CONSOLIDATED FINANCIAL STATEMENTS

Little Company of Mary Hospital of Indiana, Inc. and Affiliates
Years Ended June 30, 2007 and 2006
With Report of Independent Auditors

Little Company of Mary Hospital of Indiana, Inc. and Affiliates

Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

Contents

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Report of Independent Auditors

The Board of Directors
Little Company of Mary Hospital of Indiana, Inc.

We have audited the accompanying consolidated balance sheets of Little Company of Mary Hospital of Indiana, Inc. and affiliates, a wholly controlled subsidiary of the American Province of Little Company of Mary Sisters (the Corporation), at June 30, 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 the Corporation'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation'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 the Corporation'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 Little Company of Mary Hospital of Indiana, Inc. and affiliates at June 30, 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.

As discussed in Note 6 to the consolidated financial statements, effective June 30, 2007, the Corporation changed its method of accounting for its defined benefit pension plan.

Ernst & Young LLP

September 17, 2007

Little Company of Mary Hospital of Indiana, Inc. and Affiliates

Consolidated Balance Sheets

	June 30	
	2007	**2006**
Assets		
Current assets:		
Cash and cash equivalents	**$ 19,695,870**	$ 19,146,885
Current portion of assets limited as to use	**933,450**	915,935
Patient accounts receivable, less allowances for uncollectible accounts (2007 – $4,200,000; 2006 – $3,540,000)	**16,655,039**	12,788,269
Other current assets	**3,838,655**	2,689,270
Total current assets	**41,123,014**	35,540,359
Assets limited as to use:		
Board designated	**34,464,903**	31,915,559
Held by trustee, less current portion	**3,502,318**	3,336,739
Donor restricted funds	**1,818,410**	2,774,473
Other	**2,970,144**	2,970,145
	42,755,775	40,996,916
Property and equipment:		
Land and land improvements	**3,969,660**	3,436,096
Buildings and building equipment	**82,697,011**	75,622,624
Furniture and equipment	**42,493,530**	35,261,492
Construction in progress	**378,156**	2,460,980
	129,538,357	116,781,192
Less allowances for depreciation	**(53,323,910)**	(48,143,424)
	76,214,447	68,637,768
Other assets	**3,000,862**	5,305,050
Total assets	**$ 163,094,098**	$ 150,480,093

	June 30	
	2007	**2006**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 2,413,900**	$ 2,320,607
Accrued expenses and other current liabilities	**6,599,744**	4,085,730
Estimated settlements due to third-party payors	**850,000**	1,000,000
Current portion of long-term debt	**825,000**	795,000
Total current liabilities	**10,688,644**	8,201,337
Long-term debt, less current portion	**41,484,915**	42,301,228
Total liabilities	**52,173,559**	50,502,565
Net assets:		
Unrestricted	**109,102,129**	97,203,055
Temporarily restricted	**1,818,410**	2,774,473
Total net assets	**110,920,539**	99,977,528
Total liabilities and net assets	**$ 163,094,098**	$ 150,480,093

See accompanying notes.

Little Company of Mary Hospital of Indiana, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2007	**2006**
Revenues		
Net patient service revenue	**$106,109,791**	$ 91,077,804
Other revenue	**1,854,533**	938,356
Total revenues	**107,964,324**	92,016,160
Expenses		
Salaries, wages, and employee benefits	**54,411,486**	48,308,769
Supplies and drugs	**18,842,470**	16,450,713
Professional fees	**3,268,059**	3,129,692
Provision for uncollectible accounts	**3,567,120**	2,664,046
Depreciation	**6,802,985**	6,330,475
Interest	**2,365,364**	2,277,141
Other	**11,131,720**	10,492,592
Total expenses	**100,389,204**	89,653,428
Income from operations	**7,575,120**	2,362,732
Nonoperating gains (losses)		
Investment income	**1,837,005**	1,695,221
Realized and unrealized gain on investments, net	**1,462,268**	280,006
Rental operations	**30,708**	206,533
Loss on sale or disposal of property and equipment	**(36,490)**	(2,628)
Other	**215,999**	227,040
Total nonoperating gains	**3,509,490**	2,406,172
Excess of revenues over expenses	**$ 11,084,610**	$ 4,768,904

Continued on next page

Little Company of Mary Hospital of Indiana, Inc. and Affiliates

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

	Year Ended June 30	
	2007	**2006**
Unrestricted net assets		
Excess of revenues over expenses	**$ 11,084,610**	$ 4,768,904
Net assets released from restriction for purchase of property	**3,063,084**	1,174,126
Cumulative effect of adoption of FASB Statement No. 158	**(2,248,620)**	–
Increase in unrestricted net assets	**11,899,074**	5,943,030
Temporarily restricted net assets		
Contributions	**2,107,021**	3,160,291
Net assets released from restriction	**(3,063,084)**	(1,174,126)
(Decrease) increase in temporarily restricted net assets	**(956,063)**	1,986,165
Increase in net assets	**10,943,011**	7,929,195
Net assets at beginning of year	**99,977,528**	92,048,333
Net assets at end of year	**$ 110,920,539**	$ 99,977,528

See accompanying notes.

Little Company of Mary Hospital of Indiana, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2007	**2006**
Operating activities		
Increase in net assets	**$ 10,943,011**	$ 7,929,195
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Restricted contributions	**(2,107,021)**	(3,160,291)
Cumulative effect of adoption of FASB Statement No. 158	**2,248,620**	–
Depreciation from operations	**6,802,985**	6,330,475
Nonoperating depreciation	**360,182**	343,962
Provision for uncollectible accounts	**3,567,120**	2,664,046
Net change in unrealized (gains) losses on investments	**(1,257,332)**	99,315
Amortization of deferred financing costs	**63,897**	63,897
Loss on sale or disposal of property and equipment	**36,490**	2,628
Changes in operating assets and liabilities:		
Patient accounts receivable	**(7,433,890)**	(2,076,723)
Other current assets	**(1,149,385)**	(271,208)
Change in prepaid pension cost	**–**	(250,095)
Accounts payable	**93,293**	230,383
Accrued expenses and other current liabilities	**2,514,014**	(1,847,366)
Estimated settlements due to third-party payors	**(150,000)**	(142,924)
Other	**(8,329)**	289,555
Net cash provided by operating activities	**14,523,655**	10,204,849
Investing activities		
Additions to property and equipment, net	**(14,776,337)**	(5,210,709)
Net increase in funds held by trustee	**(183,094)**	(126,601)
Net increase in board designated funds	**(1,292,012)**	(2,783,926)
Net decrease (increase) in donor restricted and other funds	**956,064**	(2,213,205)
Decrease in investment in joint ventures	**–**	82,816
Net cash used in investing activities	**(15,295,379)**	(10,251,625)
Financing activities		
Restricted contributions	**2,107,021**	3,160,291
Repayments of long-term debt	**(786,312)**	(766,312)
Net cash provided by financing activities	**1,320,709**	2,393,979
Increase in cash and cash equivalents	**548,985**	2,347,203
Cash and cash equivalents at beginning of year	**19,146,885**	16,799,682
Cash and cash equivalents at end of year	**$ 19,695,870**	$ 19,146,885

See accompanying notes.

1. Mission and Organization

The mission of Little Company of Mary Hospital of Indiana, Inc., which does business as Memorial Hospital and Health Care Center, is as follows:

> *We, the board, physicians, staff, volunteers and auxiliary of Memorial Hospital and Health Care Center will provide excellent health care services to the people of the communities we serve. We will pledge ourselves to care for each individual in a manner that reflects the physical, psychological and spiritual healing ministry of Jesus Christ. We will work together to create an atmosphere of mutual respect, dignity, compassion and joy. We will effectively and efficiently utilize our resources in providing health care. We will be guided by the needs of those we serve and as needs change, we will change. We will "be for others!"*

Little Company of Mary Hospital of Indiana, Inc. (the Corporation), a nonprofit corporation, is a subsidiary of and operates under the auspices of the American Province of The Little Company of Mary Sisters (American Province). The Little Company of Mary Sisters is a religious community of the Roman Catholic Church which operates health care facilities in the United States and certain other countries. The Board of Directors of the Corporation is appointed by the members of the Provincial Council of the American Province. The Corporation operates a general primary acute care hospital located in Jasper, Indiana.

The consolidated financial statements include the accounts of the Corporation and its wholly controlled affiliates, Memorial Hospital Foundation, Inc. (Foundation), and Barrett Health Corporation of Southwestern Indiana, LLC. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Nonoperating gains and losses include rentals of office buildings, investment income, realized and unrealized gains and losses on investments, and gains or losses on the sale or disposal of property and equipment. Significant interaffiliate accounts and transactions have been eliminated in the consolidated financial statements.

2. Significant Accounting Policies

Charity Care and Community Benefit

Patients are provided care regardless of their ability to pay and charity services are provided in accordance with charity care policies of the Corporation. 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 is not pursued, such amounts are not reported as revenue. Foregone charity charges at established rates approximated $3,599,000 and $2,129,000 in 2007 and 2006, respectively. In addition to providing charity care, other programs and services for the benefit of the general community are provided. The cost of providing these services is included in operating expenses.

Use of Estimates

The preparation of the Corporation’s consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

All highly liquid instruments with a maturity of three months or less, when purchased, excluding investments limited as to use by board designation or pursuant to trust agreements, are considered to be cash equivalents. Cash equivalents consist primarily of short-term certificates of deposit and mutual funds comprised of U.S. Government securities.

Investments

Investments are stated at fair value. Donated investments are reported at fair value at the date of receipt. The fair value of investments is based on quoted market prices, where available. If market prices are not available, fair values are based on the quoted market prices of comparable instruments. In previous years, the Corporation’s investments were classified as non-trading. As such, unrealized gains and losses that were considered temporary were excluded from excess of revenue and over expenses. During 2007, the Corporation determined that substantially all of its investment portfolio was more accurately classified as trading, with unrealized gains and losses included in excess of revenue and over expenses. Therefore, certain amounts in the accompanying 2006 financial statements have been reclassified to reflect this change in classification. These reclassifications did not impact the increase in net assets previously reported.

2. Significant Accounting Policies (continued)

Assets Limited as to Use

Investments held by trustee have been established as required by terms of the various bond agreements. Such funds are to be used for payment of principal and interest, replacement or construction of property and equipment, and cash reserves. Funds held for obligations classified as current liabilities are reported as current assets.

Board designated investments limited as to use represent certain funds from operations and other sources designated by the Board of Directors of the Corporation to be used to fund future capital asset replacements, for the retirement of certain long-term debt, or for other purposes.

Patient Accounts Receivable, Estimated Third-Party Payor Settlements and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts due from patients, third-party payors (including insurers), and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews, or investigations. The effect of settling cost reports and other changes in estimates increased net patient service revenue by approximately $1,400,000 and $288,000 in 2007 and 2006, respectively.

Components of gross patient account receivables at June 30, 2007 and 2006, respectively, are:

	2007	**2006**
Medicare	**39%**	36%
Medicaid	**7**	7
Blue Cross/Blue Shield	**12**	12
Commercial and managed care	**23**	24
Patients and other	**19**	21
	100%	100%

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Provisions for depreciation of property and equipment are computed using the straight-line method based upon the estimated useful lives of the assets.

Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligation* (FIN 47), clarified when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered FIN 47, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligations is unknown and cannot be estimated. As a result, as of June 30, 2007, the Corporation cannot reasonably estimate a liability related to these potential asset retirement activities.

Deferred Financing Costs

Deferred financing costs included in other assets consist of the costs incurred in conjunction with the issuance of bonds. The Corporation’s policy is to amortize deferred financing costs over the term of the bonds.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors for capital projects or for a specific time or purpose. When donor restrictions expire, temporary net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations. Resources arising from the results of operations or assets set aside by the Board of Directors are not considered to be temporarily restricted.

2. Significant Accounting Policies (continued)

Medical Malpractice

Medical malpractice coverage is provided through a program of self-insurance and commercial insurance, and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (Act). The Act limits the amount of individual claims to $1,250,000 of which $1,000,000 would be paid by the State of Indiana Patient Compensation Fund (Fund) and $250,000 by the Corporation, if self-insured, or by its commercial insurer. The Corporation maintains professional liability insurance coverage on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. Premiums are expensed in the period to which they relate.

On February 1, 2002, the Insurance Commissioner of the Commonwealth of Pennsylvania placed PHICO Insurance Company into liquidation. Prior to January 2002, PHICO served as the Hospital's malpractice insurance carrier. The PHICO policy was a claims-made policy. The new coverage obtained by the Hospital in January 2002 is also a claims-made policy, retroactive back to July 1976. For those claims filed prior to January 2002 that have not been fully mitigated, the Hospital has exposure up to the $250,000 per occurrence maximum per the Indiana Medical Malpractice Act. The Hospital estimates their exposure related to these claims to be approximately $75,000. This amount is recorded in accrued expenses and other current liabilities in the accompanying consolidated financial statements.

Tax Status

The Corporation and Foundation are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Functional Expenses

The Corporation provides general health care services to patients in the communities in which it operates. Health care services expenses related to providing these services were approximately $84,327,000 and $75,129,000 in 2007 and 2006, respectively. General and administrative expenses (which consist principally of support services) were approximately $16,062,000 and $14,524,000 in 2007 and 2006, respectively.

2. Significant Accounting Policies (continued)

Performance Indicator

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purposes of acquiring such assets).

Reclassifications

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

3. Net Patient Service Revenue

Certain agreements with third-party payors provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare*: Payments for inpatient acute care services are made based upon the patient's diagnosis, irrespective of cost. The diagnosis upon which payment is based is subject to review by Medicare representatives. Outpatient claims are reimbursed under Ambulatory Payment Classifications, which are based on the patient's diagnosis. Medicare reimbursements are subject to audit by Medicare. Provision has been made for the estimated effect of review and audits by the Program.

- *Medicaid*: Reimbursement for Medicaid services are paid at prospectively determined rates per discharge or per occasion of service.

- *Other*: Payment agreements with certain commercial insurance carriers and other payors provide for payment using prospectively determined daily rates and discounts from established charges.

3. Net Patient Service Revenue (continued)

The difference between established rates and payment under these agreements is reflected as contractual allowances. A reconciliation of the amount of services provided to patients at established rates to net patient service revenue for the years ended June 30, 2007 and 2006, is as follows:

	2007	2006
Charges at established rates:		
Nursing services	**$ 72,026,381**	$ 61,466,353
Ancillary services	**104,372,773**	87,798,118
	176,399,154	149,264,471
Less charity care charges foregone	**(3,598,875)**	(2,129,321)
	172,800,279	147,135,150
Less contractual allowances	**(66,982,701)**	(56,057,346)
Net patient service revenue	**$ 105,817,578**	$ 91,077,804

Medicare and Medicaid patient service charges at established rates approximated 47% of gross patient service charges for 2007 and 2006. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations, as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Reimbursement from the Medicare and Medicaid programs is determined from annual cost reports, which are subject to audit by the programs. The Corporation's management believes that amounts recorded in the consolidated financial statements for estimated settlements will approximate the final settlements for open cost reports. The Corporation's cost reports for substantially all of its controlled subsidiaries have been audited by the government or its agents and settled through June 30, 2005.

4. Assets Limited as to Use

The composition of assets limited as to use at June 30 is set forth below:

	2007	**2006**
Designated by Board of Directors for capital replacement and expansion:		
Certificates of deposit and money market fund	**$ 10,914,658**	$ 10,027,763
Marketable equity securities	**2,282,193**	1,871,744
Mutual funds	**6,245,321**	5,048,212
U.S. government obligations	**12,870,243**	11,161,478
Corporate obligations	**2,152,488**	3,806,362
	$ 34,464,903	$ 31,915,559
Held by trustee pursuant to bond agreements – short term United States treasury obligations	**$ 4,435,768**	$ 4,252,674
Less current portion	**(933,450)**	(915,935)
	$ 3,502,318	$ 3,336,739
Restricted by donor:		
Cash equivalents	**$ 3,575,037**	$ 4,704,816
Marketable equity securities	**–**	172,252
Capital campaign pledge receivable	**1,213,517**	867,550
	$ 4,788,554	$ 5,744,618

The composition of unrestricted investment return recognized in the consolidated statements of operations and changes in net assets follows:

	2007	**2006**
Investment return:		
Interest and dividend income	**$ 1,837,005**	$ 1,695,221
Realized gain on sale of investments	**235,951**	381,655
Realized loss on sale of investments	**(31,015)**	(2,334)
Unrealized gain (loss) on investments	**1,257,332**	(99,315)
	$ 3,299,273	$ 1,975,227

5. Long-Term Debt

Long-term debt at June 30 consists of tax-exempt revenue bonds as follows:

	2007	2006
Hospital Authority of the City of Jasper Hospital Facilities Refunding Revenue Bonds, Series 2002:		
Term bonds, payable through mandatory sinking fund deposits, commencing November 2003 through November 2007 in amounts ranging from $715,000 to $825,000. Interest payable semiannually at 3.400%.	**$ 825,000**	$ 1,620,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2008 through November 2012 in amounts ranging from $855,000 to $1,015,000. Interest payable semiannually at 4.400%.	**4,660,000**	4,660,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2013 through November 2017 in amounts ranging from $1,060,000 to $1,310,000. Interest payable semiannually at 5.500%.	**5,910,000**	5,910,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2018 through November 2022 in amounts ranging from $1,385,000 to $1,720,000. Interest payable semiannually at 5.625%.	**7,730,000**	7,730,000
Term bonds, payable through mandatory sinking fund deposits, commencing November 2023 through November 2032 in amounts ranging from $1,820,000 to $2,940,000. Interest payable semiannually at 5.500%.	**23,405,000**	23,405,000
	42,530,000	43,325,000
Less unamortized bond premium	**(220,085)**	(228,772)
	42,309,915	43,096,228
Less current portion	**(825,000)**	(795,000)
	$ 41,484,915	$ 42,301,228

5. Long-Term Debt (continued)

Maturities of long-term debt for the next five years and thereafter are as follows:

2008	$ 825,000
2000	855,000
2010	890,000
2011	935,000
2012	965,000
Thereafter	38,060,000
	$ 42,530,000

Interest paid totaled $2,293,743 and $2,320,433 in 2007 and 2006, respectively. There were no capitalized interest costs in 2007. The Corporation capitalized interest costs of $114,732 during 2006.

On November 1, 2002, the Corporation borrowed $45,560,000 of Series 2002 Bonds from the Hospital Authority of the City of Jasper. The 2002 Bonds were used to defease the 2000, 1997, 1992 and 1986 issuances, and to fund the construction of the new patient tower.

The 2002 Bonds have various annual maturity and sinking fund requirements ranging from $825,000 in 2007 to $2,940,000 in 2032. The 2002 Bonds bear interest at fixed rates varying from 3.400% to 5.625%. Outstanding Series 2002 Bonds maturing on or after November 1, 2017 are also subject to redemption and payment prior to maturity at the option of the Corporation, on or after November 1, 2012, in whole on any date or in part on any interest payment date, at a redemption price equal to 100% of the principal amount, plus accrued interest. The Series 2002 Bonds are also subject to extraordinary optional redemption prior to maturity, upon the direction of the Corporation, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest, without premium, if certain conditions are met.

The Series 2002 Bonds are collateralized by a security interest in all accounts and general intangibles of the Corporation and all proceeds therefrom, with the exception of donor-restricted contributions. The Corporation covenants in the financing agreements not to create any lien on its property other than certain permitted encumbrances. In addition, the agreements require maintenance of certain debt service income ratios, limit additional borrowings, and require compliance with various other restrictive covenants. The payment of principal and interest on the Series 2002 Bonds is guaranteed pursuant to municipal bond insurance policies.

5. Long-Term Debt (continued)

The fair value of the fixed rate term bonds is estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements, and approximated $47,930,863 and $48,877,528 at June 30, 2007 and 2006.

Funds held by trustee for the tax-exempt bonds at June 30 are as follows:

	2007	**2006**
Interest funds	**$ 381,474**	$ 384,658
Bond sinking fund	**551,976**	531,276
Debt service reserve funds	**3,502,318**	3,336,740
	4,435,768	4,252,674
Less current portion	**933,450**	915,935
	$ 3,502,318	$ 3,336,739

The Corporation has several noncancellable operating leases. The future minimum payments due under these leases is as follows: 2008 – $1,746,347; 2009 – $1,246,359; 2010 – $1,001,037; 2011 – $359,957; and 2012 – $202,513. Total lease expense for 2007 was $2,225,376.

6. Pension Plan

The Corporation participates in a non-contributory defined benefit pension plan (the Plan) which covers the Sisters of the American Province, Little Company of Mary Hospital and Health Care Centers (Illinois), and substantially all employees of the Corporation. Benefits are based upon years of service with the Corporation and annual compensation levels. Contributions to the Plan include amortization of past service costs over twenty-five years and are funded currently at an amount not less than the minimum required by ERISA.

The allocations below of pension costs, benefit obligations, plan assets and their various components are for the Corporation only and are determined based on the actual employees and the actual contributions of the Corporation as determined and tracked by the Corporation, the trustee and the actuary.

6. Pension Plan (continued)

A summary of the components of net periodic cost for the Plan allocated to the Corporation for the years ended June 30, 2007 and 2006, is as follows:

	2007	2006
Service cost	**$ 821,791**	$ 881,915
Interest cost	**1,575,517**	1,391,052
Actuarial return on plan assets	**(1,642,835)**	(1,505,203)
Net amortization and deferral	**190,412**	382,331
Total pension expense	**$ 944,885**	$ 1,150,095

Effective June 30, 2007, the Corporation adopted the recognition provisions of Financial Accounting Standards Board (FASB) Statement 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an *Amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This Statement requires employers to recognize in their balance sheets the overfunded or underfunded status of defined benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. Employers must recognize the change in the funded status of the plan in the year in which the change occurs through unrestricted net assets. Prior to the adoption of the recognition provisions of Statement No. 158, the Corporation accounted for its defined benefit pension plan under Statement No. 87, *Employers Accounting for Pensions*. An adjustment was recorded as a non-cash charge to unrestricted net assets. As a result, the Corporation recognized the following adjustments in individual line items of its consolidated balance sheet as of June 30, 2007:

	Prior to Application of Statement No. 158	Effect of Adopting Statement No. 158	As Reported at June 30, 2007
Accrued liability for defined benefit pension plans	$ –	$ (341,612)	$ (341,612)
Intangible pension asset	1,907,008	(1,907,008)	–
Unrestricted net assets	–	2,248,620	2,248,620

6. Pension Plan (continued)

Included in unrestricted net assets at June 30, 2007, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized actuarial loss of $2,297,550 and unrecognized net prior service cost of $48,930. The actuarial loss and prior service cost expected to be recognized during the year ended June 30, 2008, are $131,005 and $13,942, respectively.

The adoption of Statement No. 158 had no effect on the Corporation's consolidated statements of operations for the year ended June 30, 2007, or for any prior period presented, does not effect any financial covenants, and is not expected to effect the Corporation's operating results in future periods.

The following table sets forth the Plan's funded status and amounts allocated to the Corporation recognized in the financial statements at June 30, 2007 and 2006:

	2007	2006
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 25,735,449**	$ 25,788,187
Employee contributions	**502,858**	526,321
Service cost	**821,791**	881,915
Interest cost	**1,575,517**	1,391,052
Actuarial losses (gains)	**9,721**	(2,182,344)
Benefit payments	**(923,843)**	(669,683)
Projected benefit obligation at end of year	**$ 27,721,493**	$ 25,735,449
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 23,562,826**	$ 21,148,596
Actual return on plan assets	**3,738,040**	1,657,592
Hospital contributions	**500,000**	900,000
Employee contributions	**502,858**	526,321
Benefit payments	**(923,843)**	(669,683)
Fair value of plan assets at end of year	**$ 27,379,881**	$ 23,562,826

6. Pension Plan (continued)

	2007	2006
Funded status	**$ (341,612)**	$ (2,172,623)
Unrecognized amounts:		
Net actuarial losses	**–**	4,587,388
Prior service cost	**–**	(62,872)
(Accrued benefit) prepaid pension cost	**$ (341,612)**	$ 2,351,893

Information for pension plans with benefit obligations in excess of plan assets:

	2007	2006
Projected benefit obligation	**$ 27,721,493**	$ 25,735,449
Accumulated benefit obligation	**24,119,536**	22,126,788
Fair value of plan assets	**27,379,881**	23,562,826

Assumptions:

Weighted average assumptions used to determine benefit obligations and net periodic benefit cost at June 30:

	2007	2006
Discount rate	**6.25%**	6.25%
Expected long-term rate of return on assets	**7.25**	7.25
Rate of compensation increase	**3.50**	3.50

6. Pension Plan (continued)

Plan Assets:

The Corporation's pension plan weighted-average allocations at June 30, 2007 and 2006, by asset category are as follows:

	Plan Assets at June 30	
	2007	**2006**
Asset Class		
Equity securities	**62.9%**	60.1%
Debt securities	**35.0**	39.9
Other securities	**2.1**	–
	100.0%	100.0%

The Plan's assets are invested in a portfolio that provides for asset allocation strategies across equity markets, both domestic and international, and debt markets. The portfolio's objective is to maximize the Plan's surplus, minimize annual contributions, and fund the annual interest credit. Management and its investment advisor have prepared asset allocation recommendations based on detailed analyses of the Plan's current and expected future financial needs. Based upon these analyses and objectives of the Plan, the following is the target asset allocation:

Asset Class	
Equity securities	60%
Debt securities	40
	100%

Cash Flows:

The Corporation is expected to make a contribution of $1,137,000 in fiscal year 2008.

6. Pension Plan (continued)

Benefits expected to be paid to the Corporation's beneficiaries are as follows:

2008	$ 1,166,225
2009	1,038,670
2010	1,156,757
2011	1,292,079
2012	1,322,308
2013 through 2017	9,452,724