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+ KNIGHT^{PC}
Certified Public Accountants



Audited Consolidated Financial
Statements and Other
Financial Information

**MediCorp Health System
and Subsidiaries**

December 31, 2008 and 2007

MediCorp Health System and Subsidiaries
Consolidated Financial Statements and Other Financial Information

Years ended December 31, 2008 and 2007

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Report of Independent Auditors

Board of Trustees
MediCorp Health System and Subsidiaries

We have audited the accompanying consolidated balance sheets of MediCorp Health System and subsidiaries (MediCorp) as of December 31, 2008 and 2007, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MediCorp's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MediCorp Health System and subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and 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.

Cohen, Rutherford + Knight, P.C.

April 10, 2009

MediCorp Health System and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 75,987,199	\$ 45,423,536
Accounts receivable:		
Patient accounts receivable, less allowance for uncollectible accounts of \$18,516,309 in 2008 and \$18,592,755 in 2007 (Note 10)	63,796,283	65,317,849
Settlements due from third parties	2,040,739	2,027,844
Other	3,218,631	3,140,899
	69,055,653	70,486,592
Current portion of assets whose use is limited (Note 2)	6,483,838	6,483,837
Inventories	7,206,305	7,137,035
Prepaid expenses and other	4,659,898	2,265,636
Total current assets	163,392,893	131,796,636
Assets whose use is limited (Note 2):		
Internally designated for healthcare programs and capital acquisitions	99,283,899	129,148,188
Internally restricted for malpractice claims	10,268,239	11,604,915
Externally restricted by donors	11,764,321	14,162,032
Externally restricted under bond indenture agreement (held by trustees)	24,888,897	85,428,043
Other	-	18,143
	146,205,356	240,361,321
Less amounts available for current liabilities	6,483,838	6,483,837
	139,721,518	233,877,484
Property, plant and equipment, less accumulated depreciation and amortization of \$301,176,278 in 2008 and \$282,918,598 in 2007 (Note 4)	326,866,588	270,290,477
Other assets:		
Notes receivable	2,709,047	2,340,840
Deferred financing costs, less accumulated amortization of \$391,215 in 2008 and \$364,440 in 2007	1,834,051	1,943,031
Miscellaneous	3,833,849	3,676,956
	8,376,947	7,960,827
Total assets	\$ 638,357,946	\$ 643,925,424

MediCorp Health System and Subsidiaries

Consolidated Balance Sheets

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses	\$ 32,399,271	\$ 17,020,749
Employee compensation and professional fees	26,001,606	20,566,052
Interest payable	690,020	649,042
Current portion of accrued losses on insurance claims <i>(Note 7)</i>	-	1,010,000
Pension liability, current portion <i>(Note 6)</i>	5,000,000	14,000,000
Current maturities of long-term obligations <i>(Notes 5 and 9)</i>	7,639,673	7,022,025
Total Current Liabilities	71,730,570	60,267,868

Long-term obligations, less current maturities <i>(Notes 5 and 9)</i>	295,969,442	303,850,481
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Other liabilities:

Accrued losses on malpractice claims <i>(Note 7)</i>	12,511,402	8,845,902
Pension liability <i>(Note 6)</i>	44,577,798	11,948,206
Other	47,358	708,326
Noncontrolling interest	4,843,340	5,825,342
	61,979,898	27,327,776

Total liabilities	429,679,910	391,446,125
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Net assets:

Unrestricted	196,965,231	238,317,267
Temporarily restricted <i>(Note 3)</i>	10,362,939	12,813,855
Permanently restricted <i>(Note 3)</i>	1,349,866	1,348,177
	208,678,036	252,479,299

Total liabilities and net assets	\$ 638,357,946	\$ 643,925,424
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See accompanying notes.

MediCorp Health System and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year ended December 31	
	2008	2007
Unrestricted net assets		
Revenues and other support:		
Net patient service revenue	\$ 563,205,790	\$ 502,107,924
Retail and pharmacy sales	5,723,567	5,413,496
Rental of facilities	3,792,200	3,773,428
Management and personnel services	4,966,891	4,138,782
Investment income <i>(Note 2)</i>	6,337,128	7,057,111
Unrestricted contributions	1,009,348	710,751
Other	10,799,171	11,027,699
	595,834,095	534,229,191
Expenses <i>(Note 8)</i>		
Salaries and wages	201,887,564	183,302,370
Employee benefits <i>(Note 6)</i>	49,734,957	49,021,672
Contract personnel	22,720,529	18,228,766
Professional fees	32,465,332	30,098,981
General and administrative	13,782,650	14,975,556
Provisions for depreciation and amortization	27,339,980	26,424,554
Interest <i>(Note 5)</i>	8,409,369	8,498,112
Cost of pharmacy, construction services and other	4,940,165	4,864,788
Contract services	30,179,585	25,860,372
Supplies	97,880,953	88,926,283
Utilities	4,765,781	4,543,006
Insurance <i>(Note 7)</i>	4,787,944	4,334,684
Rent	8,235,471	7,799,095
Provision for bad debts	58,669,288	48,889,720
Other	4,467,624	5,203,449
	570,267,192	520,971,408
Income from operations	25,566,903	13,257,783
Nonoperating gains (losses):		
Net appreciation (depreciation) of investments <i>(Note 2)</i>	(34,539,166)	2,049,139
Gain (loss) on disposal of fixed assets	124,687	(25,322)
Loss on investments in partnerships and other	(633,184)	(532,741)
Excess (deficit) of revenues, gains and other support over expenses and losses before noncontrolling interest	(9,480,760)	10,665,299
Noncontrolling interest	(4,168,902)	(2,844,298)
Excess (deficit) of revenues, gains and other support over expenses and losses	\$ (13,649,662)	\$ 7,821,001

(continued)

MediCorp Health System and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets - continued

	Year ended December 31	
	2008	2007
Unrestricted net assets		
Excess (deficit) of revenues, gains and other support over expenses and losses	\$ (13,649,662)	\$ 7,821,001
Other changes in unrestricted net assets:		
Loss from operations of discontinued business	(3,799,231)	-
Gain from sale of discontinued operations	9,738,978	-
Adjustments to net pension liability exclusive of net periodic pension cost (<i>Note 6</i>)	(31,849,381)	(13,891,697)
Other	(1,792,740)	(654,933)
	(41,352,036)	(6,725,629)
Temporarily restricted net assets		
Contributions	877,395	976,485
Investment income (<i>Note 2</i>)	129,737	717,291
Net assets released from restrictions used in operations	(163,527)	(1,201,193)
Net assets released from restrictions for purchase of property, plant and equipment	(121,063)	(1,590,592)
Unrealized gain (loss) on investments (<i>Note 2</i>)	(2,559,331)	393,559
Other	(614,127)	(563,132)
	(2,450,916)	(1,267,582)
Permanently restricted net assets		
Contributions	1,689	1,634
Increase in permanently restricted net assets	1,689	1,634
Decrease in net assets	(43,801,263)	(7,991,577)
Net assets at beginning of year	252,479,299	260,470,876
Net assets at end of year	\$ 208,678,036	\$ 252,479,299

See accompanying notes.

MediCorp Health System and Subsidiaries
Consolidated Statements of Cash Flows

	Year ended December 31	
	2008	2007
Cash flows from operating activities and nonoperating gains (losses)		
Decrease in net assets	(\$43,801,263)	\$ (7,991,577)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and nonoperating gains (losses):		
Net (appreciation) depreciation of investments	34,539,166	(2,442,697)
Other nonoperating losses	633,184	(955,427)
Loss on extinguishment of long-term obligations	-	4,083,560
Gain on disposal of fixed assets	(124,687)	(25,321)
Provisions for depreciation and amortization	27,339,980	26,424,554
Amortization of original issue premium and discount	(495,630)	-
Provision for bad debts	58,669,288	48,889,721
Noncontrolling interest	4,168,902	2,844,298
Restricted contributions received	(121,063)	(1,590,592)
Change in assets whose use is limited:		
Net decrease in cash and cash equivalents	146,097,757	54,760,148
Purchases of investments	(139,592,227)	(110,780,921)
Sales of investments	51,929,825	92,712,008
Pledges received	(117,874)	(43,889)
Payments received on pledges receivable	1,420,381	1,098,506
(Increase) decrease in:		
Accounts receivable	(57,225,454)	(55,503,610)
Settlements due from third-party programs	(12,895)	(1,964,027)
Inventories	(69,270)	(1,130,135)
Prepaid expenses and other	(2,394,262)	1,794,141
Miscellaneous	(935,777)	2,427,499
Increase (decrease) in:		
Accounts payable and accrued expenses	15,378,522	(5,640,669)
Employee compensation and professional fees	5,435,554	(1,288,809)
Interest payable	40,978	(39,655)
Insurance claims	2,655,500	2,590,641
Pension liability	23,629,592	14,788,327
Net cash provided by operating activities and nonoperating gains (losses)	127,048,227	63,016,074

(continued)

MediCorp Health System and Subsidiaries

Consolidated Statements of Cash Flows – continued

	Year ended December 31	
	2008	2007
Cash flows from investing activities		
Acquisition of property, plant and equipment	(88,185,855)	(73,811,977)
Disposal of property, plant and equipment, net	3,661,844	360,411
Changes in notes receivable	(368,207)	(883,610)
Net cash used in investing activities	(84,892,218)	(74,971,217)
Cash flows from financing activities		
Proceeds from issuance of long-term obligations	-	97,866,306
Repayment of long-term obligations	(6,562,505)	(5,629,627)
Refunding of long-term obligations	-	(82,890,000)
Decrease in deferred financing costs	-	(2,144,185)
Original issue premium	-	5,008,312
Proceeds from restricted contributions	121,063	1,590,592
Distributions to noncontrolling interest holders	(5,150,904)	(2,131,780)
Net cash provided by (used in) financing activities	(11,592,346)	12,305,659
Net increase in cash and cash equivalents	30,563,663	350,516
Cash and cash equivalents at beginning of year	45,423,536	45,073,020
Cash and cash equivalents at end of year	\$ 75,987,199	\$ 45,423,536

See accompanying notes.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

Organization

MediCorp Health System (MediCorp) is the parent corporation for Mary Washington Hospital, Inc. (the Hospital), MediCorp at Stafford, LLC (Stafford Hospital Center), Mary Washington Hospital Foundation, Inc. (the Foundation), Stafford Hospital Center Foundation, Inc. (Stafford Foundation), MediCorp Properties, Inc. (Properties), MediCorp Clinical Services, Inc. (Clinical Services), MediCorp Services, Inc. (Services), and Fredericksburg Professional Risk Exchange (ProRex). MediCorp is a nonstock, tax-exempt, not-for-profit organization. The Hospital, Stafford Hospital Center, the Foundation, Stafford Foundation, Properties, and Clinical Services are wholly-owned, nonstock, tax-exempt, not-for-profit subsidiaries of MediCorp. Services is a wholly-owned, taxable subsidiary of MediCorp. ProRex is a majority owned, risk retention group and a taxable subsidiary of MediCorp.

Mission Statement

The primary purpose of MediCorp and its subsidiaries is to improve the health status of all people within its community. As such, operating revenues include those generated from direct patient and resident care and sundry revenues related to the operation of MediCorp's facilities.

Operating Indicator

MediCorp's excess (deficit) of revenues, gains and other support over expenses and losses include all unrestricted revenue, gains, expenses and losses for the reporting period except for contributions of long-term assets, discontinued operations and additional minimum pension liability adjustments. Realized gains on sales of fixed assets held by Properties are also considered to be operating activities.

Other activities that result in gains or losses unrelated to MediCorp's primary mission are considered to be nonoperating. Nonoperating gains and losses principally include income and expenses associated with investments in partnerships and joint ventures, as well as the net appreciation (depreciation) on investments and gains (losses) on the sales of fixed assets other than those owned by Properties.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Service to the Community

MediCorp provides exceptional medical services to the City of Fredericksburg and surrounding counties. Established in 1899, the Hospital, a 442 bed acute care facility, offers comprehensive healthcare and multiple centers of excellence including cardiology and cardiovascular surgery, psychiatry, and women and infant health. The Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations and licensed by the Commonwealth of Virginia Department of Health and the Department of Mental Health, Mental Retardation and Substance Abuse Services. The Hospital also provides advanced radiation therapy through the Cancer Center of Virginia and home health services through Mary Washington Home Health.

Uncompensated Care

It is MediCorp's vision to build a healthier community by promoting and providing access to healthcare services to low income residents throughout the City of Fredericksburg and surrounding counties. Regardless of the ability to pay, MediCorp provides a full spectrum of inpatient and outpatient services to members of our community, including approximately 8,000 visits per year to the indigent clinic supported by MediCorp. The indigent clinic is committed to providing access to quality health care services to low-income, uninsured residents in the service area.

MediCorp accepts all patients regardless of their ability to pay. Patients are classified as charity care patients according to MediCorp's established policies. Amounts determined to qualify as charity care are not pursued for collections, and accordingly are not reported as patient revenue. Unbilled charges for charity care provided for the years ended December 31, 2008 and 2007 were approximately \$47,200,000 and \$41,700,000 respectively. The costs associated with this care equate to approximately \$19,300,000 in 2008 and \$17,600,000 in 2007.

The Commonwealth of Virginia's Medicaid program only partially covers the cost of caring for low-income patients who benefit from the program. Unreimbursed cost provided to Medicaid beneficiaries was approximately \$16,860,400 and \$8,100,000, respectively, in 2008 and 2007.

In assessing a patient's inability to pay, MediCorp utilizes 200% of the poverty level established by the Federal government. In 2006, MediCorp began providing additional discounts on a sliding scale up to 400% of the poverty level. The discount currently extended approximated \$6,604,000 and \$6,262,000 in 2008 and 2007, respectively.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Service to the Community (continued)

Support for Medical Education Programs

The Foundation awards educational scholarships to individuals enrolled in a nursing program or wish to pursue a health care field. MediCorp encourages and provides financial support for all employees who wish to increase their healthcare knowledge. MediCorp also provides financial assistance to employees to attend training to acquire skills and knowledge that will assist in providing health care education and/or conduct health fairs that will improve the health status of the community. The Hospital serves as a clinical training site for undergraduate students enrolled in various healthcare programs with colleges and universities throughout Virginia.

Other Community Services

MediCorp also provides:

- funding to community organizations that are health-focused, such as the Lloyd Moss Free Clinic, the Medication Access Program and the Mary Washington Hospital Auxiliary Mobile Health Clinic,
- clinical programs that assist many people who would not otherwise be able to access care, such as the Mobile Mammography Unit and MWH Auxiliary Regional Mobile Health Clinic,
- health promotion programs and services, such as smoking cessation, blood pressure screenings and wellness programs, and
- social services to assist patients in arranging for non-hospital healthcare services.

Basis for Consolidation

The consolidated financial statements include the accounts of MediCorp and its wholly owned subsidiaries and majority-owned partnerships. Significant intercompany accounts and transactions are eliminated in consolidation.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Noncontrolling Interest

Noncontrolling interest represents the minority partners' proportionate share of Tompkins-Martin Medical Plaza, L.P. (TMMP), owned 80% (79% in 2007) by Properties; Medical Imaging of Fredericksburg (MIF), owned 51% by Clinical Services; Fredericksburg Ambulatory Surgery Center, LLC (FASC), owned 79% (89% in 2007) by Clinical Services; Virginia Urgent Care, LLC, a new joint venture for 2008, owned 80% by Clinical Services; and Fredericksburg Professional Risk Exchange (ProRex), owned 97% by MediCorp.

In 2008, North Stafford Medical Mall Partnership (NSMM) was dissolved and the operations were taken over by Properties. Properties owned 87% in 2007.

Use of Estimates

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

Cash Equivalents

MediCorp considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are maintained in commercial banks, for which the aggregate of \$250,000 per commercial bank is insured by the Federal Deposit Insurance Corporation (FDIC). The System's cash balance routinely exceeds the maximum amount insured by the FDIC.

Allowance for Uncollectible Accounts

MediCorp provides an allowance for uncollectible accounts on its outstanding accounts receivable based on its collection history, and generally does not require collateral to support outstanding balances.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market.

Assets Whose Use is Limited

Unrestricted resources appropriated or designated by the Board of Trustees for long-term purposes are reported as assets whose use is limited. Such long-term purposes include acquisition of capital assets, payment of health and malpractice insurance claims, and a community service fund.

Assets whose use is limited also includes resources restricted for debt service under bond indenture agreements, resources restricted for malpractice claims and resources restricted by donors.

Assets whose use is limited are carried at fair value. The fair value of marketable equity securities, bonds and other investments are based on quoted market prices. Realized and unrealized gains and losses are excluded from income from operations. Cost used in the determination of gains and losses on sales of investments is based on the specific cost of the investment sold, adjusted for any other than temporary declines in the value of investments.

Property, Plant and Equipment

Property, plant and equipment purchased are reported on the basis of cost. Donated items are recorded at fair market value at the date of contribution. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The general range of useful lives estimated for buildings and building improvements is ten to forty years and for equipment is five to twenty-five years.

Notes Receivable

Notes receivable include amounts generated from sales of real estate and businesses, as well as the physician loan program, and have maturity dates ranging from one to five years.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Financing costs incurred in connection with issuance of long-term obligations are deferred and amortized using the effective interest method over the term of the related indebtedness.

Net Patient Care and Resident Services Revenue

Net patient care and resident services revenue is reported at the estimated net realizable amounts from patients and residents, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 25% and 5%, respectively, of MediCorp's net patient service revenue for the year ended December 31, 2008 (25% and 5%, respectively, in 2007). Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue decreased by approximately \$97,000 in 2008 due to changes in amounts previously estimated as a result of final settlements. No final settlements were received in 2007.

Net patient service revenue for MediCorp for the year ended December 31, 2008 includes approximately \$120,600,000, \$128,500,000 and \$23,900,000 (2007 – \$107,100,000, \$116,600,000 and \$22,800,000) for services provided to beneficiaries of Anthem BlueCross and Blue Shield of Virginia (Anthem), the Centers for Medicare and Medicaid Services (Medicare), and the Virginia Medical Assistance Program (Medicaid), respectively, under the provisions of reimbursement arrangements in effect that provide for payments to MediCorp at amounts different from its established rates.

A summary of the payment arrangements with major third-party payors follows:

- *Anthem*. Inpatient and outpatient services rendered to Anthem subscribers are reimbursed at prospectively determined discounted rates. The prospectively determined rates are not subject to retroactive adjustment.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Care and Resident Services Revenue (continued)

- *Medicare.* Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, defined capital costs and certain outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. Most outpatient services related to Medicare beneficiaries are also paid at prospectively determined rates based on clinical and diagnostic factors. The Hospital is reimbursed for certain indirect cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2006.
- *Medicaid.* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Inpatient non-acute services and certain outpatient services rendered to Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by Medicaid. The Hospital's Medicaid cost reports have been audited by Medicaid through December 31, 2000.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by MediCorp 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 MediCorp in perpetuity.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to MediCorp are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets as other income. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Income Taxes

MediCorp was recognized as a public charity generally exempt from federal income taxation under 501(c)(3) of the Internal Revenue Code pursuant to a determination letter issued by the IRS on March 1992. MediCorp is entitled to rely on this determination as long as there are no substantial changes in its character, purposes, or methods of operation. Management has concluded that there have been no such changes, and therefore MediCorp's status as a public charity exempt from federal income taxation remains in effect. The states in which MediCorp operates also provide general exemption from state income taxation for organizations that are exempt from federal income taxation. However, MediCorp is subject to both federal and state income taxation at corporate tax rates on its unrelated business income. Exemption from other state taxes, such as real and personal property taxes, is separately determined.

MediCorp had no unrecognized tax benefits or such amounts were immaterial during the periods presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required. Tax periods for which no return is filed remain open for examination indefinitely. All required tax filings have been filed on a timely basis.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Discontinued Operations

FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires, among other things, that the primary assets and liabilities and the results of operations of MediCorp's operations which were sold subsequent to January 1, 2002 be classified as discontinued operations and segregated in the consolidated statements of operations and changes in net assets.

On September 30, 2008, MediCorp sold certain assets and liabilities of Carriage Hill Rehabilitation and Nursing Center (Carriage Hill), a division of MediCorp Health Services, Inc, primarily the property, plant, and equipment. The results of operations for the years ended December 31, 2008 are classified on the consolidated statement of operations and changes in net assets as "income from operations of discontinued business". The net proceeds from the sale totaled approximately \$9,700,000. The gain on the sale of Carriage Hill assets is classified on the consolidated statement of operations and changes in net assets as "gain from sale of discontinued operations". At the date of the sale, the employees of Carriage Hill became employees of the buyer, and MediCorp did not incur any termination liabilities. The following table sets forth the components of discontinued operations for the year ended December 31, 2008.

	<u>2008</u>
Revenues	4,935,825
Expenses	<u>8,735,056</u>
Excess of revenues and gains over expenses	(3,799,231)
Gain from sale of discontinued operations	<u>9,738,978</u>
Gain on discontinued operations	<u><u>5,939,747</u></u>

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited

The fair market value of assets whose use is limited at December 31 are summarized as follows:

	2008	2007
Internally designated for healthcare programs and capital acquisitions:		
Cash and cash equivalents	\$ 7,311,851	\$ 89,295,608
Bonds and other debt securities	11,703,868	22,325,290
Marketable equity securities	51,939,030	17,524,937
Alternative investments	28,327,736	-
Other	1,414	2,353
	99,283,899	129,148,188
Internally designated for insurance claims:		
Cash and cash equivalents	312,737	385,584
Bonds and other debt securities	7,477,264	6,913,167
Marketable equity securities	2,478,238	4,306,164
	10,268,239	11,604,915
Externally restricted by donors:		
Cash and cash equivalents	246,008	3,748,015
Pledges receivable	3,966,588	5,147,093
Bonds and other debt securities	1,739,933	2,363,338
Marketable equity securities	5,811,792	2,903,586
	11,764,321	14,162,032
Externally restricted under bond indenture agreement (held by trustee):		
Cash and cash equivalents	24,888,897	85,428,043
Other:		
Cash and cash equivalents	-	18,143
	\$ 146,205,356	\$ 240,361,321

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

Investment income and gains (losses) on assets whose use is limited are comprised of the following for the year ended December 31:

	2008	2007
Revenue and other support:		
Interest and dividends	\$ 6,337,128	\$ 7,057,111
Nonoperating gains (losses):		
Net appreciation (depreciation) of investments	<u>(34,539,166)</u>	<u>2,049,139</u>
	<u>(28,202,038)</u>	<u>9,106,250</u>
Changes in temporarily restricted net assets:		
Interest and dividends	410,683	249,528
Net appreciation (depreciation) of investments	<u>(2,754,072)</u>	<u>861,322</u>
	<u>(2,343,389)</u>	<u>1,110,850</u>
	<u>\$ (30,545,427)</u>	<u>\$ 10,217,100</u>

In 2007, MediCorp reclassified its investment portfolio as “trading”. As a result, all gains and losses on investments, including realized, unrealized and impairment loss, are reported on the consolidated statements of operations as non-operating gains and losses.

Net appreciation (depreciation) of investments includes realized and unrealized gains (losses) on investments.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

Effective January 1, 2008, MediCorp adopted the provisions of FASB Statement No 157, *Fair Value Measurements* (SFAS 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements. Adopting SFAS 157 did not have a material impact on MediCorp's financial position and results of operations. SFAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2: Observable input other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate-debt securities, and alternative investments.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets(s) or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates, and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about MediCorp's business, its value, or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

Fair values for MediCorp's fixed maturity securities are based on prices provided by its investment managers, who use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's experience. MediCorp's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined by MediCorp from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

MediCorp's investments include investments in limited partnerships and other alternative investments, which are made in accordance with MediCorp's investment policies. The limited partnerships acquire, hold, invest, manage, dispose of, and otherwise deal in and with securities of all kinds and descriptions. Publicly traded securities are generally valued by reference to closing market prices on one or more national securities exchange or generally accepted pricing services selected by the fund managers of the limited partnership. Securities not valued by such pricing services will be valued upon bid quotations obtained from independent dealers in the securities.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

In the absence of any independent quotations, securities will be valued by the fund managers on the basis of data obtained from the best available sources. Investments in limited partnerships are accounted for under the equity method. The equity in earnings or losses from these investments is recorded as a component of investment income in the consolidated statement of operations. Although the various fund managers use their professional judgment at estimating the fair value of the alternative investments, there are inherent limitations in any valuation technique. Therefore, the value determined by fund managers is not necessarily indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of the fair value could be material.

The following table presents MediCorp's fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2008.

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$ 32,759,493	\$ -	\$ -	\$ 32,759,493
Bonds and other debt securities	12,348,692	8,572,373		20,921,065
Marketable equity securities	60,229,060		-	60,229,060
Alternative investments	-	-	28,327,736	28,327,736
Other	1,414	-	-	1,414
	\$ 105,338,659	\$ 8,572,373	\$ 28,327,736	\$ 142,238,768

In February 2007, the FASB issued FASB Statement No 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (SFAS 159), which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. MediCorp did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Restricted Net Assets

Temporarily restricted net assets are available at December 31 for the following purposes:

	2008	2007
Healthcare programs and services	\$ 9,574,618	\$ 11,592,951
Acquisition of building and equipment	96,524	157,642
Educational seminars, scholarships and other	691,797	1,063,262
	\$ 10,362,939	\$ 12,813,855

Permanently restricted net assets (\$1,349,866 and \$1,348,177 at December 31, 2008 and 2007, respectively) are restricted to investments in perpetuity, the income from which is expendable to support charitable purposes specified by the donors.

4. Property, Plant and Equipment

Property, plant and equipment at December 31 consist of the following:

	2008	2007
Land and land improvements	\$ 44,165,848	\$ 44,077,518
Buildings	181,892,888	186,148,238
Fixed equipment	74,439,481	75,251,891
Movable equipment	201,383,557	189,063,956
Construction in progress	126,161,092	58,667,472
	628,042,866	553,209,075
Less accumulated depreciation and amortization	301,176,278	282,918,598
	\$ 326,866,588	\$ 270,290,477

The estimated cost to complete construction in progress at December 31, 2008 is approximately \$20,800,000. This amount relates primarily to the construction of Stafford Hospital Center. Other amounts relate to the purchase of information systems, renovations at Mary Washington Hospital, and other construction projects.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations

Long-term obligations at December 31 consist of the following:

	<u>2008</u>	<u>2007</u>
Promissory note payable under the Voluntary Hospitals of America Mid-Atlantic States, Inc. Capital Asset Financing Program (the Program). Under this program, tax-exempt hospital revenue bonds were issued through the Industrial Development Authority of the City of Lynchburg, Virginia. Interest, which is adjustable monthly, is based upon the interest rate and debt issuance and service costs of the Program. The interest rate averaged 5.18% for the year ended December 31, 2008 (3.32% in 2007). Payments, including principal and interest, are due monthly through January 2013.	3,924,766	4,729,805
Mortgage note payable issued in January 2002 to the Industrial Development Authority of the City of Fredericksburg, Virginia, who in turn issued tax-exempt Hospital Facilities Revenue and Refunding Bonds (Series 2002 Bonds). The bonds mature in graduated annual amounts ranging from \$1,740,000 in 2006 to \$2,015,000 in 2009 and bear interest at varying rates ranging from 3.5% to 5.0%.	2,015,000	3,935,000

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

	2008	2007
<p>Mortgage note payable issued in September 2002 to the Industrial Development Authority of the City of Fredericksburg, Virginia, who in turn issued tax-exempt Revenue Bonds (Series 2002B). The Series 2002B Bonds are comprised of \$65,000,000 Term bonds. The term bonds mature on June 15, 2027 (\$21,965,000) and June 15, 2033 (\$43,035,000) and bear interest at 5.25% and 5.125%, respectively. The Hospital is required to make mandatory annual sinking fund payments ranging from \$4,985,000 in 2024 to \$8,125,000 in 2033.</p>	65,000,000	65,000,000
<p>Mortgage note payable issued in December 2006 to the Economic Development Authority of Stafford County, Virginia, who in turn issued tax-exempt Hospital Facilities Revenue Bonds (Series 2006). The bonds mature in graduated annual amounts ranging from \$560,000 in 2014 to \$4,435,000 in 2026 and bear interest at varying rates ranging from 4.0% to 5.25%.</p>	125,000,000	125,000,000
<p>Mortgage note payable issued in June 2007 to the Economic Development Authority of the City of Fredericksburg, Virginia, who in turn issued Hospital Facilities Revenue and Refunding bonds (Series 2007). The bonds mature in graduated annual amounts ranging from \$660,000 in 2007 to \$7,600,000 in 2023 and bear interest at varying rates ranging from 5% to 5.25%.</p>	79,555,000	81,200,000

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

	2008	2007
Promissory note payable under the Voluntary Hospitals of America Mid-Atlantic States, Inc. Capital Asset Financing Program (the Program). Under this program, tax-exempt hospital revenue bonds were issued through the Industrial Development Authority of the City of Lynchburg, Virginia. Interest, which is adjustable monthly, is based upon the interest rate and debt issuance and service costs of the Program. Interest only payments are due monthly beginning in January 2008 and continuing through December 2008. The interest rate averaged 5.18% for the year ended December 31, 2008 (3.32% in 2007). Payments including principal and interest begin January 2009 and are due monthly through December 2015.	13,182,725	14,000,000
Other	4,454,243	6,034,691
	293,131,734	299,899,496
Plus: Premium on Series 2002 Bond	19,897	54,006
Plus: Premium on Series 2006 Bonds	6,979,587	6,988,078
Plus: Premium on Series 2007 Bonds	4,203,681	4,692,348
Less: Original Issue Discount on Series 2002 Bonds	(725,784)	(761,422)
	303,609,115	310,872,506
Current maturities of long-term obligations	7,639,673	7,022,025
	\$ 295,969,442	\$ 303,850,481

Maturities and sinking fund requirements of long-term obligations for each of the next five years and thereafter are approximately: 2009 – \$7,640,000, 2010 – \$9,368,000, 2011 – \$8,395,000, 2012 – \$8,756,000, 2013 – \$8,034,000 and thereafter – \$261,416,000.

The Series 2007, 2006, 2002, and 2002B bonds are secured by a pledge of the gross receipts of each member of the Obligated Group (MediCorp, the Hospital, Stafford

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

Hospital Center, the Foundation, and Properties) and the related trust indenture contains certain restrictions, including an annual debt service coverage ratio requirement that the income available for debt service (as defined) be not less than 115% of maximum annual debt service (as defined). In 2008, the actual debt service coverage ratio of the Obligated Group fell to 100% due to unrealized mark-to-market investment losses related to the global economic downturn. Although the ratio was not met, the members of the Obligated Group have retained a management consultant for the purpose of making recommendations on how to increase the ratio going forward. This action brings the Obligated Group back into compliance with the Master Trust Indenture.

Trusted funds are restricted to their use under the terms of their related bond indenture agreements. The following table sets forth the balances as of December 31 according to their specified use:

	<u>2008</u>	<u>2007</u>
Construction and capital acquisition	\$ 18,599,252	\$ 79,141,143
Debt service	6,289,645	6,286,900
	<u>\$ 24,888,897</u>	<u>\$ 85,428,043</u>

During the years ended December 31, 2008 and 2007, MediCorp paid approximately \$8,181,000 and \$8,335,000, respectively, for interest (net of amounts capitalized).

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan

Defined Benefit Plan

MediCorp has a noncontributory, defined benefit retirement plan (the Plan) covering substantially all of its employees. Effective December 31, 2003, the Plan was frozen. Employees of record as of December 31, 2003 will continue to be eligible for benefits under the Plan. Employees hired on or after January 1, 2004 are not eligible to participate in the Plan.

Benefits to eligible participants, which are based upon fixed percentages of a participant's average earnings for credited years of services, are paid when an employee reaches retirement age (normally 65). MediCorp's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements under the Employee Retirement Income Security Act of 1974, plus such additional amounts as MediCorp may determine to be appropriate from time to time.

The overall financial objectives of the Plan's assets are to provide funds for the timely payment of Plan obligations and to produce an investment rate of return that minimizes MediCorp contributions. The primary investment objective of the Plan is to maintain a diverse portfolio with a conservative risk profile. To achieve its investment objective, the Plan assets are generally allocated 30% to fixed income investments and 70% to equity investments based on fair value. The Plan's investments are also diversified by asset class (e.g., equities, bonds, and cash equivalents) and within asset classes (e.g., within equities by economic sector, industry, and size), in order to provide assurance that no single security or class of securities will have a disproportionate impact on the Plan.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

Defined Benefit Plan (continued)

The measurement date for determining the Plan's funded status was December 31 (September 30 in 2007). The following table sets forth the Plan's funded status as of December 31:

	2008	2007
Reconciliation of Benefit Obligation and Plan Assets at December 31:		
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 111,575,530	\$ 107,913,244
Service cost	5,392,255	5,726,510
Interest cost	7,161,584	6,508,097
Actuarial (gain) loss	1,661,700	(6,114,158)
Benefits paid	(3,288,965)	(2,458,163)
Projected benefit obligation at end of year	\$ 122,502,104	\$ 111,575,530
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 84,627,324	\$ 72,777,126
Return on plan assets	(23,414,053)	8,201,415
Employer contributions	15,000,000	7,106,946
Benefits paid	(3,288,965)	(2,458,163)
Fair value of plan assets at end of year	\$ 72,924,306	\$ 85,627,324
Funded Status Reconciliation and Key Assumptions at December 31:		
Reconciliation of funded status		
Funded status of plan at end of year	\$ (49,577,798)	\$ (26,948,206)
Employer contributions from October 1 through December 31	-	1,000,000
Net amount recognized	\$ (49,577,798)	\$ (25,948,206)
Amounts recognized in the consolidated balance sheets		
Current (liabilities)	\$ (5,000,000)	\$ (14,000,000)
Noncurrent (liabilities)	(44,577,798)	(11,948,206)
	\$ (49,577,798)	\$ (25,948,206)

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

Defined Benefit Plan (continued)

	2008	2007
Amounts recognized in accumulated other comprehensive income:		
Prior service credit	\$ 594,438	\$ 882,632
Accumulated loss	(44,890,463)	(14,774,329)
Accumulated other comprehensive income	\$ (44,296,025)	\$ (13,891,697)
 Weighted-average assumptions used to determine projected benefit obligation		
Measurement date	December 31, 2008	September 30, 2007
Discount rate	6.10%	6.50%
Rate of compensation increase	4.00%	5.50%
 Components of net periodic benefit expense		
Service cost	\$ 5,392,255	\$ 5,726,510
Interest cost	7,161,584	6,508,097
Expected rate of return on plan assets	(6,904,751)	(6,121,643)
Amortization of prior service cost	(230,555)	(230,555)
Recognized net actuarial loss	361,678	1,217,694
Net periodic benefit expense	\$ 5,780,211	\$ 7,100,103
 Other changes in plan assets and benefit obligations recognized in other comprehensive income		
Net actuarial (gain)/loss	\$ 31,980,504	n/a
Amortization of prior service cost	288,194	n/a
Amortization of net (gain) or loss	(1,864,370)	n/a
Adjustment for change in measurement date	1,445,053	n/a
Total recognized in other comprehensive income	\$ 31,849,381	n/a
 Total recognized in net benefit cost and other comprehensive income	\$ 37,629,592	\$ 7,100,103
 Weighted-average assumptions used to determine net periodic benefit expense		
Measurement date	December 31, 2008	September 30, 2007
Discount rate	6.50%	6.50%
Expected return on plan assets	7.50%	8.25%
Rates of compensation increase	5.50%	5.50%

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

Defined Benefit Plan (continued)

MediCorp's retirement plan weighted-average asset allocations by asset category at the Plan's measurement date of December 31 (September 30 for 2007) are as follows:

Equity securities	59%	65%
Debt securities	11%	24%
Other (primarily cash and cash equivalents)	30%	11%
Total	100%	100%

MediCorp expects to contribute \$5,000,000 to the plan in 2008.

The following benefit payments are expected to be paid during the years ended December 31:

2009	\$	3,089,134
2010		3,256,970
2011		3,611,091
2012		4,119,281
2013		4,688,489
Years 2014-2018		34,446,318

MediCorp adopted the provisions of SFAS 158, "*Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*", as of December 31, 2007. This required MediCorp to recognize the full extent of the underfunded status, which is measured as the difference between the fair value of the Plan assets and the projected benefit obligation. This resulted in a decrease to unrestricted net assets of \$31,850,000 in 2008 and \$13,900,000 in 2007.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Pension Plan (continued)

Defined Contribution Plan

MediCorp has a defined contribution retirement plan (the Supplemental Plan) that covers substantially all employees who are age twenty-one or older. The supplemental Plan was adopted January 1, 1992 and is subject to the provisions of the Employee Retirement Income Security Act of 1974. The Supplemental Plan has received a favorable determination letter from the Internal Revenue Service exempting it from federal income taxation under the Internal Revenue Code.

Each year, MediCorp contributes 50% of the first 6% of base compensation up to a maximum regular matching contribution of 3% of covered compensation for the payroll period that each participant contributes to the Supplemental Plan. In addition to the regular matching contribution, MediCorp makes a transition matching contribution to certain predetermined participants based on the actuarial factors described in the Supplemental Plan agreement. At the Board of Trustees' discretion, additional amounts may be contributed. During 2008 and 2007, respectively, MediCorp contributed approximately \$3,549,000 and \$3,215,000 to the Supplemental Plan.

Participants are immediately vested in all contribution plus actual earnings thereon. MediCorp can terminate the Supplemental Plan at any time. At such time, participants remain entitled to their vested benefits.

Associates hired after January 1, 2004, and who are not eligible for the MediCorp Health System Retirement Plan, may receive an additional 2 percent in base contributions to their defined contribution plan. The contribution is made the year after the eligibility requirements are met. In 2008, MediCorp contributed approximately \$1,700,000 in base contribution. Associates are 100% vested in the base contribution after 3 years of eligibility service.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Malpractice Insurance

MediCorp manages its professional and general liability through a controlled Risk Retention Group. Fredericksburg Professional Risk Exchange (ProRex), a subsidiary of MediCorp, is a reciprocal insurance company licensed in the State of Vermont. For claims reported in 2008, ProRex retained risk for MediCorp and its subsidiaries of \$2,000,000 per claim and \$7,000,000 in the aggregate (\$1,925,000 and \$7,000,000 in 2007). Risks above those limits are covered by a commercial reinsurance policy of \$20,000,000. ProRex also retained risk for certain physicians who are also related to the Hospital and who are minority owners in ProRex.

MediCorp holds a majority ownership position in ProRex, and its assets, liabilities and operations are consolidated in the accompanying MediCorp financial statements. ProRex has accrued approximately \$8,000,000 and \$6,671,000 related to estimated payments to be made under its professional liability insurance program for claims filed through December 31, 2008 and 2007, as well as for estimated losses on unfiled claims which relate to events occurring in 2008 and prior years. The amount of liability accrued is based on independent actuarial estimates calculated on a discounted basis using a 3.94% interest rate. Assets held by ProRex are restricted by statute from being transferred to another subsidiary or obligated for any other purpose and accordingly are included in assets whose use is limited. In addition, MediCorp has accrued approximately \$2,761,000 and \$2,435,000 through December 31, 2008 and 2007, respectively, related to estimated payments to be made under its tail coverage insurance program.

8. Functional Expenses

MediCorp provides health care and related services to its geographic location. Expenses related to providing these services for the year ended December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Acute care services	\$ 543,577,634	\$ 485,898,380
Long-term care services	6,668,094	14,256,092
Fundraising and charitable giving	690,312	776,132
Property management	6,301,292	5,638,129
Management and general	13,029,860	14,402,675
	<u>\$ 570,267,192</u>	<u>\$ 520,971,408</u>

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9 Fair Value of Financial Instruments

The carrying amounts of the MediCorp's financial instruments, excluding long-term obligations, approximate their fair values. The fair value of MediCorp's long-term obligations is estimated based on the quoted market prices for the same or similar issues or using discounted cash flow analyses.

The carrying amount and fair value of MediCorp's long-term obligations at December 31 are as follows:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term obligations	\$ 303,609,115	\$ 252,700,004	\$ 310,872,506	\$ 312,101,714

10. Concentration of Credit Risk

The Hospital and Health Services grant credit without collateral to their patients and residents, most of whom are local residents and are insured under third-party payor agreements. The mix of net accounts receivable from patients, residents and third-party payors as of December 31 was as follows:

	2008	2007
Medicare	22%	20%
Medicaid	7	7
Anthem	19	16
Other commercial	45	43
Patients and other	7	14
	100%	100%

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Risks and Uncertainties

During September 2008, certain large U.S. financial institutions failed, primarily as a result of holdings in troubled subprime loans or assets collateralized with such distressed loans. These institutional failures, and the negative economic conditions that contributed to these failures, generated substantial volatility in global financial markets and substantial uncertainty regarding access to capital and the continued viability of many other financial institutions. As of February 28, 2009, the Dow Jones Industrial Average lost 4,287 from July 1, 2008, or 38%. In October 2008, the United States Congress passed emergency legislation intended to stabilize the financial markets, and in February 2009 Congress passed additional emergency legislation intended to stimulate the United States economy. Despite the federal legislative initiatives to ameliorate these conditions, global credit markets remain ineffective, and the global economy appears to be in a deep and prolonged recession. These conditions create uncertainty regarding the future valuation of MediCorp's invested funds, its access to capital, and the resulting impact on the future financial position, operations and cash flows of MediCorp could be material.

Other Financial Information

Report of Independent Auditors

Board of Trustees
MediCorp Health System and Subsidiaries

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying financial statements as of and for the year ended December 31, 2008 as listed under "Other Financial Information" on the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit 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.

Cohen, Rutherford + Knight, P.C.

April 10, 2009

MediCorp Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2008

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Assets				
Current Assets:				
Cash and cash equivalents	\$ 75,987,199	\$ 5,588,000	\$ 67,335,965	\$ 471,989
Accounts receivable:				
Patient accounts	63,796,283	-	-	55,712,712
Due from affiliates	-	29,657,514	29,600,272	57,242
Settlements due from third parties	2,040,739	-	-	2,040,739
Other	3,218,631	-	319,603	121,602
	<u>69,055,653</u>	<u>29,657,514</u>	<u>29,919,875</u>	<u>57,932,295</u>
Current portion of assets whose use is limited	6,483,838	-	-	-
Inventories	7,206,305	-	-	6,008,496
Prepaid expenses and other	4,659,898	-	1,422,152	1,331,497
Total current assets	<u>163,392,893</u>	<u>35,245,514</u>	<u>98,677,992</u>	<u>65,744,277</u>
Assets whose use is limited				
Internally designated for healthcare programs and capital acquisitions	99,283,899	-	59,866,605	-
Internally restricted for insurance claims	10,268,239	-	-	-
Externally restricted by donors	11,764,321	-	-	-
Externally restricted by bond indenture agreements	24,888,897	-	-	6,289,645
	<u>146,205,356</u>	<u>-</u>	<u>59,866,605</u>	<u>6,289,645</u>
Less amounts available for current liabilities	(6,483,838)	-	-	-
	<u>139,721,518</u>	<u>-</u>	<u>59,866,605</u>	<u>6,289,645</u>
Property, plant and equipment	326,866,588	-	7,406,956	113,573,782
Other assets:				
Notes receivable	2,709,047	392,497	392,497	2,709,047
Deferred financing costs	1,834,051	-	-	953,069
Miscellaneous	3,833,849	-	1,542,425	361,624
Equity in subsidiaries	-	111,021,148	111,021,148	-
	<u>-</u>	<u>111,021,148</u>	<u>111,021,148</u>	<u>-</u>
Total assets	<u>\$ 638,357,946</u>	<u>\$ 146,659,159</u>	<u>\$ 278,907,623</u>	<u>\$ 189,631,444</u>

Stafford Hospital Center	MediCorp Properties, Inc.	MediCorp Clinical Services, Inc.	MWH Foundation, Inc.	Stafford Foundation, Inc.	MediCorp Services, Inc.	Fredericksburg Professional Risk Exchange
\$ -	\$ 10,985	\$ 4,165,258	\$ 394,570	\$ -	\$ 283,200	\$ 8,913,232
-	-	7,767,871	-	-	315,700	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
38,207	24,479	800,385	66,801	-	21,934	1,825,620
38,207	24,479	8,568,256	66,801	-	337,634	1,825,620
6,483,838	-	-	-	-	-	-
-	-	504,984	-	-	692,825	-
403,670	240,285	464,111	-	-	133,216	664,967
6,925,715	275,749	13,702,609	461,371	-	1,446,875	11,403,819
-	-	-	35,447,257	3,970,037	-	-
-	-	-	-	-	-	10,268,239
-	-	-	11,712,805	51,516	-	-
18,599,252	-	-	-	-	-	-
18,599,252	-	-	47,160,062	4,021,553	-	10,268,239
(6,483,838)	-	-	-	-	-	-
12,115,414	-	-	47,160,062	4,021,553	-	10,268,239
104,397,532	94,823,903	6,254,989	-	-	409,426	-
-	-	-	-	-	-	-
871,719	9,263	-	-	-	-	-
-	1,410,722	90,670	-	-	428,408	-
-	-	-	-	-	-	-
<u>\$ 124,310,380</u>	<u>\$ 96,519,637</u>	<u>\$ 20,048,268</u>	<u>\$ 47,621,433</u>	<u>\$ 4,021,553</u>	<u>\$ 2,284,709</u>	<u>\$ 21,672,058</u>

MediCorp Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2008

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 32,399,271	\$ 5,588,000	\$ 10,109,174	\$ 16,061,230
Due to affiliates	-	29,657,514	-	-
Employee compensation and professional fees	26,001,606	-	10,426,153	12,654,702
Interest payable	690,020	-	-	309,871
Pension liability	5,000,000	-	5,000,000	-
Current maturities of long-term obligations	7,639,673	-	116,462	4,018,365
Total current liabilities	71,730,570	35,245,514	25,651,789	33,044,168
Long-term obligations, less current maturities	295,969,442	392,497	-	158,015,825
Other liabilities:				
Accrued losses on insurance claims	12,511,402	-	-	2,761,402
Pension liability	44,577,798	-	44,577,798	-
Annuities Payable	47,358	-	-	-
Noncontrolling interest	4,843,340	-	-	-
Total liabilities	429,679,910	35,638,011	70,229,587	193,821,395
Net assts & stockholders' equity				
Common stock	-	2,685,568	-	-
Retained-earnings (deficit)	-	4,945,250	-	-
Unrestricted net assets	196,965,231	91,677,525	196,965,231	(4,189,951)
Temp restricted net assets	10,362,939	10,362,939	10,362,939	-
Perm restricted net assets	1,349,866	1,349,866	1,349,866	-
	208,678,036	111,021,148	208,678,036	(4,189,951)
<hr/>				
Total liabilities & net assets	\$ 638,357,946	\$ 146,659,159	\$ 278,907,623	\$ 189,631,444

Stafford Hospital Center	MediCorp Properties, Inc.	MediCorp Clinical Services, Inc.	MWH Foundation, Inc.	Stafford Foundation, Inc.	MediCorp Services, Inc.	Fredericksburg Professional Risk Exchange
\$ 4,838,514	\$ 393,583	\$ 5,598,839	\$ 337,722	\$ 9,485	\$ 497,248	\$ 141,476
-	131,783	18,273,559	5,863,110	151,733	5,237,329	-
228,970	-	2,286,817	-	-	404,964	-
270,160	33,583	76,406	-	-	-	-
-	-	-	-	-	-	-
297,311	3,056,167	151,368	-	-	-	-
5,634,955	3,615,116	26,386,989	6,200,832	161,218	6,139,541	141,476
131,682,276	5,071,778	1,592,060	-	-	-	-
-	-	-	-	-	-	9,750,000
-	-	-	-	-	-	-
-	-	-	47,358	-	-	-
-	671,501	3,875,907	-	-	-	295,932
137,317,231	9,358,395	31,854,956	6,248,190	161,218	6,139,541	10,187,408
-	-	1,000	-	-	2,684,568	-
-	-	-	-	-	(6,539,400)	11,484,650
(13,006,851)	87,161,242	(11,807,688)	29,660,438	3,860,335	-	-
-	-	-	10,362,939	-	-	-
-	-	-	1,349,866	-	-	-
(13,006,851)	87,161,242	(11,806,688)	41,373,243	3,860,335	(3,854,832)	11,484,650
<hr/>						
\$ 124,310,380	\$ 96,519,637	\$ 20,048,268	\$ 47,621,433	\$ 4,021,553	\$ 2,284,709	\$ 21,672,058

MediCorp Health System and Subsidiaries

Consolidating Statement of Operations

For the Year Ended December 31, 2008

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Revenue and other support:				
Net patient service revenue	\$ 563,205,790	\$ 2,418,019	\$ -	\$ 485,375,302
Retail sales	5,723,567	503,779	-	-
Rental of facilities	3,792,200	8,240,898	-	94,420
Management and personnel services	4,966,891	54,576,408	48,092,506	13,070
Investment Income	6,337,128	118,822	4,011,439	247,817
Unrestricted contributions	1,009,348	-	-	25,808
Other	10,799,171	9,872,172	1,851,955	6,762,131
	<u>595,834,095</u>	<u>75,730,098</u>	<u>53,955,900</u>	<u>492,518,548</u>
Expenses:				
Salaries and wages	201,887,564	-	24,280,527	143,051,798
Employee benefits	49,734,957	1,236,778	8,513,095	34,723,627
Contract personnel	22,720,529	1,370,533	256,526	15,602,556
Professional services	32,465,332	55,399,267	5,407,369	60,947,162
General and administrative	13,782,650	495,861	6,520,681	3,908,354
Provision for depreciation and amortization	27,339,980	-	1,746,716	18,706,156
Interest	8,409,369	118,822	31,396	7,841,239
Cost of pharmacy and others	4,940,165	-	-	-
Contract services	30,179,585	3,775,176	4,287,710	19,905,867
Supplies	97,880,953	617,477	1,328,721	88,459,345
Utilities	4,765,781	-	959	3,002,813
Insurance	4,787,944	4,419,079	168,400	4,490,130
Rent	8,235,471	8,240,853	2,996,995	7,523,287
Provision for bad debts	58,669,288	-	(505)	56,207,251
Other	4,467,624	56,252	110,363	3,034,713
	<u>570,267,192</u>	<u>75,730,098</u>	<u>55,648,953</u>	<u>467,404,298</u>
Income (loss) from operations	25,566,903	-	(1,693,053)	25,114,250
Nonoperating gains (losses):				
Net appreciation (depreciation) of investments	(34,539,166)	-	(21,040,458)	418,775
Gain (loss) on sales of assets	124,687	-	50	8,782
Gain (loss) on investments in partnerships and other	(633,184)	-	(524,465)	(141,522)
Excess of revenues, gains and other support over expenses and losses before equity in earnings of subsidiaries and noncontrolling interest	(9,480,760)	-	(23,257,926)	25,400,285
Equity in earnings of subsidiaries	-	9,608,264	9,608,264	-
Noncontrolling interest	(4,168,902)	-	-	-
Excess of revenues, gains and other support over expenses and losses	<u>\$ (13,649,662)</u>	<u>\$ 9,608,264</u>	<u>\$ (13,649,662)</u>	<u>\$ 25,400,285</u>

Stafford Hospital Center	MediCorp Properties, Inc.	MediCorp Clinical Services, Inc.	MWH Foundation, Inc.	Stafford Foundation, Inc.	MediCorp Services, Inc.	Fredericksburg Professional Risk Exchange
\$ -	\$ -	\$ 79,220,503	\$ -	\$ -	\$ 1,028,004	\$ -
-	-	-	-	-	6,227,346	-
-	11,938,678	-	-	-	-	-
-	189,034	9,649,568	-	-	1,599,121	-
-	59	257,047	1,411,298	86,205	-	442,085
-	-	505,668	104,791	373,081	-	-
-	1,006,702	805,656	93,074	-	4,800,828	5,350,997
-	13,134,473	90,438,442	1,609,163	459,286	13,655,299	5,793,082
570,516	-	29,389,364	-	-	4,595,359	-
61,077	-	6,198,379	(289)	-	1,475,846	-
7,794	-	7,926,075	-	-	298,111	-
1,732,737	1,969,026	15,721,825	498,516	55,343	1,028,916	503,705
286,872	709,871	2,098,720	110,649	73,132	419,628	150,604
-	4,610,424	2,154,923	-	-	121,761	-
-	539,117	116,439	-	-	-	-
-	-	-	-	-	4,940,165	-
131,923	2,120,434	7,271,679	214	-	236,934	-
121,096	236,501	7,933,302	19,894	3,766	395,496	309
137	1,651,731	96,135	-	-	14,006	-
-	105,659	835,828	2,012	-	50,803	3,554,191
4,296	202,527	5,205,053	-	-	544,166	-
-	24,644	2,426,084	-	-	11,814	-
12,582	875,688	454,150	-	-	36,380	-
2,929,030	13,045,622	87,827,956	630,996	132,241	14,169,385	4,208,809
(2,929,030)	88,851	2,610,486	978,167	327,045	(514,086)	1,584,273
4,939	8,071	18,553	(12,262,845)	-	6,420	(1,692,621)
-	-	115,855	-	-	-	-
-	(62,833)	-	-	-	95,636	-
(2,924,091)	34,089	2,744,894	(11,284,678)	327,045	(412,030)	(108,348)
-	-	-	-	-	-	-
-	(86,429)	(4,085,301)	-	-	-	2,828
\$ (2,924,091)	\$ (52,340)	\$ (1,340,407)	\$ (11,284,678)	\$ 327,045	\$ (412,030)	\$ (105,520)

MediCorp Health System Obligated Group

Consolidating Balance Sheet

December 31, 2008

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Assets				
Current Assets:				
Cash and short-term invest	\$ 68,213,509	\$ -	\$ 67,335,965	\$ 471,989
Accounts receivable:				
Patient accounts	55,712,712	-	-	55,712,712
Due from affiliates	29,657,514	-	29,600,272	57,242
Settlements due from third parties	2,040,739	-	-	2,040,739
Other	570,692	-	319,603	121,602
	<u>87,981,657</u>	-	<u>29,919,875</u>	<u>57,932,295</u>
Current portion of assets whose use is limited	6,483,838	-	-	-
Inventories	6,008,496	-	-	6,008,496
Prepaid expenses and other	3,397,604	-	1,422,152	1,331,497
Total current assets	<u>172,085,104</u>	-	<u>98,677,992</u>	<u>65,744,277</u>
Assets whose use is limited				
Internally designated for healthcare programs and capital acquisition	95,313,862	-	59,866,605	-
Externally restricted by donors	11,712,805	-	-	-
Externally restricted by bond indenture agreements	24,888,897	-	-	6,289,645
	<u>131,915,564</u>	-	<u>59,866,605</u>	<u>6,289,645</u>
Less amounts available for current liabilities	(6,483,838)	-	-	-
	<u>125,431,726</u>	-	<u>59,866,605</u>	<u>6,289,645</u>
Property, plant and equipment	320,202,173	-	7,406,956	113,573,782
Other assets:				
Notes receivable	2,709,047	392,497	392,497	2,709,047
Deferred financing costs	1,834,051	-	-	953,069
Miscellaneous	3,314,771	-	1,542,425	361,624
Equity in non-obligated subsidiaries	-	(316,535)	(316,535)	-
Equity in subsidiaries	-	111,337,683	111,337,683	-
	<u>-</u>	<u>111,337,683</u>	<u>111,337,683</u>	<u>-</u>
Total assets	<u>\$ 625,576,872</u>	<u>\$ 111,413,645</u>	<u>\$ 278,907,623</u>	<u>\$ 189,631,444</u>

Stafford Hospital Center	MediCorp Properties, Inc.	MWH Foundation, Inc.
\$ -	\$ 10,985	\$ 394,570
-	-	-
-	-	-
-	-	-
38,207	24,479	66,801
38,207	24,479	66,801
6,483,838	-	-
-	-	-
403,670	240,285	-
6,925,715	275,749	461,371
-	-	35,447,257
-	-	11,712,805
18,599,252	-	-
18,599,252	-	47,160,062
(6,483,838)	-	-
12,115,414	-	47,160,062
104,397,532	94,823,903	-
-	-	-
871,719	9,263	-
-	1,410,722	-
-	-	-
-	-	-
\$ 124,310,380	\$ 96,519,637	\$ 47,621,433

MediCorp Health System Obligated Group

Consolidating Balance Sheet

December 31, 2008

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Liabilities and net assets				
Current liabilities:				
Accounts payable & accrued expense	\$ 31,740,223	\$ -	\$ 10,109,174	\$ 16,061,230
Due to affiliates	5,994,893	-	-	-
Employee compensation and professional fees	23,309,825	-	10,426,153	12,654,702
Interest payable	613,614	-	-	309,871
Pension liability-current	5,000,000	-	5,000,000	-
Current maturities of Long-term debt	7,488,305	-	116,462	4,018,365
Total current liabilities	74,146,860	-	25,651,789	33,044,168
Long-term obligations, less current maturities	294,377,382	392,497	-	158,015,825
Other liabilities:				
Accrued losses on Malpractice	2,761,402	-	-	2,761,402
Pension liability	44,577,798	-	44,577,798	-
Annuities Payable	47,358	-	-	-
Noncontrolling interest	671,501	-	-	-
Contingent Interest Liability	-	-	-	-
Total liabilities	416,582,301	392,497	70,229,587	193,821,395
Net assts & stockholders' equity				
Common stock	-	-	-	-
Retained-earnings (deficit)	-	-	-	-
Unrestricted net assets	197,281,766	99,308,343	196,965,231	(4,189,951)
Temporarily restricted net assets	10,362,939	10,362,939	10,362,939	-
Permanently restricted net assets	1,349,866	1,349,866	1,349,866	-
	208,994,571	111,021,148	208,678,036	(4,189,951)
Total liabilities & net assets	\$ 625,576,872	\$ 111,413,645	\$ 278,907,623	\$ 189,631,444

	Stafford Hospital Center	MediCorp Properties, Inc.	MWH Foundation, Inc.
\$	4,838,514	\$ 393,583	\$ 337,722
	-	131,783	5,863,110
	228,970	-	-
	270,160	33,583	-
	-	-	-
	297,311	3,056,167	-
	<u>5,634,955</u>	<u>3,615,116</u>	<u>6,200,832</u>
	131,682,276	5,071,778	-
	-	-	-
	-	-	-
	-	-	47,358
	-	671,501	-
	-	-	-
	<u>137,317,231</u>	<u>9,358,395</u>	<u>6,248,190</u>
	-	-	-
	-	-	-
	(13,006,851)	87,161,242	29,660,438
	-	-	10,362,939
	-	-	1,349,866
	<u>(13,006,851)</u>	<u>87,161,242</u>	<u>41,373,243</u>
\$	<u>124,310,380</u>	\$ <u>96,519,637</u>	\$ <u>47,621,433</u>

MediCorp Health System Obligated Group

Consolidating Statement of Operations

For the Year Ended December 31, 2008

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Revenue and other support:				
Net patient service revenue	484,802,973	572,329	-	485,375,302
Rental of facilities	6,813,738	5,219,360	-	94,420
Management and personnel services	5,658,717	42,635,893	48,092,506	13,070
Investment income	5,551,791	118,822	4,011,439	247,817
Unrestricted contributions	130,599	-	-	25,808
Other	7,815,716	1,898,146	1,851,955	6,762,131
	<u>510,773,534</u>	<u>50,444,550</u>	<u>53,955,900</u>	<u>492,518,548</u>
Expenses:				
Salaries and wages	167,902,841	-	24,280,527	143,051,798
Employee benefits	42,617,136	680,374	8,513,095	34,723,627
Contract personnel	15,866,876	-	256,526	15,602,556
Professional services	27,409,320	43,145,490	5,407,369	60,947,162
General and administrative	11,393,424	143,003	6,520,681	3,908,354
Provision for depreciation and amortization	25,063,296	-	1,746,716	18,706,156
Interest	8,292,930	118,822	31,396	7,841,239
Contract services	25,413,686	1,032,462	4,287,710	19,905,867
Supplies	90,086,735	78,822	1,328,721	88,459,345
Utilities	4,655,640	-	959	3,002,813
Insurance	4,766,201	-	168,400	4,490,130
Rent	5,507,790	5,219,315	2,996,995	7,523,287
Provision for bad debts	56,231,390	-	(505)	56,207,251
Other	4,007,084	26,262	110,363	3,034,713
	<u>489,214,349</u>	<u>50,444,550</u>	<u>55,648,953</u>	<u>467,404,298</u>
Income (loss) from operations	21,559,185	-	(1,693,053)	25,114,250
Nonoperating gains (losses):				
Net appreciation (depreciation) of investments	(32,871,518)	-	(21,040,458)	418,775
Gain on sale of asset	8,832	-	50	8,782
Loss on investments in partnerships and other	(728,820)	-	(524,465)	(141,522)
Excess of revenues, gains and other support over expenses and losses before equity in earnings of subsidiaries and noncontrolling interest	(12,032,321)	-	(23,257,926)	25,400,285
Equity in earnings of non-obligated subsidiaries	-	(13,388,696)	(13,388,696)	
Equity in earnings of subsidiaries	-	22,996,960	22,996,960	
Noncontrolling interest	(86,429)	-	-	
Excess of revenues, gains and other support over expenses and losses	<u>(12,118,750)</u>	<u>9,608,264</u>	<u>(13,649,662)</u>	<u>25,400,285</u>

Stafford Hospital Center	MediCorp Properties, Inc.	MWH Foundation, Inc.
-	-	-
-	11,938,678	-
-	189,034	-
-	59	1,411,298
-	-	104,791
-	1,006,702	93,074
-	13,134,473	1,609,163
570,516	-	-
61,077	-	(289)
7,794	-	-
1,732,737	1,969,026	498,516
286,872	709,871	110,649
-	4,610,424	-
-	539,117	-
131,923	2,120,434	214
121,096	236,501	19,894
137	1,651,731	-
-	105,659	2,012
4,296	202,527	-
-	24,644	-
12,582	875,688	-
2,929,030	13,045,622	630,996
(2,929,030)	88,851	978,167
4,939	8,071	(12,262,845)
-	-	-
-	(62,833)	-
(2,924,091)	34,089	(11,284,678)
-	-	-
-	(86,429)	-
(2,924,091)	(52,340)	(11,284,678)

MediCorp Properties, Inc.
Consolidating Balance Sheet

December 31, 2008

	Consolidated	Eliminations	MediCorp Properties Inc.	Tompkins Martin Medical Plaza, L.P.
Assets				
Current Assets:				
Cash and cash equivalents	\$ 10,985	\$ -	\$ -	\$ 10,985
Accounts receivable:				
Other	24,479	-	19,615	4,864
	24,479	-	19,615	4,864
Notes receivable	-	3,488,757	3,488,757	-
Prepaid expenses and other	240,285	-	230,495	9,790
Due from affiliates				
Total current assets	275,749	3,488,757	3,738,867	25,639
Property, plant and equipment	94,823,903	-	87,494,023	7,329,880
Other assets:				
Deferred financing costs	9,263	-	9,263	-
Miscellaneous	1,410,722	-	1,410,722	-
Equity in subsidiaries	-	2,772,063	2,772,063	-
Total assets	\$ 96,519,637	\$ 6,260,820	\$ 95,424,938	\$ 7,355,519
Liabilities and net assets				
Current liabilities:				
Notes payable	\$ -	\$ 3,488,757	\$ -	\$ 3,488,757
Accounts payable and accrued expenses	393,583	-	333,665	59,918
Due to affiliates	131,783	-	161,000	(29,217)
Interest payable	33,583	-	33,583	-
Current maturities of long-term debt	3,056,167	-	3,056,167	-
Total current liabilities	3,615,116	3,488,757	3,584,415	3,519,458
Long term obligations, less current maturities	5,071,778	-	4,679,281	392,497
Noncontrolling interest	671,501	-	-	671,501
Total liabilities	9,358,395	3,488,757	8,263,696	4,583,456
Unrestricted net assets	87,161,242	2,772,063	87,161,242	2,772,063
Total liabilities and net assets	\$ 96,519,637	\$ 6,260,820	\$ 95,424,938	\$ 7,355,519

MediCorp Properties, Inc.

Consolidating Statement of Operations

For the Year Ended December 31, 2008

	Consolidated	Eliminations	MediCorp Properties Inc.	North Stafford Medical Mall Partnership	Tompkins Martin Medical Plaza, L.P.
Revenue and other support:					
Rental of facilities	\$ 11,938,678	\$ -	\$ 9,525,548	\$ 337,685	\$ 2,075,445
Management and personnel services	189,034	-	176,207	1,020	11,807
Investment Income	59	220,435	220,437	57	-
Other	1,006,702	600	773,023	-	234,279
	<u>13,134,473</u>	<u>221,035</u>	<u>10,695,215</u>	<u>338,762</u>	<u>2,321,531</u>
Expenses:					
Professional services	1,969,026	-	1,772,757	49,246	147,023
General and administrative	709,871	600	554,362	34,891	121,218
Provisions for depreciation and amortization	4,610,424	-	4,001,565	147,019	461,840
Interest	539,117	220,435	372,769	139,108	247,675
Contract services	2,120,434	-	1,723,116	68,941	328,377
Supplies	236,501	-	159,839	12,542	64,120
Utilities	1,651,731	-	1,367,464	34,868	249,399
Insurance	105,659	-	84,155	6,823	14,681
Rent	202,527	-	202,527	-	-
Provision for bad debts	24,644	-	20,743	2,385	1,516
Other	875,688	-	731,159	20,333	124,196
	<u>13,045,622</u>	<u>221,035</u>	<u>10,990,456</u>	<u>516,156</u>	<u>1,760,045</u>
Income (loss) from operations	88,851	-	(295,241)	(177,394)	561,486
Nonoperating gains (losses):					
Net appreciation of investments	8,071	-	8,071	-	-
Loss on investment in partnerships	(62,833)	-	(62,833)	-	-
Excess of revenues, gains and other support over expenses and losses before equity in earnings of subsidiaries and noncontrolling interest	34,089	-	(350,003)	(177,394)	561,486
Equity in earnings of subsidiaries	-	297,663	297,663	-	-
Noncontrolling interest	(86,429)	-	-	23,061	(109,490)
Excess of revenues, gains and other support over expenses and losses	<u>\$ (52,340)</u>	<u>\$ 297,663</u>	<u>\$ (52,340)</u>	<u>\$ (154,333)</u>	<u>\$ 451,996</u>

MediCorp Clinical Services, Inc.

Consolidating Balance Sheet

December 31, 2008

	Consolidated	Eliminations	MediCorp Clinical Services General	Virginia Cardiovascular Services, Inc.
Assets				
Current Assets:				
Cash and cash equivalents	\$ 4,165,258	\$ -	\$ -	\$ -
Accounts receivable:				
Patient accounts	7,767,871	-	-	222,702
Other	800,385	-	335,896	-
	8,568,256	-	335,896	222,702
Inventories	504,984	-	-	-
Prepaid expenses and other	464,111	-	-	24,853
Total current assets	13,702,609	-	335,896	247,555
Property, plant and equipment	6,254,989	-	-	42,731
Other assets:				
Miscellaneous	90,670	-	90,670	-
Equity in subsidiaries	-	(11,535,074)	(11,535,074)	-
Total assets	\$ 20,048,268	\$ (11,535,074)	\$ (11,108,508)	\$ 290,286
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 5,598,839	\$ -	\$ -	\$ 19,720
Due to affiliates	18,273,559	-	(798)	5,405,446
Employee compensation and professional fees	2,286,817	-	698,978	-
Interest payable	76,406	-	-	-
Current maturities of long-term debt	151,368	-	-	-
	26,386,989	-	698,180	5,425,166
Long-term obligations, less current maturities	1,592,060	-	-	-
Noncontrolling interest	3,875,907	-	-	-
Total liabilities	31,854,956	-	698,180	5,425,166
Net assets and stockholders' equity				
Common stock	1,000	1,000	1,000	1,000
Unrestricted net assets	(11,807,688)	(11,536,074)	(11,807,688)	(5,135,880)
	(11,806,688)	(11,535,074)	(11,806,688)	(5,134,880)
Total liabilities and net assets	\$ 20,048,268	\$ (11,535,074)	\$ (11,108,508)	\$ 290,286

CRNA, LLC	Fredericksburg Ambulatory Surgery Center, LLC	Medical Imaging of Fredericksburg	Virginia Urgent Care, LLC	MediDoctors Holding Company	MediCorp Health Services, Inc.
\$ -	\$ 1,471,735	\$ 2,383,865	\$ 304,939	\$ 600	\$ 4,119
-	1,472,574	3,500,153	165,342	1,221,197	1,185,903
313,391	121,554	-	3,250	-	26,294
313,391	1,594,128	3,500,153	168,592	1,221,197	1,212,197
-	454,239	-	50,745	-	-
-	64,933	86,751	57,785	43,191	186,598
313,391	3,585,035	5,970,769	582,061	1,264,988	1,402,914
-	1,528,727	3,437,328	827,444	376,672	42,087
-	-	-	-	-	-
-	-	-	-	-	-
\$ 313,391	\$ 5,113,762	\$ 9,408,097	\$ 1,409,505	\$ 1,641,660	\$ 1,445,001
\$ 271,906	\$ 808,342	\$ 3,237,396	\$ 376,065	\$ 527,550	\$ 357,860
(28,220)	(35,728)	(321,805)	-	10,129,781	3,124,883
69,705	-	652,249	25,487	607,662	232,736
-	-	76,406	-	-	-
-	-	151,368	-	-	-
313,391	772,614	3,795,614	401,552	11,264,993	3,715,479
-	-	1,592,060	-	-	-
-	1,704,309	1,970,007	201,591	-	-
313,391	2,476,923	7,357,681	603,143	11,264,993	3,715,479
-	-	-	-	-	-
-	2,636,839	2,050,416	806,362	(9,623,333)	(2,270,478)
-	2,636,839	2,050,416	806,362	(9,623,333)	(2,270,478)
\$ 313,391	\$ 5,113,762	\$ 9,408,097	\$ 1,409,505	\$ 1,641,660	\$ 1,445,001

MediCorp Clinical Services, Inc.

Consolidating Statement of Operations

For the Year Ended December 31, 2008

	Consolidated	Eliminations	MediCorp Clinical Services General	Snowden at Fredericksburg
Revenue and other support:				
Net patient service revenue	\$ 79,220,503	\$ 1,208	\$ -	\$ 1,375,212
Management and personnel services	9,649,568	8,978,946	9,160,387	25,000
Investment income	257,047	-	-	12
Unrestricted contributions	505,668	-	-	-
Other	805,656	-	-	266,876
	<u>90,438,442</u>	<u>8,980,154</u>	<u>9,160,387</u>	<u>1,667,100</u>
Expenses:				
Salaries and wages	29,389,364	-	7,380,911	798,317
Employee benefits	6,198,379	-	1,770,243	217,257
Contract personnel	7,926,075	8,078,946	-	-
Professional services	15,721,825	901,208	1,289,162	202,823
General and administrative	2,098,720	-	10,018	18,096
Provisions for depreciation and amortization	2,154,923	-	83,695	35,617
Interest	116,439	-	-	-
Contract services	7,271,679	-	1,542	129,616
Supplies	7,933,302	-	-	125,423
Utilities	96,135	-	-	18,225
Insurance	835,828	-	1,141	11,335
Rent	5,205,053	-	-	13,469
Provision for bad debts	2,426,084	-	(19,724)	108,409
Other	454,150	-	-	25,854
	<u>87,827,956</u>	<u>8,980,154</u>	<u>10,516,988</u>	<u>1,704,441</u>
Income (loss) from operations	2,610,486	-	(1,356,601)	(37,341)
Nonoperating gains (losses):				
Net appreciation of investments	18,553	-	12,734	1,300
Gain (loss) on sale of asset	115,855	-	54,993	-
	<u>2,744,894</u>	<u>-</u>	<u>(1,288,874)</u>	<u>(36,041)</u>
Excess of revenues, gains and other support over expenses and losses before equity in earnings of subsidiaries and noncontrolling interest	2,744,894	-	(1,288,874)	(36,041)
Equity in earnings of subsidiaries	-	(15,492)	(15,492)	-
Noncontrolling interest	(4,085,301)	-	-	-
Excess of revenues, gains and other support over expenses and losses	<u>\$ (1,340,407)</u>	<u>\$ (15,492)</u>	<u>\$ (1,304,366)</u>	<u>\$ (36,041)</u>

Virginia Cardiovascular Services, Inc.	CRNA, LLC	Fredericksburg Ambulatory Surgery Center, LLC	Medical Imaging of Fredericksburg	Virginia Urgent Care, LLC	MediDoctors Holding Company	MediCorp Health Services, Inc.
\$ 1,585,112	\$ -	\$ 16,926,024	\$ 41,712,251	\$ 613,541	\$ 9,353,551	\$ 7,656,020
-	8,359,349	-	-	-	1,083,778	-
162	-	113,330	142,833	20	347	343
-	-	-	-	-	504,288	1,380
1,259	-	23,919	62,574	-	446,158	4,870
1,586,533	8,359,349	17,063,273	41,917,658	613,561	11,388,122	7,662,613
-	1,153,323	-	7,065,370	148,247	9,802,169	3,041,027
-	134,233	260	1,928,467	17,947	1,417,213	712,759
2,678,427	7,024,472	5,401,278	118,640	175,348	569,436	37,420
-	-	2,007,424	10,907,559	116,435	199,893	1,899,737
65,997	28,436	246,554	721,697	101,522	522,960	383,440
9,022	-	521,965	1,365,665	34,934	96,509	7,516
-	-	-	116,439	-	-	-
104,478	-	1,005,595	5,223,142	35,432	735,052	36,822
20,064	-	4,119,315	2,165,700	74,050	408,423	1,020,327
-	-	2,871	36,409	14,333	13,096	11,201
132,128	18,885	48,664	158,288	6,592	374,221	84,574
82,238	-	854,898	3,283,830	56,945	824,496	89,177
99,091	-	248,592	1,303,335	24,556	652,537	9,288
1,387	-	208,035	89,091	32,094	67,434	30,255
3,192,832	8,359,349	14,665,451	34,483,632	838,435	15,683,439	7,363,543
(1,606,299)	-	2,397,822	7,434,026	(224,874)	(4,295,317)	299,070
-	-	-	-	-	-	4,519
-	-	-	(50,483)	-	(925)	112,270
(1,606,299)	-	2,397,822	7,383,543	(224,874)	(4,296,242)	415,859
-	-	-	-	-	-	-
-	-	(512,340)	(3,617,936)	44,975	-	-
\$ (1,606,299)	\$ -	\$ 1,885,482	\$ 3,765,607	\$ (179,899)	\$ (4,296,242)	\$ 415,859

MediCorp Services, Inc.
Consolidating Balance Sheet

December 31, 2008

	Consolidated	Eliminations	MediCorp Services Inc.	FPRE, LLC
Assets				
Current Assets:				
Cash and cash equivalents	\$ 283,200	\$ -	\$ 281,609	\$ 1,591
Accounts receivable:				
Patient accounts	315,700	-	315,700	-
Other	21,934	-	21,383	551
	<u>337,634</u>	<u>-</u>	<u>337,083</u>	<u>551</u>
Inventories	692,825	-	692,825	-
Prepaid expenses and other	133,216	-	116,966	16,250
Total current assets	<u>1,446,875</u>	<u>-</u>	<u>1,428,483</u>	<u>18,392</u>
Property, plant and equipment	409,426	-	409,426	-
Miscellaneous	428,408	-	428,408	-
Total assets	<u>\$ 2,284,709</u>	<u>\$ -</u>	<u>\$ 2,266,317</u>	<u>\$ 18,392</u>
Liabilities and Net assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 497,248	\$ -	\$ 497,248	\$ -
Due to affiliates	5,237,329	-	5,218,937	18,392
Employee compensation and professional fees	404,964	-	404,964	-
Total current liabilities	<u>6,139,541</u>	<u>-</u>	<u>6,121,149</u>	<u>18,392</u>
Total liabilities	6,139,541	-	6,121,149	18,392
Stockholders' equity:				
Common stock	2,684,568	-	2,684,568	-
Retained earnings (deficit)	(6,539,400)	-	(6,539,400)	-
	<u>(3,854,832)</u>	<u>-</u>	<u>(3,854,832)</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 2,284,709</u>	<u>\$ -</u>	<u>\$ 2,266,317</u>	<u>\$ 18,392</u>

MediCorp Services, Inc.

Consolidating Statement of Operations

For the Year Ended December 31, 2008

	Consolidated	Eliminations	MediCorp Services, Inc.	FPRE, LLC
Revenue and other support:				
Net patient service revenue	\$ 1,028,004	\$ -	\$ 1,028,004	\$ -
Retail and pharmacy sales	6,227,346	-	6,227,346	-
Management and personnel services	1,599,121	-	1,227,155	371,966
Other	4,800,828	-	4,800,828	-
	<u>13,655,299</u>	<u>-</u>	<u>13,283,333</u>	<u>371,966</u>
Expenses:				
Salaries and wages	4,595,359	-	4,595,359	-
Employee benefits	1,475,846	-	1,475,846	-
Contract personnel	298,111	-	298,111	-
Professional services	1,028,916	-	657,665	371,251
General and administrative	419,628	-	418,913	715
Provisions for depreciation and amortization	121,761	-	121,761	-
Cost of pharmacy and others	4,940,165	-	4,940,165	-
Contract services	236,934	-	236,934	-
Supplies	395,496	-	395,496	-
Utilities	14,006	-	14,006	-
Insurance	50,803	-	50,803	-
Rent	544,166	-	544,166	-
Provision for bad debts	11,814	-	11,814	-
Other	36,380	-	36,380	-
	<u>14,169,385</u>	<u>-</u>	<u>13,797,419</u>	<u>371,966</u>
Loss from operations	(514,086)	-	(514,086)	-
Nonoperating gains:				
Net appreciation of investments	6,420	-	6,420	-
Gain on investments in partnerships	95,636	-	95,636	-
Excess of revenues, gains and other support over expenses and losses before equity in earnings of subsidiaries and noncontrolling interest	<u>(412,030)</u>	<u>-</u>	<u>(412,030)</u>	<u>-</u>
Excess of revenues, gains and other support over expenses and losses	<u>\$ (412,030)</u>	<u>\$ -</u>	<u>\$ (412,030)</u>	<u>\$ -</u>