The Methodist Hospitals, Inc.

Consolidated Financial Report

December 31, 2007

Contents

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Independent Auditor's Report

To the Board of Directors
The Methodist Hospitals, Inc.

We have audited the accompanying consolidated balance sheet of The Methodist Hospitals, Inc. as of December 31, 2007 and 2006 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Methodist Hospitals, Inc. at December 31, 2007 and 2006 and the consolidated results of its operations, changes in net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

May 27, 2008

The Methodist Hospitals, Inc.

Consolidated Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents	$ 28,665,821	$ 4,674,948
Short-term investments (Note 5)	311,741	958,101
Accounts receivable (Note 2)	29,744,383	30,961,894
Cost report settlements receivable (Note 3)	70,857,449	34,334,834
Current portion of assets limited as to use (Note 5)	798,283	235,371
Other current assets	11,448,815	9,689,788
Total current assets	141,826,492	80,854,936
Assets Limited as to Use - Net of current portion (Note 5)	101,063,652	109,041,213
Property and Equipment - Net (Note 6)	148,823,513	157,842,350
Long-term Cost Report Settlements Receivable - Net of current portion (Note 3)	-	26,135,909
Other Assets	1,792,902	2,525,420
Total assets	**$ 393,506,559**	**$ 376,399,828**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 8)	$ 3,717,253	$ 4,251,238
Accounts payable	12,751,673	9,241,053
Cost report settlements payable	6,850,000	8,043,576
Accrued liabilities and other (Note 7)	14,947,549	14,344,991
Total current liabilities	38,266,475	35,880,858
Long-term Debt - Net of current portion (Note 8)	100,338,640	105,317,043
Other Liabilities (Note 9)	36,547,341	26,680,838
Total liabilities	175,152,456	167,878,739
Net Assets		
Unrestricted	217,606,047	207,770,434
Temporarily restricted	723,056	725,655
Permanently restricted	25,000	25,000
Total net assets	218,354,103	208,521,089
Total liabilities and net assets	**$ 393,506,559**	**$ 376,399,828**

The Methodist Hospitals, Inc.

Consolidated Statement of Operations

	Year Ended December 31, 2007	Year Ended December 31, 2006
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 240,128,490	$ 231,194,890
Medicaid disproportionate share revenue	72,782,552	57,994,742
Investment income	13,298,242	9,190,703
Other revenue	5,187,057	5,584,540
Net assets released from restrictions used for operations	92,446	21,820
Total unrestricted revenue, gains, and other support	331,488,787	303,986,695
Expenses		
Salaries and wages	116,615,898	127,920,345
Employee benefits and payroll taxes	22,671,966	26,425,317
Supplies	45,314,995	38,298,193
Outside services	35,892,082	36,635,477
Professional and other liability costs	4,695,305	4,831,443
Depreciation and amortization	20,475,287	23,163,978
Provision for bad debts	23,051,248	14,853,280
Interest expense	6,984,944	7,434,074
Voluntary early retirement (Note 11)	25,420,449	-
Restructuring (Note 15)	4,847,632	-
Other	17,424,144	18,488,795
Total expenses (Note 13)	323,393,950	298,050,902
Minority Interest in the Loss of Consolidated Subsidiary	347,375	846,613
Excess of Revenue Over Expenses	8,442,212	6,782,406
Change in Unrealized Gains and Losses on Investments (Note 5)	(4,055,382)	3,806,006
Minimum Pension Liability Adjustment (Note 11)	5,256,172	8,443,569
Net Assets Released from Restriction	192,611	2,460
Increase in Unrestricted Net Assets	**$ 9,835,613**	**$ 19,034,441**

The Methodist Hospitals, Inc.

Consolidated Statement of Changes in Net Assets

	Year Ended December 31, 2007	Year Ended December 31, 2006
Unrestricted Net Assets		
Excess of revenue over expenses	$ 8,442,212	$ 6,782,406
Change in unrealized gains and losses on investments	(4,055,382)	3,806,006
Minimum pension liability adjustment	5,256,172	8,443,569
Net assets released from restriction	192,611	2,460
Increase in Unrestricted Net Assets	9,835,613	19,034,441
Temporarily Restricted Net Assets		
Restricted contributions	282,458	321,984
Net assets released from restriction	(285,057)	(24,280)
(Decrease) Increase in Temporarily Restricted Net Assets	(2,599)	297,704
Increase in Net Assets	9,833,014	19,332,145
Net Assets - Beginning of year	208,521,089	189,188,944
Net Assets - End of year	**$ 218,354,103**	**$ 208,521,089**

The Methodist Hospitals, Inc.

Consolidated Statement of Cash Flows

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash Flows from Operating Activities		
Increase in net assets	$ 9,833,014	$ 19,332,145
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	20,475,287	23,163,968
Net change in unrealized net gains and losses on investments	4,055,382	(3,806,006)
Realized gains and losses on investments	(8,575,825)	(4,864,938)
Minimum pension liability	(5,256,172)	(8,443,569)
Loss (gain) on disposal of property and equipment	151,687	(41,454)
Loss on equity investments	-	321,365
Temporarily restricted contributions	(282,458)	(321,984)
Provision for bad debts	23,051,248	14,853,280
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(21,833,737)	(3,654,411)
Other current assets	(1,759,027)	(4,488,578)
Cost report settlements receivable	(10,386,706)	(30,111,710)
Other assets	732,518	1,259,313
Accounts payable	3,510,620	(2,976,008)
Accrued liabilities	602,558	(140,465)
Cost report settlements payable	(1,193,576)	6,465,865
Other liabilities	15,122,675	(2,042,147)
Net cash provided by operating activities	28,247,488	4,504,666
Cash Flows from Investing Activities		
Purchase of property and equipment	(12,867,526)	(11,560,029)
Proceeds from sale of property and equipment	-	416,916
Net change in assets limited as to use	12,581,452	22,540,752
Net cash (used in) provided by investing activities	(286,074)	11,397,639
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	-	2,482,201
Principal payment on long-term debt	(3,177,632)	(2,683,411)
Payments on capital lease obligations	(1,075,367)	(1,367,098)
Net change in notes payable to bank	-	(10,000,000)
Bank overdrafts	-	(4,743,068)
Restricted contributions	282,458	321,984
Net cash used in financing activities	(3,970,541)	(15,989,392)
Net Increase (Decrease) in Cash and Cash Equivalents	23,990,873	(87,087)
Cash and Cash Equivalents - Beginning of year	4,674,948	4,762,035
Cash and Cash Equivalents - End of year	**$ 28,665,821**	**$ 4,674,948**
Supplemental Cash Flow Information		
Cash paid for interest	$ 6,996,237	$ 7,467,689
Equipment obtained via capital lease	-	1,626,028

See Notes to Consolidated Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization - The Methodist Hospitals, Inc. (the "Hospital") is an Indiana nonprofit corporation operating a 302-bed general acute-care facility in Gary, Indiana (Northlake Campus), and a 313-bed general acute-care facility in Merrillville, Indiana (Southlake Campus). The Hospital also provides physician services to patients through the following wholly owned limited liability companies: Methodist Cardiographics, LLC, Methodist Anesthesia, LLC, Northwest Emergency Associates, LLC, and Methodist Pathology, LLC. The accounts of these limited liability companies have been consolidated in the accompanying financial statements. All significant intercompany transactions and balances have been eliminated in the consolidation.

In addition, the Hospital has a 56 percent interest in Merrillville Surgery Center, LLC (MSC), a joint venture with certain independent physicians. MSC provides ambulatory surgery services to patients in Merrillville, Indiana. MSC is consolidated in the accompanying consolidated financial statements. Minority interests in MSC of approximately $300,000 and $650,000 as of December 31, 2007 and 2006, respectively, are included in other long-term liabilities.

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from excess of revenues over expenses.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Assets Limited as to Use - Assets limited as to use include assets set aside by the governing board for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes, assets held by trustees under bond indenture agreements, and assets held in self-insurance trust arrangements.

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Classification of Net Assets - Net assets of the Hospital are classified as permanently restricted, temporarily restricted, or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Hospital's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Excess of Revenue Over Expenses - The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets, minimum pension liability adjustment, and changes in unrealized gains and losses on investments.

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Contributions - The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of changes in net assets as net assets released from restrictions.

The Hospital reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expiration of donor restrictions when the assets are placed in service.

Professional and Other Liability Insurance - The Hospital accrues an estimate of the ultimate expense, including litigation and settlement expense, net of applicable reinsurance coverage, for incidents of potential improper professional service and other liability claims occurring during the year as well as for those claims that have not been reported at year end.

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

Tax Status - The Hospital and its subsidiaries are nonprofit, tax-exempt organizations, and, accordingly, no tax provision is reflected in the consolidated financial statements.

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

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Accounting for Conditional Asset Retirement Obligation - Financial Accounting Standards Board Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligation*, clarified when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered FIN 47, specifically as it related to its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. Over the past 20 years, management has systematically renovated, replaced, or constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management has calculated the present value of the retirement obligation and the amount has been recognized as a liability on the consolidated balance sheet.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2007	2006
Patient accounts receivable	$ 77,981,067	$ 86,661,071
Less allowance for uncollectible accounts	(15,246,282)	(7,692,280)
Less allowance for contractual adjustments	(36,505,229)	(51,193,877)
Net patient accounts receivable	26,229,556	27,774,914
Other	3,514,827	3,186,980
Total accounts receivable	$ 29,744,383	$ 30,961,894

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	Percentage	
	2007	2006
Medicare	28	32
Commercial and managed care	28	28
Medicaid	18	14
Self pay	26	26
Total	100	100

Note 3 - Cost Report Settlements

A significant portion of the Hospital's net patient service revenue is received from the Medicare and Medicaid programs. A summary of the basis of reimbursement with these third-party payors follows:

- **Medicare** - Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.
- **Medicaid** - Inpatient and outpatient services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge or per procedure.
- **Other Third-party Payors** - The Hospital has also entered into agreements with certain commercial carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement to the Hospital under these agreements is discounts from established charges, prospectively determined rates per discharge, and prospectively determined daily rates.

The Hospital qualifies as a Medicaid Disproportionate Share (DSH) provider under Indiana law and, as such, is eligible to receive DSH payments linked to the State of Indiana's fiscal year, which is June 30. The Hospital records DSH program revenue and receivables when the related amounts are determinable and when collectibility is reasonably assured.

At December 31, 2007 and 2006, the Hospital recorded approximately $70.9 million and $55.1 million, respectively, in amounts due from the State of Indiana under the DSH program. These amounts are included as part of third-party payor settlements. The amounts recorded represent estimated reimbursement due to the Hospital for services provided through state fiscal year 2008.

Subsequent to December 31, 2007, the Hospital has been notified by the State of Indiana that it will be receiving approximately $80 million in final settlement and advances from the State of Indiana by May 30, 2008.

The Hospital also received Medicaid lump-sum payments in lieu of hospital care for indigent payments. At December 31, 2007 and 2006, the Hospital recorded approximately $5,451,000 and $2,655,000, respectively, as amounts due from the State under the hospital care for the indigent program and are included in the amounts due from the State noted above.

Note 3 - Cost Report Settlements (Continued)

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare and Medicaid programs that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely 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.

Note 4 - Charity Care

In support of its mission, the Hospital's policy is to treat patients in need of medical services without regard to their ability to pay for such services. Charity care covers services provided to persons who cannot afford to pay. The amount reflects the cost of free or discounted health services, net of contributions and other revenues received, as direct assistance for the provision of charity care. Charity care is determined based on established policies, using patient income and assets to determine payment ability. The following is a summary of the Hospital's charity care for the years ended December 31, 2007 and 2006:

	2007	2006
Traditional charity care	$ 13,450,000	$ 12,351,000

In addition, the Hospital performs many activities of community benefit, including programs provided to persons with inadequate healthcare resources or for other groups with the community that need special services and support. Examples include programs related to the poor, elderly, substance abuse, child abuse, and others with specific particular healthcare needs. They also include broader populations who benefit from health community initiatives such as health promotion, education, and health screening.

The Hospital also participates in the Medicare and Medicaid programs. At present, the reimbursement rates for both programs do not fully cover the cost of providing care to these patients. This represents the estimated "shortfall" created when a facility receives payments below the costs of treating Medicare and Medicaid beneficiaries. These uncompensated costs are not included above.

Note 5 - Assets Limited as to Use

The detail of assets limited as to use is summarized in the following schedule:

	2007	2006
Funds held by trustees under bond indenture	$ 9,823,429	$ 9,785,617
Funds held in trust for payment of professional and other liability claims	5,383,959	3,602,454
By board for future capital improvements	85,906,491	95,137,858
By donors for specific purposes	748,056	750,655
Subtotal	101,861,935	109,276,584
Less amount for payment of current liabilities	(798,283)	(235,371)
Total assets limited as to use and permanently or temporarily restricted	$ 101,063,652	$ 109,041,213

Investments, including short-term investments, consist of the following:

	2007	2006
Money market investments	$ 12,934,000	$ 9,436,000
Government securities	4,477,000	3,252,000
Mutual funds	45,542,000	58,791,000
Corporate bonds	39,221,000	38,756,000
Total	$ 102,174,000	$ 110,235,000

Funds held by the trustee under bond indenture are held for the purpose of making future bond principal and interest payments. Investment income accrues to the funds as earned.

Investment income and gains and losses are comprised of the following for the years ended December 31, 2007 and 2006:

	2007	2006
Investment income included in revenue	$ 14,812,211	$ 9,308,506
Change in net unrealized (losses) gains on investments	(4,055,382)	3,806,006
Total	$ 10,756,829	$ 13,114,512

Note 6 - Property and Equipment

The cost of property, plant and equipment, and depreciable lives are summarized as follows:

	2007	2006	Depreciable Life - Years
Land	$ 3,748,538	$ 3,815,355	-
Buildings	235,805,686	237,915,836	2-10
Equipment	198,541,579	220,120,008	3-5
Construction in progress	7,571,269	128,039	-
Total cost	445,667,072	461,979,238	
Accumulated depreciation	(296,843,559)	(304,136,888)	
Total property and equipment	$ 148,823,513	$ 157,842,350	

Depreciation and amortization expense on property and equipment totaled $20,432,032 and $23,101,943 in 2007 and 2006, respectively. Accumulated amortization for equipment under capital lease obligations was approximately $4,780,000 and $3,110,000 at December 31, 2007 and 2006, respectively.

Construction in progress consists primarily of costs incurred for the installation and implementation of a new information technology system.

As of December 31, 2007, the Hospital had outstanding commitments for capital purchases of approximately $7.5 million for the information technology system.

Subsequent to December 31, 2007, the Hospital was informed that the landlord of a facility that the Hospital is leasing has received a qualifying offer, through a nonbinding letter of intent, to sell the facility to another party for approximately $22.4 million. The Hospital has the right of first refusal as part of its lease arrangement to purchase the facility at an amount equal to the offer received by the owner. The lease is recorded as a capital lease by the Hospital.

The Hospital has elected to decline its right of first refusal to purchase the facility.

Note 7 - Accrued Liabilities and Other

The details of accrued liabilities at December 31, 2007 and 2006 are as follows:

	2007	2006
Payroll and related items	$ 5,976,454	$ 5,859,188
Compensated absences	5,090,252	7,193,350
Voluntary early retirement liability (Note 11)	2,621,821	-
Interest	1,259,022	1,292,453
Total accrued liabilities	$ 14,947,549	$ 14,344,991

Note 8 - Long-term Debt

A summary of long-term debt and capital lease obligations at December 31, 2007 and 2006 follows:

	2007	2006
Indiana Health Facility Financing Authority Revenue Bonds, Series 1996, interest ranging from 5.22 percent to 6.00 percent, due in installments through 2016	$ 14,830,000	$ 14,960,000
Indiana Health Facility Financing Authority Revenue Bonds, Series 2001, interest ranging from 5.25 percent to 5.55 percent, due in installments through 2031	62,925,000	65,265,000
Indiana Health and Educational Facility Financing Authority equipment loan, interest at 7.0 percent, due in monthly installments through 2009	1,441,445	2,147,316
Urgent care and ambulatory surgery center capital lease obligation, expires June 30, 2030, collateralized by the leased buildings	2,252,073	2,260,027
Computer software capital lease obligation, expires December 31, 2011, collateralized by leased software	495,608	2,708,107
Urgent care building capital lease obligation, expires on October 31, 2020, collateralized by the leased building	1,555,746	1,593,479

Note 8 - Long-term Debt (Continued)

	2007	2006
Medical office building capital lease obligations, expires on December 31, 2045, collateralized by leased medical office buildings	$ 20,352,818	$ 20,429,388
Total - Before unamortized discount	103,852,690	109,363,317
Less original issue discount	(203,203)	(204,964)
Less current portion	3,717,253	4,251,238
Long-term portion	$ 100,338,640	$ 105,317,043

The Indiana Health Facility Financing Authority (the "IHFFA") has issued bonds on behalf of The Methodist Hospitals, Inc. Obligated Group (the "Obligated Group") and has loaned the proceeds to the Obligated Group under the terms of the Master Indenture.

Hospital Obligated Group Bonds Payable, Series 1996, consist of hospital revenue bonds issued by the IHFFA. The bonds consist of serial bonds payable in annual installments through September 15, 2016, ranging from $225,000 in 2008 to $320,000 in 2009, at interest rates ranging from 5.40 percent to 6.00 percent and term bonds payable in annual installments beginning in 2010 through 2016 ranging from $1,700,000 to $2,415,000 at an interest rate of 6 percent.

Hospital Obligated Group Bonds Payable, Series 2001, consist of hospital revenue bonds, issued by the IHFFA. The bonds consist of serial bonds payable in annual installments ranging from $2,375,000 in 2008 to $1,685,000 in 2013, at interest rates ranging from 4.30 percent to 4.98 percent, and term bonds payable in annual installments beginning in 2014 through 2031 ranging from $1,775,000 to $4,365,000 at interest rates ranging from 5.375 percent to 5.50 percent.

The Series 1996 and 2001 Bonds have been issued under a master trust indenture and are secured by the gross revenue of the Hospital. In connection with the bond indenture and loan agreements, the Obligated Group is subject to certain financial covenants related to, among others, transfer of assets, restrictions on additional indebtedness, and maintenance of certain financial covenants, including a minimum debt service coverage ratio and minimum debt service reserve funds.

The IHFFA equipment loan consists of variable rate debt issued through the Indiana Health and Education Facility Financing Authority, due in monthly installments of $87,088. The IHFFA equipment loan is expected to be prepaid during 2008 prior to maturity. The Hospital maintains a letter of credit securing the loan agreement. The letter of credit expires January 24, 2009. However, the date is automatically extended for a period of one year unless the Hospital is notified otherwise.

Note 8 - Long-term Debt (Continued)

The Hospital has entered into a series of capital lease arrangements for a medical office building on the Merrillville hospital campus. The Hospital is leasing the underlying land to the developer under terms of a ground lease. The medical office building houses physician offices, laboratory and diagnostic facilities, and an ambulatory surgery center. The lease agreements have terms from 25 to 40 years. The owner of the medical office building has received an offer to sell the building for $22.4 million (see Note 6).

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows as of December 31, 2007:

Years Ending December 31		Long-term Debt	Capital Lease Obligations
2008		$ 3,356,899	$ 2,693,850
2009		3,419,546	2,690,800
2010		3,145,000	2,444,496
2011		3,330,000	2,444,496
2012		3,510,000	2,444,496
Thereafter		62,435,000	67,007,902
	Total	79,196,445	79,726,040
	Less amount representing interest under capital lease obligations	-	(55,069,795)
	Total debt and present value of minimum lease payments	$ 79,196,445	$ 24,656,245

Note 9 - Other Liabilities

The detail of other liabilities is shown below:

	2007	2006
Accrued pension cost (Note 11)	$ 26,290,339	$ 16,319,340
Accrued professional and other liability claims (Note 12)	8,577,948	8,724,371
Minority interest in unconsolidated subsidiary	301,343	648,719
Other	1,377,711	988,408
Total other liabilities	$ 36,547,341	$ 26,680,838

Note 10 - Operating Leases

The Hospital is obligated under certain operating leases, primarily for facilities and equipment. Total rent expense under these leases was $1,232,900 and $1,143,200 for the years ended December 31, 2007 and 2006, respectively.

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Years Ending December 31		Amount
2008		$ 1,990,777
2009		1,221,725
2010		959,017
2011		723,549
2012		453,316
Thereafter		448,800
	Total	$ 5,797,184

Note 11 - Defined Benefit Pension Plan

The Methodist Hospitals, Inc. participates in a defined benefit pension plan covering substantially all of its employees.

The board of trustees of the Hospital elected to freeze the employees' participation in the future accrual of benefits under the existing defined benefit plan effective December 31, 2005.

Effective June 1, 2007, the Plan was amended to provide early retirement window benefits to participants who had attained age 50 and completed 10 or more years of service on or before June 30, 2007. Under the terms of the amendment, eligible participants who elected to participate received three years of additional benefit accrual based on 2006 compensation, and the early retirement reduction was calculated assuming a participant was five years older. Participants were allowed to take their full benefit as a lump sum. A significant portion of participants eligible for the early retirement program elected to participate in the program.

The voluntary early retirement program was accounted for as a settlement under Financial Accounting Standards No. 88 in the amount of approximately $20 million. The related voluntary early retirement cost of approximately $25 million, which includes the settlement costs and other related expenses, has been recorded on the Hospital's consolidated statement of operations.

Note 11 - Defined Benefit Pension Plan (Continued)

The following table sets forth the funded status and amounts recognized in The Methodist Hospitals, Inc.'s consolidated balance sheet for the defined benefit plan:

	2007	2006
Projected and accumulated benefit obligation for services rendered to date	$ 75,865,581	$ 99,078,928
Plan assets at fair market value	52,388,949	85,525,619
Funded status	$ (23,476,632)	$ (13,553,309)
Accrued pension liability	$ 23,476,632	$ 13,553,309
Net periodic pension cost, including settlement costs	18,929,495	847,631
Employer contribution	3,750,000	4,000,000
Minimum pension liability adjustment	5,256,172	8,443,569
Benefits paid	44,570,128	4,172,466

	Percentage	
	2007	2006
Actuarial assumptions used to determine benefit obligations at December 31 - Weighted average discount rate	6.40	5.90
Actuarial assumptions used to determine net periodic benefit cost ended December 31:		
Weighted average discount rate	5.90	5.60
Expected rate of return on plan assets	7.40	7.40

In selecting the expected long-term rate of return on assets, the Hospital considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this plan. This included considering the allocation of trust assets and the expected returns likely to be earned over the life of the plan.

Plan Assets - The Hospital's pension plan weighted average asset allocation at December 31, 2007 and 2006, by asset category, is as follows:

	Percentage	
	2007	2006
Asset category:		
Equity securities	56	69
Debt securities	34	31
Other	10	-
Total	100	100

Note 11 - Defined Benefit Pension Plan (Continued)

Investment Policies and Strategies - Pension funds will be invested in growth-oriented securities up to 65 percent in equities, including international equities.

Contributions - The Hospital expects to contribute $6 million to the plan in 2008.

Estimated Future Benefit Payments - Benefits expected to be paid by the plan during the ensuing five years and thereafter are as follows:

2008	$ 2,721,827
2009	2,841,928
2010	3,004,777
2011	3,110,706
2012	3,298,333
2013-2017	19,710,404

During the year ended December 31, 2007, the Hospital adopted the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Portretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 123(R). FAS 158 changes the accounting for defined benefit pension and postretirement plans by requiring that the full over- or underfunded status of a defined benefit plan be recognized as an asset or liability. For defined benefit pension plans, the funded status of the plan is the difference between the projected benefit obligation (PBO) and the fair value of plan assets. The adoption of FAS 158 as of December 31, 2007 did not result in any change to net assets because the plan had previously been frozen.

The Hospital established a defined contribution pension plan effective January 1, 2006, which allows for employee contributions and requires a matching employer contribution of up to 3 percent of employees' earnings. Expense for the years ended December 31, 2007 and 2006 was $4,700,000 and $3,750,000, respectively.

Note 12 - Professional Liability Self-insurance

On April 2, 1983, the Hospital became qualified under the Indiana Medical Malpractice Act (the "Act") to adopt the policy of self-insuring its professional liability risks for individual losses up to $250,000 per claim and $7,500,000 annually. In addition, the self-insurance plan has specified annual aggregate limits. The Hospital carries commercial insurance coverage for incidents that would exceed coverages specified by the self-insurance program. Prior to April 2, 1983, the Hospital carried commercial insurance for professional liability risks on an occurrence basis. The Hospital's liability for medical malpractice self-insurance is actuarially determined based upon the Hospital's estimated claims reserves and various assumptions, and includes an estimate for claims incurred but not yet reported.

Note 12 - Professional Liability Self-insurance (Continued)

In connection with the self-insurance program, the Hospital established a trust. Under the trust agreement, the trust assets can only be used for payment of professional liability losses, related expenses, and the costs of administering the trust. The assets of the trust are included in unrestricted funds and income from the trust assets and administrative costs is included in the consolidated statement of operations.

Note 13 - Functional Expenses

The Hospital provides general healthcare services to residents within its geographical location.

Expenses related to providing these services are as follows:

	2007	2006
Healthcare services	$ 261,522,302	$ 248,508,555
General and administrative	61,871,648	49,542,347
Total	$ 323,393,950	$ 298,050,902

Note 14 - Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents - The carrying amount approximates fair value because of the short maturity of those instruments.

Investments - Fair values, which are the amounts reported in the consolidated balance sheet, are based on quoted market prices.

Accounts Receivable, Accounts Payable, and Accrued Liabilities - The carrying amount reported in the consolidated balance sheet for accounts receivable, accounts payable, and accrued liabilities approximates its fair value.

Estimated Third-party Payor Settlements - Net - The carrying amount reported in the consolidated balance sheet for estimated third-party payor settlements - net approximates its fair value.

Long-term Debt - The fair value of the Hospital's bonds is estimated based on current traded value. The fair value of the Hospital's remaining debt is estimated using discounted cash flow analysis, based on current investment borrowing rates for similar types of borrowing arrangements.

Note 14 - Fair Value of Financial Instruments (Continued)

The estimated fair value of the Hospital's long-term debt is as follows:

	Carrying Amount	Fair Value
2007 - Long-term debt	$ 78,993,242	$ 75,500,000
2006 - Long-term debt	$ 82,167,352	$ 84,589,000

Note 15 - Restructuring

During 2007, the Hospital incurred various costs related to an overall restructuring and expense reduction plan. The implementation of this plan commenced in February 2007 with the assistance from a management consulting firm engaged for this purpose.