Consolidated Financial Statements and Consolidating Information

Bloomington Hospital, Inc. and Affiliates
Years Ended December 31, 2007 and 2006
With Reports of Independent Auditors

Bloomington Hospital, Inc. and Affiliates

Consolidated Financial Statements and Consolidating Information

Years Ended December 31, 2007 and 2006

Contents

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Report of Independent Auditors

The Board of Directors
Bloomington Hospital, Inc. and Affiliates

We have audited the accompanying consolidated balance sheets of Bloomington Hospital, Inc. and Affiliates (Bloomington Hospital) 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 financial statements are the responsibility of Bloomington Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Bloomington Hospital's internal control over financial reporting. Our audits included 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 Bloomington 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bloomington Hospital, Inc. and Affiliates at December 31, 2007 and 2006, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 14, 2008

Bloomington Hospital, Inc. and Affiliates

Consolidated Balance Sheets

	December 31 2007	December 31 2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 23,690,462**	$ 17,621,340
Current portion of funds held by trustee for debt service	**2,565,127**	2,477,364
Patient accounts receivable, net of allowances for uncollectible accounts ($13,513,000 and $10,829,000, in 2007 and 2006, respectively)	**42,030,299**	49,997,778
Estimated third-party settlements	**9,400,908**	–
Inventories	**5,340,689**	5,431,651
Prepaid expenses and other assets	**5,812,917**	3,799,212
Assets from discontinued operations	**–**	4,285,474
Total current assets	**88,840,402**	83,612,819
Assets whose use is limited:		
Board-designated funds	**74,932,369**	69,803,249
Property and equipment:		
Land	**10,331,155**	5,184,069
Land improvements	**2,244,998**	1,984,389
Buildings and fixed equipment	**223,049,369**	211,170,220
Movable equipment	**92,954,057**	88,714,778
Construction in progress	**1,351,326**	1,113,456
	329,930,905	308,166,912
Less accumulated depreciation	**(188,613,749)**	(171,421,512)
	141,317,156	136,745,400
Other assets:		
Intangible software, net	**1,830,614**	2,070,469
Note receivable	**180,202**	215,000
Deferred financing costs	**1,060,215**	1,209,900
Interest in net assets of Foundation	**3,893,502**	3,152,076
Prepaid pension asset	**3,387,564**	–
Investments in joint ventures	**2,488,874**	5,109,789
Other non-current assets	**554,730**	166,666
	13,395,701	11,923,900
Total assets	**$ 318,485,628**	$ 302,085,368

	December 31 2007	2006
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 8,058,164**	$ 8,099,508
Salaries, wages, and related liabilities	**10,987,859**	7,579,223
Accrued vacation	**8,674,278**	8,467,659
Accrued interest	**946,011**	999,701
Current portion of long-term obligations	**7,951,464**	8,463,273
Estimated third-party settlements	**–**	162,887
Liabilities from discontinued operations	**–**	1,323,008
Total current liabilities	**36,617,776**	35,095,259
Long-term obligations, net of current portion	**73,100,172**	77,477,870
Interest rate swap agreements	**543,676**	538,199
Other noncurrent liabilities	**216,497**	216,497
Accrued malpractice liability	**1,234,793**	–
Accrued pension obligation	**–**	4,644,210
Total liabilities	**111,712,914**	117,972,035
Net assets:		
Unrestricted	**202,879,212**	180,786,384
Temporarily restricted	**3,348,791**	2,872,238
Permanently restricted	**544,711**	454,711
Total net assets	**206,772,714**	184,113,333
Total liabilities and net assets	**$ 318,485,628**	$ 302,085,368

See accompanying notes.

Bloomington Hospital, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended December 31	
	2007	**2006**
Operating revenues		
Net patient service revenues	**$ 297,753,775**	$ 276,445,202
Other operating revenues	**7,510,532**	7,477,443
Total revenues	**305,264,307**	283,922,645
Operating expenses		
Salaries and wages	**119,460,811**	112,756,734
Employee benefits	**31,974,491**	34,481,137
Professional and other fees	**12,714,179**	10,649,380
Supplies and other expenses	**56,097,309**	55,405,012
Purchased services	**28,113,275**	26,804,859
Provision for uncollectible accounts	**21,066,962**	19,870,780
Depreciation and amortization	**17,515,539**	17,172,191
Interest	**4,393,013**	4,483,316
Total operating expenses	**291,335,579**	281,623,409
Income from operations	**13,928,728**	2,299,236
Nonoperating gains and losses		
Interest, dividends, and realized gains and losses on sales of investments	**5,058,137**	7,824,712
Interest income on investments	**704,248**	714,757
Equity in earnings of unconsolidated investments	**1,306,321**	1,161,197
Impairment of investment in joint venture	**(2,796,356)**	–
Loss on disposal of unconsolidated affiliate	–	(89,092)
Change in unrealized gains (losses) on investments	**(73,587)**	(1,529,027)
Other	**347,575**	694,822
Total nonoperating gains, net	**4,546,338**	8,777,369
Excess of revenues and gains over expenses	**18,475,066**	11,076,605

Bloomington Hospital, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended December 31	
	2007	**2006**
Unrestricted net assets		
Excess of revenues and gains over expenses	**$ 18,475,066**	$ 11,076,605
Foundation contributions for capital expenditures	**1,400,000**	–
Change in minimum pension obligations	**2,233,591**	8,437,191
Additional pension obligations as a result of adoption of new pension accounting standard	**944,988**	–
Increase in unrestricted net assets from continuing operations	**23,053,645**	19,513,796
Net (loss) gain from discontinued operations	**(2,194,087)**	1,089,202
Net gain on discontinued operations	**1,233,270**	–
(Loss) gain on discontinued operations, net	**(960,817)**	1,089,202
Increase in unrestricted net assets	**22,092,828**	20,602,998
Temporarily restricted net assets		
Change in temporarily restricted net assets held by Foundation	**476,553**	520,092
Increase in temporarily restricted net assets	**476,553**	520,092
Permanently restricted net assets		
Change in permanently restricted net assets held by Foundation	**90,000**	–
Increase in permanently restricted net assets	**90,000**	–
Increase in net assets	**22,659,381**	21,123,090
Net assets at beginning of year	**184,113,333**	162,990,243
Net assets at end of year	**$ 206,772,714**	$ 184,113,333

See accompanying notes.

Bloomington Hospital, Inc. and Affiliates

Consolidated Statements of Cash Flows

		Year Ended December 31		
		2007		2006
Operating activities				
Increase in net assets	$	22,659,381	$	21,123,090
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization		17,515,539		17,375,659
Equity in earnings of unconsolidated entities		(1,306,321)		(1,161,197)
Decrease (increase) in fair value of interest rate swap agreements		5,477		(222,650)
(Gain) loss on disposal of property and equipment		(420,271)		40,433
Gain on disposal of CCI		(1,233,270)		–
Loss on disposal of investment in unconsolidated entity		–		89,092
Impairment of investment in joint venture		2,796,356		–
Change in net assets held by Foundation		(741,426)		(520,092)
Provision for uncollectible accounts		21,066,962		19,936,018
Change in operating assets and liabilities:				
Patient accounts receivable		(13,099,483)		(25,421,542)
Other current assets		(2,260,516)		(260,668)
Trading securities		(5,129,120)		(5,965,601)
Note receivable and other noncurrent assets		777,614		1,083,864
Accounts payable		(41,344)		363,019
Payroll liabilities		3,615,255		1,765,672
Estimated third-party settlements		(9,563,795)		(1,841,462)
Accrued interest		(53,690)		356,796
Deferred revenue		–		(320,796)
Other current liabilities		–		(4,078,885)
Accrued malpractice liability		1,234,793		–
Accrued pension obligation		(8,031,774)		(7,684,824)
Net cash provided by operating activities		27,790,367		14,655,926
Investing activities				
Purchase of property and equipment		(17,466,250)		(19,514,467)
Proceeds from disposal of CCI		4,200,000		218,231
Other		(54,604)		(89,092)
Net cash used in investing activities		(13,320,854)		(19,385,328)
Financing activities				
Proceeds from issuance of long-term debt		95,491		19,962,132
Principal payments on long-term debt		(8,495,882)		(4,976,695)
Net cash (used in) provided by financing activities		(8,400,391)		14,985,437
Increase in cash and cash equivalents		6,069,122		10,256,035
		17,621,340		7,365,305
Cash and cash equivalents at end of year	$	23,690,462	$	17,621,340
Supplemental cash flow disclosure				
Interest paid during the year	$	4,446,703	$	4,126,254
Supplemental disclosure of noncash financing and investing activities				
Purchase of property and equipment in accounts payable	$	155,435	$	–

1. Organization and Significant Accounting Policies

Organization and Basis of Consolidation

The consolidated financial statements of Bloomington Hospital, Inc. and Affiliates (Bloomington Hospital) include Bloomington Hospital, Inc. (BH), a not-for-profit corporation, Southern Indiana Medical Group (SIMG), a wholly owned for-profit group of medical practices, and Bloomington Hospital of Orange County, Inc. (BHOC), a not-for-profit corporation whose sole member is BH.

BH and BHOC are general acute care facilities providing inpatient and outpatient services to citizens of Bloomington, Indiana; Paoli, Indiana; and the surrounding communities through acute care and specialty care facilities. SIMG provides physician services to citizens of Bloomington, Indiana, and the surrounding communities. Bloomington Hospital is affiliated with the Local Council of Women of Bloomington, Indiana, Inc. (the Local Council), a not-for-profit corporation, which is also related to and affiliated with Bloomington Hospital Foundation, Inc. (the Foundation) and Bloomington Hospital Auxiliary (the Auxiliary).

Following an extensive period of due-diligence research and study, Bloomington Hospital concluded that the provision of extended care and nursing home services through its wholly owned subsidiary, Continuing Care, Inc. (CCI), was no longer within the scope of its primary mission. Accordingly, Bloomington Hospital exited this business, effective June 30, 2007. Prior year CCI accounts have been reclassified as discontinued operations, making the year ended December 31, 2006, comparable with the current fiscal year. Further disclosure of the effects of discontinuing the operation of CCI is provided in Note 13.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with a maturity of three months or less when purchased. Funds whose use is limited are excluded from cash and cash equivalents. The carrying amount of cash and cash equivalents approximates fair value.

Accounts Receivable and Allowance for Uncollectible Accounts

The Hospital and its affiliates extend credit to patients, substantially all of whom are residents of the State of Indiana, and do not require collateral or other security for the delivery of healthcare services. However, assignment of benefit payments payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health insurance organizations, and commercial insurance policies) is routinely obtained, consistent with industry practice.

1. Organization and Significant Accounting Policies (continued)

The provision for uncollectible patient accounts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon accounts receivable payor composition and aging, and historical write-off experience by payor category as adjusted for collection indicators. In addition, Bloomington Hospital follows established guidelines for placing certain past due patient balances with collection agencies, which are charged against the allowance for uncollectible accounts in accordance with collection policies of Bloomington Hospital.

Inventories

Inventories, consisting of nursing, dietary, surgical, office, and cleaning supplies, are determined by physical count and are priced and carried at cost (first-in, first-out method for pharmacy and weighted-average method for all other inventory).

Assets Whose Use is Limited

Assets whose use is limited consist of board-designated funds and funds held by trustee under the trust indenture and related agreements. Board-designated funds are to be used for retirement of long-term debt and capital replacement, but may be used for other purposes at the discretion of the Board of Directors. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Management considers all investments to be trading and, accordingly, all realized and unrealized gains and losses are recorded as changes in nonoperating gains and losses in the accompanying consolidated statements of operations and changes in net assets.

Funds held by trustee are to be used for payment of principal and interest. These investments consist principally of U.S. government securities and are stated at market; the fair values of these investments are estimated based on quoted market prices.

Interest in Net Assets of Foundation

Bloomington Hospital follows Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-For-Profit Foundation or Charitable Trust that Raises or Holds Contributions for Others.* This pronouncement addresses the proper accounting for funds solicited, received, and distributed through an intermediary organization such as the Foundation.

1. Organization and Significant Accounting Policies (continued)

The interest in net assets of the Foundation is adjusted for BH's share of the change in temporarily and permanently restricted net assets of the Foundation. During 2007 the Foundation contributed $1,400,000 to BH.

Investments in Joint Ventures

BH has investments that are accounted for according to the equity method, as required by BH's 50% ownership in each of the entities. The values of these investments, $2,033,874 and $4,654,789 at December 31, 2007 and 2006, respectively, are included in investments in joint ventures in the consolidated balance sheets.

BH owns one investment in which its ownership is at less than 20% and is reported using the cost method. The carrying value of this investment is included in investment in joint ventures at $455,000 for December 31, 2007 and 2006.

BH also has an investment, SIRA Imaging Center (SIRA), which was also recorded on the equity basis at December 31, 2006. SIRA's entire book value was written down during 2007 to reflect the impairment in this investment. BH's loss of $2,796,356 on impairment of SIRA is disclosed in the consolidated statement of operations and changes in net assets.

Following is a summary of BH's equity method investments in joint ventures for the years ended December 31, 2007 and 2006:

	Southern Indiana Surgery Center	SIRA Imaging	Brown County Medical	Total
Balance at January 1, 2006	$ 996,911	$ 2,644,308	$ 932,373	$ 4,573,592
Distributions	(1,080,000)	–	–	(1,080,000)
Equity in net earnings	1,192,587	40,240	(71,630)	1,161,197
Balance at December 31, 2006	1,109,498	2,684,548	860,743	4,654,789
Distributions	**(1,035,000)**	**–**	**–**	**(1,035,000)**
Equity in net earnings	**1,137,017**	**111,808**	**(38,384)**	**1,210,441**
Impairment of investment	**–**	**(2,796,356)**	**–**	**(2,796,356)**
Balance at December 31, 2007	**$ 1,211,515**	**$ –**	**$ 822,359**	**$ 2,033,874**

1. Organization and Significant Accounting Policies (continued)

Summarized and aggregated financial information for Southern Indiana Surgery Center and Brown County Medical as of and for the years ended December 31, 2007 and 2006, is as follows:

	2007		2006	
	Southern Indiana Surgery Center	Brown County Medical	Southern Indiana Surgery Center	Brown County Medical
Current assets	$ 152,753	$ 160,748	$ 54,867	$ 182,355
Noncurrent assets	2,202,459	1,578,935	2,149,120	1,665,691
Total assets	$ 2,355,212	$ 1,739,683	$ 2,203,987	$ 1,848,046
Current liabilities	144,041	94,965	160,034	126,561
Noncurrent liabilities	666,285	–	820,073	–
Total liabilities	810,326	94,965	980,107	126,561
Net assets	1,544,886	1,644,718	1,223,880	1,721,485
Total liabilities and net assets	$ 2,355,212	$ 1,739,683	$ 2,203,987	$ 1,848,046
Revenues	$ 7,034,489	$ 187,130	$ 6,663,615	$ 179,723
Operating income (loss)	2,660,738	(76,768)	2,587,798	(145,809)
Net income (loss)	2,621,007	(76,768)	2,537,569	(143,260)
Hospital's equity in net earnings of unconsolidated affiliates	1,137,017	(38,384)	1,192,587	(71,630)

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Included in property and equipment are software costs developed for internal use accounted for in accordance with Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* Routine maintenance and repairs are charged to expense as incurred. Gains and losses on the sale of property and equipment are recorded in the period sold. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets.

Equipment under capital lease obligations is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation in the consolidated statements of operations and changes in net assets.

1. Organization and Significant Accounting Policies (continued)

Depreciation is calculated on the straight-line method over the estimated useful lives of the related assets, which are as follows:

Land improvements	2–25 years
Building and improvements	5–40 years
Equipment	3–20 years

Depreciation and amortization expense reported in the consolidated statements of operations and changes in net assets includes $17,118,352 and $16,773,395 of depreciation expense for the years ended December 31, 2007 and 2006, respectively.

As of December 31, 2007, material commitments for acquisition of fixed assets totaled $11,668,848. Of this total, $8,706,000 is committed to the purchase of land and a building to be used as a second health services campus at the North Park development. The remainder of contractual commitments for purchases of property and equipment is related to the ongoing computer system upgrade. Subsequent to December 31, 2007, BHOC entered into contracts of $1,313,220 as part of scheduled facility renovations.

Intangible Software

Software licenses are recorded at cost and are amortized over the term of the license agreements. Software licenses reported in the consolidated balance sheets are net of accumulated amortization of $414,813 and $199,453 as of December 31, 2007 and 2006, respectively. Depreciation and amortization expense reported in the consolidated statements of operations and changes in net assets includes approximately $215,360 and $199,453 of amortization expense for the years ended December 31, 2007 and 2006, respectively.

Deferred Financing Costs

Deferred financing costs include costs associated with the issuance of long-term debt, primarily underwriting fees, and are carried at cost, net of accumulated amortization. Depreciation and amortization expense reported in the consolidated statements of operations and changes in net assets includes approximately $181,827 and $199,343 of amortization expense for the years ended December 31, 2007 and 2006, respectively. Bond issuance costs are amortized using the effective interest method over the terms of the various bond issues.

1. Organization and Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Permanently restricted net assets have been restricted by donors to be maintained for the benefit of BH in perpetuity. Temporarily restricted net assets are those whose use by BH has been limited by donors to a specific time period or purpose. When the restriction of a temporarily restricted contribution is satisfied in the same reporting period as it is received, it is reported as other operating revenues if it is a program restriction or as unrestricted net assets if it is a capital expenditure restriction.

Net Patient Service Revenue

BH and BHOC have agreements with third-party payors that provide for payments to them at amounts different from their established rates.

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, and others for services rendered. 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.

Charity Care

Healthcare services are provided to patients regardless of their ability to pay. A patient is classified as charity care in accordance with certain established policies. These policies define charity services as those services for which no payment is anticipated and are based on federal poverty income levels and certain other factors. Because collection of amounts determined to qualify as charity care are not pursued, such amounts are not reported as revenue.

Records are maintained to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished in accordance with the charity care policies. Charity care provided in 2007 and 2006, measured at established rates, was $17,933,230 and $9,249,617, respectively. In addition, other programs and services are provided for the benefit of the community. The cost of these programs and services is included in operating expenses.

1. Organization and Significant Accounting Policies (continued)

Income Taxes

BH and BHOC are exempt from federal income taxes on related functional income pursuant to Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of tax and financial statement differences. SIMG is a taxable corporation. It has a net operating loss carryforward at December 31, 2007, of $22,645,700, which is available to offset future federal and state taxable income. The net operating loss expires in periods from 2015 through 2027. A valuation allowance has been provided against any deferred tax asset related to these losses as it is more likely than not that the deferred tax asset will not be realized.

In July 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*, was issued. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition. This standard became effective for Bloomington Hospital during the year ended December 31, 2007. Compliance with this standard did not have a material impact on the consolidated financial statements of Bloomington Hospital.

Use of Estimates

The preparation of financial statements in conformity with 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 the revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

1. Organization and Significant Accounting Policies (continued)

Operating and Performance Indicators

The activities of the Hospital and its affiliates are primarily related to providing healthcare services and, accordingly, expense information by functional classification is not used as a basis for measuring performance. Further, since substantially all resources are derived from providing healthcare services, similar to that if provided by a business enterprise, the following indicators are considered important in evaluating how well management has discharged its stewardship responsibilities:

Operating Indicator (Income From Operations) – Includes all unrestricted revenue, gains and other support, and expenses directly related to the recurring and ongoing healthcare operations during the reporting period. The operating indicator excludes investment income including realized and unrealized gains and losses on investments, changes in the fair value of an interest rate swap instrument, loss on extinguishment of debt, or abandonment of assets considered to be unusual in nature or infrequent in occurrence, the impact of discontinued operations, and gains and losses deemed by management not to be directly related to providing healthcare services.

Performance Indicator (Excess of Revenues and Gains Over Expenses) – The performance indicator excludes changes in minimum pension liability recorded as a change in unrestricted net assets and other pension changes, and contributions for capital expenditures.

Reclassifications

The accompanying consolidated financial statements for the year ended December 31, 2006, have been reclassified to reflect a correction in the classification of unrealized gains and losses on investments. In previous years, all of the Hospital's investments were classified as other than trading. As such, unrealized gains, as well as unrealized losses that were considered temporary, were excluded from the excess of revenues and gains over expenses. During 2007, the Hospital determined that substantially all of its investment portfolio was more accurately classified as trading, with unrealized gains and losses included in the determination of the excess of revenues and gains over expenses. Therefore, the consolidated financial statements have been changed to reflect the unrealized gains and losses on investments during the year ended December 31, 2006, as a component of the excess of revenues and gains over expenses.

1. Organization and Significant Accounting Policies (continued)

The reclassification decreased previously reported total nonoperating gains, net, and the excess of revenues and gains over expenses by $1,529,027 for the year ended December 31, 2006, and had no impact on the balance of unrestricted net assets at December 31, 2006. In connection with the reclassification, the consolidated statement of cash flows reflects an increase of $1,529,027 to operating cash flows and an offsetting decrease to investing cash flows.

Recent Accounting Standards Not Required for 2007

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosure about fair value measurements. SFAS No. 157 is effective for Bloomington Hospital's 2008 fiscal year. A cumulative effect adjustment will be recorded to the opening balance of the unrestricted net assets in the year of adoption, if the statement has an effect on Bloomington Hospital's financial statements. Bloomington Hospital has not determined what effect, if any, the adoption will have on Bloomington Hospital's consolidated financial position or consolidated results of operations.

2. Net Patient Service Revenues

BH and BHOC have agreements with third-party payors that provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows.

2. Net Patient Service Revenues (continued)

Medicare

BH's inpatient acute care services rendered to Medicare program beneficiaries, including capital costs, are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, Diagnostic Related Groups (DRG), and other factors. BH's outpatient services are paid under a separate prospective payment methodology. BHOC has been classified by the Centers for Medicare and Medicaid Services (CMS) as a Critical Access Hospital (CAH). Under the CAH program, both inpatient acute care and outpatient services are paid based on reasonable cost methodologies.

BH and BHOC are reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2005 for BH and BHOC. Medicare patients accounted for approximately 43% of gross patient charges in 2007 and 44% of gross patient charges in 2006.

Medicaid

BH and BHOC inpatient and outpatient services rendered to Medicaid program beneficiaries currently are reimbursed based on inpatient DRG rates and prospectively determined outpatient fee schedules based on cost. Medicaid patients accounted for approximately 12% of gross patient charges in 2007 and 11% of gross charges in 2006.

Other

BH and BHOC have also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to BH and BHOC under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates.

2. Net Patient Service Revenues (continued)

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the consolidated statements of operations and changes in net assets is as follows:

	December 31	
	2007	**2006**
Inpatient services	$ **266,703,976**	$ 250,938,477
Outpatient services	**272,839,316**	254,383,798
	539,543,292	505,322,275
Less charity care revenues foregone	**17,933,230**	9,249,617
Gross patient service revenue	**521,610,062**	496,072,658
Less contractual allowances and other discounts	**223,856,287**	219,627,456
Net patient service revenues	$ **297,753,775**	$ 276,445,202

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to prior year Medicare estimates for these items resulted in an increase in net patient service revenues of $832,925 and $1,214,893 in 2007 and 2006, respectively.

Under Indiana law (HEA 1095, Public Law 27-1992), healthcare providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH providers) are eligible to receive Indiana Medicaid Disproportionate Share (State DSH) payments. The amount of these additional State DSH funds is dependent on regulatory approval by agencies of the federal and state governments and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. State DSH payments by the State of Indiana are paid according to the fiscal year of the State, which ends June 30th of each year, and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the State fiscal year. State DSH payments are recorded when payments are probable and reasonably estimatable.

2. Net Patient Service Revenues (continued)

BHOC has historically qualified as a State DSH provider. In January 2008, the State of Indiana provided notice to BH and BHOC of their State DSH program participation eligibility for the State fiscal years 2006 and 2007. In May 2008, the state of Indiana provided notice of BH's and BHOC's participation for State fiscal year 2008 (in addition to 2007 and 2006) and the amount of payments for each year. Management determined the reimbursement to record for State DSH for the State's fiscal years 2006, 2007, and 2008, which it recorded as of December 31, 2007, in the amount of $11,576,378 for BH and BHOC.

The State DSH payments to BH and BHOC are included in the consolidated statements of operations and changes in net assets when notified by the State of Indiana and applied to the most recent year for which audited financial statements have not been issued. The following summary of BH and BHOC gives effect to using historical information to report the DSH revenue recognized by BH and BHOC and the State fiscal year to which the revenue relates.

The following summary gives effect to using historical information to report State DSH revenue recognized and the State fiscal year to which the revenues relate.

	Year Ended December 31	
	2007	**2006**
Net operating income, excluding State DSH revenue	$ **1,843,517**	$ 1,891,119
State DSH revenue relating to State fiscal year:		
2004	–	408,117
2005	**508,833**	–
2006	**4,038,577**	–
2007	**5,183,730**	–
2008	**2,354,071**	–
Net operating income, as reported	$ **13,928,728**	$ 2,299,236

At December 31, 2007 and 2006, Bloomington Hospital recorded State DSH payments receivable of $11,576,378 and $408,117, respectively.

3. Assets Whose Use is Limited

Assets whose use is limited are reported at fair value and are as follows:

	December 31	
	2007	**2006**
Board-designated funds		
Cash and short-term investments	**$ 3,326,926**	$ 2,964,356
Obligations of the U.S. government and its agencies	**13,837,136**	19,847,689
Equities	**49,343,562**	42,997,716
Mortgage-backed securities	**4,383,307**	373,659
Corporate bonds	**4,041,438**	3,619,829
Total board-designated funds	**$ 74,932,369**	$ 69,803,249

Investment income and gains and losses for assets whose use is limited included in nonoperating gains are comprised of the following:

	Year Ended December 31	
	2007	**2006**
Investment income		
Interest, dividends, and realized gains and losses on sales of investments	**$ 5,058,137**	$ 7,824,712
Interest income on investments	**704,248**	714,757
Change in net unrealized gains (losses) on investments	**(73,587)**	(1,529,027)
	$ 5,688,798	$ 7,010,442

4. Long-Term Obligations

Long-term obligations are summarized as follows:

	December 31 2007	2006
Hospital Revenue Refunding Bonds, Series 1997		
Serial bonds payable in annual principal installments beginning May 1998 through May 2012 in amounts ranging from $205,000 to $1,945,000. Interest payable semiannually at rates ranging from 3.9% to 5.2%.	$ 8,825,000	$ 10,355,000
Less unamortized original issue discount	(9,424)	(13,524)
	8,815,576	10,341,476
Hospital Revenue Refunding Bonds, Series 1999A		
Serial bonds payable in annual principal installments beginning May 2000 through May 2011 in amounts ranging from $2,200,000 to $4,000,000. Interest payable semiannually at variable rates of interest, not to exceed the fixed rate of 4.84% under the Hospital's swap agreement with Salomon Smith Barney.	14,800,000	18,100,000
Hospital Revenue Bonds, Series 1999B		
Serial bonds, payable in annual principal installments beginning May 2013 through May 2019 in amounts ranging from $1,275,000 to $1,795,000. Interest payable semiannually at fixed rates of interest ranging from 6.625% to 6%.	10,630,000	10,630,000
Term bonds, payable May 2024 and 2029 in amounts of $10,685,000 and $14,250,000, subject to mandatory redemption through operation of a sinking fund commencing May 2020 and 2025, respectively. Interest payable semiannually at rates of 5.875% and 6%, respectively.	24,935,000	24,935,000
Less unamortized original issue discount	(412,016)	(440,060)
	35,152,984	35,124,940
Tax-exempt equipment loans, payable semiannually beginning January 2007 through July 2016 in amounts ranging from $273,377 to $1,346,241. Interest payable semiannually at variable rates of interest of 3.06% to 3.95% during 2007.	16,709,649	19,962,132
Note payable, Old National Bank, payable in monthly installments of $17,595, including interest at 4.450% (variable, not to exceed 10.450%), due August 2011, collateralized by accounts receivable and equipment.	667,009	837,521
Capital leases	887,556	973,844
Other notes payable	4,018,862	601,230
	81,051,636	85,941,143
Less current portion:		
Series 1997 bonds	1,596,593	1,525,901
Series 1999A bonds	3,400,000	3,300,000
Tax-exempt equipment loans	2,407,467	3,252,483
Capital leases	244,104	188,858
Other notes payable	303,300	196,031
	7,951,464	8,463,273
Long-term obligations, net of current portion	$ 73,100,172	$ 77,477,870

4. Long-Term Obligations (continued)

In July 1997, the Hospital Authority of Monroe County (the Authority) issued its Hospital Revenue Refunding Bonds, Series 1997 in the aggregate principal amount of $17,075,000. BH used the proceeds of the 1997 issue to refund $13,285,000 of the outstanding Hospital Revenue Bonds, Series 1992 maturing on or after May 1, 2003. Additionally, the 1997 issue refinanced the Monroe County, Indiana Economic Development Revenue Bonds, Series 1994 with Public Health Nursing Association and was used to pay the costs of construction and renovation for certain healthcare facilities of BH and to pay certain issuance costs in connection therewith.

In January 1999, the Authority issued $36,700,000 of Series 1999A Hospital Revenue Refunding Bonds for the benefit of the Obligated Group (BH and CCI). The Obligated Group used the bond proceeds to refund $35,255,000 of the outstanding Series 1989 debt, and the balance was used to finance the construction, renovation, remodeling, and equipping of certain healthcare facilities.

On November 17, 1999, the Authority issued $35,565,000 of Series 1999B Hospital Revenue Bonds for the benefit of the Obligated Group. The 1999B Bonds are collateralized by a security interest in gross revenues. Proceeds of the bonds were used to pay the costs of construction, renovation, remodeling, and equipping of certain healthcare facilities of BH.

BH entered into an interest rate swap agreement to reduce the impact of changes in interest rates on portions of its debt portfolio in 1997. During fiscal years 2007 and 2006, BH had an outstanding interest rate swap agreement with a commercial institution, covering the outstanding balance of its variable rate Revenue Refunding Bonds, Series 1999A, effectively converting that debt from a variable rate to a fixed rate instrument. Fair value of the interest rate swap agreement at December 31, 2007 and 2006, was a payable of $543,676 and $538,199, respectively, and is recorded as a component of long-term liabilities. The change in the fair value of the swap agreements is included within other nonoperating gains and losses.

In February 2006, the Authority entered into a tax-exempt equipment financing agreement with Citigroup Global Markets, Inc. for the benefit of BH. Total tax-exempt funds borrowed under this financing arrangement were $19,962,312; agreement terms vary from five to ten years, based on the useful lives of the financed equipment. Rates of interest for all funding are variable, based on a fixed spread over the BMA benchmark rate, and can be converted to fixed rates

4. Long-Term Obligations (continued)

during the term of the arrangement at the discretion of BH. Payments of principal and interest will be made semiannually on January 1 and July 1, commencing with the first interest payment on July 1, 2006, and the first payment of principal on January 1, 2007. All proceeds from this financing arrangement have been used to finance medical and computer equipment, including software licenses.

During 2007, BH assumed a $3,742,742, nineteen-year mortgage related to the purchase of the Great West building, which is included in other notes payable.

Bloomington Hospital's long-term debt has an aggregate fair value, based on quoted market values, of approximately $83,123,679 and $86,150,000 at December 31, 2007 and 2006, respectively.

The master indenture requires that certain funds established at various times for payment of principal and interest on the Series 1997 and 1999 Bonds are to be held as additional cash reserves. In addition, the master indenture requires a debt service ratio at the end of any fiscal year of at least 1.10 and unrestricted cash and investments in an amount equal to at least 60 days of operating expenses.

Required principal payments of Bloomington Hospital's long-term debt, excluding capitalized leases, are as follows:

2008	$ 7,707,360
2009	8,097,743
2010	8,513,383
2011	8,678,033
2012	3,632,044
Thereafter	43,535,517
	$ 80,164,080

Total interest cost incurred amounted to $4,393,013 and $4,483,316 in 2007 and 2006, respectively.

Since August 2002, BH has had a Line-of-Credit Agreement with its primary bank, Monroe Bank of Bloomington, Indiana, under which it may borrow sums of cash as needed, to a maximum total of $4,000,000. Interest accrues on such borrowings at a variable rate equal to

4. Long-Term Obligations (continued)

the base rate on corporate loans posted by at least 75% of the nation's 30 largest banks, as published in *The Wall Street Journal.* Loan principal is payable upon lender's demand or at the borrower's discretion; interest on any outstanding principal is payable monthly. There were no funds borrowed against the line of credit at either December 31, 2007 or 2006.

5. Leases

Bloomington Hospital leases various equipment and other property for use in operations. Future minimum payments under capital lease agreements with initial or remaining terms of one or more years at December 31, 2007, are as follows:

	Future Minimum Payment Including Imputed Interest	Principal Payment
2008	$ 289,706	$ 244,104
2009	289,706	258,921
2010	252,626	236,730
2011	151,874	147,801
	$ 983,912	$ 887,556

Bloomington Hospital leases various equipment and other property for use in operations. Future minimum payments under noncancelable operating leases with initial or remaining terms of one or more years at December 31, 2007, are as follows:

2008	$ 1,005,482
2009	792,446
2010	259,633
2011	215,252
2012	208,089
Thereafter	3,579,751
	$ 6,060,653

Total rental expense was $3,490,746 in 2007 and $5,745,350 in 2006, and is included in purchased services in the consolidated statements of operations and changes in net assets.

6. Retirement Plans

BH Defined-Contribution Plan

In place of its frozen defined-benefit plan, BH currently provides to all qualifying employees basic annual pension plan contributions equal to 3% of their base salaries to the defined-contribution 403(b) plan. In addition, for each 1% that employees contribute to the plan from their own earnings, BH will contribute another 0.5%, to a maximum additional contribution of 1.5%. Thus, any employee contributing at least 3% of his/her own earnings will earn a total contribution of 4.5% from BH. Contributions expensed related to this plan were $4,376,400 for 2007, which was funded in 2008, and $1,793,600 for 2006, which was funded in 2007. Employees are vested in the employer portion of contributions to their individual retirement accounts on the basis of their years of service with BH: two years completed service, 20% vested; three years, 40% vested; four years, 60% vested; five years, 80% vested. Following six years' service with BH, the employee becomes 100% vested in the assets contributed by BH; as he/she also will do upon attainment of the plan's normal retirement age of 65, upon permanent disability, or upon death while actively employed by BH.

BHOC Defined-Contribution Plan

BHOC has a defined-contribution plan covering eligible full-time employees, to which BHOC makes matching contributions to a specified limit. Contributions expensed related to this plan were $176,749 for fiscal year ended December 31, 2006, which was funded in 2007, and are $210,000 for the year ended December 31, 2007, which was funded in 2008. BHOC employees are vested in employer contributions to their individual retirement accounts according to their years of service with the organization: two years, 20%; three years, 40%; four years, 60%; five years, 80%, and after six years, 100%.

BH Defined-Benefit Pension Plan

BH historically provided a noncontributory, defined-benefit pension plan covering substantially all BH's employees who completed six months of service. BH agreed to contribute such amounts as are necessary to provide assets sufficient to meet the plan's benefit obligations to members. As of July 1, 2006, BH imposed a "soft freeze" on the benefits provided under its defined-benefit plan, beginning its transition to the defined-contribution 403(b) retirement plan.

6. Retirement Plans (continued)

For all employees of BH who were under 50 years of age as of December 31, 2006, monthly benefits under the defined-benefit plan were frozen at the amount the benefits would have been based on calculations through December 2005.

Employees who had reached the age of 50 or more years as of December 31, 2006, continue to receive years of service credit for the remainder of their tenure with BH, but earnings upon which pension compensation will be based are not increased beyond June 30, 2006. Both those under and those over the age of 50 will continue to receive vesting credit under the revised defined-benefit plan, but no employee hired after June 30, 2006, will become a covered participant.

Effective December 31, 2007, Bloomington Hospital adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R),* as it relates to recognizing the funded status of its defined-benefit pension plan in its consolidated balance sheets and related disclosures. Funded status is defined as the difference between the projected benefit obligation and the fair value of plan assets. Upon adoption, Bloomington Hospital recorded an adjustment of $944,988 as an increase in unrestricted net assets and an increase in prepaid pension asset. This adjustment represents the recognition of a previously unrecorded pension asset related to net unrecognized actuarial gains, unrecognized prior service costs, and unrecognized prior service credits. The adoption of SFAS No. 158 had no effect on Bloomington Hospital's excess of revenues and gains over expenses for the year ended December 31, 2007, or for any prior period presented. These amounts will be subsequently recognized as a component of net periodic pension cost. In addition, Bloomington Hospital will be required to measure the plan assets and benefit obligations as of the date of the year-end balance sheet by December 31, 2008. Bloomington Hospital is currently evaluating the impact, if any, that the change in the measurement date will have on its consolidated balance sheets, and its statements of operations and changes in net assets and cash flows.

The incremental effects of adopting the provisions of SFAS No. 158 on Bloomington Hospital's consolidated balance sheet at December 31, 2007, are presented in the following table. Had Bloomington Hospital not been required to adopt SFAS No. 158 at December 31, 2007, it would have recognized a change in minimum pension obligation pursuant to the provisions of SFAS No. 87. The effect of recognizing the change in the minimum pension obligation is included in the following table showing the effects of the transition on Bloomington Hospital's consolidated balance sheet, in the column labeled, "Prior to Adopting SFAS No. 158."

6. Retirement Plans (continued)

	Prior to Adopting SFAS No. 158	Effect of Adopting SFAS No. 158	As Reported at December 31 2007
Prepaid pension costs	$ 2,442,576	$ 944,988	$ 3,387,564
Increase in unrestricted net assets	2,233,593	944,988	3,178,581

The following table sets forth the funded status of the defined-benefit pension plan and amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2007 and 2006. Date of data collection was January 1, 2007 and 2006 (rolled forward to measurement dates of September 30, 2007 and 2006, and adjusted for changes in employment status).

	September 30 2007	September 30 2006
Changes in projected benefit obligation		
Benefit obligation at beginning of measurement period	**$ 69,096,512**	$ 88,250,965
Service cost	**2,362,318**	5,879,271
Interest cost	**3,973,052**	4,853,803
Actuarial gain	**(4,087,800)**	(28,215,183)
Benefits paid	**(2,450,996)**	(1,672,344)
Projected benefit obligation at September 30	**$ 68,893,086**	$ 69,096,512
Change in plan assets		
Fair value of plan assets at beginning of measurement period	**$ 58,675,472**	$ 49,548,229
Actual return on plan assets	**8,256,822**	4,114,587
Employer contribution	**6,261,600**	6,685,000
Benefits paid	**(2,450,996)**	(1,672,344)
Fair value of plan assets at September 30	**$ 70,742,898**	$ 58,675,472
Reconciliation of accrued pension costs		
Plan assets funded status in excess of projected benefit obligation at September 30	**$ 1,849,812**	$ (10,421,040)
Employer fourth quarter contribution	**1,537,749**	1,565,400
Unrecognized net loss from past experience different from the assumed and effects of changes in assumptions	**–**	6,404,173
Prior service cost not yet recognized in net periodic pension costs	**–**	40,668
Prepaid (accrued) pension costs	**$ 3,387,564**	$ (2,410,799)

6. Retirement Plans (continued)

	September 30 2007	2006
Amounts included in unrestricted net assets, and expected to be amortized in net periodic benefit cost in the future, are as follows:		
Net actuarial gain	**$ (979,846)**	
Prior service cost	**34,858**	
	$ (944,988)	
Amounts recognized in the accompanying consolidated balance sheet at December 31, 2006, consist of:		
Accrued benefit liability		$ (2,410,799)
Minimum pension liability		(2,233,411)
Accrued pension liability		$ (4,644,210)
Plan assets at September 30, 2007	**$ 70,742,898**	$ 58,675,472
Plus fourth quarter contributions	**1,537,749**	1,565,400
Less accumulated benefit obligation	**67,742,406**	64,885,082
Accumulated benefit obligation less than (in excess of) plan assets at September 30 and fourth quarter contributions	**$ 4,538,241**	$ (4,644,210)
Components of net periodic pension costs		
Service cost – benefits earned during the year	**$ 2,362,318**	$ 5,879,271
Interest cost on projected benefit obligation	**3,960,859**	4,843,163
Actual return on assets	**(8,256,822)**	(4,114,587)
Net amortization and deferral of prior service costs and gains or losses	**3,314,219**	2,351,198
Net periodic pension cost	**$ 1,380,574**	$ 8,959,045

The following weighted-average assumptions were used to determine BH's benefit obligations under the plan at the September 30 measurement date:

	2007	2006
Discount rate	**6.02%**	5.50%
Rate of compensation increase	**No salary increase after June 30, 2006**	4.80

6. Retirement Plans (continued)

The following weighted-average assumptions were used to determine BH's net pension cost for the years ended December 31, 2007 and 2006:

	2007	2006
Discount rate	**5.75%**	5.75%
Expected rate of return on plan assets	**8.00**	8.00
Rate of compensation increase	**No salary increase after June 30, 2006**	4.80

BH considered the historical and future expectations for returns for each asset class, as well as the target asset allocation of the pension investment portfolio, to develop the expected long-term rate of return. The expected rates of return are net of related investment and administrative expenses associated with the pension administration.

Plan Assets

BH's weighted-average asset allocations by asset category at September 30, 2007 and 2006, are as follows:

	Target Allocation	Percentage of Plan Assets at Measurement Date	
		2007	2006
Equity securities	53–93%	**78%**	80%
Fixed income securities	20–30	**19**	20
Other (cash)	5–8	**3**	–
		100%	100%

6. Retirement Plans (continued)

Estimated Future Benefit Payments

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

2008	$ 850,531
2009	928,289
2010	1,122,226
2011	1,392,439
2012	1,793,509
Years 2013–2017	17,917,049

BH anticipates making contributions to the plan of approximately $3,408,000 in 2008.

Investment Strategy

The investment policy reflects the long-term nature of the pension plan's funding obligations. Assets are invested to achieve a rate of return consistent with policy allocation targets, which significantly contributes to meeting the current and future obligations of the plan and helps to ensure solvency of the plan over time. This objective is to be achieved through a well-diversified asset portfolio and emphasis on long-term capital appreciation as a primary source of return. The plan utilizes a multimanager structure of complementary investment styles and classes. Manager qualitative performance is continually evaluated, while manager's investment performance is judged over an investment market cycle of at least three years.

Plan assets are exposed to risk and fluctuations in market value from year to year. To minimize risk, each manager maintains a diversification of his/her portfolio to insulate the portfolio from substantial losses in any single security or sector of the market. The asset allocation is reviewed for deviations in the allowable range for each asset class, and rebalancing is implemented as necessary.

The long-term rate of return of the plan investment allocation is designed to be commensurate with a conservatively managed balance allocation. The funds fixed income securities are to consist of investment grade bonds rated A or better with a weighted-average maturity not to exceed ten years. Equity securities are allocated among small-cap growth and value companies, large-cap growth and value companies, and international companies.

6. Retirement Plans (continued)

Each investment type is managed by an asset manager specialized in these various security types. Performance of each of these accounts is benchmarked against the corresponding Russell benchmark.

As part of investment policies and strategies, the plan's investment committee meets quarterly to review performance. At least annually, the investment committee reviews and formulates the specific investment and allocation plan. Any adjustments that are deemed necessary are based on specific criteria, i.e., necessary plan funding, plan obligations, plan expenses, and plan liquidity needs.

7. Employee Medical and Dental Benefits

BH and BHOC have elected to self-insure certain costs related to employee medical and dental benefit programs. Costs resulting from such incidents are expensed when incurred. BH and BHOC maintain stop-loss insurance for annual claims in excess of $225,000 per employee. At December 31, 2007 and 2006, the consolidated self-insurance liability recorded totaled $2,097,005 and $2,154,806, respectively, and is included in salaries, wages, and related liabilities in the accompanying consolidated balance sheets.

8. Concentration of Credit Risk

Bloomington Hospital grants credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors for 2007 and 2006 was as follows:

	2007	**2006**
Medicare	**31%**	34%
Medicaid	**12**	11
Commercial insurance	**41**	35
Self-pay and other payors	**16**	20
	100%	100%

8. Concentration of Credit Risk (continued)

BH has an arrangement with Monroe Bank to finance certain patient accounts receivable, with recourse to BH if the guarantor does not pay such amounts. Such receivables totaled approximately $1,253,200 and $1,275,900 at December 31, 2007 and 2006, respectively. BHOC has a similar relationship with Monroe Bank to finance certain of its patient accounts receivable. BHOC receivables with Monroe Bank totaled approximately $256,977 and $103,166 at December 31, 2007 and 2006, respectively.

9. Medical Malpractice

Various claims for employment matters, medical malpractice, and breach of contract have been asserted against the Hospital and its affiliates by various claimants, and provision for such claims is made in the consolidated financial statements when management considers the contingency to be probable. The claims are in various stages of processing, and some will ultimately be brought to trial. There are known incidents occurring through December 31, 2007, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past.

Malpractice insurance coverage for BH and BHOC has been obtained on a claims-made basis through the State Patient's Compensation Fund and the Reciprocal Risk Retention Group. Should the claims-made insurance coverage not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured.

Effective October 1, 2003, BH, along with other Indiana hospitals, formed a Reciprocal Risk Retention Group, originally known as VHA Central and currently operating as Indiana Healthcare Reciprocal Risk Retention Group (IHRRRG), for the purpose of providing hospital professional and general liability insurance. This captive insurance company was fully recognized by the State of Indiana's Patient Compensation Fund as of October 1, 2003. The book value of BH's capital investment in the captive insurance group as of December 31, 2007 and 2006, was $379,857 and $166,667, respectively, and is included in other noncurrent assets.

9. Medical Malpractice (continued)

Medical malpractice coverage is provided through the aforementioned IHRRRG and considers limitations imposed by the Indiana Medical Malpractice Act (the Act). The Act limits liability for malpractice claims against qualified healthcare providers such as Bloomington Hospital. The law provides for a mandatory State Patient's Compensation Fund (the Compensation Fund) to which qualified healthcare providers contribute a surcharge. The amount of surcharge is established by the Indiana Department of Insurance on an actuarial basis. The amount contributed by each hospital must be sufficient to cover, but may not exceed, the actuarial risk posed to the Compensation Fund by such hospital and its employed physicians with active Indiana medical licenses. For malpractice incidents occurring after December 31, 1989, and before July 1, 1999, the Act provides for a maximum recovery of $750,000 per claim ($3,000,000 annual aggregate); the related healthcare provider is liable for up to $100,000 of the recovery. For malpractice incidents occurring on or after July 1, 1999, the Act provides for a maximum recovery of $1,250,000 per occurrence ($7,500,000 annual aggregate), $250,000 of which would be paid by the Hospital (through its insurance coverage to the extent available) and the remainder by the Compensation Fund.

Effective December 31, 2007, Bloomington Hospital estimated and recorded a liability related to malpractice insurance claims incurred but not reported as of the fiscal year-end, as a provision for additional claims beyond the first 12 months of estimated claims already accrued by the captive insurance group. The consolidated total of the additional accruals is $1,234,793 and is carried on the consolidated balance sheet as a noncurrent liability. Loss reserves are discounted using a discount rate of 5.5%.

10. Commitments and Contingencies

In June 2006 and in August 2006, BH signed agreements to purchase approximately 88.6 acres of land and a building currently known as the Great West Building at Bloomington's North Park Office Center, for the purpose of future development of a second campus for provision of BH's services. The total price of such purchases, scheduled to occur over a period of seven years, is approximately $18,708,000, depending upon actual acreage acquired. The first purchase of 26.68 acres at a cost of $4,010,514 occurred in January 2007, with the second purchase of 3.86 acres and the Great West Office Building at a cost of $5,920,759 occurring in August 2007. BH purchased land for approximately $1,440,000 in January 2008.

11. Functional Expenses

Bloomington Hospital provides services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year Ended December 31 2007	2006
Patient services	**$ 160,003,726**	$ 153,113,951
Professional services	**537,753**	328,745
Administrative and fiscal services	**21,357,995**	19,093,919
Information and support services	**66,460,591**	67,560,507
Depreciation and amortization	**17,515,539**	17,172,191
Interest	**4,393,013**	4,483,316
Provision for bad debts	**21,066,962**	19,870,780
	$ 291,335,579	$ 281,623,409

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Bloomington Hospital has been limited by donors to a specific time period or purpose.

Temporarily restricted net assets as of December 31, 2007 and 2006, are available for the following purposes:

	December 31 2007	2006
Medical education	**$ 109,047**	$ 107,672
Clinical/patient support	**3,021,444**	2,546,266
Capital improvements	**218,300**	218,300
	$ 3,348,791	$ 2,872,238

Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income from permanently restricted net assets with principal balances of $544,711 and $454,711 as of December 31, 2007 and 2006, respectively, are to be used for clinical and patient support.

13. Discontinued Operations

Following a decision by Bloomington Hospital's Board of Directors on October 23, 2006, Bloomington Hospital began the process of exiting CCI, its nursing home division, believing these operations to be no longer in the best interests of its long-term mission and goals. The leases for two of the three facilities, Bloomington Hospitality House and Bedford Hospitality House, were allowed to lapse, effective June 30, 2007, and the third facility, The Residence at McCormick's Creek (RAMC), which was constructed and owned by Bloomington Hospital, was offered for sale through a brokered auction process. With the authorization of the Board of Directors, Bloomington Hospital signed a letter of intent to sell RAMC to Covenant Care, Inc. on June 7, 2007. The sale was closed on September 16, 2007, at a final sales price of $4,200,000.

The following schedule discloses the operating results of CCI operations for the period ending December 31, 2006, and for the period January 1, 2007 through the dates of disposition.

	Period January 1, 2007 Through the Dates of Disposition	**Period Ending December 31, 2006**
Net patient service revenues	**$ 12,536,425**	$ 23,873,374
Other operating revenues	**95,579**	137,282
Total revenues	**12,632,004**	24,010,656
Operating expenses:		
Wages and benefits	**7,714,080**	13,947,599
Fees	**1,410,804**	2,314,319
Supplies	**1,601,130**	2,728,822
Purchased services	**2,445,960**	3,737,689
Depreciation, interest, and bad debts	**572,621**	268,440
Restoration of leased property and other related matters	**1,081,496**	–
Total expenses	**14,826,091**	22,996,869
	(2,194,087)	1,013,787
Interest income on investments	**–**	75,415
Net (loss) gain from operation of discontinued operations	**(2,194,087)**	1,089,202
Net gain on sale of discontinued operations	**1,233,270**	–
Excess of revenues and (losses) gains over expenses	**$ (960,817)**	$ 1,089,202

13. Discontinued Operations (continued)

As the owner of the RAMC physical facility, Bloomington Hospital recognized a net gain of $1,233,270 from the sale; this gain is included in discontinued operations. The following schedule highlights the effects of having removed CCI from Bloomington Hospital consolidated balance sheet as of December 31, 2006.

	Consolidation Including CCI	Effects of Discontinuation	Consolidation Excluding CCI
Assets			
Current assets	$ 82,125,004	$ 1,487,815	$ 83,612,819
Assets whose use is limited	69,803,249	–	69,803,249
Net property and equipment	138,058,342	(1,312,942)	136,745,400
Other assets	12,098,773	(174,873)	11,923,900
Total assets	$ 302,085,368	$ –	$ 302,085,368
Liabilities and net assets			
Current liabilities	$ 35,095,259	$ –	$ 35,095,259
Noncurrent liabilities	82,876,776	–	82,876,776
Total liabilities	117,972,035	–	117,972,035
Net assets:			
Unrestricted	180,786,384	–	180,786,384
Temporarily restricted	2,872,238	–	2,872,238
Permanently restricted	454,711	–	454,711
Total net assets	184,113,333	–	184,113,333
Total liabilities and net assets	$ 302,085,368	$ –	$ 302,085,368

Consolidating Information

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Report of Independent Auditors on Consolidating Information

The Board of Directors
Bloomington Hospital, Inc.

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

Ernst + Young LLP

May 14, 2008

Bloomington Hospital, Inc. and Affiliates

Consolidating Balance Sheet

December 31, 2007

	Total	Eliminations	Bloomington Hospital Orange County	Southern Indiana Medical Group, Inc.	Bloomington Hospital, Inc.
Assets					
Current assets:					
Cash and cash equivalents	$ 23,690,462	$ –	$ 5,595,797	$ 280,554	$ 17,814,111
Current portion of funds held by trustee for debt service	2,565,127	–	–	–	2,565,127
Patient accounts receivable, net	42,030,299	–	2,737,319	325,096	38,967,884
Estimated third party settlements	9,400,908	–	928,266	–	8,472,642
Inventories	5,340,689	–	534,173	–	4,806,516
Prepaid expenses and other assets	5,812,917	(3,524,218)	210,402	27,150	9,099,583
Total current assets	88,840,402	(3,524,218)	10,005,957	632,800	81,725,863
Assets whose use is limited:					
Board-designated funds	74,932,369	–	–	–	74,932,369
Property and equipment:					
Land	10,331,155	–	160,600	–	10,170,555
Land improvements	2,244,998	–	238,098	–	2,006,900
Buildings and fixed equipment	223,049,369	–	3,594,243	311,383	219,143,743
Moveable equipment	92,954,057	–	2,383,167	207,088	90,363,802
Construction in progress	1,351,326	–	162,857	–	1,188,469
	329,930,905	–	6,538,965	518,471	322,873,469
Less accumulated depreciation	(188,613,749)	–	(2,910,824)	(361,550)	(185,341,375)
	141,317,156	–	3,628,141	156,921	137,532,094
Other assets:					
Intangible software, net	1,830,614	–	–	–	1,830,614
Notes receivable	180,202	–	–	–	180,202
Deferred financing costs	1,060,215	–	–	–	1,060,215
Interest in net assets of Foundation	3,893,502	–	–	–	3,893,502
Prepaid pension asset	3,387,564	–	–	–	3,387,564
Investments in joint ventures	2,488,874	–	–	–	2,488,874
Other noncurrent assets	554,730	–	–	–	554,730
	13,395,701	–	–	–	13,395,701
Total assets	$ 318,485,628	$ (3,524,218)	$ 13,634,098	$ 789,721	$ 307,586,027

Bloomington Hospital, Inc. and Affiliates

Consolidating Balance Sheet (continued)

December 31, 2007

	Total	Eliminations	Bloomington Hospital Orange County	Southern Indiana Medical Group, Inc.	Bloomington Hospital, Inc.
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 8,058,164	$ –	$ 457,293	$ 46,025	$ 7,554,846
Salaries, wages, and related liabilities	10,987,859	–	817,308	480,629	9,689,922
Accrued vacation	8,674,278	–	513,484	–	8,160,794
Accrued interest	946,011	–	3,900	–	942,111
Current portion of long-term obligations	7,951,464	–	291,000	–	7,660,464
Due to affiliated entities	–	(3,524,218)	578,664	2,945,554	–
Total current liabilities	36,617,776	(3,524,218)	2,661,649	3,472,208	34,008,137
Long-term obligations, net of current portion	73,100,172	–	712,283	–	72,387,889
Interest rate swap agreements	543,676	–	–	–	543,676
Other noncurrent liability	216,497				216,497
Accrued malpractice liability	1,234,793	–	219,943	–	1,014,850
Total liabilities	111,712,914	(3,524,218)	3,593,875	3,472,208	108,171,049
Net assets:					
Unrestricted	202,879,212	–	10,040,223	(2,682,487)	195,521,476
Temporarily restricted	3,348,791	–	–	–	3,348,791
Permanently restricted	544,711	–	–	–	544,711
Total net assets	206,772,714	–	10,040,223	(2,682,487)	199,414,978
Total liabilities and net assets	$ 318,485,628	$ (3,524,218)	$ 13,634,098	$ 789,721	$ 307,586,027

Bloomington Hospital, Inc. and Affiliates

Consolidating Balance Sheet

December 31, 2006

	Total	Eliminations	Bloomington Hospital Orange County	Southern Indiana Medical Group, Inc.	Bloomington Hospital, Inc.
Assets					
Current assets:					
Cash and cash equivalents	$ 17,621,340	$ –	$ 2,964,728	$ 275,361	$ 14,381,251
Current portion of assets whose use is limited	2,477,364	–	–	–	2,477,364
Patient accounts receivable, net	49,997,778	–	3,117,428	280,007	46,600,343
Inventories	5,431,651	–	458,553	–	4,973,098
Prepaid expenses and other assets	3,799,212	(2,982,091)	237,368	17,566	6,526,369
Assets from discontinued operations	4,285,474	–	–	–	4,285,474
Total current assets	83,612,819	(2,982,091)	6,778,077	572,934	79,243,899
Assets whose use is limited:					
Board-designated funds	69,803,249	–	–	–	69,803,249
Property and equipment:					
Land	5,184,069	–	160,600	–	5,023,469
Land improvements	1,984,389	–	238,098	–	1,746,291
Buildings and fixed equipment	211,170,220	–	3,420,932	388,488	207,360,800
Moveable equipment	88,714,778	–	1,979,817	371,394	86,363,567
Construction in progress	1,113,456	–	60,337	–	1,053,119
	308,166,912	–	5,859,784	759,882	301,547,246
Less accumulated depreciation	(171,421,512)	–	(2,284,873)	(522,769)	(168,613,870)
	136,745,400	–	3,574,911	237,113	132,933,376
Other assets:					
Notes receivable	215,000	–	–	–	215,000
Deferred financing costs	1,209,900	–	–	–	1,209,900
Intangible software, net	2,070,469	–	–	–	2,070,469
Interest in net assets of Foundation	3,152,076	–	–	–	3,152,076
Investments in joint ventures	5,109,789	–	–	–	5,109,789
Other noncurrent assets	166,666	–	–	–	166,666
	11,923,900	–	–	–	11,923,900
Total assets	$ 302,085,368	$ (2,982,091)	$ 10,352,988	$ 810,047	$ 293,904,424

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Bloomington Hospital, Inc. and Affiliates

Consolidating Balance Sheet (continued)

December 31, 2006

	Total	Eliminations	Bloomington Hospital Orange County	Southern Indiana Medical Group, Inc.	Bloomington Hospital, Inc.
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 8,099,508	$ –	$ 456,103	$ 5,364	$ 7,638,041
Salaries, wages, and related liabilities	7,579,223	–	883,629	303,329	6,392,265
Accrued vacation	8,467,659	–	526,728	179,395	7,761,536
Accrued interest	999,701	–	3,800	–	995,901
Current portion of long-term obligations	8,463,273	–	241,000	–	8,222,273
Estimated third-party settlements	162,887	–	32,393	–	130,494
Liabilities from discontinued operations	1,323,008	–	–	–	1,323,008
Due to affiliated entities	–	(2,982,091)	252,591	2,729,500	–
Total current liabilities	35,095,259	(2,982,091)	2,396,244	3,217,588	32,463,518
Long-term obligations, net of current portion	77,477,870	–	897,225	–	76,580,645
Interest rate swap agreements	538,199	–	–	–	538,199
Other noncurrent liabilities	216,497	–	–	–	216,497
Accrued pension obligation	4,644,210	–	–	–	4,644,210
Total liabilities	117,972,035	(2,982,091)	3,293,469	3,217,588	114,443,069
Net assets:					
Unrestricted	180,786,384	–	7,059,519	(2,407,541)	176,134,406
Temporarily restricted	2,872,238	–	–	–	2,872,238
Permanently restricted	454,711	–	–	–	454,711
Total net assets	184,113,333	–	7,059,519	(2,407,541)	179,461,355
Total liabilities and net assets	$ 302,085,368	$ (2,982,091)	$ 10,352,988	$ 810,047	$ 293,904,424

Bloomington Hospital, Inc. and Affiliates

Consolidating Statement of Operations

December 31, 2007

	Total	Eliminations	Bloomington Hospital Orange County	Southern Indiana Medical Group, Inc.	Bloomington Hospital, Inc.
Operating revenues					
Net patient service revenues	$ 297,753,775	$ –	$ 22,726,641	$ 3,242,670	$ 271,784,464
Other operating revenues	7,510,532	(45,000)	447,705	302,882	6,804,945
Total revenues	305,264,307	(45,000)	23,174,346	3,545,552	278,589,409
Operating expenses					
Salaries and wages	119,460,811	–	8,920,155	1,896,806	108,643,850
Employee benefits	31,974,491	–	2,120,047	679,396	29,175,048
Professional and other fees	12,714,179	(45,000)	351,193	1,644,554	10,763,432
Supplies and other expenses	56,097,309	–	2,656,018	441,364	52,999,927
Purchased services	28,113,275	–	2,650,410	810,880	24,651,985
Provision for bad debts	21,066,962	–	2,916,317	197,780	17,952,865
Depreciation and amortization	17,515,539	–	716,904	54,100	16,744,535
Interest	4,393,013	–	63,970	–	4,329,043
Total operating expenses	291,335,579	(45,000)	20,395,014	5,724,880	265,260,685
Income (loss) from operations	13,928,728	–	2,779,332	(2,179,328)	13,328,724
Nonoperating gains (losses)					
Investment income, dividends, and realized gains and losses on sales of investments	5,058,137	–	–	–	5,058,137
Interest income on investments	704,248	–	108,266	115	595,867
Equity in earnings of unconsolidated investments	1,306,321	–	–	–	1,306,321
Impairment of unconsolidated joint venture	(2,796,356)	–	–	–	(2,796,356)
Net unrealized gains and losses on investments	(73,587)	–	–	–	(73,587)
Other	347,575	–	93,105	(29,961)	284,431
Total nonoperating gains	4,546,338	–	201,371	(29,846)	4,374,813
Excess of revenues and gains over expenses	$ 18,475,066	$ –	$ 2,980,703	$ (2,209,174)	$ 17,703,537

Bloomington Hospital, Inc. and Affiliates

Consolidating Statement of Operations

December 31, 2006

	Total	Eliminations	Bloomington Hospital Orange County	Southern Indiana Medical Group, Inc.	Bloomington Hospital, Inc.
Operating revenues					
Net patient service revenues	$ 276,445,202	$ –	$ 19,707,829	$ 3,282,581	$ 253,454,792
Other operating revenues	7,477,443	(45,001)	458,821	338,769	6,724,854
Total revenues	283,922,645	(45,001)	20,166,650	3,621,350	260,179,646
Operating expenses					
Salaries and wages	112,756,734	–	8,688,192	1,894,280	102,174,262
Employee benefits	34,481,137	–	1,754,374	657,251	32,069,512
Professional and other fees	10,649,380	(45,001)	272,091	1,627,003	8,795,287
Supplies and other expenses	55,405,012	–	2,748,611	430,268	52,226,133
Purchased services	26,804,859	–	2,078,062	811,529	23,915,268
Provision for bad debts	19,870,780	–	3,002,563	203,670	16,664,547
Depreciation and amortization	17,172,191	–	627,454	65,171	16,479,566
Interest	4,483,316	–	59,954	–	4,423,362
Total operating expenses	281,623,409	(45,001)	19,231,301	5,689,172	256,747,937
Income (loss) from operations	2,299,236	–	935,349	(2,067,822)	3,431,709
Nonoperating gains (losses)					
Investment income, dividends, and realized gains and losses on sales of investments	7,824,712	–	–	–	7,824,712
Interest income on investments	714,757	–	46,675	779	667,303
Equity in earnings of unconsolidated subsidiaries	1,161,197	–	–	–	1,161,197
Loss on disposal of unconsolidated joint venture	(89,092)	–	–	–	(89,092)
Net unrealized gains and losses on investments	(1,529,027)	–	–	–	(1,529,027)
Other	694,822	–	92,400	–	602,422
Total nonoperating gains	8,777,369	–	139,075	779	8,637,515
Excess of revenues and gains over expenses	$ 11,076,605	$ –	$ 1,074,424	$ (2,067,043)	$ 12,069,224

Bloomington Hospital, Inc. and Affiliates

Consolidating Statement of Changes in Net Assets

December 31, 2007

	Total	Eliminations	Bloomington Hospital Orange County	Southern Indiana Medical Group, Inc.	Bloomington Hospital, Inc.
Unrestricted net assets					
Excess of revenues and gains over expenses	$ 18,475,066	$ –	$ 2,980,703	$ (2,209,174)	$ 17,703,537
Change in minimum pension obligations	2,233,591	–	–	–	2,233,591
Contributions for capital expenditures	1,400,000	–	–	–	1,400,000
Additional pension obligations as a result of adoption of new pension accounting standards	944,988	–	–	–	944,988
Increase (decrease) in unrestricted net assets from continuing operations	23,053,645	–	2,980,703	(2,209,174)	22,282,116
Net loss from discontinued operations	(2,194,087)	–	–	–	(2,194,087)
Net gain on discontinued operations	1,233,270	–	–	–	1,233,270
Loss on discontinued operations, net	(960,817)	–	–	–	(960,817)
Increase (decrease) in unrestricted net assets	22,092,828	–	2,980,703	(2,209,174)	21,321,299
Paid-in capital					
Additional paid-in capital	–	–	–	1,934,229	(1,934,229)
Temporarily restricted net assets					
Change in temporarily restricted net assets held by Foundation	476,553	–	–	–	476,553
Increase in temporarily restricted net assets	476,553	–	–	–	476,553
Permanently restricted net assets					
Change in permanently restricted net assets held by Foundation	90,000	–	–	–	90,000
Increase in pemanently restricted net assets	90,000	–	–	–	90,000
Increase in net assets	22,659,381	–	2,980,703	(274,945)	19,953,623
Net assets					
Beginning of year	184,113,333	–	7,059,520	(2,407,540)	179,461,353
End of year	$ 206,772,714	$ –	$ 10,040,223	$ (2,682,485)	$ 199,414,976

Bloomington Hospital, Inc. and Affiliates

Consolidating Statement of Changes in Net Assets

December 31, 2006

	Total	Eliminations	Bloomington Hospital Orange County	Southern Indiana Medical Group, Inc.	Bloomington Hospital, Inc.
Unrestricted net assets					
Excess of revenues and gains over expenses	$ 11,076,605	$ –	$ 1,074,424	$ (2,067,043)	$ 12,069,224
Change in minimum pension obligations	8,437,190	–	–	–	8,437,190
Obligated Group adjustment for investment in affiliates	–	1,692,725	–	–	(1,692,725)
Increase (decrease) in unrestricted net assets from continuing operations	19,513,795	1,692,725	1,074,424	(2,067,043)	18,813,689
Net gain from operations of discontinued operations	1,089,202	–	–	–	1,089,202
Net gain on discontinued operations	–	–	–	–	–
Gain (loss) on discontinued operations, net	1,089,202	–	–	–	1,089,202
Increase (decrease) in unrestricted net assets	20,602,997	1,692,725	1,074,424	(2,067,043)	19,902,891
Paid-in capital					
Additional paid-in capital	–	(1,692,725)	–	1,692,725	–
Temporarily restricted net assets					
Change in temporarily restricted net assets held by Foundation	520,093	–	–	–	520,093
Increase in temporarily restricted net assets	520,093	–	–	–	520,093
Permanently restricted net assets					
Change in permanently restricted net assets held by Foundation	–	–	–	–	–
Increase in pemanently restricted net assets	–	–	–	–	–
Increase in net assets	21,123,090	1,692,725	1,074,424	(2,067,043)	20,422,984
Net assets					
Beginning of year	162,990,243	–	5,985,095	(2,033,223)	159,038,371
End of year	$ 184,113,333	$ 1,692,725	$ 7,059,519	$ (4,100,266)	$ 179,461,355