



**Community Health Network, Inc.  
and Affiliates**

**Consolidated Financial Statements  
December 31, 2007 and 2006**

# Community Health Network, Inc. and Affiliates

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## Report of Independent Auditors

To the Board of Directors  
Community Health Network, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Community Health Network, Inc. and Affiliates (the "Network") at December 31, 2007 and 2006, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Network's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

As discussed in Note 8 to the consolidated financial statements, the Network changed the manner in which it accounts for defined benefit and other postretirement benefit plans at December 31, 2007.

*PricewaterhouseCoopers LLP*

April 23, 2008

**Community Health Network, Inc. and Affiliates**  
**Consolidated Balance Sheets (in 000's)**  
**December 31, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 96,829	\$ 145,186
Patient accounts receivable, less allowance for doubtful accounts of \$259,090 and \$217,988 in 2007 and 2006	156,353	137,175
Estimated third-party payor settlements	7,909	6,454
Assets limited as to use—held by trustee	9,439	55,524
Inventories	14,480	13,417
Other current assets	33,290	31,869
Total current assets	318,300	389,625
Assets limited as to use		
Funds held by trustee, net of current portion	13,639	13,096
Board-designated funds	353,076	262,930
Reinsurance trust assets	11,934	9,900
Property, plant and equipment, net	545,446	509,275
Investments in unconsolidated affiliates	25,924	23,220
Intangible assets, net of accumulated amortization	7,574	8,084
Prepaid pension and postretirement assets	22,253	-
Other assets	6,516	4,974
Total assets	\$ 1,304,662	\$ 1,221,104
<b>Liabilities and net assets</b>		
Current liabilities		
Current portion of long-term debt	\$ 15,666	\$ 11,752
Accounts payable	33,351	40,731
Accrued salaries and wages	38,646	31,071
Accrued interest	3,874	4,001
Estimated third-party payor settlements	1,905	2,556
Incurred but not reported liabilities	33,184	27,470
Other current liabilities	12,006	9,188
Short-term borrowings	13,500	13,500
Total current liabilities	152,132	140,269
Accrued postretirement benefit cost	3,269	3,003
Accrued pension	42,799	30,654
Due to unconsolidated affiliates and related parties, net	16,712	10,290
Long-term debt, net of current portion	372,999	390,297
Other liabilities	2,742	2,791
Minority interest	12,633	10,012
Net assets		
Unrestricted	692,643	625,071
Temporarily restricted	4,726	4,739
Permanently restricted	4,007	3,978
Total net assets	701,376	633,788
Total liabilities and net assets	\$ 1,304,662	\$ 1,221,104

The accompanying notes are an integral part of these financial statements.

**Community Health Network, Inc. and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets (in 000's)**  
**December 31, 2007 and 2006**

	2007	2006
<b>Change in unrestricted net assets</b>		
Revenues and gains		
Net patient service revenue	\$ 1,006,021	\$ 934,632
Managed care risk revenue	37,915	51,167
Service fee revenue	26,306	24,019
Other revenue	86,092	66,781
Equity in earnings of unconsolidated affiliates	14,694	12,718
Total unrestricted revenues and gains	<u>1,171,028</u>	<u>1,089,317</u>
Operating expenses		
Salaries and benefits	518,215	464,832
Supplies and other expenses	446,400	389,182
Health service claims expense	43,102	53,092
Depreciation and amortization	55,732	46,438
Provision for bad debts	55,335	55,600
Interest and financing costs	19,714	12,178
Total operating expenses	<u>1,138,498</u>	<u>1,021,322</u>
Income from operations	32,530	67,995
Investment income	25,792	16,462
Net cumulative unrealized gains transferred to trading securities	29,599	-
Minority interest in affiliates	(6,633)	(4,859)
Other, net	(74)	139
Excess of revenues over expenses and minority interests		
before income taxes	<u>81,214</u>	<u>79,737</u>
Provision for income taxes	5,711	4,942
Excess of revenues over expenses	<u>\$ 75,503</u>	<u>\$ 74,795</u>

The accompanying notes are an integral part of these financial statements.

**Community Health Network, Inc. and Affiliates**  
**Consolidated Statements of Operations and Changes in Net Assets (in 000's)**  
**December 31, 2007 and 2006**

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	2007	2006
<b>Change in unrestricted net assets</b>		
Excess of revenues over expenses	\$ 75,503	\$ 74,795
Adoption of SFAS No. 158- prepaid pension and postretirement assets	22,253	-
Change in net unrealized investment gains and losses on other than trading securities and other changes	(586)	7,362
Net cumulative unrealized gains transferred to trading securities	<u>(29,599)</u>	<u>-</u>
Increase in unrestricted net assets	<u>67,571</u>	<u>82,157</u>
<b>Change in temporarily restricted net assets</b>		
Restricted contributions received	1,359	1,445
Net assets released from restrictions	(1,679)	(1,127)
Investment income	<u>308</u>	<u>302</u>
Increase (decrease) in temporarily restricted net assets	<u>(12)</u>	<u>620</u>
<b>Change in permanently restricted net assets</b>		
Restricted contributions received	16	480
Other	<u>13</u>	<u>-</u>
Increase in permanently restricted net assets	<u>29</u>	<u>480</u>
Increase in net assets	67,588	83,257
Net assets, beginning of year	<u>633,788</u>	<u>550,531</u>
Net assets, end of year	<u>\$ 701,376</u>	<u>\$ 633,788</u>

The accompanying notes are an integral part of these financial statements.

**Community Health Network, Inc. and Affiliates**  
**Consolidated Statements of Cash Flows (in 000's)**  
**December 31, 2007 and 2006**

	2007	2006
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 67,588	\$ 83,257
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	55,732	46,438
Provision for bad debts	55,335	55,600
Deferred tax benefit	1,074	173
Net unrealized investment gains and losses	-	(10,036)
Equity in earnings of unconsolidated affiliates	(14,694)	(12,718)
Distributions received from unconsolidated affiliates	14,400	12,324
Change in prepaid pension cost	12,145	15,093
Restricted contributions and investment income received	(12,433)	(10,414)
Other adjustments	3,038	3,424
Changes in operating assets and liabilities		
Patient accounts receivable	(74,513)	(68,781)
Other assets	(27,200)	(8,380)
Accounts payable	(7,380)	4,425
Estimated third-party payor settlements	(2,106)	(5,726)
Other liabilities	16,197	6,495
Net cash provided by operating activities	<u>87,183</u>	<u>111,174</u>
<b>Cash flows from investing activities</b>		
Acquisitions of property, plant and equipment	(47,730)	(48,910)
Acquisitions of property, plant and equipment-North Expansion	(46,149)	(97,409)
Proceeds from sale (purchase of) property, plant and equipment	1,916	899
Proceeds from sales of investments	-	140,309
Purchases of investments	-	(84,988)
(Purchases)/sales of investments, net	(32,171)	-
Investments in unconsolidated affiliates	(2,829)	(2,923)
Distributions received from unconsolidated affiliates	419	1,421
Due (to) from unconsolidated affiliates and related parties, net	6,422	(2,857)
Net cash used in investing activities	<u>(120,122)</u>	<u>(94,458)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of debt	-	5,888
Repayments of debt	(13,384)	(9,684)
Proceeds from restricted contributions and investment income	(2,034)	(2,064)
Cash flows used in financing activities	<u>(15,418)</u>	<u>(5,860)</u>
Net increase in cash and cash equivalents	(48,357)	10,856
Cash and cash equivalents, beginning of year	145,186	134,330
Cash and cash equivalents, end of year	<u>\$ 96,829</u>	<u>\$ 145,186</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for		
Interest	<u>\$ 20,525</u>	<u>\$ 20,395</u>
Income taxes	<u>\$ 4,126</u>	<u>\$ 5,553</u>
Acquisition of property, plant and equipment included in accounts payable at December 31	<u>\$ 3,008</u>	<u>\$ 10,060</u>

The accompanying notes are an integral part of these financial statements.

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

### December 31, 2007 and 2006

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#### 1. Organization and Summary of Significant Accounting Policies

##### Organization

Community Health Network, Inc., an Indiana non-profit corporation and its non-profit and for-profit affiliates (collectively the "Network") comprise a full-service integrated health delivery system in central Indiana. The Network operates four acute care hospitals as well as a specialty hospital, five immediate care centers, a primary care physician organization, forty ambulatory care centers, eleven freestanding surgery centers, four outpatient imaging centers, two ambulatory endoscopy centers, four nursing homes and an assisted living facility. Effective January 1, 2007, Community Health Network, Inc., a dormant shell company, became the parent company and main governing body of the Network replacing Community Hospitals of Indiana, Inc. as the primary governing body. This change in governing body had no impact on the consolidated financial statements other than the name.

##### Basis of Presentation and Consolidation

The accompanying consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and include the assets, liabilities, revenues and expenses of all wholly owned subsidiaries, majority owned subsidiaries and when applicable, entities for which the Network has a controlling interest.

The consolidated financial statements include the following wholly owned entities:

- Community Hospitals of Indiana, Inc. ("Community"), a non-profit corporation which operates two acute care hospital facilities on the northeast and eastern sides of Indianapolis;
- Community Hospital South, Inc. ("CHS"), a non-profit corporation which operates an acute care hospital facility on the south side of Indianapolis; Community and CHS are collectively referred to as ("CHI");
- Community Hospitals of Anderson and Madison County, Inc. ("CHA"), a non-profit corporation which provides acute health care services to residents of Anderson, Indiana and surrounding communities;
- Community Physicians of Indiana, Inc. ("CPI"), a non-profit corporation which employs the Network's primary care physicians;
- Community Health Network Foundation, Inc. ("Foundation"), a non-profit corporation established to raise and expend funds for the benefit of CHI and other related organizations;
- Visionary Enterprises, Inc. ("VEI"), a taxable, for-profit subsidiary of the Foundation, whose operations consist primarily of ambulatory surgery center development, and management and other consulting services; North Campus Surgery Center, LLC ("NCSC"), which performs outpatient surgeries for certain patients of Community; VEI Michigan, Inc. owns Michigan Surgery Investment, LLC ("MSI"), which holds ownership interests in six surgery centers located in Michigan.
- Community Home Health Services, Inc. ("CHHS"), a non-profit corporation whose operations consist primarily of providing home health care and hospice services to patients in thirteen central Indiana counties;
- Indiana ProHealth Network, Inc. ("ProHealth"), a provider association consisting of physicians and hospital members in central Indiana and the primary vehicle by which the Network contracts for risk with payors.

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

### December 31, 2007 and 2006

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In addition, the Network consolidates its interest in the Indiana Heart Hospital, LLC ("IHH"), a for-profit hospital specializing in cardiac care, South Campus Surgery Center, LLC ("SCSC"), Community Business Innovations, Inc. ("CBI"), Community Health Services, Inc., Long-Term Care ("LTC"), and Community Health Network Assurance Company, Ltd. ("Captive").

The Captive is wholly owned by CHI and reinsures a primary hospital professional liability policy including doctor's professional liability as well as a general liability policy. The professional liability policy is on a claims made basis and includes prior acts coverage for various entities owned by the Network, while the general liability policy is on an occurrence basis. On an annual basis, the Captive's ceding insurer requires the Captive to maintain an outstanding letter of credit to address any potential exposure between premiums paid and expected losses. As of December 31, 2007, the outstanding letter of credit was \$2,005 and expires March 1, 2008. Due to favorable claims experience and adequate funding, the fronting company is not requiring a letter of credit for the policy year beginning March 1, 2008.

Effective January 1, 2007, Community Physicians of Indiana, Inc. ("CPI") was established as a non-profit corporation which employs the Network's primary care physicians. Prior to January 1, 2007, CPI was a division of CHI.

Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation. During 2007, the Network determined that certain distributions received from unconsolidated affiliates should be reflected as cash inflows from operating activities rather than as cash inflows from investing activities in accordance with FAS 95. To conform to the current year presentation, the Network revised the 2006 Statement of Cash Flows to increase cash flows provided by operating activities and decrease cash flows used in investing activities by \$12,324 related to 2006 distributions received from unconsolidated affiliates. This revision has been made to enhance the comparability of all periods presented and is not considered material to the prior period as originally presented.

Significant intercompany accounts and transactions have been eliminated.

#### **Use of Estimates in the Preparation of Financial Statements**

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (a) allowance for contractual revenue adjustments, (b) allowance for doubtful accounts; (c) depreciation lives of long-lived assets and (d) reserves for professional, workers' compensation and comprehensive general insurance liabilities risk. Future events and their effects cannot be predicated with certainty; accordingly the accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. The Network evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in its evaluation, as considered necessary. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and funds invested temporarily in money market accounts that are purchased with original maturities of three months or less.

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

### December 31, 2007 and 2006

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The Network has entered into overnight sweep transaction agreements to purchase and resell direct obligations of, or obligations that are insured as to principal and interest by, U.S. Government agencies. At December 31, 2007 and 2006, cash and cash equivalents include \$55,547 and \$43,794, respectively, of overnight sweep transaction agreements.

#### **Inventories**

Inventories consist primarily of medical and surgical supplies and pharmaceuticals. All inventories are valued at the lower-of-cost or market. Cost is determined by the Network using a weighted average cost method, which approximates cost under the first-in, first-out method.

#### **Assets Limited as to Use**

Assets limited as to use consist of cash and cash equivalents, U.S. Government obligations, corporate bonds, and marketable equity securities, and are stated at fair value. The fair values of these investments are based on quoted market prices.

Effective January 1, 2007, the Network elected to transfer its Board designated investments in equity securities with readily determinable fair values and investments in debt securities from an "available-for-sale" classification to a "trading securities" classification. After reassessment, management determined transferring investments to the trading securities category is appropriate based on the Network's investment strategy and investment philosophies as investment managers may execute purchases and sales of investments without prior approval of Network management. While the Network's net assets were not impacted by this change in classification, the 2007 excess revenues over expenses and minority interests includes the recognition of \$29,599 of cumulative unrealized net gains and losses from prior years. In future periods, all unrestricted unrealized holding gains and losses will be recorded in investment income in the period in which they occur.

Prior to January 1, 2007, the Foundation recorded its realized gains or losses on board designated funds in other operating revenue. Effective January 1, 2007, the Foundation has reclassified its mark to market adjustments as well as its realized gains or losses on board designated funds to investment income, net to be consistent with the approach taken by the other Network entities. The Foundation's investment income, net on board designated funds for the year ended December 31, 2007 was \$3,426.

Reinsurance trust assets are maintained by the Captive. Prior to January 1, 2007, these trust assets were classified as available for sale as defined in FASB No. 115 and were carried at fair value with unrealized gains or losses being reported in accumulated other comprehensive income which is included in net assets. Effective January 1, 2007, the reinsurance trust assets were reclassified as trading securities. This reclassification was made to make the financial statement presentation consistent with the Network's presentation. As such, realized and unrealized gains or losses are recorded in income versus other comprehensive income. For reinsurance trust assets, fair value is determined based on the market value of these securities provided by the manager and trustee of the reinsurance trust assets. Realized gains and losses on sales of investments are determined using the specific identification cost method and are included in excess of revenues over expenses.

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

### December 31, 2007 and 2006

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#### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost or, if donated, at the fair value at date of donation. Assets under capital lease obligations are recorded at the present value of the aggregate future minimum lease payments at the beginning of the lease term. For financial statement purposes, the Network primarily uses the straight-line method of computing depreciation over the shorter of the estimated useful lives of the respective assets or the life of the lease term, excluding any lease renewals, unless the lease renewals are reasonably assured.

Costs of maintenance and repairs are charged to expense when incurred; costs of renewals and betterments are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the consolidated statements of operations and changes in net assets.

Long-lived assets are evaluated for possible impairment whenever circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from future estimated cash flows. Fair value estimates are derived from independent appraisals, established market values of comparable assets or internal calculations of future estimated cash flows.

#### **Investments in Unconsolidated Affiliates**

Investments in affiliates not controlled by the Network are reported under the equity method of accounting. Under the equity method, the investments are initially recorded at cost, increased or decreased by the investor's share of the profits or losses of the investee and reduced by cash distributions received. Distributions received from investees that represent a return on investment are classified as operating cash flows on the consolidated statement of cash flows. Those distributions that represent a return of investment are classified as investing cash flows.

#### **Intangible Assets**

Bond discounts and other costs associated with the issuance of long-term debt, principally underwriters' fees, are carried at cost, net of accumulated amortization. These amounts are amortized to interest expense using the effective interest method over the life of the bonds.

#### **Self-Insured Risk**

A substantial portion of the Network's professional and general liability risks are insured through a self-insured retention program written by our consolidated wholly-owned offshore captive insurance subsidiary, the Captive, as described above.

Reserves for professional and general liability risks, including incurred but not reported claims, were \$12,307 and \$10,185 at December 31, 2007 and 2006, respectively. These amounts are recorded and included in the Captive's incurred but not reported liabilities in the accompanying consolidating balance sheets.

Provisions for the self-insured risks are based upon actuarially determined estimates. Loss and loss expense reserves represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserves for unpaid losses and loss expenses are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. The changes to the estimated reserve amounts are included in current operating results.

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

### December 31, 2007 and 2006

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Although considerable variability is inherent in reserve estimates, management believes the reserves for losses and loss expenses are adequate; however, there can be no assurance that the ultimate liability will not exceed management's estimates.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity.

#### **Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. The Network has agreements with third-party payors that provide for payments to the Network at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, cost reimbursement, discounted charges, and per diem payments. Excluding CHA, the Network offers a 30% discount to uninsured patients. This discount is recorded in other allowances/adjustments, which are netted against net patient service revenue. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

#### **Charity Care**

The Network maintains records to identify and monitor the level of charity care it provides. The Network provides charity care to patients whose income level is below 200% of the Federal Poverty Level. Charity care includes the amount of charges forgone for services and supplies furnished under its charity care policy and was \$23,811 and \$19,813 for the years ended December 31, 2007 and 2006, respectively.

#### **Donor-restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted contributions 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 statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

#### **Tax Status**

Community, CHS, CHA, CHHS and CPI are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and the Foundation is exempt from federal income taxes under Section 501a(c)(3) of the Code. VEI is a for-profit taxable entity and is subject to federal and state income taxes. NCSC, SCSC, MII and MSI are generally not subject to federal or state income taxes as income earned flows through to its members. ProHealth is a taxable membership organization under the provisions of Section 11(a) and 7701(a)(3) of the Code and is subject to federal and state income taxes. IHH, a limited liability company, is generally not responsible for income taxes.

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

### December 31, 2007 and 2006

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#### **Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and other current liabilities approximate fair value because of the relatively short maturities of these financial instruments. The fair value of long-term debt was determined using discounted future cash flows, with a discount rate equal to interest rates for similar types of borrowing arrangements.

The fair value of the Network's long-term debt instruments and related interest approximates \$387,116 and \$409,418 as compared to carrying values of \$388,665 and \$402,049 million as of December 31, 2007 and 2006, respectively.

#### **New Accounting Pronouncements**

In September 2006, the FASB issued 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)*". SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in its consolidated statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets for a not-for-profit organization. FASB No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. Additionally, FASB No. 158 requires disclosure in the notes to the financial statements of additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations. The disclosure provisions of SFAS No. 158 were effective for the Network for the year ended December 31, 2007. As a result of adopting SFAS No. 158, the Network has recorded long-term over funded pension and postretirement assets of \$22,253 as of December 31, 2007. The Network will adopt the measurement date provision in 2008.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations", which is a revision of SFAS 141. SFAS 141(R) will change the way in which business combinations are accounted for. SFAS No. 141(R) introduces new purchase accounting concepts, expands the use of fair value accounting related to business combinations and changes the subsequent period accounting for certain acquired assets and liabilities, among other things. SFAS No. 141(R) will be applied prospectively on business combinations with acquisition dates in fiscal years beginning on or after December 15, 2008, and therefore this statement will not affect the Network's financial statements for business combinations that preceded the effective date.

In December 2007, the FASB also issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51". SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of net assets. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Network does not expect the adoption of SFAS No. 160 will have a material impact on the Network's consolidated financial statements or results of operations.

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 generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material effect on the Network's consolidated financial position, results of operations or cash flows.

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

### December 31, 2007 and 2006

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In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115.*" SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years that begin after November 15, 2007. The Network is currently assessing the impact of the adoption of this statement on the Network's consolidated financial statements.

## 2. Net Patient Service Revenue and Concentrations of Credit Risk

The Network has agreements with third-party payors that provide for payments to the Network at amounts different from its established rates. Payment arrangements with major third-party payors include:

- Medicare—Inpatient acute care services, outpatient services and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Network is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Network and audits thereof by the Medicare fiscal intermediary. The Network's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Network. The Network's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2005. Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates could change by a material amount in the near term. Adjustments to revenue related to prior period cost reports (decreased)/ increased net patient service revenue by approximately (\$1,674) and \$4,213 for the years ended December 31, 2007 and 2006, respectively. Medicare patients account for approximately 38.7% and 39.9% of gross patient charges for years ended December 31, 2007 and 2006, respectively.
- Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on prospectively determined rates per discharge and outpatient services are reimbursed based on a fee for service basis, based on predetermined fee schedules. Medicaid patients account for approximately 9.2% and 9.8% of gross patient charges for years ended December 31, 2007 and 2006, respectively.

The Network has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Network under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

**Community Health Network, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements (in 000's)**  
**December 31, 2007 and 2006**

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Provisions have been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the established charges for services and estimated total payments to be received from third-party payors. Estimated settlements are accrued in the period the related services are rendered and adjusted in future periods as settlements are determined.

Net patient service revenue, as reflected in the accompanying consolidated statements of operations and changes in net assets, consist of the following for the years ended December 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Gross patient service revenue	\$ 2,161,101	\$ 1,930,307
Deductions from gross patient service revenue		
Medicare/Medicaid contractual adjustments	691,663	592,656
Other adjustments	439,606	383,206
Charity discounts for patient care	23,811	19,813
Net patient service revenue	<u>\$ 1,006,021</u>	<u>\$ 934,632</u>

The Network grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. A significant portion of the Network's revenue is concentrated by payor mix. The concentration of gross receivables by payor class for both patients and third-party payors at December 31, 2007 and 2006 is as follows:

	<b>2007</b>	<b>2006</b>
Medicare	23 %	26 %
Medicaid	12	12
Managed care and commercial insurance	53	51
Patients	12	11
	<u>100 %</u>	<u>100 %</u>

Adjustments to the allowance for doubtful accounts are made after the Network has analyzed historical cash collections and considered the impact of any known material events. Uncollectible accounts are written-off against the allowance for doubtful accounts after exhausting collection efforts. Any subsequent recoveries are recorded against the provision for bad debts.

**3. Assets Limited as to Use**

**Funds Held by Trustee**

The following is a summary of assets limited as to use, which are held by trustees, at December 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 23,078	\$ 68,620
Less amount classified as current assets to meet current obligations	<u>9,439</u>	<u>55,524</u>
Noncurrent asset	<u>\$ 13,639</u>	<u>\$ 13,096</u>

**Community Health Network, Inc. and Affiliates**  
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The Hospital Revenue Bond Agreements (Note 7) require that the initial bond proceeds be held by a bank trustee until such funds are expended for eligible assets. Certain other funds are also held by the bank trustee as additional security for the bondholders and the periodic deposits of principal and interest requirements. These amounts, including bonding interest earned from temporary investments, are segregated in accounts maintained by a bank trustee. Use of the funds is restricted to debt service requirements. All funds are cash and cash equivalents which approximate fair value.

**Board-designated Funds**

As discussed in Note 1, the Network reclassified its Board-designated funds and reinsurance trust assets as trading securities effective January 1, 2007. As a result, those investments are marked to market each month.

The following is a summary of the investments limited as to use, which are board-designated funds, at December 31, 2007 and 2006:

	<b>2007 Cost</b>	<b>2007 Market</b>
Cash and cash equivalents	\$ 4,343	\$ 4,343
U.S. Treasury bonds	115,843	118,630
Corporate bonds	32,492	32,166
Equity securities	170,487	197,937
	<u>\$ 323,165</u>	<u>\$ 353,076</u>

	<b>2006 Cost</b>	<b>2006 Market</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>
Cash and cash equivalents	\$ 2,201	\$ 2,201	\$ -	\$ -
U.S. Treasury bonds	80,436	80,015	611	(1,032)
Corporate bonds	31,707	31,030	11	(688)
Equity securities	118,987	149,684	31,324	(627)
	<u>\$ 233,331</u>	<u>\$ 262,930</u>	<u>\$ 31,946</u>	<u>\$ (2,347)</u>

The unrealized losses based on estimated market values for the year ended December 31, 2006 are shown below, separated between those securities that have been in an unrealized loss position for less than twelve months and those that have been in an unrealized loss position for a longer period.

**Community Health Network, Inc. and Affiliates**  
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As of December 31, 2006:

Description	Less than 12 Months		More than 12 Months		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
US Treasury Obligations	\$ 248	\$ (1)	\$ 20,577	\$ (441)	\$ 20,825	\$ (442)
Federal Agency Backed	4,586	(37)	22,274	(552)	26,860	(589)
Corporate Bonds	3,019	(42)	13,588	(647)	16,607	(689)
Equity securities	3,526	(207)	2,506	(420)	6,032	(627)
Total temporarily impaired securities	<u>\$ 11,379</u>	<u>\$ (287)</u>	<u>\$ 58,945</u>	<u>\$ (2,060)</u>	<u>\$ 70,324</u>	<u>\$ (2,347)</u>

In evaluating whether a decline in value is other than temporary, management considers several factors, including, but not limited to, 1) cost of each investment compared to the market value, 2) highest market share price in a 52-week period, 3) reason for decline, and 4) the Network's ability and intent to retain the investments for a sufficient amount of time for it to recover. Beginning January 1, 2007, the Network does not evaluate for impairment as the investments are marked to market on a monthly basis.

Investment income for 2007 and 2006 consists of the following:

	2007	2006
Interest and dividend income	\$ 13,359	\$ 9,930
Net realized gains on sales of investment securities	12,433	10,414
Total investment income	25,792	20,344
Less: Amounts classified as operating income	-	3,882
	<u>\$ 25,792</u>	<u>\$ 16,462</u>

**Reinsurance Trust Assets**

The assets in the trust consist of cash and cash equivalents and are maintained in a domestic trust account. These assets are restricted and may not be withdrawn or used without the consent of the trust administrator.

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The following is a summary of the investments limited as to use, which are reinsurance trust assets, at December 31, 2007 and 2006:

	<b>2007 Cost</b>	<b>2007 Market</b>	<b>2006 Cost</b>	<b>2006 Market</b>
U.S. Treasury bonds	\$ 3,495	\$ 3,502	\$ 2,991	\$ 2,946
Corporate bonds	1,496	1,522	3,225	3,208
Federal Government Agency mortgage backed securities	4,683	4,762	3,531	3,491
Cash held in trust	2,148	2,148	255	255
	<u>\$ 11,822</u>	<u>\$ 11,934</u>	<u>\$ 10,002</u>	<u>\$ 9,900</u>

Investment income for 2007 and 2006 consists of the following:

	<b>2007</b>	<b>2006</b>
Interest income	\$ 510	\$ 344
Net realized/unrealized gains on sales of investment securities	98	12
Total investment income	<u>\$ 608</u>	<u>\$ 356</u>

**4. Property, Plant and Equipment**

Property, plant and equipment and accumulated depreciation consist of the following at December 31, 2007 and 2006:

	<b>Estimated Useful Lives</b>	<b>2007</b>	<b>2006</b>
Land and land improvements	0-20 years	\$ 24,864	\$ 25,145
Buildings and improvements	10-40 years	604,225	424,865
Equipment	3-20 years	458,628	417,188
Construction in progress		11,116	145,664
		<u>1,098,833</u>	<u>1,012,862</u>
Less: accumulated depreciation		553,387	503,587
		<u>\$ 545,446</u>	<u>\$ 509,275</u>

Depreciation expense was \$55,732 and \$46,438 for 2007 and 2006, respectively. The decrease in construction in progress and the increase in buildings and improvements and equipment is primarily attributable to the opening of the expansion of the Network's north facilities in April 2007.

**Community Health Network, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements (in 000's)**  
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**5. Investments in Unconsolidated Affiliates**

The Network has equity investments in various surgery centers, Mid America Clinical Laboratory ("MACL") and other entities.

The following is a summary of the Network's investments in unconsolidated affiliates for the years ended December 31, 2007 and 2006:

	<b>Surgery Centers</b>	<b>MACL</b>	<b>Other</b>	<b>Total</b>
<b>Balance, December 31, 2005</b>	\$ 16,465	\$ 4,349	\$ 2,915	\$ 23,729
Capital contributions	1,617	-	1,402	3,019
Distributions	(10,455)	(2,178)	(3,613)	(16,246)
Equity in net income	9,105	1,819	1,794	12,718
<b>Balance, December 31, 2006</b>	<u>\$ 16,732</u>	<u>\$ 3,990</u>	<u>\$ 2,498</u>	<u>\$ 23,220</u>
Capital contributions	2,731	-	98	2,829
Distributions	(10,695)	(1,936)	(2,188)	(14,819)
Equity in net income	10,733	2,021	1,940	14,694
<b>Balance, December 31, 2007</b>	<u>\$ 19,501</u>	<u>\$ 4,075</u>	<u>\$ 2,348</u>	<u>\$ 25,924</u>

Summarized and aggregated financial statement information for the surgery centers, MACL and the other unconsolidated affiliates is as follows (in thousands):

	<b>Surgery Centers</b>	<b>MACL</b>	<b>Other</b>	<b>Total</b>
Total assets	\$ 65,636	\$ 35,034	\$ 28,029	\$ 128,699
Total liabilities	19,125	16,510	15,346	50,981
Net assets	46,511	18,524	12,682	77,717
Revenues	102,156	67,287	63,501	232,944
Operating income	26,607	8,848	9,941	45,396
Net income	26,461	9,184	9,230	44,875
Network's equity in net income of unconsolidated affiliates	10,733	2,021	1,940	14,694

**Community Health Network, Inc. and Affiliates**  
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**6. Transactions with Unconsolidated Affiliates and Related Parties**

The Network provides services to and makes purchases on behalf of various unconsolidated affiliated entities. The range of ownership in unconsolidated affiliates is 2 to 70 percent. Amounts due to unconsolidated affiliates and related parties consist of the following at December 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Notes payable—North Campus Office Associates (NCOA)	\$ 693	\$ 549
Notes receivable—Indianapolis Internal Medicine Corp. (IIMC)	(327)	(622)
Receivables from physicians	(28)	(49)
Due to Spec Prime/MedPrime	3,350	1,813
Due to Indiana Surgery Centers	12,711	12,063
Other receivables	313	(3,464)
	<u>\$ 16,712</u>	<u>\$ 10,290</u>
Due to unconsolidated affiliates and related parties, net	<u>\$ 16,712</u>	<u>\$ 10,290</u>

**7. Debt**

**Short-term Borrowings**

Short-term borrowings represent outstanding borrowings under bank lines of credit. At December 31, 2007 and 2006, the following amounts were outstanding:

	<b>Maximum Borrowings</b>	<b>Outstanding Balance</b>	
		<b>2007</b>	<b>2006</b>
CHI	\$ 20,000	\$ -	\$ -
VEI	13,500	13,500	13,500
CHA	1,000	-	-
		<u>\$ 13,500</u>	<u>\$ 13,500</u>

The bank lines of credit are due on demand. Interest is payable monthly on VEI's line of credit. VEI's short-term debt is secured by mortgages on six properties and is also guaranteed by CHI. Interest is at a floating rate, and the weighted-average effective rate on short-term borrowings was 6.20 percent and 5.63 percent for the years ended December 31, 2007 and 2006, respectively.

**Community Health Network, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements (in 000's)**  
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**Long-term debt**

Long-term debt at December 31, 2007 and 2006 is summarized as follows:

	<b>Obligated Entity</b>	<b>2007</b>	<b>2006</b>
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 2005A; interest payable semiannually 4.50% serial bonds due May 1, 2008 to May 1, 2025 5.00% term bonds due May 1, 2035 Unamortized premium	CHI	\$ 73,850 78,970 4,257 <u>157,077</u>	\$ 73,850 78,970 4,412 <u>157,232</u>
Indiana Health Facility Financing Authority, Adjustable Rate Hospital Revenue Bonds, Series 2005B; interest payable monthly (3.44% effective rate at December 31, 2007) due May 1, 2008 to May 1, 2035	CHI	18,700	18,700
Indiana Health Facility Financing Authority, Adjustable Rate Hospital Revenue Bonds, Series 2005C; interest payable monthly (3.44% effective rate at December 31, 2007) due May 1, 2008 to May 1, 2035	CHI	18,800	18,800
Indiana Health Facility Financing Authority, Adjustable Rate Hospital Revenue Bonds, Series 2000A and 2000B; interest payable monthly (3.48% effective rate at December 31, 2007) due July 1, 2002 to July 1, 2028	CHI	38,800	39,000
Indiana Health Facility Financing Authority, Adjustable Rate Hospital Revenue Bonds, Series 1997A and 1997B; interest payable monthly (3.47% effective rate at December 31, 2007) due July 1, 2020 to July 1, 2027	CHI	30,000	30,000
Indiana Health Facility Financing Authority, Hospital Revenue Refunding and Improvement Bonds, Series 1995; interest payable semiannually 5.6% term bonds due May 15, 2014 5.7% term bonds due May 15, 2022 Unamortized discount	CHI	7,955 37,368 (361) <u>44,962</u>	9,555 39,115 (403) <u>48,267</u>

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	Obligated Entity	2007	2006
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 1993; interest payable semiannually 6.00% term bonds, due January 1, 2023	CHA	\$ 19,455	\$ 20,195
		<u>19,455</u>	<u>20,195</u>
Indiana Health Facility Financing Authority, Hospital Revenue Refunding and Improvement Bonds, Series 1992; interest payable semiannually: 6.40% term bonds due May 1, 2012 with mandatory redemption from May 1, 2006 to 2012 Unamortized discount	CHI	27,665	31,085
		(41)	(50)
		<u>27,624</u>	<u>31,035</u>
Indiana Health Facility Financing Authority, Hospital Revenue Bonds, Series 1992A; interest payable semiannually 5.10% to 6.70% serial bonds due July 1, 1994 to 2007 6.85% term bonds due July 1, 2022	CHI	-	955
		15,545	15,545
		<u>15,545</u>	<u>16,500</u>
Hospital Authority of Madison County, Inc., Hospital Revenue Bonds, Series 1988A; interest payable semiannually 8.00% term bonds, due January 1, 2014	CHA	5,250	5,795
		<u>5,250</u>	<u>5,795</u>
Other long-term debt		<u>12,452</u>	<u>16,525</u>
		388,665	402,049
Less: current portion of long-term debt		<u>15,666</u>	<u>11,752</u>
Long-term debt, net of current portion		<u>\$ 372,999</u>	<u>\$ 390,297</u>

**Series 2005A, 2005B and 2005C**

On May 1, 2005, the Indiana Health Financing Authority, (the "Authority") issued Hospital Revenue Bonds, Series 2005A and Adjustable Rate Hospital Revenue Bonds, Series 2005B and 2005C, in the aggregate amount of \$190,320 for the purpose of making a loan to the Network. The proceeds of this loan from the Authority are available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHI. As credit support for the 2005B and 2005C bonds, the Network has two outstanding letters of credit with banks for a maximum aggregate principal draw amount of \$37,500 plus accrued interest as of December 31, 2007. The letters of credit expire May 4, 2010. The Series 2005A bonds maturing on or after May 1, 2016 are subject to redemption prior to their respective stated maturities, by the Authority, upon the direction of CHI at a redemption price equal to 100% of the principal amount plus accrued interest thereon to the date fixed for redemption. The Series 2005B and Series 2005C bonds are subject to redemption prior to their stated maturity at the option of CHI on a thirty day notice in whole or in part, at a redemption price equal to 100% of the principal amount plus interest at the date of redemption.

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

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#### **Series 2000A and 2000B**

On November 1, 2000, the Authority issued Adjustable Rate Hospital Revenue Bonds, Series 2000A and 2000B, in the aggregate amount of \$40,000 for the purpose of making a loan to the Network. The proceeds of this loan from the Authority were available to finance, refinance or reimburse the costs of constructing, acquiring, renovating or equipping certain health facility property used by CHI. As of December 31, 2007, the outstanding letter of credit with the bank associated with this debt is the principal amount of \$38,800 plus accrued interest. The letter of credit expires May 29, 2010. The Series 2000A and 2000B bonds are subject to redemption at the option of CHI on a thirty day notice at a redemption price equal to 100% of the principal amount plus interest at the date of redemption.

#### **Series 1997A and 1997B**

On August 1, 1997, the Authority issued its Adjustable Rate Hospital Revenue Bonds, Series 1997A and Series 1997B in the aggregate amount of \$30,000 for the purpose of making a loan to the Network. The proceeds of this loan from the Authority were used for the financing of certain health facility property. As of December 31, 2007, the outstanding letter of credit with the bank associated with this debt is the principal amount of \$30,000 plus accrued interest. The letter of credit expires May 1, 2010. The Series 1997A and 1997B bonds are subject to redemption at the option of CHI on a thirty day notice at a redemption price equal to 100% of the principal amount plus interest at the date of redemption.

#### **Series 1995**

On November 15, 1995, the Authority issued \$75,050 of Hospital Revenue Refunding and Improvement Bonds (Series 1995 Bonds). Concurrent with the issuance of the bonds, the Network and the Authority entered into a loan agreement (the "Agreement") in which the Network agreed to make loan payments to meet the terms of the hospital revenue bonds. The Agreement restricts the amount of indebtedness that the Network may incur and provides to the Authority an interest in the Network's gross revenues sufficient to meet principal and interest obligations. The Series 1995 Bonds are callable in accordance with the provisions of the Agreement commencing May 15, 2006 at prepayment prices ranging from 102 percent to 100 percent of the principal outstanding.

In May 2007, CHI made a tender offer to existing 1995 Series Bondholders for a 102 percent tender price. At the end of the offer, CHI called and redeemed the remaining \$2,067 in bonds outstanding at a price of 101 percent. The premium and related transaction fees total \$1,169 and are included in interest and financing costs.

A bank purchased the tendered bonds for par value. Simultaneously, CHI and the bank entered into an interest rate swap agreement (the "1995 swap"), the purpose of which was to synthetically convert the tendered bonds from a fixed rate to a variable rate based on the Securities Industry and Financial Markets Association Municipal Swap Index plus .30 percent. The variable rate at December 31, 2007 was 3.72%. The swap is a fair value hedge recognized on the consolidated balance sheet at its fair value with changes as a result of ineffectiveness since inception being recorded in interest expense. The swap is in place throughout the term of the outstanding bonds, but may be terminated by CHI or the bank with 30 and 180 days notice, respectively. Neither the terms nor conditions of the original bonds were altered in any way. The net gain associated with the 1995 swap was immaterial.

**Community Health Network, Inc. and Affiliates**  
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***Series 1993, 1992, 1992A, and 1988A***

With respect to the Series 1993, 1992, 1992A, and 1988A Hospital Revenue Bonds, there are loan agreements between the Network and the conduit issuing authorities with similar terms as described for the Series 1995 Hospital Revenue Bonds except the bonds are callable as follows: January 1, 2007 for Series 1993; May 1, 2002 for Series 1992; July 1, 2002 for Series 1992A; and January 1, 2001 for Series 1988A.

In February 2004, CHI made a tender offer to existing 1992 and 1992A Series Bondholders for a 102 percent tender price. At the end of the offer, CHI called and redeemed the remaining \$7,250 in bonds outstanding at a price of 101 percent. The premium and related transaction fees total \$1,134 and are included in interest and financing costs.

A bank purchased the tendered bonds for par value. Simultaneously, CHI and the bank entered into an interest rate swap agreement (the swap), the purpose of which was to synthetically convert the tendered bonds from a fixed rate to a variable rate based on the Bond Market Association Municipal Swap Index plus .40 percent. The variable rate at December 31, 2007 was 3.82 percent. The swap is a fair value hedge recognized on the consolidated balance sheet at its fair value with changes as a result of ineffectiveness since inception being recorded in interest expense. The swap is in place throughout the term of the outstanding bonds, but may be terminated by CHI or the bank with 30 and 180 days notice, respectively. Neither the terms nor conditions of the original bonds were altered in any way. The net gain associated with the swap was immaterial.

In general, the various Network debt agreements restrict the amount of indebtedness that the Network may incur, the sale, lease or other disposition of operating assets, and the acceptable investments of the trust funds. In addition, these agreements require a debt service ratio at the end of any fiscal year of at least 1.10. The Network was in compliance with all debt covenants at December 31, 2007.

Scheduled principal repayments on long-term debt are as follows:

2008	\$ 15,666
2009	14,199
2010	14,587
2011	15,148
2012	14,913
Thereafter	<u>310,298</u>
	384,811
Plus: unamortized premium, net	<u>3,854</u>
	<u>\$ 388,665</u>

For 2007 and 2006, interest cost incurred and capitalized in connection with the construction of capital assets aggregated \$0 and \$2,663, respectively.

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**8. Employee Benefit Plans**

**Defined Benefit and Other Postretirement Benefit Plans**

The Network has defined benefit retirement plans covering substantially all employees of CHI, CHA, CHHS, IHH, and CBI. The Network's funding policy is to contribute the equivalent of the minimum funding required by the Employee Retirement Income Security Act of 1974, as amended. The benefits for these plans are based primarily on years of service and the 60-consecutive-month period of employment producing the highest total income. The measurement date is September 30, except for the Replacement Plan which is January 1.

The Community Health Network Retirement Plan is a defined benefit plan. The provisions of this plan relate to all employees of CHI, CHA, CHHS, IHH, CPI and CBI. These employees are eligible to participate in the plan after one year of eligible service as defined by the plan document. Participants are 100% vested after five years of service. CHI made no contributions to the plan during 2007 and 2006. Effective May 27, 2006, CHA froze the accrual of benefits and participation in the Community Health Network Retirement Plan and established its own 403(b) plan. The freezing of CHA's benefit accruals resulted in the Network recording a Statement of Financial Accounting Standard No. 88 curtailment gain of \$1,329 against the Network's pension expense for the year ended December 31, 2006.

The Replacement plan is both a defined benefit and a defined contribution plan. The defined benefit provisions apply to all employees of the Network hired prior to January 1, 1984. The plan was originally established on that date to provide such employees those benefits otherwise available under the Federal Insurance Contributions Act during the period January 1, 1981 to December 31, 1983 when the Network withdrew coverage of its employees under the Act. Pursuant to the Social Security Amendment Act of 1983, the Network reentered the Social Security system on January 1, 1984. As a result funding of the plan was terminated during 1985. The actuarial present value of accumulated plan benefits was \$6,596 and \$7,907 for 2007 and 2006, respectively. The Network also has other postretirement benefit plans covering substantially all of its employees, providing retirees' health insurance benefits for the same premium as the Network pays for active employees. The Network funds the plan on a cash basis.

As described in Note 1, the Network adopted the disclosure provisions of SFAS No. 158 as of December 31, 2007. As a result, the Network has recognized the funded status of its defined benefit and postretirement benefit plans in its consolidated balance sheet as of December 31, 2007. The impact of the adoption of SFAS No. 158 on the Network's consolidated balance sheet is as follows:

	<b>Prior to Adoption of SFAS No. 158</b>	<b>SFAS No. 158 Adjustments</b>	<b>Post Adoption of SFAS No. 158</b>
Prepaid pension assets	\$ -	\$ 20,771	\$ 20,771
Prepaid postretirement assets	-	1,482	1,482
Accrued postretirement pension cost	(3,269)	-	(3,269)
Accrued pension	(41,207)	-	(41,207)
Unrestricted net assets	-	(22,253)	(22,253)

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**Effect on Operations**

The components of net pension expense for defined benefit retirement plans and the postretirement benefit plan for the year ended December 31 were as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service cost	\$ 18,445	\$ 19,719	\$ 269	\$ 323
Interest cost	21,730	19,378	77	114
Expected return on plan assets	(49,674)	(30,655)	-	-
Amortization of prior service cost, net	21,730	7,771	(92)	2
Net pension expense	<u>\$ 12,231</u>	<u>\$ 16,213</u>	<u>\$ 254</u>	<u>\$ 439</u>

**Obligations and Funded Status**

The change in benefit obligations, plan assets and funded status for the Network's defined benefit retirement plans are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Change in benefit obligation</b>				
Benefit obligation, beginning of period	\$ 382,441	\$ 374,895	\$ 3,003	\$ 2,551
Service cost	18,445	19,719	254	439
Interest cost	21,730	19,378	-	-
Actuarial (gain) loss	(16,639)	(23,831)	-	-
Benefits paid—estimated	(8,358)	(7,720)	12	13
Benefit obligation, end of period	<u>\$ 397,619</u>	<u>\$ 382,441</u>	<u>\$ 3,269</u>	<u>\$ 3,003</u>

**Change in plan assets**

	<u>Pension Benefits</u>	
	<u>2007</u>	<u>2006</u>
Fair value of plan assets, beginning of year	\$ 336,876	\$ 315,044
Actual return on plan assets	49,674	30,655
Benefit paid—actual	(9,367)	(8,823)
Fair value of plan assets, end of year	<u>\$ 377,183</u>	<u>\$ 336,876</u>

**Community Health Network, Inc. and Affiliates**  
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	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Reconciliation of Funded status</b>				
Accrued pension cost	\$ (41,207)	\$ (45,565)	\$ (3,269)	\$ (1,363)
Prepaid pension asset	20,771	-	1,482	-
Funded status	(20,436)	(45,565)	(1,787)	(1,363)
Unrecognized net actuarial gain	(6,994)	31,722	(1,691)	(1,867)
Unrecognized prior service cost	(13,777)	(15,133)	209	227
Accrued pension cost	<u>\$ (41,207)</u>	<u>\$ (28,976)</u>	<u>\$ (3,269)</u>	<u>\$ (3,003)</u>

**Accumulated Benefit Obligation**

Selected information from the plans with accumulated benefit obligation in excess of plan assets at December 31, including the defined benefit portion of the Replacement Plan, were as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Projected benefit obligation	\$ 397,619	\$ 382,441	\$ 3,269	\$ 3,003
Accumulated benefit obligation	353,208	342,898	1,787	2,714
Fair value of plan assets	391,049	349,726	-	-

**Actuarial Assumptions**

Weighted average assumptions used to determine benefit obligations as of December 31:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Discount rate	6.00%	5.75%	6.00%	5.75%
Rate of compensation increase	4.50%	4.50%	0.00%	0.00%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Discount rate	5.75%	5.25%	5.75%	5.00%
Rate of compensation increase	4.50%	4.50%	0.00%	0.00%
Expected long-term rate of return on plan assets	8.00%	7.50%	0.00%	0.00%

The expected long term rate of return assumes targeted allocations are maintained and returns fall within standard deviation derived from simulation of ten year range of returns on each plan's assets. The rate is reevaluated based on actual returns in the current period, which resulted in the percentage increasing from 7.5% for 2006 to 8.0% for 2007.

**Community Health Network, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements (in 000's)**  
**December 31, 2007 and 2006**

**Assumed Health Care Costs**

In establishing the net periodic postretirement benefit expense, a 9 percent annual rate of increase in per capital cost of covered health benefits was assumed for 2007 and 2006. The rate was assumed to decrease gradually to 6 percent over an 18-year period. Changing the assumed health care cost trend rates by one percentage point in each year would cause an incremental increase in the accumulated postretirement benefit obligation of less than \$217 and \$173 in 2007 and 2006, respectively.

**Plan Assets**

The weighted-average allocation of our domestic defined benefit plans at December 31, 2007 and 2006, by asset category are as follows:

	Retirement Plan		2006 Actual Allocation	Replacement Plan		2006 Actual Allocation
	2007 Target Allocation	2007 Actual Allocation		2007 Target Allocation	2007 Actual Allocation	
Equity securities	60%	68%	66%	80%	86%	85%
Fixed income securities	40%	32%	34%	20%	14%	15%
Other	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

The plans are administered under a single investment policy statement, which outlines objectives and guidelines for supervising investment strategy and evaluating the investment performance for all investment assets of CHI. The policy seeks to preserve principal, emphasizing long-term growth without undue exposure to risk. Investment performance return targets are based on consumer price, corporate bond and stock indexes as well as volatility standards (beta) and positive risk-adjusted performance (alpha). The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and monitoring asset allocations. Target allocation ranges are guidelines, not limitations, and plan fiduciaries may occasionally approve allocations above or below a target range.

**Cash Flows**

The Network does not expect to make any contributions to any of the defined benefit plans in fiscal 2008.

**Estimated Future Benefit Payments**

Plan benefit payments, which reflect expected future service, are expected to be paid as follows:

	Pension Benefits	Postretirement Benefits
2008	\$ 10,877	\$ 16
2009	12,060	28
2010	13,370	49
2011	14,366	73
2012	15,775	98
2013-2016	108,001	988

# Community Health Network, Inc. and Affiliates

## Notes to Consolidated Financial Statements (in 000's)

### December 31, 2007 and 2006

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#### Other

Effective January 1, 2004, the Network amended the terms of the defined benefit plan. Under the amended plan, the formula for calculating benefits changed by reducing the percentages applied to a participant's monthly plan compensation. Also, the Community Physicians of Indiana, Inc. participants became ineligible. Retirement benefits earned prior to December 31, 2003 remain unchanged.

The Network also sponsors defined contribution plans covering certain employees. Employer contributions are made to these plans based on a percentage of employee compensation. The cost of these defined contribution plans was approximately \$5,168 and \$3,808 million for 2007 and 2006, respectively. If authorized by the Network's Board of Directors, each Replacement plan participant may elect to contribute to the plan an amount each pay period, subject to the maximum established by the Board of Directors. Such authorization was not granted during 2007 and 2006.

One of the defined contribution plans relates to VEI's profit sharing 401(k) plan, in which employees are eligible to participate immediately upon hire and after attaining 21 years of age. Participants may contribute from one percent to fifty percent of compensation, as defined. Each year, VEI's Board of Directors may elect to match a portion of participant contributions through a discretionary profit sharing contribution. The expense associated with this plan was approximately \$1,999 and \$1,691 for the years ended December 31, 2007 and 2006, respectively.

IHH has a 401(k) plan, in which employees are eligible to participate immediately upon hire and after attaining 21 years of age. Participants may contribute from one percent to sixty percent of compensation, as defined. IHH matches 50% of participant contributions up to 5% of the participants' compensation. The expense associated with this plan was approximately \$244 and \$171 for the years ended December 31, 2007 and 2006, respectively.

CPI has a defined contribution profit sharing plan in which employees who are designated as CPI physicians and are paid on the compensation model are eligible to participate after the completion of one year of service. This plan is an employer funded plan whereby the funding is charged to the participating physician's practice as an overhead expense. The expense associated with this plan was approximately \$514 and \$625 for the years ended December 31, 2007 and 2006, respectively.

Effective May 28, 2006, CHA established a defined contribution 403(b) plan. Employees are eligible to participate immediately upon employment. Participants may contribute up to 100% of compensation, as defined. CHA matches 100% of participant contributions up to 3% of the participant's compensation. The expense associated with this plan was \$2,411 and \$1,321 for the years ended December 31, 2007 and 2006, respectively.

#### 9. Income Taxes

For 2007 and 2006, federal taxable income originating in the Network's for-profit entities was approximately \$11.8 million and \$11.7 million, respectively. Income tax expense of \$5,711 and \$4,942, respectively, has been provided thereon. The primary difference between income tax expense and taxes computed at the federal statutory rate of 34 percent is state income taxes.

At December 31, 2007, ProHealth has unused federal income tax operating loss carry forwards of approximately \$11,003, which expire at various dates through 2027. The tax benefits from these net operating losses of \$3,741 million have been fully offset by valuation allowances of \$3,741 million at December 31, 2007 and 2006, respectively.

**Community Health Network, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements (in 000's)**  
**December 31, 2007 and 2006**

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**10. Operating Leases**

The Network leases certain of its facilities and equipment under noncancelable operating lease agreements. The leases contain various renewal options and clauses for escalation based on increases in interest costs, as defined. Rental expense for these leased facilities and equipment aggregated \$23,865 and \$16,685 for 2007 and 2006, respectively.

Future minimum rental payments for each of the next five years at December 31, 2007 are as follows:

2008	\$ 17,916
2009	14,269
2010	12,346
2011	8,425
2012	7,274
Thereafter	12,692

**11. Functional Expenses**

The Network provides services to residents within its geographic locations. Expenses related to providing these services are as follows:

	<b>2007</b>	<b>2006</b>
Nursing services	\$ 283,990	\$ 261,109
Other professional services	239,745	220,314
General services	136,005	124,809
Fiscal services	142,093	109,650
Administrative services	87,514	72,745
Employee health and welfare	75,268	65,390
Health service claims expense	43,102	53,092
Depreciation and amortization	55,732	46,438
Provision for bad debts	55,335	55,600
Interest	19,714	12,175
	<u>\$ 1,138,498</u>	<u>\$ 1,021,322</u>

**12. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Network 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:

	<b>2007</b>	<b>2006</b>
Medical education	\$ 70	\$ 51
Clinical/patient support	501	360
Capital improvements	4,155	4,328
	<u>\$ 4,726</u>	<u>\$ 4,739</u>

**Community Health Network, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements (in 000's)**  
**December 31, 2007 and 2006**

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Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity. Permanently restricted net assets as of December 31, 2007 and 2006 are as follows, with a description of how the investment income is to be used:

	<b>2007</b>	<b>2006</b>
Medical education	\$ 216	\$ 216
Clinical/patient support	201	201
Capital improvements	<u>3,590</u>	<u>3,561</u>
	<u>\$ 4,007</u>	<u>\$ 3,978</u>

The Network is an income beneficiary of certain irrevocable trusts. The aggregated income from these trusts was \$308 and \$302 for the years ended December 31, 2007 and 2006, respectively.

**13. Commitments and Contingencies**

**Community Hospital of Anderson and Madison County**

On August 9, 1996, Community entered into an affiliation agreement with CHA. The agreement provides that if Community merges, affiliates, or is acquired by another health care organization, Community must deposit \$31.9 million into a foundation to fund health care programs and initiatives in Madison County, Indiana.

**Pending Litigation and Medical Malpractice Insurance Coverage**

Claims for employment matters, medical malpractice and breach of contract have been asserted against the Network by various claimants, and provision for such claims is made in the financial statements when management considers the likelihood of loss from the contingency to be probable and reasonably estimable. 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.

The Network is in compliance with the Indiana Medical Malpractice Act which limits the amount of recovery to \$1,250 for individual malpractice claims, \$250 of which would be paid by the Network and the balance being paid by the State Patient Compensation Fund. Management believes the ultimate disposition of existing medical malpractice and other claims will not have a material effect on the consolidated financial position or results of operations of the Network.

**Purchase Commitments**

As of December 31, 2007, the Network had purchase commitments for various equipment and services of \$50,337.

**14. Subsequent Events (unaudited)**

On February 22, 2008, the Network announced plans to expand CHS. The total construction costs for the expansion are expected to be \$117,000. Construction is anticipated to begin in late summer 2008.

On March 10, 2008, CHI entered into a \$50,000 line of credit with a bank. The line of credit is intended to be used for general corporate purposes.

**Community Health Network, Inc. and Affiliates**  
**Notes to Consolidated Financial Statements (in 000's)**  
**December 31, 2007 and 2006**

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**15. Community Benefits (unaudited)**

Community Health Network defines community benefit as a planned, managed, organized, and measured approach to a health care organization's participation in meeting identified community health needs, particularly of the poor and other underserved groups by improving health status and quality of life.

Community Health Network segregates its community benefits into benefits for the poor and benefits for the community.

Benefits for the poor include traditional charity and unpaid cost of Medicaid and other indigent care programs. Traditional charity care includes free or discounted health and health-related services provided to persons who cannot afford to pay. Unpaid cost of Medicaid and other indigent care programs represents the uncompensated cost of services provided to persons covered by public programs for the poor.

Benefits for the community include unpaid cost of Medicare, uninsured discounts and other community benefits. Unpaid cost of Medicare represents the uncompensated cost of services provided to persons covered by the Medicare program. Uninsured discounts represent a standard discount on charges as it relates to patients who have no insurance coverage. Other community benefit represents activities or services to improve community health.

The net cost to the Network of providing benefits for the poor and the community is as follows:

	<b>2007</b>	<b>2006</b>
<b>Benefits for the poor</b>		
Traditional charity care	\$ 10,589	\$ 9,200
Unpaid cost of Medicaid and other indigent care programs	49,389	47,207
	<u>59,978</u>	<u>56,407</u>
<b>Benefits for the community</b>		
Unpaid cost of Medicare	106,529	104,972
Uninsured discounts	6,291	5,310
Other community benefits	1,230	1,853
	<u>114,050</u>	<u>112,135</u>
Total community benefits	<u>\$ 174,028</u>	<u>\$ 168,542</u>

The benefits provided are measured at total cost net of any offsetting revenues or subsidy payments received.

Charges forgone for services and supplies furnished under the Network's charity care policy approximated \$23,811 and \$19,813 for the years ended December 31, 2007 and 2006, respectively. Charity care cost was determined based on the application of the associated cost-to-charge ratios to charges.

Total community benefits were 15.28% and 16.50% of total operating expenses in 2007 and 2006, respectively.

## **Additional Consolidating Information**

**Report of Independent Auditors  
on Accompanying Consolidating Information**

To the Board of Directors  
Community Health Network

The report on our audits of the consolidated financial statements of Community Health Network and affiliates, (the "Network") at December 31, 2007 and 2006 and for the years then ended appears on page 1 of this document. These audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating balance sheets at December 31, 2007 and 2006 and the consolidating statements of operations and changes in net assets for the years then ended are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations and changes in net assets of individual organizations. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets of the individual organizations. However, the consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

April 23, 2008

**Community Health Network**  
**Consolidating Balance Sheet (in 000's)**  
**December 31, 2007**

	Consolidated	Eliminations	CHI	CPI	CHA	VEI	Foundation	CHHS	ProHealth	TIHH	CHN	CBI
<b>Assets</b>												
Current assets												
Cash and cash equivalents	\$ 96,829	\$ -	\$ 36,078	\$ 6,753	\$ 9,366	\$ 16,926	\$ 550	\$ 619	\$ 7,507	\$ 18,892	\$ 138	\$ -
Patient accounts receivable, net	156,353	(7,229)	119,984	4,660	18,239	-	-	5,345	-	15,354	-	-
Estimated third-party payor settlements	7,909	-	1,613	-	6,296	-	-	-	-	-	-	-
Assets limited as to use—held by trustee	9,439	-	7,245	-	2,194	-	-	-	-	-	-	-
Inventories	14,480	-	7,133	-	1,809	2,290	293	192	-	2,763	-	-
Other current assets	33,290	(553)	17,587	1,098	497	10,074	1,383	112	2,088	207	797	-
<b>Total current assets</b>	<b>318,300</b>	<b>(7,782)</b>	<b>189,640</b>	<b>12,511</b>	<b>38,401</b>	<b>29,290</b>	<b>2,226</b>	<b>6,268</b>	<b>9,595</b>	<b>37,216</b>	<b>935</b>	<b>-</b>
Assets limited as to use												
Funds held by trustee, net of current portion	13,639	-	13,639	-	-	-	-	-	-	-	-	-
Board-designated funds	353,076	-	289,685	-	31,220	-	32,171	-	-	-	-	-
Reinsurance trust assets	11,934	-	-	-	-	-	-	-	-	-	11,934	-
Property, plant and equipment, net	545,446	-	400,950	4,685	44,407	45,309	5,571	2,142	150	42,232	-	-
Investments in unconsolidated affiliates	25,924	(136,641)	95,139	-	584	7,996	57,321	-	1,525	-	-	-
Intangible assets, net of accumulated amortization	7,574	-	7,010	-	517	-	-	-	-	-	47	-
Prepaid pension and postretirement assets	22,253	-	22,253	-	-	-	-	-	-	-	-	-
Other assets	6,516	-	3,588	-	-	1,717	1,036	175	-	-	-	-
<b>Total assets</b>	<b>\$ 1,304,662</b>	<b>\$ (144,423)</b>	<b>\$ 1,021,904</b>	<b>\$ 17,196</b>	<b>\$ 115,129</b>	<b>\$ 84,312</b>	<b>\$ 98,325</b>	<b>\$ 8,585</b>	<b>\$ 11,270</b>	<b>\$ 79,448</b>	<b>\$ 12,916</b>	<b>\$ -</b>
<b>Liabilities and fund balance</b>												
Current liabilities												
Current portion of long-term debt	\$ 15,666	\$ -	\$ 12,471	\$ -	\$ 1,562	\$ 980	\$ -	\$ -	\$ -	\$ 653	\$ -	\$ -
Accounts payable	33,351	2,964	20,089	1,028	1,594	4,760	306	413	-	2,157	40	-
Accrued salaries and wages	38,646	-	26,793	2,958	4,845	1,603	-	1,049	-	1,398	-	-
Accrued interest	3,874	-	2,720	-	920	234	-	-	-	-	-	-
Estimated third-party payor settlements	1,905	-	1,455	-	300	-	-	-	-	150	-	-
Incurred but not reported	33,184	(7,229)	4,730	-	365	174	-	-	22,837	-	12,307	-
Other current liabilities	12,006	(3,517)	5,872	1,229	3,124	3,236	-	-	983	630	449	-
Short-term borrowings	13,500	-	-	-	-	13,500	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>152,132</b>	<b>(7,782)</b>	<b>74,130</b>	<b>5,215</b>	<b>12,710</b>	<b>24,487</b>	<b>306</b>	<b>1,462</b>	<b>23,820</b>	<b>4,988</b>	<b>12,796</b>	<b>-</b>
Accrued postretirement benefit cost	3,269	-	3,269	-	-	-	-	-	-	-	-	-
Accrued pension costs	42,799	-	35,306	-	-	1,591	-	5,522	-	380	-	-
Due from unconsolidated affiliates and related parties	16,712	-	(34,940)	15,864	(391)	(15,477)	445	6,657	(1,740)	42,158	-	4,136
Long-term debt, net of current portion	372,999	-	342,727	-	27,332	2,940	-	-	-	-	-	-
Other liabilities	2,742	-	2,742	-	-	-	-	-	-	-	-	-
Minority interest	12,633	(1,505)	688	-	-	13,450	-	-	-	-	-	-
<b>Net assets</b>												
Unrestricted	692,643	(135,136)	597,982	(3,883)	75,478	57,321	88,841	(5,056)	(10,810)	31,922	120	(4,136)
Temporarily restricted	4,726	-	-	-	-	-	4,726	-	-	-	-	-
Permanently restricted	4,007	-	-	-	-	-	4,007	-	-	-	-	-
<b>Total net assets</b>	<b>701,376</b>	<b>(135,136)</b>	<b>597,982</b>	<b>(3,883)</b>	<b>75,478</b>	<b>57,321</b>	<b>97,574</b>	<b>(5,056)</b>	<b>(10,810)</b>	<b>31,922</b>	<b>120</b>	<b>(4,136)</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,304,662</b>	<b>\$ (144,423)</b>	<b>\$ 1,021,904</b>	<b>\$ 17,196</b>	<b>\$ 115,129</b>	<b>\$ 84,312</b>	<b>\$ 98,325</b>	<b>\$ 8,585</b>	<b>\$ 11,270</b>	<b>\$ 79,448</b>	<b>\$ 12,916</b>	<b>\$ -</b>

**Community Health Network**  
**Consolidating Balance Sheet (in 000's)**  
**December 31, 2006**

	Consolidated	Eliminations	CHI	CPI	CHA	VEI	Foundation	CHHS	ProHealth	TIHH	CHN	CBI
<b>Assets</b>												
Current assets												
Cash and cash equivalents	\$ 145,186	\$ -	\$ 48,730	\$ 17,669	\$ 4,625	\$ 38,659	\$ 1,458	\$ 834	\$ 14,536	\$ 18,542	\$ 133	\$ -
Patient accounts receivable, net	137,175	(11,145)	106,452	4,358	16,598	-	-	5,356	-	15,556	-	-
Estimated third-party payor settlements	6,454	-	6,233	-	221	-	-	-	-	-	-	-
Assets limited as to use—held by trustee	55,524	-	53,370	-	2,154	-	-	-	-	-	-	-
Inventories	13,417	-	6,409	-	1,961	1,958	178	339	-	2,572	-	-
Other current assets	31,869	(529)	14,578	396	1,041	11,740	1,253	92	2,220	280	798	-
<b>Total current assets</b>	<b>389,625</b>	<b>(11,674)</b>	<b>235,772</b>	<b>22,423</b>	<b>26,600</b>	<b>52,357</b>	<b>2,889</b>	<b>6,621</b>	<b>16,756</b>	<b>36,950</b>	<b>931</b>	<b>-</b>
Assets limited as to use												
Funds held by trustee, net of current portion	13,096	-	13,096	-	-	-	-	-	-	-	-	-
Board-designated funds	262,930	-	203,980	-	29,226	-	29,724	-	-	-	-	-
Reinsurance trust assets	9,900	-	-	-	-	-	-	-	-	-	9,900	-
Property, plant and equipment, net	509,275	-	357,644	3,846	48,864	45,595	4,431	1,945	65	46,885	-	-
Investments in unconsolidated affiliates	23,220	(85,649)	49,450	-	608	6,952	50,334	-	1,525	-	-	-
Intangible assets, net of accumulated amortization	8,084	-	7,443	-	589	-	-	-	-	-	52	-
Other assets	4,974	-	3,133	-	-	569	1,097	175	-	-	-	-
<b>Total assets</b>	<b>\$ 1,221,104</b>	<b>\$ (97,323)</b>	<b>\$ 870,518</b>	<b>\$ 26,269</b>	<b>\$ 105,887</b>	<b>\$ 105,473</b>	<b>\$ 88,475</b>	<b>\$ 8,741</b>	<b>\$ 18,346</b>	<b>\$ 83,835</b>	<b>\$ 10,883</b>	<b>\$ -</b>
<b>Liabilities and fund balance</b>												
Current liabilities												
Current portion of long-term debt	\$ 11,752	\$ -	\$ 8,425	\$ -	\$ 1,285	\$ 980	\$ -	\$ 5	\$ -	\$ 1,057	\$ -	\$ -
Accounts payable	40,731	1,966	25,299	3,232	1,982	5,828	160	514	-	1,713	37	-
Accrued salaries and wages	31,071	-	21,595	2,063	3,885	1,297	-	995	-	1,236	-	-
Accrued interest	4,001	-	2,869	-	947	182	-	-	-	3	-	-
Estimated third-party payor settlements	2,556	-	755	-	351	-	-	-	-	1,450	-	-
Incurred but not reported	27,470	(11,145)	5,058	-	376	186	-	-	22,810	-	10,185	-
Other current liabilities	9,188	(2,495)	5,860	-	1,820	1,417	-	-	50	1,995	541	-
Short-term borrowings	13,500	-	-	-	-	13,500	-	-	-	-	-	-
<b>Total current liabilities</b>	<b>140,269</b>	<b>(11,674)</b>	<b>69,861</b>	<b>5,295</b>	<b>10,646</b>	<b>23,390</b>	<b>160</b>	<b>1,514</b>	<b>22,860</b>	<b>7,454</b>	<b>10,763</b>	<b>-</b>
Accrued postretirement benefit cost	3,003	-	3,003	-	-	-	-	-	-	-	-	-
Accrued pension costs	30,654	-	23,971	-	-	1,681	-	4,359	-	643	-	-
Due from unconsolidated affiliates and related parties	10,290	-	(102,704)	41,335	3,080	12,965	495	5,695	2,152	45,593	-	1,679
Long-term debt, net of current portion	390,297	-	357,291	-	29,080	3,926	-	-	-	-	-	-
Other liabilities	2,791	-	2,791	-	-	-	-	-	-	-	-	-
Minority interest	10,012	(3,866)	701	-	-	13,177	-	-	-	-	-	-
<b>Net assets</b>												
Unrestricted	625,071	(81,783)	515,604	(20,361)	63,081	50,334	79,103	(2,827)	(6,666)	30,145	120	(1,679)
Temporarily restricted	4,739	-	-	-	-	-	4,739	-	-	-	-	-
Permanently restricted	3,978	-	-	-	-	-	3,978	-	-	-	-	-
<b>Total net assets</b>	<b>633,788</b>	<b>(81,783)</b>	<b>515,604</b>	<b>(20,361)</b>	<b>63,081</b>	<b>50,334</b>	<b>87,820</b>	<b>(2,827)</b>	<b>(6,666)</b>	<b>30,145</b>	<b>120</b>	<b>(1,679)</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,221,104</b>	<b>\$ (97,323)</b>	<b>\$ 870,518</b>	<b>\$ 26,269</b>	<b>\$ 105,887</b>	<b>\$ 105,473</b>	<b>\$ 88,475</b>	<b>\$ 8,741</b>	<b>\$ 18,346</b>	<b>\$ 83,835</b>	<b>\$ 10,883</b>	<b>\$ -</b>

**Community Health Network**  
**Consolidating Statement of Operations and Changes in Net Assets (in 000's)**  
**December 31, 2007**

	Consolidated	Eliminations	CHI	CPI	CHA	VEI	Foundation	CHHS	ProHealth	TIHH	CHN	CBI
<b>Change in unrestricted net assets</b>												
Revenues and gains												
Net patient service revenue	\$ 1,006,021	\$ 365	\$ 700,724	\$ 60,371	\$ 127,455	\$ -	\$ -	\$ 21,773	\$ -	\$ 95,333	\$ -	\$ -
Managed care risk revenue	37,915	(88,879)	-	-	-	-	-	-	126,794	-	-	-
Service fee revenue	26,306	(87,283)	-	-	-	104,971	-	-	6,894	-	1,724	-
Other revenue	86,092	(21,562)	54,010	1,900	6,297	26,333	6,410	342	901	2,470	-	8,991
Equity in earnings of unconsolidated affiliates	14,694	(14,131)	23,717	-	309	4,799	-	-	-	-	-	-
Total unrestricted revenues and gains	1,171,028	(211,490)	778,451	62,271	134,061	136,103	6,410	22,115	134,589	97,803	1,724	8,991
Operating expenses												
Salaries and benefits	518,215	(357)	244,290	62,944	64,554	46,830	1,112	14,495	-	24,418	-	59,929
Supplies and other expenses	446,400	(100,960)	325,809	20,356	41,009	57,484	5,378	6,910	1,457	45,298	2,332	41,327
Management services	-	-	70,896	3,177	1,087	3,011	165	1,175	5,283	5,539	-	(90,333)
Health service claims expense	43,102	(88,879)	-	-	-	-	-	-	131,981	-	-	-
Depreciation and amortization	55,732	-	36,251	1,346	7,112	4,450	174	696	12	5,691	-	-
Provision for bad debts	55,335	(2,803)	44,604	1,116	7,667	62	240	1,050	-	2,872	-	527
Interest and financing costs	19,714	(4,360)	16,443	-	1,897	2,109	-	41	-	3,584	-	-
Total operating expenses	1,138,498	(197,359)	738,293	88,939	123,326	113,946	7,069	24,367	138,733	87,402	2,332	11,450
Income (loss) from operations	32,530	(14,131)	40,158	(26,668)	10,735	22,157	(659)	(2,252)	(4,144)	10,401	(608)	(2,459)
Investment income												
Net cumulative unrealized gains transferred to trading securities	29,599	-	21,421	-	3,634	-	4,544	-	-	-	-	-
Minority interest	(6,633)	3,681	(94)	-	-	(10,220)	-	-	-	-	-	-
Other, net	(74)	(6,987)	-	(2)	(48)	(111)	6,987	37	-	50	-	-
Excess (deficiency) of revenues over (under) expenses before income taxes	81,214	(17,437)	81,533	(26,670)	16,031	11,826	14,298	(2,215)	(4,144)	10,451	-	(2,459)
Provision for income taxes	5,711	-	872	-	-	4,839	-	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenses	75,503	(17,437)	80,661	(26,670)	16,031	6,987	14,298	(2,215)	(4,144)	10,451	-	(2,459)
Adoption of SFAS No. 158- prepaid pension and postretirement assets												
Change in net unrealized investment gain and losses on other than trading securities and other changes	(586)	(35,916)	885	43,148	-	-	(17)	(14)	-	(8,674)	-	2
Net cumulative unrealized gains transferred to trading securities	(29,599)	-	(21,421)	-	(3,634)	-	(4,544)	-	-	-	-	-
Increase (decrease) in unrestricted net assets	\$ 67,571	\$ (53,353)	\$ 82,378	\$ 16,478	\$ 12,397	\$ 6,987	\$ 9,737	\$ (2,229)	\$ (4,144)	\$ 1,777	\$ -	\$ (2,457)
<b>Change in temporarily restricted net assets</b>												
Restricted contributions received	\$ 1,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,359	\$ -	\$ -	\$ -	\$ -	\$ -
Net assets released from restrictions	(1,679)	-	-	-	-	-	(1,679)	-	-	-	-	-
Investment income	308	-	-	-	-	-	308	-	-	-	-	-
Increase (decrease) in temporarily restricted net assets	\$ (12)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12)	\$ -	\$ -	\$ -	\$ -	\$ -

**Community Health Network**  
**Consolidating Statement of Operations and Changes in Net Assets (in 000's), continued**  
**December 31, 2007**

	Consolidated	Eliminations	CHI	CPI	CHA	VEI	Foundation	CHHS	ProHealth	TIHH	CHN	CBI
<b>Change in permanently restricted net assets</b>												
Restricted contributions received	\$ 16	- \$	- \$	- \$	- \$	- \$	16 \$	- \$	- \$	- \$	- \$	- \$
Other	13	-	-	-	-	-	13	-	-	-	-	-
Increase in permanently restricted net assets	29	-	-	-	-	-	29	-	-	-	-	-
Increase (decrease) in net assets	67,588	(53,353)	82,378	16,478	12,397	6,987	9,754	(2,229)	(4,144)	1,777	-	(2,457)
Net assets, beginning of year	633,788	(81,783)	515,604	(20,361)	63,081	50,334	87,820	(2,827)	(6,666)	30,145	120	(1,679)
Net assets, end of year	\$ 701,376	\$ (135,136)	\$ 597,982	\$ (3,883)	\$ 75,478	\$ 57,321	\$ 97,574	\$ (5,056)	\$ (10,810)	\$ 31,922	\$ 120	\$ (4,136)

**Community Health Network**  
**Consolidating Statement of Operations and Changes in Net Assets (in 000's)**  
**December 31, 2006**

	Consolidated	Eliminations	CHI	CPI	CHA	VEI	Foundation	CHHS	ProHealth	TIHH	CHN	CBI
<b>Change in unrestricted net assets</b>												
Revenues and gains												
Net patient service revenue	\$ 934,632	\$ -	\$ 651,765	\$ 56,439	\$ 112,898	\$ -	\$ -	\$ 21,576	\$ -	\$ 91,954	\$ -	\$ -
Managed care risk revenue	51,167	(73,849)	-	-	-	-	-	-	125,016	-	-	-
Service fee revenue	24,019	(76,116)	-	-	-	92,624	-	-	7,497	-	14	-
Other revenue	66,781	(21,595)	45,074	858	4,625	22,512	8,458	165	1,167	2,467	-	3,050
Equity in earnings of unconsolidated affiliates	12,718	(11,206)	19,457	-	(62)	4,529	-	-	-	-	-	-
Total unrestricted revenues and gains	1,089,317	(182,766)	716,296	57,297	117,461	119,665	8,458	21,741	133,680	94,421	14	3,050
Operating expenses												
Salaries and benefits	464,832	(230)	215,953	56,201	61,673	41,726	917	13,874	-	22,850	-	51,868
Supplies and other expenses	389,182	(91,462)	295,152	15,692	36,591	48,888	4,143	7,372	1,323	45,632	370	25,481
Management services	-	-	56,674	2,869	1,248	3,239	154	1,127	5,291	5,162	-	(75,764)
Health service claims expense	53,092	(73,931)	-	-	-	-	-	-	127,023	-	-	-
Depreciation and amortization	46,438	-	28,683	1,136	6,788	3,737	88	541	14	5,451	-	-
Provision for bad debts	55,600	(252)	43,710	1,743	6,067	(147)	-	1,071	-	3,408	-	-
Interest and financing costs	12,178	(6,088)	9,060	-	2,020	2,015	-	34	-	5,137	-	-
Total operating expenses	1,021,322	(171,963)	649,232	77,641	114,387	99,458	5,302	24,019	133,651	87,640	370	1,585
Income (loss) from operations	67,995	(10,803)	67,064	(20,344)	3,074	20,207	3,156	(2,278)	29	6,781	(356)	1,465
Investment income												
Minority interest	16,462	-	12,759	-	3,347	-	-	-	-	-	356	-
Other, net	(4,859)	4,061	(72)	-	-	(8,848)	-	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenses before income taxes	79,737	(13,355)	79,751	(20,360)	6,294	11,679	9,769	(2,278)	29	6,743	-	1,465
Provision for income taxes	4,942	-	(87)	-	-	5,066	-	-	(37)	-	-	-
Excess (deficiency) of revenues over (under) expenses	74,795	(13,355)	79,838	(20,360)	6,294	6,613	9,769	(2,278)	66	6,743	-	1,465
Change in net unrealized investment gain and losses on other than trading securities and other changes												
Increase (decrease) in unrestricted net assets	7,362	(357)	7,981	(1)	112	-	155	(16)	1	(594)	81	-
	\$ 82,157	\$ (13,712)	\$ 87,819	\$ (20,361)	\$ 6,406	\$ 6,613	\$ 9,924	\$ (2,294)	\$ 67	\$ 6,149	\$ 81	\$ 1,465
<b>Change in temporarily restricted net assets</b>												
Restricted contributions received	\$ 1,445	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,445	\$ -	\$ -	\$ -	\$ -	\$ -
Net assets released from restrictions	(1,127)	-	-	-	-	-	(1,127)	-	-	-	-	-
Investment income	302	-	-	-	-	-	302	-	-	-	-	-
Increase in temporarily restricted net assets	\$ 620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 620	\$ -	\$ -	\$ -	\$ -	\$ -

**Community Health Network**  
**Consolidating Statement of Operations and Changes in Net Assets (in 000's), continued**  
**December 31, 2006**

	Consolidated	Eliminations	CHI	CPI	CHA	VEI	Foundation	CHHS	ProHealth	TIHH	CHN	CBI
<b>Change in permanently restricted net assets</b>												
Restricted contributions received	\$ 480	-	\$ -	\$ -	\$ -	\$ -	\$ 480	\$ -	\$ -	\$ -	\$ -	\$ -
Increase in permanently restricted net assets	480	-	-	-	-	-	480	-	-	-	-	-
Increase (decrease) in net assets	83,257	(13,712)	87,819	(20,361)	6,406	6,613	11,024	(2,294)	67	6,149	81	1,465
Net assets, beginning of year	550,531	(68,071)	427,785	-	56,675	43,721	76,796	(533)	(6,733)	23,996	39	(3,144)
Net assets, end of year	\$ 633,788	\$ (81,783)	\$ 515,604	\$ (20,361)	\$ 63,081	\$ 50,334	\$ 87,820	\$ (2,827)	\$ (6,666)	\$ 30,145	\$ 120	\$ (1,679)