred. The Consolidated Statements of Cash Flows provide information about the Medical Center's cash flows from operating activities, capital and related financing activities, and investing activities, plus provide information on the sources and uses of cash during both the current and prior year.

FINANCIAL ANALYSIS

The Consolidated Balance Sheets and the Consolidated Statements of Operations and Changes in Net Assets report information about the Medical Center's activities. These two statements report the net assets of the Medical Center and its changes. Increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population changes (including uninsured and medically indigent individuals and families) and new or changed governmental legislation should also be considered.

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's Consolidated Balance Sheets as of December 31, 2007 and 2006 is presented below:

	2007	2006	$ Change	% Change
Assets				
Cash and investments	$ 107,774,148	$ 122,693,299	$ (14,919,151)	-12.2%
Capital assets	66,603,081	41,038,431	25,564,650	62.3%
Other assets	28,576,046	23,725,512	4,850,534	20.4%
Total assets	$ 202,953,275	$ 187,457,242	$ 15,496,033	8.3%
Liabilities				
Long-term debt, including current portion	$ 54,804,569	$ 55,940,734	$ (1,136,165)	-2.0%
Other current and noncurrent liabilities	12,728,491	11,862,253	866,238	7.3%
Total liabilities	67,533,060	67,802,987	(269,927)	-0.4%
Net assets				
Investment in capital assets net of related debt	16,562,382	13,691,390	2,870,992	21.0%
Restricted expendable net assets	9,114,342	33,335,333	(24,220,991)	-72.7%
Restricted nonexpendable net assets	394,702	392,311	2,391	0.6%
Unrestricted	109,348,789	72,235,221	37,113,568	51.4%
Total net assets	135,420,215	119,654,255	15,765,960	13.2%
Total liabilities and net assets	$ 202,953,275	$ 187,457,242	$ 15,496,033	8.3%

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2007 AND 2006

CONDENSED FINANCIAL INFORMATION

A summary of the Medical Center's Consolidated Statements of Operations and Changes in Net Assets for the years ended December 31, 2007 and 2006 is presented below:

	2007	2006	$ Change	% Change
Operating revenues				
Net patient service revenue	$ 78,462,888	$ 70,814,897	$ 7,647,991	10.8%
Other revenue	922,352	801,113	121,239	15.1%
Total operating revenues	79,385,240	71,616,010	7,769,230	10.8%
Operating expenses				
Salaries and benefits	42,426,982	38,932,704	3,494,278	9.0%
Supplies and drugs	12,187,813	11,512,222	675,591	5.9%
Depreciation and amortization	4,271,693	3,759,025	512,668	13.6%
Other operating expenses	10,512,989	9,441,249	1,071,740	11.4%
Total operating expenses	69,399,477	63,645,200	5,754,277	9.0%
Income from operations	9,985,763	7,970,810	2,014,953	25.3%
Nonoperating revenues	5,777,807	5,143,964	633,843	12.3%
Excess revenues before changes in perpetual trust	15,763,570	13,114,774	2,648,796	20.2%
Changes in perpetual trust	2,390	27,853	(25,463)	-91.4%
Change in net assets	$ 15,765,960	$ 13,142,627	$ 2,623,333	20.0%
Net assets, end of year	$ 135,420,215	$ 119,654,255	$ 15,765,960	13.2%

SOURCES OF REVENUE

The Medical Center derives the majority of its revenue from charges for patient care and related services. The Medical Center is reimbursed for services from a variety of sources including the Medicare and Medicaid programs, insurance carriers, managed care plans, and patients. The Medical Center has established payment arrangements with Medicare, Medicaid and various commercial insurance carriers. Services provided under those arrangements are paid at predetermined rates and/or reimbursable cost as defined. Provisions have been made in the consolidated financial statements for contractual adjustments representing the difference between the standard charges for services and the actual or estimated payment.

The percentages of gross revenue by payor for 2007 and 2006 are as follows:

Payor Mix	2007	2006
Medicare	39 %	40 %
Medicaid	10	9
Commercial insurance	12	10
Anthem (Managed Care)	19	20
SIHO (Managed Care)	13	14
Self-pay	6	6
Other	1	1
Total	100 %	100 %

OPERATING AND FINANCIAL PERFORMANCE

The Medical Center's overall financial performance improved in 2007 in comparison to 2006. Both operating income and nonoperating revenues improved in 2007 in comparison to 2006. A discussion of the highlights of 2007 operations and changes in activity is presented below:

Revenues

The Medical Center's net patient service revenues increased by $7,647,991 in 2007 as a result of a rate increase and volume increases in areas including emergency room, surgery, respiratory therapy, laboratory, and diagnostic imaging services. Highlights of this activity are as follows:

- The Medical Center implemented an overall rate increase of 8.5% effective January 1, 2007. Patient volume increases were noted in emergency room, surgery, respiratory therapy, laboratory, and diagnostic imaging services. As mentioned previously, new services provided in 2007 included outpatient behavioral health, radiation oncology, and physician gastroenterology and pulmonology. The Medical Center experienced volume declines in home health and hospice services. Bad debt expense increased by $2,819,673 or 51.7%.

Expenses

Total operating expenses increased by $5,754,277. Highlights of this change are as follows:

- Employee salaries and wages increased $2,532,286 or 8.5% as a result of merit increases, additional staffing, and the addition of wages relating to the opening of an gastroenterology and pulmonology physician clinic in November 2007. Employee benefits increased $961,992 or 10.7% due to increase in employer health insurance expense of $1,076,056. Depreciation expense increased $506,383 or 13.6% due to addition of cancer services center and a patient medication verification system purchased in 2006. Purchased services expense increased $963,486 or 20.5% relating to the addition of radiation oncology and outpatient behavioral health services.

Capital Assets

	2007	2006	$Change	%Change
Land and land improvements	$ 7,285,940	$ 6,877,037	$ 408,903	5.9%
Leasehold improvements	405,170	379,976	25,194	6.6%
Buildings	34,025,163	27,924,877	6,100,286	21.8%
Equipment	38,703,589	33,261,217	5,442,372	16.4%
Construction in progress	26,643,431	10,038,427	16,605,004	165.4%
	107,063,293	78,481,534	28,581,759	36.4%
Less accumulated depreciation	40,460,212	37,443,103	3,017,109	8.1%
Capital assets, net	$ 66,603,081	$ 41,038,431	$ 25,564,650	62.3%

Capital assets have increased due primarily to replacement of outdated equipment and costs related to the above-mentioned Hospital construction and expansion project including the cancer services center.

Long-Term Debt

At December 31, 2007, the Medical Center had long-term debt (including current portion) of $54,804,569. This is comprised of $54,275,043 in revenue bonds outstanding, and $529,526 in notes payable. The Medical Center issued Series 2006A and 2006B revenue bonds in May 2006 for the expansion of existing facilities. Series 2006A bonds were issued in the amount of $15,000,000 and carry a fixed interest rate. Series 2006B bonds were issued in the amount of $20,000,000 and carry a variable interest rate secured by a letter of credit provided by Fifth-Third Bank.

ECONOMIC FACTORS AND 2008 BUDGET

The Medical Center's Board and management considered many factors when establishing the 2008 Budget. Included was the status of the economy, which takes into consideration market factors and other environmental factors such as the following items:

- Population growth of Jackson County, Indiana and the expanding need for services
- Advances in medical equipment and information systems technology and the need to replace obsolete equipment
- Decreasing reimbursement from governmental and commercial insurance payors
- Increasing number of uninsured and/or indigent patients
- Increasing costs of medical supplies, pharmaceuticals, and medical malpractice insurance
- Nationwide workforce shortages in key nursing and other healthcare specialist positions
- Increasing awareness and expectations from the public on the quality of services
- Increased competition from niche providers

CONTACTING THE MEDICAL CENTER

This report is designed to provide our citizens, customers and creditors with a general overview of the Medical Center's finances. These consolidated financial statements include the activities of the Hospital, Jackson County Schneck Memorial Hospital Foundation (the "Foundation"), and Health Development Corporation and Affiliated Organization ("HDC"). Separately-issued audited financial statements are available for both HDC and the Foundation. If you have questions about this report or need additional information, contact Warren Forgey, Vice President of Fiscal Services at 812-522-0172.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Current assets		
Cash and cash equivalents	$ 7,890,749	$ 4,328,772
Investments	19,780,402	22,273,601
Patient accounts receivable, net of estimated uncollectibles of $7,008,233 in 2007 and $5,511,333 in 2006	17,116,572	14,163,584
Inventories	3,082,299	2,246,313
Prepaid expenses and other current assets	697,492	858,213
Other assets, current portion	806,202	338,419
Current portion of assets whose use is limited	1,769,656	1,749,614
Total current assets	51,143,372	45,958,516
Assets whose use is limited, net of amount required to meet current obligations	78,333,341	94,341,312
Capital assets		
Land	4,798,435	4,709,645
Land improvements	2,487,505	2,167,392
Leasehold improvements	405,170	379,976
Buildings	34,025,163	27,924,877
Fixed equipment	5,507,408	5,448,480
Movable equipment	33,196,181	27,812,737
	80,419,862	68,443,107
Less accumulated depreciation	40,460,212	37,443,103
	39,959,650	31,000,004
Construction in progress	26,643,431	10,038,427
Capital assets, net	66,603,081	41,038,431
Other assets, net of current portion	6,873,481	6,118,983
Total assets	$ 202,953,275	$ 187,457,242

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

LIABILITIES AND NET ASSETS

	2007	2006
Current liabilities		
Accounts payable	$ 1,623,566	$ 1,797,728
Accrued payroll and payroll withholdings	1,335,044	1,016,550
Accrued expenses	3,305,488	2,913,328
Estimated third-party payor settlements	425,000	450,000
Current portion of long-term debt	1,169,768	1,136,277
Total current liabilities	7,858,866	7,313,883
Long-term liabilities		
Long-term debt, net of current portion	53,634,801	54,804,457
Deferred compensation liabilities	5,979,911	5,625,165
Deferred costs	59,482	59,482
Total long-term liabilities	59,674,194	60,489,104
Total liabilities	67,533,060	67,802,987
Net assets		
Invested in capital assets net of related debt	16,562,382	13,691,390
Restricted		
Expendable for debt service	3,279,032	3,226,332
Expendable for donor-designated purposes	1,071,440	1,515,308
Expendable for capital acquisitions	4,763,870	28,593,693
Nonexpendable perpetual trust	394,702	392,311
Unrestricted	109,348,789	72,235,221
Total net assets	135,420,215	119,654,255
Total liabilities and net assets	$ 202,953,275	$ 187,457,242

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL
AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating revenues		
Net patient service revenue	$ 78,462,888	$ 70,814,897
Other revenue	922,352	801,113
Total operating revenues	79,385,240	71,616,010
Operating expenses		
Salaries and wages	32,444,487	29,912,201
Employee benefits and payroll taxes	9,982,495	9,020,503
Professional medical fees	387,362	383,594
Medical supplies	6,551,789	6,158,917
Other supplies	1,849,769	1,742,175
Drugs	3,786,255	3,611,130
Purchased services	5,661,878	4,698,392
Utilities	1,005,013	984,546
Insurance	837,033	737,206
Depreciation and amortization	4,271,693	3,759,025
Rent	728,116	731,959
Other operating expenses	1,893,587	1,905,552
Total operating expenses	69,399,477	63,645,200
Income from operations	9,985,763	7,970,810
Nonoperating revenues	5,777,807	5,143,964
Excess revenues over expenses	15,763,570	13,114,774
Change in perpetual trust	2,390	27,853
Change in net assets	15,765,960	13,142,627
Net assets, beginning of year	119,654,255	106,511,628
Net assets, end of year	$ 135,420,215	$ 119,654,255

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating activities		
Cash received for patient services	$ 75,484,900	$ 68,495,903
Cash paid to/for employees	(41,753,742)	(37,575,738)
Cash paid to vendors and suppliers	(23,425,387)	(20,349,656)
Other receipts, net	922,352	768,113
Net cash flows from operating activities	11,228,123	11,338,622
Capital and related financing activities		
Principal payments on obligations under capital leases	-0-	(21,913)
Principal payments on long-term debt	(1,247,968)	(1,045,026)
Borrowings on long-term debt	-0-	35,025,861
Interest expense on long-term debt	(1,213,575)	(1,251,588)
Purchase of capital assets	(29,724,815)	(13,073,549)
Proceeds from sale of capital assets	186,622	10,114
Change in bond discounts, premium, and refunding loss	111,803	413,507
Payment on debt issue costs	-0-	(454,526)
Net cash flows from capital and related financing activities	(31,887,933)	19,602,880
Investing activities		
Investment income	5,337,715	6,131,059
Other nonoperating revenues	1,656,057	292,346
Change in investments	2,500,000	1,000,000
Change in assets whose use is limited	14,906,596	(25,287,880)
Change in deferred costs	-0-	(52,640)
Change in other assets	(1,253,113)	715,443
Net cash flows from investing activities	23,147,255	(17,201,672)
Net change in cash and cash equivalents	2,487,445	13,739,830
Cash and cash equivalents, beginning of year	22,326,405	8,586,575
Cash and cash equivalents, end of year	$ 24,813,850	$ 22,326,405
Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	$ 7,890,749	$ 4,328,772
Cash and cash equivalents in investments	280,402	273,601
Cash and cash equivalents in assets whose use is limited	16,642,699	17,724,032
Total cash and cash equivalents	$ 24,813,850	$ 22,326,405

See accompanying notes to consolidated financial statements.

JACKSON COUNTY SCHNECK MEMORIAL HOSPITAL AND AFFILIATED ORGANIZATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Reconciliation of income from operations to net cash and cash equivalents from operating activities		
Income from operations	$ 9,985,763	$ 7,970,810
Adjustments to reconcile income from operations to net cash flows from operating activities		
Contribution of land	-0-	(33,000)
Depreciation	4,240,861	3,734,478
Amortization	30,832	24,547
Provision for bad debts	8,626,172	5,583,080
Loss on disposal of capital assets	13,759	459,980
Changes in operating assets and liabilities		
Patient accounts receivable	(11,579,160)	(8,077,074)
Inventories	(835,986)	50,354
Prepaid expenses and other current assets	160,721	(154,523)
Accounts payable	(455,239)	(27,320)
Accrued payroll and payroll withholdings	318,494	296,256
Accrued expenses	392,160	275,324
Estimated third-party payor settlements	(25,000)	175,000
Deferred compensation liabilities	354,746	1,060,710
Net cash flows from operating activities	$ 11,228,123	$ 11,338,622
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 1,228,533	$ 971,804
Supplemental disclosures of noncash operating and capital and related financing activities		
Property and equipment acquired included in accounts payable	$ 281,077	$ 136,518

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS

Jackson County Schneck Memorial Hospital (d/b/a Schneck Medical Center) (the "Hospital") is a not-for-profit, acute care hospital located in Seymour, Indiana. The Hospital is county owned and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital is organized for the purpose of providing healthcare services to the residents of Jackson County and the surrounding area. The Hospital's primary sources of support are from patient revenues and other ancillary income. Patient revenues include funds received from Medicare, state agencies, insurance companies, and the patients themselves.

Health Development Corporation ("HDC") is a not-for-profit corporation located in Seymour, Indiana. HDC was organized to operate exclusively for the benefit of, to perform the functions of, and to carry out the purposes of the Hospital by recruiting physicians to the surrounding area and by providing medical education programs to the medical and Hospital staff. HDC's operations also include three healthcare clinics located in North Vernon, Scottsburg, and Seymour, Indiana. HDC's primary sources of revenue are from service fees charged to the Hospital and patient revenues.

The Jackson County Schneck Memorial Hospital Foundation, Inc. (d/b/a Schneck Medical Center Foundation) (the "Foundation") is a not-for-profit organization located in Seymour, Indiana. The Foundation operates for the benefit of the Hospital. The Foundation's main sources of revenue are earnings on investments, donations received, and rental income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Hospital, HDC, and the Foundation (collectively the "Medical Center") in the preparation of the consolidated financial statements are summarized below:

Coordinated Health, LLC

HDC's consolidated financial statements at December 31, 2007 and 2006, include the accounts of Coordinated Health, LLC (the "Clinic"). The Clinic is wholly-owned by HDC and began operations in 2002. The Clinic was organized to operate exclusively for the benefit of HDC and the purposes for which HDC is organized and operated, including the promotion and support of the health of Jackson County, Indiana residents and residents of surrounding communities.

Reporting Entity and Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Hospital, HDC, the Clinic, and the Foundation. The Board of County Commissioners of Jackson County appoints the governing Board of Trustees of the Hospital, and a financial benefit/burden relationship exists between the Hospital and the Jackson County government. For these reasons, the Hospital is considered a component unit of Jackson County. Similarly, due to their organized purposes, HDC, the Clinic, and the Foundation are considered blended component units of the Hospital. Intercompany transactions and balances have been eliminated in consolidation. The separate audited financial statements of HDC (including the Clinic) and the Foundation may be obtained by contacting the Hospital as follows:

Schneck Medical Center
411 W. Tipton Street
P.O. Box 2349
Seymour, IN 47274

Management's Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if any, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Proprietary Fund Accounting

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Risk Management

The Medical Center 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, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Medical Center is insured for medical malpractice claims and judgments.

Cash and Cash Equivalents

Cash and cash equivalents as reported on the consolidated balance sheets include petty cash and other cash on hand amounts, checking accounts, and savings accounts that are readily available for use.

Cash and cash equivalents as reported on the consolidated statements of cash flows include investments in highly liquid assets with maturity dates of 90 days or less when purchased.

Investments

Investments include certificates of deposit amounts maturing within one year of the dates of the consolidated balance sheets. Investments are recorded at cost, which approximates market value.

Patient Accounts Receivable and Net Patient Service Revenue

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

Allowance for Patient Uncollectible Accounts

The Medical Center estimates an allowance for uncollectible patient accounts receivable based on an evaluation of the aging of the accounts, historical losses, current economic conditions, and other factors unique to their service area and the healthcare industry.

Inventories

Inventories consist of medical supplies, pharmaceuticals, and office supplies and are valued at the lower of cost or market, with cost being determined on the first-in, first-out (FIFO) method.

Assets Whose Use is Limited

Investments in certificates of deposit are reported in the consolidated financial statements at cost, which approximates fair value.

Assets whose use is limited include assets set aside by the respective Boards for future capital improvements, over which the Boards retain control and may at their discretion subsequently use for other purposes; assets held by trustees under indenture agreements; assets that have been restricted by donors for specific purposes; and amounts that have been set aside as part of deferred compensation plans.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the consolidated balance sheets. Investment income or loss, including realized gains and losses on investments and assets whose use is limited, net change in the market value of assets whose use is limited, interest, and dividends, is included in nonoperating revenues when earned.

Capital Assets

The Medical Center's capital assets are reported at historical cost and include expenditures for additions and repairs which substantially increase the useful lives of capital assets. Maintenance, repairs, and minor improvements are expensed as incurred. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated using the straight-line method of depreciation over their estimated useful lives based upon the American Hospital Association Guide for Estimated Useful Lives for Fixed Assets.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest costs on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. For the years ended December 31, 2007 and 2006, the Medical Center capitalized interest costs of $894,552 and $0, respectively.

Deferred Costs

Deferred costs are amounts reserved for future construction costs of unfinished leased office space.

Net Assets

Net assets of the Medical Center are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Consolidated Statements of Operations and Changes in Net Assets

For purposed of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Peripheral and incidental transactions are reported as nonoperating revenues (expenses). Nonoperating revenues (expenses) which are excluded from income from operations include investment income, contributions received, restricted expenditures, and the net change in the market value of assets whose use is limited.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are reported as reductions in net patient service revenue.

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. Advertising and marketing costs charged to operations were $622,326 and $555,021 for the years ended December 31, 2007 and 2006, respectively.

Income Taxes

The Hospital has been granted exemption from taxation as a not-for-profit organization by the Internal Revenue Service under Section 115, and in 2005 was also granted exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code for purposes of maintaining a 403b deferred compensation plan. Therefore, no provision for income taxes has been provided in the consolidated statements of operations and changes in net assets. HDC and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Clinic is organized as a single-member Limited Liability Company (LLC). HDC is the sole member of the Clinic. As such, the Clinic is not required to file a separate State or Federal tax return. For tax reporting purposes, all activities of the Clinic are required to be filed with the activities of HDC.

Grants and Contributions

From time to time, the Medical Center receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

Conditional Asset Retirement Obligations

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement 143. This interpretation elaborates on the disclosures to be made by an organization in its financial statements about its obligations related to asset retirements. The Medical Center's management has evaluated the Interpretation and determined the impact to be immaterial to the consolidated financial statements.

Reclassifications

Certain 2006 amounts have been reclassified to provide for consistency with reporting of 2007 information. These reclassifications have no effect on the previously reported change in net assets or net assets.

3. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following at December 31, 2007 and 2006:

	2007	2006
Carrying amount		
Cash and cash equivalents	$ 24,813,850	$ 22,338,444
Certificates of deposit	47,635,112	47,666,000
Mutual funds	31,773,976	29,684,262
Corporate bonds	93,146	573,558
U.S. Government securities	1,708,743	20,394,381
Perpetual trust	394,702	392,311
Interest receivable	713,027	1,004,638
Real estate	3,386	6,967
Common stocks	638,206	632,738
Total	$ 107,774,148	$ 122,693,299
Included in the consolidated balance sheet captions:		
Cash and cash equivalents	$ 7,890,749	$ 4,328,772
Certificates of deposit	19,780,402	22,273,601
Assets whose use is limited	80,102,997	96,090,926
Total	$ 107,774,148	$ 122,693,299

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center does not have a deposit policy for custodial credit risk. Deposits with financial institutions are insured by the Federal Depository Insurance Corporation ("FDIC") up to FDIC limits. This includes any deposit accounts issued or offered by a qualifying institution. The Medical Center's deposits with financial institutions in the State of Indiana for the years ended December 31, 2007 and 2006, were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund.

Investments are carried at fair value or cost which approximates fair value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. As of December 31, 2007 and 2006, the Medical Center had the following investments and maturities, all of which were held in the Medical Center's name by custodial banks or investment companies that are agents of the Medical Center:

December 31, 2007

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 47,635,112	$ 47,500,000	$ 135,112	$ -0-	$ -0-
Corporate bonds	93,146	8,974	21,349	62,823	-0-
U.S. Government securities	1,708,743	1,116,556	580,877	11,310	-0-
Total	$ 49,437,001	$ 48,625,530	$ 737,338	$ 74,133	$ -0-

December 31, 2006

		Investment Maturities (in years)			
	Carrying Amount	Less than 1	1 - 5	6 - 10	More than 10
Certificates of deposit	$ 47,666,000	$ 47,666,000	$ -0-	$ -0-	$ -0-
Corporate bonds	573,558	518,962	17,116	37,480	-0-
U.S. Government securities	20,394,381	18,754,701	1,576,154	25,608	37,918
Total	$ 68,633,939	$ 66,939,663	$ 1,593,270	$ 63,088	$ 37,918

Interest Rate Risk

Interest risk rate is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The Medical Center does have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Hospital's current investment policy limits investments with maturities of two years or longer to no more than 60 percent of total investments. The Foundation's investment policy prohibits the purchase of fixed income securities with original maturities of more than 10 years, unless the securities are part of a fund portfolio which has an average maturity of not greater than 10 years.

Credit Risk – Investments

Credit risk is the risk that, in the event of a failure of a financial institution, the Medical Center would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party.

Statutes authorize the Medical Center to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, repurchase agreements, mutual funds, pooled fund investments, and securities backed by the full faith and credit of the United States Treasury. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

The Medical Center's credit risk ratings for investments in debt securities at December 31, 2007 and 2006, are as follows:

December 31, 2007

Investment Type	Credit Rating Moody's	Fair Value
Corporate bonds	A1	$ 23,882
Corporate bonds	A2	10,952
Corporate bonds	A3	8,139
Corporate bonds	Aaa	4,978
Corporate bonds	Aa1	4,099
Corporate bonds	Aa2	10,717
Corporate bonds	Aa3	8,042
Corporate bonds	Baa1	3,920
Corporate bonds	Baa2	18,417
		$ 93,146

December 31, 2006

Investment Type	Credit Rating Moody's	Fair Value
Corporate bonds	A1	$ 9,062
Corporate bonds	A2	8,214
Corporate bonds	A3	15,190
Corporate bonds	Aaa	508,846
Corporate bonds	Aa2	1,943
Corporate bonds	Aa3	21,931
Corporate bonds	Baa1	2,053
Corporate bonds	Baa2	4,178
Corporate bonds	Baa3	2,141
		$ 573,558

The Medical Center's money market funds and mutual funds are not rated.

Concentration of Credit Risk

The Hospital places no limit on the amount it may invest in any one issuer. The Foundation limits investments in securities of a single issuer to 10 percent of the portfolio's total market value. This limitation does not include U.S. Government Securities. The Medical Center maintains its investments, which at times may exceed federally insured limits. The Medical Center has not experienced any losses in such accounts. The Medical Center believes that it is not exposed to any significant credit risk on investments.

4. PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable reported as current assets at December 31, 2007 and 2006, consist of the following:

	2007	2006
Medicare	$ 3,506,111	$ 2,571,574
Medicaid	652,030	254,740
Blue Cross	3,625,177	2,027,898
Other insurance carriers	5,779,132	5,610,846
Patients	10,562,355	9,209,859
Total patient accounts receivable	24,124,805	19,674,917
Less allowance for uncollectible amounts	7,008,233	5,511,333
Patient accounts receivable, net	$ 17,116,572	$ 14,163,584

5. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Assets whose use is limited are reported at market value and include the following at December 31, 2007 and 2006:

	2007	2006
Board-designated funds		
Cash and cash equivalents	$ 10,086,827	$ 6,995,223
Interest receivable	659,832	565,210
Certificates of deposit	27,935,112	24,600,000
Common stocks	134,820	511,370
REITs/tangibles	3,386	6,967
Mutual funds	25,794,065	24,059,097
Total board-designated funds	64,614,042	56,737,867
Trustee-held funds		
Cash and cash equivalents	6,444,987	10,628,929
Interest receivable	45,459	444,258
Corporate bonds	-0-	503,957
U.S. Government securities	1,552,456	20,242,881
Total trustee-held funds	8,042,902	31,820,025

	2007	2006
Donor-restricted funds		
Cash and cash equivalents	110,885	99,880
Interest receivable	7,736	7,209
Certificates of deposit	200,000	1,066,000
Corporate bonds	93,146	69,601
Common stocks	503,386	121,368
U.S. Government securities	156,287	151,500
Perpetual trust, held by trustee	394,702	392,311
Total donor-restricted funds	1,466,142	1,907,869
Deferred compensation funds		
Mutual funds	5,979,911	5,625,165
Total deferred compensation	5,979,911	5,625,165
Assets whose use is limited	80,102,997	96,090,926
Less amount required for current obligations	1,769,656	1,749,614
Assets whose use is limited, net of amount required to meet current obligations	$ 78,333,341	$ 94,341,312

Board-Designated Funds

The Hospital's Board of Trustees approved the funding of depreciation expense to meet the capital asset replacement needs of the facility. Depreciation is funded totally with expenditures for capital items reducing the funded depreciation balance. Board-designated funds also include amounts intended for specific purposes, as established by the Hospital's and Foundation's separate Boards. All income earned by the board-designated accounts is left to accumulate as additions to the funds. Board-designated funds remain under the control of the separate Board's which may at their discretion later use for other purposes. Therefore, all board-designated funds are included in unrestricted net assets.

Trustee-Held Funds

The trustee-held funds are restricted for the payments of principal and interest related to certain long-term debt agreements and for payments of construction costs related to the Hospital construction project described in Note 24.

Donor-Restricted Funds

Donor-restricted funds represent donations that have been restricted by donors for specific purposes.

Deferred Compensation Funds

The deferred compensation funds represent assets that have accumulated under the Medical Center's deferred compensation plan. The Medical Center simply maintains the funds for the participants until they are withdrawn. The Medical Center records a liability equal to the deferred compensation assets.

6. LAND

During 1995, the Foundation received a contribution of land from the Hospital in the amount of $180,000. On June 14, 1995, the Foundation began leasing the land to Jackson Medical Building, LLC, at $100 per month during the period of construction and $1,500 per month upon completion for a period of 40 years. Pursuant to the Land Lease agreement, a rate increase of 3 percent was approved and made effective June 1, 2006. The lessee is entitled to renew the lease for seven successive additional terms of five years each. Rental income related to this lease was $18,540 and $18,315 for the years ended December 31, 2007 and 2006, respectively. During the year ended December 31, 2006, the Foundation received a contribution of land with a fair market value of $33,000. The Foundation intends to sell this land, as the contribution relates to the Cancer Center portion of the Hospital construction project.

7. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2007 and 2006, was as follows:

	2007			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	$ 4,709,645	$ 42,900	$ 45,890	$ 4,798,435
Land improvements	2,167,392	6,214	313,899	2,487,505
Leasehold improvements	379,976	25,194	-0-	405,170
Buildings	27,924,877	73,540	6,026,746	34,025,163
Fixed equipment	5,448,480	46,048	12,880	5,507,408
Movable equipment	27,812,737	2,494,342	2,889,102	33,196,181
Construction in progress	10,038,427	27,317,654	(10,712,650)	26,643,431
Total historical cost	78,481,534	30,005,892	(1,424,133)	107,063,293
Less accumulated depreciation for				
Land improvements	(891,719)	(111,888)	-0-	(1,003,607)
Leasehold improvements	(189,052)	(30,571)	-0-	(219,623)
Buildings	(12,825,547)	(1,059,348)	56,302	(13,828,593)
Fixed equipment	(3,586,432)	(295,095)	-0-	(3,881,527)
Movable equipment	(19,950,353)	(2,743,959)	1,167,450	(21,526,862)
Total accumulated depreciation	(37,443,103)	(4,240,861)	1,223,752	(40,460,212)
Capital assets, net	$ 41,038,431	$ 25,765,031	$ (200,381)	$ 66,603,081

	2006			
	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Land	$ 2,650,316	$ 33,000	$ 2,026,329	$ 4,709,645
Land improvements	1,366,206	12,698	788,488	2,167,392
Leasehold improvements	455,535	-0-	(75,559)	379,976
Buildings	27,561,574	135,567	227,736	27,924,877
Fixed equipment	5,494,594	19,868	(65,982)	5,448,480
Movable equipment	25,878,462	1,917,758	16,517	27,812,737
Construction in progress	4,668,566	11,124,176	(5,754,315)	10,038,427
Total historical cost	68,075,253	13,243,067	(2,836,786)	78,481,534
Less accumulated depreciation for				
Land improvements	(954,557)	(62,189)	125,027	(891,719)
Leasehold improvements	(230,973)	(33,046)	74,967	(189,052)
Buildings	(12,214,719)	(1,071,162)	460,334	(12,825,547)
Fixed equipment	(3,442,889)	(291,519)	147,976	(3,586,432)
Movable equipment	(19,232,179)	(2,276,562)	1,558,388	(19,950,353)
Total accumulated depreciation	(36,075,317)	(3,734,478)	2,366,692	(37,443,103)
Capital assets, net	$ 31,999,936	$ 9,508,589	$ (470,094)	$ 41,038,431

8. OTHER ASSETS

At December 31, 2007 and 2006, other assets consist of the following:

	2007	2006
Prepaid pension costs	$ 2,504,002	$ 2,020,165
Physician notes receivable	2,051,682	1,445,285
Notes receivable	173,846	187,661
Investment in managed care company	755,000	755,000
Investment in RCG Columbus, LLC	974,900	974,900
Investment in Jackson Medical Building, LLC	183,566	177,047
Investment in risk retention company	285,311	168,000
Bond issue costs, net	676,417	713,748
Other	74,959	15,596
Less: current portion of other assets	(806,202)	(338,419)
Other assets, net of current portion	$ 6,873,481	$ 6,118,983

Physician notes receivable are in varying amounts maturing through July 2014. If the physicians meet the period of service requirement, the Medical Center will forgive these notes. If the physicians do not meet the period-of-service requirement, the notes are immediately due in full. Interest rates vary from prime rate + 1 percent (8.25 percent at December 31, 2007) to prime + 2 percent (9.25 percent at December 31, 2007).

To assist in the establishment of an ambulance service in Jackson County, the Medical Center provided a $177,000 line of credit to the Jackson County Ambulance Services Authority to fund working capital and organizational costs. The line of credit is noninterest bearing. The line of credit was renewed in 2005 for an additional five years. The outstanding balance on the line of credit at December 31, 2007 and 2006 was $106,950.

The Medical Center is a partial owner of a healthcare managed care company. The Medical Center has a one-sixth voting interest in the managed care company and accounts for its investment using the cost method.

In June of 2000, the Medical Center made a $974,900 contribution to purchase a 12.25 percent ownership interest in RCG Columbus, LLC ("RCG"). RCG provides renal care to patients. The Medical Center's investment in RCG is being accounted for under the cost method.

The Medical Center made a $200,000 capital contribution to purchase an ownership interest in Jackson Medical Building, LLC. The Medical Center owns a 20 percent interest in Jackson Medical Building, LLC, and accounts for this investment under the equity method of reporting.

The Medical Center is a less than 20 percent owner of Indiana Healthcare Reciprocal Risk Retention Group, a risk retention company created to purchase professional liability and general liability insurance for its members. The Medical Center accounts for this investment using the cost method.

Bond issue costs are being amortized over the lives of the bonds on the straight-line method.

9. COMPENSATED ABSENCES

Sick Time

Full-time employees earn sick leave at a rate of 3.75 hours per pay period or 13 days per year. Sick leave may accumulate to a maximum level of 450 hours. Accumulated sick leave is not paid to employees upon termination or retirement.

Vacation Time

All full-time employees are eligible to earn vacation. Vacation time is accrued based on each individual employee's anniversary date. Employees are allowed to accumulate vacation hours to a maximum of two times their annual vacation allowance.

The rate at which full-time employees earn vacation depends upon credited length of service, and is as follows:

Length of Service	Earned per Year
1 – 2 years	10 days
3 – 10 years	15 days
11 or more years	20 days

Vacation days are accrued when incurred and reported as accrued expenses in the consolidated financial statements. The vacation accrual at December 31, 2007 and 2006 was $1,345,191 and $1,308,372, respectively.

10. EMPLOYEE HEALTH BENEFIT PLAN

The Medical Center operates a self-funded health plan covering substantially all employees. The Medical Center has an annual stop loss limit on the plan of $80,000 per insured per year and an aggregate stop loss limit of approximately $6,200,000. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay out, and other economic and social factors. Changes in the balance of claims liabilities during the years ended December 31, 2007 and 2006, were as follows:

	2007	2006
Accrued liability, beginning of year	$ 888,945	$ 815,648
Incurred claims and changes in estimates	6,483,015	5,406,959
Claim payments	(6,321,394)	(5,333,662)
Accrued liability, end of year	$ 1,050,566	$ 888,945

11. DEFINED BENEFIT PENSION PLAN

Plan Description

The Medical Center sponsors a single-employer, defined benefit pension plan covering all employees that are at least twenty-one years old and have at least one year of eligibility service. Benefit provisions are established or may be amended at any time by the action of the Plan's Board of Trustees. The Medical Center functions as the plan administrator of the defined benefit pension plan, as authorized by IC 16-22-3-11. A publicly available financial report that includes the defined benefit pension plan's financial statements and required supplementary information may be obtained by contacting:

Schneck Medical Center
P.O. Box 2349
Seymour, IN 47274
Ph. (812) 522-0118

Funding Policy

No contributions from active plan members are required or permitted. The Internal Revenue Service has determined that the plan is a government plan which is not subject to ERISA minimum funding requirements.

Annual Pension Cost and Net Pension Obligation

The Medical Center's annual pension cost and net pension obligation for the years ended December 31, 2007 and 2006, are as follows:

	2007	2006
Annual required contribution	$ 644,284	$ 865,931
Interest on net pension obligation	(161,613)	(160,726)
Adjustment to annual required contribution	181,670	180,672
Annual pension cost	664,341	885,877
Interest on employer contributions	(14,284)	(31,035)
Contributions made	(1,133,894)	-0-
Increase in net pension asset	(483,837)	854,842
Net pension (asset)/liability, beginning of year	(2,020,165)	(2,875,007)
Net pension (asset)/liability, end of year	$ (2,504,002)	$ (2,020,165)

The annual required contribution for the current year was determined as part of the May 1, 2007, actuarial valuation using the frozen entry age actuarial cost method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.0 percent and (c) an inflation rate of 4.0 percent. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized on a level dollar basis. The remaining amortization period at December 31, 2007, was 17 years.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Asset
12/31/2005	$ 804,523	107.6%	$ (2,875,007)
12/31/2006	885,877	0.0%	(2,020,165)
12/31/2007	664,341	170.7%	(2,504,002)

Required supplementary information relating to the defined benefit pension plan is as follows:

Plan Year Ending	12/31/07	12/31/06	12/31/05
Actuarial Valuation Date	5/1/2007	5/1/2006	5/1/2005
Actuarial Value of Plan Assets	$30,291,762	$27,087,036	$21,792,762
Actuarial Accrued Liability	$30,291,762	$27,087,036	$21,792,762
Total Unfunded Actuarial Liability	$0	$0	$0
Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability- "Funded Ratio"	100.0%	100.0%	100.0%
Annual Covered Payroll	$24,363,433	$23,801,821	$21,707,654
Ratio of Unfunded Actuarial Liability to Annual Covered Payroll	0.0%	0.0%	0.0%

12. LONG-TERM DEBT

At December 31, 2007 and 2006, the Medical Center was obligated for long-term debt agreements as follows:

	2007	2006
Indiana Health Facility Financing Authority Series 1998 Revenue Bonds dated January 1998, payable in annual principal installments commencing February 1999 through February 2022, in amounts ranging from $300,000 to $1,880,000. Fixed interest rates ranging from 4.7% to 5.25%. Secured by gross revenues.	$ 20,250,000	$ 21,140,000

Indiana Health and Educational Facility Financing Authority Series 2006A Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2023 through February 2036, in amounts ranging from $750,000 to $1,465,000. Fixed interest rate of 5.0% on $770,000 and 5.25% on $14,230,000. Secured by gross revenues.	15,000,000	15,000,000
Indiana Health and Educational Facility Financing Authority Series 2006B Revenue Bonds dated May 2006, payable in annual principal installments commencing February 2007 through February 2036 in amounts ranging from $150,000 to $1,610,000. Variable interest rate (4.54% at December 31, 2007). Secured by letter of credit from Fifth Third Bank maturing June 2011.	19,845,000	20,000,000
Note payable paid off in 2007.	-0-	12,976
Note payable to bank dated July 2005, due July 2010; monthly payments of $18,063, including interest beginning August 2005; fixed interest rate of 4.17% per annum. Secured by equipment.	529,526	719,518
	55,624,526	56,872,494
Unamortized bond premium	279,083	289,006
Bond refunding loss	(915,306)	(1,017,678)
Less unamortized bond discounts	(183,734)	(203,088)
Less current portion	(1,169,768)	(1,136,277)
Long-term debt, net current portion	$ 53,634,801	$ 54,804,457

Long-term debt activity for the years ended December 31, 2007 and 2006 was as follows:

	2007				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 1998	$ 21,140,000	$ -0-	$ (890,000)	$ 20,250,000	$ 930,000
Revenue bonds, series 2006A	15,000,000	-0-	-0-	15,000,000	-0-
Revenue bonds, series 2006B	20,000,000	-0-	(155,000)	19,845,000	150,000
Note payable to bank	719,518	-0-	(189,992)	529,526	198,152
Note payable	12,976	-0-	(12,976)	-0-	-0-
Bond premiums	289,006	-0-	(9,923)	279,083	9,923
Bond refunding loss	(1,017,678)	-0-	102,372	(915,306)	(100,063)
Bonds discounts	(203,088)	-0-	19,354	(183,734)	(18,244)
Total long-term debt	$ 55,940,734	$ -0-	$ (1,136,165)	$ 54,804,569	$ 1,169,768

	2006				
	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Revenue bonds, series 1998	$ 21,990,000	$ -0-	$ (850,000)	$ 21,140,000	$ 890,000
Revenue bonds, series 2006A	-0-	15,000,000	-0-	15,000,000	-0-
Revenue bonds, series 2006B	-0-	20,000,000	-0-	20,000,000	155,000
Note payable to bank	901,659	-0-	(182,141)	719,518	189,952
Note payable	-0-	25,861	(12,885)	12,976	12,976
Bond premiums	-0-	294,794	(5,788)	289,006	9,923
Bond refunding loss	(1,121,994)	-0-	104,316	(1,017,678)	(102,372)
Bond discounts	(223,273)	-0-	20,185	(203,088)	(19,202)
Total long-term debt	$ 21,546,392	$ 35,320,655	$ (926,313)	$ 55,940,734	$ 1,136,277

Debt service requirements on long-term debt at December 31, 2007, are as follows:

Year Ending December 31,	Principal	Interest
2008	$ 1,169,768	$ 2,722,789
2009	1,233,920	2,660,141
2010	1,199,628	2,594,923
2011	1,135,151	2,533,047
2012	1,195,621	2,469,477
2013 - 2017	7,010,068	10,523,114
2018 - 2022	9,135,175	9,168,628
2023 - 2027	9,404,615	6,830,855
2028 - 2032	11,789,615	4,281,836
2033 - 2037	11,531,008	1,153,301
Total	$ 54,804,569	$ 44,938,111

During the year ended December 31, 1998, a partial current and partial advanced refunding of the Medical Center's Series 1991 Revenue Bonds was performed through the Medical Center's issuance of $25,660,000 in new Revenue Bonds. This refunding resulted in the Medical Center recognizing a refunding loss totaling $1,972,725. The refunding loss serves as a contra-liability to long-term debt and is being amortized to interest expense using the effective interest method over the life of the new bonds.

The debt agreement contains various restrictive covenants, including covenants related to debt service fund requirements, debt service coverage ratio, and audited financial statement submission requirements.

13. DEFERRED COMPENSATION PLAN

The Medical Center offers its employees deferred compensation plans in accordance with Internal Revenue Code Sections 457 and 403b. The plans, available to all Medical Center employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Medical Center (without being restricted to the provisions of benefits under the plans), subject only to the claims of the Medical Center's general creditors. Participants' rights under the plans are equal to those of general creditors of the Medical Center in an amount equal to the fair market value of the deferred account for each participant. The Medical Center believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. The deferred compensation assets and related liabilities under these plans were $5,979,911 and $5,625,165 for the years ended December 31, 2007 and 2006, respectively.

14. DONOR-DESIGNATED AND NONEXPENDABLE RESTRICTED NET ASSETS

Donor-designated restricted net assets are donor-restricted for a specific use or by the passage of time. Nonexpendable restricted net assets include a perpetual trust. Donor-designated and nonexpendable restricted net assets include the following at December 31, 2007 and 2006:

	2007	2006
Donor-designated restricted net assets		
Dr. Bud Fund	$ 441,258	$ 431,133
Medical Technology Fund	4,812	4,660
Educational/Scholarship Fund	15,004	14,298
Community Service Fund	2,357	2,283
Cancer Fund	8,254	521,158
Health Builders Fund	42,822	35,187
George H. James Scholarship Fund	56,212	69,704
EPIC Fund	176,100	123,796
Employee Humanitarian Fund	6,000	6,000
Anna Gaiser Fund	318,621	307,089
Total donor-designated restricted net assets	$ 1,071,440	$ 1,515,308
Nonexpendable restricted net assets		
Perpetual trust, held by trustee	$ 394,702	$ 392,311

Perpetual Trust, Held by Trustee

The perpetual trust, held by trustee represents a donation that is held in a separate trust account. The donation is to be held in perpetuity. The Hospital has no control over the investment strategy of the trust, and will not receive any payments from the trust's principal. However, the Hospital is entitled to receive 20 percent of the trust's net income each year. All of the Hospital's portion of income earned by this trust is unrestricted and may be used at the Hospital's Board of Trustee's discretion.

15. NET PATIENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare***. The Medical Center is a provider of services to patients entitled to coverage under Title XVIII (Medicare) of the Health Insurance Act. The Medical Center is reimbursed for Medicare inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicare outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The Hospital's classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Hospital. As of December 31, 2007, the Hospital's submitted Medicare cost reports have been final settled with the Fiscal Intermediary through December 31, 2005. For the years ending December 31, 2007 and 2006, the Hospital (increased) reduced contractual allowances by $25,000 and ($175,000), respectively, as a result of favorable (unfavorable) changes for estimated settlements.

- ***Medicaid***. The Medical Center is a provider of services to patients entitled to coverage under Title XIX (Medicaid) of the Health Insurance Act. The Medical Center is reimbursed for Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG) and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. There is no cost settlement for either of the inpatient or outpatient programs.

The Medical Center has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Medical Center under these agreements includes discounts from established charges, fee schedules, as well as inpatient DRG reimbursement methodologies.

For the years ended December 31, 2007 and 2006, net patient service revenue was as follows:

	2007	2006
Gross patient service revenue		
Inpatient routine services	$ 8,962,082	$ 8,596,547
Inpatient ancillary services	36,703,160	34,635,185
Outpatient ancillary services	122,166,380	102,046,437
Total gross patient service revenue	167,831,622	145,278,169
Deductions from revenue		
Contractual allowances	78,921,303	66,750,611
Charity care	1,821,259	2,129,581
Bad debts	8,626,172	5,583,080
Total deductions from revenue	89,368,734	74,463,272
Total net patient service revenue	$ 78,462,888	$ 70,814,897

GASB requires bad debts to be reported as a deduction from gross patient service revenue while FASB requires bad debts to be reported as an operating expense.

16. CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies under its charity care policy. The following information measures the level of charity care provided for the years ended December 31, 2007 and 2006:

	2007	2006
Charges foregone, based on established rates	$ 1,821,259	$ 2,129,581

17. OTHER REVENUE

For the years ended December 31, 2007 and 2006, other revenue was comprised of the following:

	2007	2006
Rental income	$ 148,262	$ 200,293
Cafeteria and vending	306,749	299,704
Purchase discounts	245,306	186,043
Miscellaneous	222,035	115,073
Total other revenue	$ 922,352	$ 801,113

18. NONOPERATING REVENUES

For the years ended December 31, 2007 and 2006, nonoperating revenues were as follows:

	2007	2006
Investment income	$ 5,335,325	$ 6,103,206
Interest expense	(1,213,575)	(1,251,588)
Loss on disposal of capital assets	(13,759)	(459,980)
Contributions received	1,560,762	748,685
Miscellaneous	109,054	3,641
Total nonoperating revenues	$ 5,777,807	$ 5,143,964

GASB requires interest expense to be reported as nonoperating expense while FASB requires interest expense to be reported as an operating expense.

19. PROFESSIONAL LIABILITY INSURANCE

The Indiana Medical Malpractice Act, IC 34-18, provides a maximum recovery of $250,000 for an occurrence of malpractice and $1,250,000 for an injury or death of a patient due to an act of malpractice. The Act requires physicians to maintain medical malpractice liability insurance in the minimum amount of $250,000 per occurrence and $750,000 in the annual aggregate and hospitals to maintain medical malpractice liability insurance in the minimum amount of $250,000 per occurrence and $7,500,000 for hospitals with more than 100 beds. The Act also requires the Medical Center to pay a surcharge to the State Patient's Compensation Fund. This fund may be used to pay medical malpractice claims in excess of the annual aggregate amount noted above, under certain terms and conditions.

The Medical Center maintains professional liability insurance through a multiprovider reciprocal risk retention group, in which premiums are accrued based on the group's experience to date. This provides protection from liability in an amount not to exceed $250,000 per incident and aggregate liability protection not to exceed $10,000,000 per year. The Medical Center's insurance policies conform to the Indiana Malpractice Act. In addition, the Medical Center maintains two commercial umbrella/excess liability policies of $10,000,000 each. Liabilities for incurred but not reported losses at December 31, 2007 and 2006 are not determinable; however, in management's opinion, such liabilities, if any, will not have a material effect on the Medical Center's financial position and its malpractice and general liability insurance is adequate to cover losses, if any. Should the policies not be renewed or replaced with appropriate insurance coverage, claims based upon occurrences during these terms, but reported subsequently, will be uninsured. The Medical Center intends to continue carrying such insurance. Professional liability insurance expense for the years ended December 31, 2007 and 2006, was $431,423 and $360,419, respectively.

20. RELATED PARTY TRANSACTIONS

Jackson Medical Building, LLC

HDC has a 20 percent ownership interest in Jackson Medical Building, LLC. HDC has entered into two noncancelable operating leases with Jackson Medical Building, LLC through 2011. HDC is leasing space in the medical building for future physicians. HDC recognized total rent expense of $285,855 and $277,723 for the years ended December 31, 2007 and 2006, respectively.

The following is a schedule of future minimal rental payments required under the operating leases that have initial or remaining noncancelable lease term in excess of one year as of December 31, 2007:

Year Ending December 31,	Amount
2008	$ 239,326
2009	246,447
2010	253,751
2011	108,407
Total minimum lease payments required	$ 847,931

21. CONCENTRATIONS OF CREDIT RISK

The Medical Center and Clinic grant credit without collateral to their patients, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2007 and 2006, was as follows:

	2007	2006
Medicare	27 %	26 %
Medicaid	8	6
Blue Cross	14	11
SIHO	10	10
Other third-party payors	12	14
Patients	29	33
	100 %	100 %

The Medical Center maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Medical Center has not experienced any losses on such accounts. The Medical Center believes it is not exposed to any significant credit risk on cash.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Medical Center in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates its fair value.

Investments

The carrying amount reported in the consolidated balance sheets for investments approximates its fair value.

Assets Whose Use is Limited

These assets are reported in the consolidated balance sheets at fair value. The fair value amounts are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable, Accrued Payroll and Payroll Withholdings, and Accrued Expenses

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued payroll and payroll withholdings, and accrued expenses approximate their fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value.

Long-Term Debt

The carrying amount reported in the consolidated balance sheets for long-term debt at December 31, 2007 is $54,804,569. The fair value of long-term debt at December 31, 2007 is approximately $57,900,000.

Deferred Compensation Liabilities and Deferred Costs

The carrying amounts reported in the consolidated balance sheets for deferred compensation liabilities and deferred costs approximate their fair value.

23. CONTINGENCIES

There are a variety of legal proceedings and claims by others against the Medical Center in a variety of matters arising out of the conduct of the Medical Center's business. The ultimate resolution of such claims would not, in the opinion of management, have a material adverse effect on the consolidated financial statements.

24. COMMITMENTS

The Hospital's Board of Trustees issued $35,000,000 of revenue bonds dated May 1, 2006. The bond issue funds are being used for a Hospital construction project that includes an 84,000 square feet addition to the existing Hospital facility and a 90,600 square feet renovation of existing space.

The project addition involves the demolition of the oldest portion of the current facility originally constructed in 1941. The new construction will include a larger south wing which will house an expanded emergency department and diagnostic imaging facilities, including the purchase of a new CT scanner. The south expansion will serve as a patient entrance, and properties adjacent to the Hospital have been purchased to allow for expanded parking and reconfiguration of current parking areas.

The renovation portion of the project includes transitioning inpatient areas to all private rooms. Outpatient areas currently located throughout the Hospital facility will be relocated and consolidated into a central area on the first floor of the Hospital. High growth outpatient areas such as ambulatory surgery and endoscopy will be expanded and reconfigured.

The Hospital also completed construction in 2007 on a 24,000 square feet cancer center. The cancer center was constructed utilizing existing cash and investments of the Hospital and donations from the Foundation. Construction in progress costs associated with these and other projects total $26,643,431 and $10,038,427 at December 31, 2007 and 2006, respectively.