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Certified Public Accountants



Audited Consolidated
Financial Statements and Other
Financial Information

**MediCorp Health System and
Subsidiaries**

December 31, 2006

MediCorp Health System and Subsidiaries
Consolidated Financial Statements and Other Financial Information
Years ended December 31, 2006 and 2005

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Report of Independent Auditors

Board of Directors
MediCorp Health System and Subsidiaries
Fredericksburg, Virginia

We have audited the accompanying consolidated balance sheets of MediCorp Health System and subsidiaries (MediCorp) as of December 31, 2006, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of MediCorp's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of MediCorp as of December 31, 2005, and for the year then ended, were audited by other auditors, whose report dated March 23, 2006, expressed an unqualified opinion on those statements.

We conducted our audit 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 consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2006, and the consolidated results of their operations and changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cohen, Rutherford + Knight, P.C.

March 23, 2007

MediCorp Health System and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,073,020	\$ 35,593,383
Accounts receivable:		
Patient accounts receivable, less allowance for uncollectible accounts of \$12,888,057 in 2006 and \$9,171,947 in 2005 (<i>Note 10</i>)	59,484,673	49,544,471
Settlements due from third parties	63,817	439,800
Other	2,360,186	1,324,154
	61,908,676	51,308,425
Notes receivable	21,702	54,952
Current portion of assets whose use is limited	6,523,005	17,504,948
Inventories	6,006,900	5,540,314
Prepaid expenses and other	4,059,777	2,839,293
Total current assets	123,593,080	112,841,315
Assets whose use is limited (<i>Note 2</i>):		
Internally designated for healthcare programs and capital acquisitions	122,691,334	107,352,168
Externally restricted by donors	15,427,980	13,241,020
Externally restricted under bond indenture agreement (held by trustees)	130,721,874	22,751,369
Externally restricted for malpractice claims	6,687,601	6,330,423
Other	135,687	627,588
	275,664,476	150,302,568
Less amounts available for current liabilities	6,523,005	17,504,948
	269,141,471	132,797,620
Property, plant and equipment, less accumulated depreciation and amortization of \$257,704,082 in 2006 and \$234,509,156 in 2005 (<i>Note 4</i>)	222,115,256	210,446,320
Other assets:		
Notes receivable	1,435,528	2,587,286
Deferred financing costs, less accumulated amortization of \$3,281,627 in 2006 and \$2,950,316 in 2005	4,185,219	3,655,679
Miscellaneous	5,333,062	5,393,520
	10,953,809	11,636,485
Total assets	\$ 625,803,616	\$ 467,721,740

	December 31	
	2006	2005
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 22,661,418	\$ 13,855,179
Employee compensation and professional fees	21,854,861	18,202,289
Interest payable (<i>Note 5</i>)	688,697	476,436
Current portion of accrued losses on malpractice claims (<i>Note 7</i>)	1,000,000	900,000
Pension liability (<i>Note 6</i>)	6,200,000	6,324,310
Current maturities of long-term obligations (<i>Notes 5 and 9</i>)	6,316,591	20,570,837
Total current liabilities	58,721,567	60,329,051
Long-term obligations, less current maturities (<i>Notes 5 and 9</i>)	290,200,924	160,199,663
Other liabilities:		
Accrued losses on malpractice claims (<i>Note 7</i>)	6,265,261	7,894,525
Pension liability (<i>Note 6</i>)	4,959,879	3,032,218
Other	72,285	1,237,911
Minority interest	5,112,824	4,671,647
	16,410,249	16,836,301
Total liabilities	365,332,740	237,365,015
Net assets:		
Unrestricted	245,042,896	217,753,170
Temporarily restricted (<i>Note 3</i>)	14,081,437	11,258,538
Permanently restricted (<i>Note 3</i>)	1,346,543	1,345,017
	260,470,876	230,356,725
Total liabilities and net assets	\$ 625,803,616	\$ 467,721,740

See accompanying notes.

MediCorp Health System and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets

	Year ended December 31	
	2006	2005
Unrestricted net assets		
Revenues and other support:		
Net patient care and resident services revenue	\$ 460,158,857	\$ 397,603,523
Retail and pharmacy sales	5,426,424	4,956,456
Rental of facilities	4,197,125	4,190,837
Management and personnel services	3,694,006	3,615,937
Investment income (Note 2)	5,254,822	3,397,544
Unrestricted contributions	455,529	69,124
Other	9,489,433	9,300,111
	488,676,196	423,133,532
Expenses (Note 8):		
Salaries and wages	168,454,421	147,996,369
Employee benefits (Note 6)	46,047,973	38,470,175
Contract personnel	13,367,780	11,903,298
Professional fees	26,336,240	23,523,074
General and administrative	14,987,506	12,527,273
Provisions for depreciation and amortization	25,661,561	24,286,981
Interest (Note 5)	8,637,632	8,667,725
Cost of pharmacy, construction services and other	4,716,340	4,319,336
Contract services	21,651,996	19,831,305
Supplies	82,638,159	69,344,408
Utilities	4,107,994	4,231,204
Insurance (Note 7)	2,958,576	5,240,149
Rent	6,209,164	4,519,779
Provision for bad debts	37,140,572	27,689,672
Other	4,844,630	4,087,375
	467,760,544	406,638,123
Income from operations	20,915,652	16,495,409
Nonoperating gains (losses):		
Realized gains on sales of investments (Note 2)	4,676,727	3,166,510
Other than temporary decline in value of investments (Note 2)	0	(158,500)
Loss on disposal of fixed assets	(826,890)	(85,847)
Gain on investments in partnerships and other	12,969	358
	4,862,806	3,033,521
Excess of revenues, gains and other support over expenses and losses before minority interest	24,778,458	19,417,930
Minority interest	(1,670,529)	(2,161,258)
	23,107,929	17,256,672

(continued)

	Year ended December 31	
	2006	2005
Unrestricted net assets		
Excess of revenues, gains and other support over expenses and losses (from page 4)	\$ 23,107,929	\$ 17,256,672
Other changes in unrestricted net assets:		
Income from operations of discontinued business	0	93,319
Gain from sale of discontinued operation	0	13,011,284
Unrealized gain (loss) on investments	3,755,649	(564,132)
Additional minimum pension liability	39,659	2,426,551
Other	386,489	(1,938,667)
	<u>4,181,797</u>	<u>13,028,355</u>
Increase in unrestricted net assets	27,289,726	30,285,027
Temporarily restricted net assets		
Contributions	4,311,955	6,075,441
Investment income	412,768	312,590
Net assets released from restrictions used in operations	(198,534)	(515,602)
Net assets released from restrictions for purchase of property, plant and equipment	(2,270,797)	0
Unrealized gain on investments	796,172	0
Other	(228,665)	(616,493)
	<u>2,822,899</u>	<u>5,255,936</u>
Increase in temporarily restricted net assets		
Permanently restricted net assets		
Contributions	1,526	150,648
Increase in permanently restricted net assets	<u>1,526</u>	<u>150,648</u>
Increase in net assets	30,114,151	35,691,611
Net assets at beginning of year	<u>230,356,725</u>	<u>194,665,114</u>
Net assets at end of year	<u>\$ 260,470,876</u>	<u>\$ 230,356,725</u>

See accompanying notes.

MediCorp Health System and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended December 31	
	2006	2005
Cash flows from operating activities and nonoperating gains (losses)		
Increase in net assets	\$ 30,114,151	\$ 35,691,611
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains (losses):		
Net realized gains on sales of investments	(4,676,727)	(3,873,381)
Other than temporary decline in value of investments	0	158,500
Net unrealized (gains) loss on investments	(4,551,821)	564,132
Other nonoperating losses	(12,969)	(358)
Gain from sale of discontinued operations	0	(13,011,284)
Loss (gain) on disposal of fixed assets	826,890	(381,139)
Amortization of deferred revenue from advance fees	0	(382,087)
Proceeds from advance fees and deposits	0	2,519,974
Provisions for depreciation and amortization	25,661,561	24,952,503
Provision for bad debts	37,140,572	27,695,656
Provision for pension costs	8,167,320	5,877,694
Funding of pension plan	(6,363,969)	(6,993,565)
Minority interest	1,670,529	2,161,258
Restricted contributions received	(2,270,797)	0
(Increase) decrease in:		
Accounts receivable	(48,116,806)	(26,242,004)
Settlements due from third-party programs	375,983	259,670
Inventories	(466,586)	(1,961,638)
Prepaid expenses and other	(1,220,484)	(1,002,148)
Miscellaneous	(91,909)	(665,342)
Increase (decrease) in:		
Accounts payable and accrued expenses	8,806,239	784,331
Employee compensation and professional fees	3,652,572	5,146,504
Interest payable	212,261	(38,619)
Malpractice claims	(1,529,264)	1,576,428
Net cash provided by operating activities and nonoperating gains (losses)	47,326,746	52,836,696
Cash flows from investing activities		
Proceeds from sale of discontinued operations	0	15,930,902
Acquisition of property, plant and equipment	(37,972,327)	(25,010,276)
Disposal of property, plant and equipment, net	329,186	1,396,467
Changes in notes receivable	1,185,008	308,724
Change in assets whose use is limited:		
(Decrease) increase in cash and cash equivalents	(131,606,110)	(15,486,674)
Purchases of investments	(71,895,770)	(67,764,297)
Sales of investments	89,336,363	49,600,631
Pledges received	(3,086,588)	(4,366,418)
Payments received on pledges receivable	1,118,745	603,901
Purchase of investments	0	(5,405,868)
Sales of investments	0	16,188,189
Net cash used in investing activities	(152,591,493)	(34,004,719)

(continued)

	Year ended December 31	
	2006	2005
Cash flows from financing activities		
Refunds of advance fees and deposits	\$ 0	\$ (2,361,100)
Proceeds from issuance of long-term obligations	129,117,210	0
Repayment of long-term obligations	(20,951,836)	(4,240,463)
Decrease in deferred financing costs	(891,419)	0
Original issue premium	7,581,641	0
Other	(1,152,657)	90,532
Proceeds from restricted contributions	2,270,797	0
Distributions to minority interest	(1,229,352)	(2,527,131)
Net cash provided by (used in) financing activities	<u>114,744,384</u>	<u>(9,038,162)</u>
Net increase in cash and cash equivalents	9,479,637	9,793,815
Cash and cash equivalents at beginning of year	<u>35,593,383</u>	25,799,568
Cash and cash equivalents at end of year	<u>\$ 45,073,020</u>	<u>\$ 35,593,383</u>

See accompanying notes.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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), MediCorp Properties, Inc. (Properties), MediCorp Health Services, Inc. (Health 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, Properties, and Health Services are nonstock, tax-exempt, not-for-profit subsidiaries controlled by 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 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, unrealized gains on investments, discontinued operations and additional minimum pension liability adjustments. Realized gains on sales of fixed assets held by Properties are also considered to be operating.

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 realized gains on sales of investments, other than temporary declines in the value of investments and gains 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

The Hospital is a 412-bed acute care facility providing exceptional medical services to the City of Fredericksburg and surrounding counties. Established in 1899, the Hospital 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 6,250 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 county residents.

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, 2006 and 2005 were approximately \$26,500,000 and \$20,300,000, respectively. The costs associated with this care equates to approximately \$11,700,000 in 2006 and \$9,200,000 in 2005.

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 \$7,600,000 and \$7,400,000, respectively, in 2006 and 2005.

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 \$1,347,000 in 2006.

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 healthcare 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 healthcare 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.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

Minority Interest

Minority interest represents the minority partners' proportionate share of Tompkins-Martin Medical Plaza, L.P. (TMMP), owned 78% by Properties; North Stafford Medical Mall Partnership (NSMMP), owned 87% by Properties; Medical Imaging of Fredericksburg (MIF), owned 51% by Health Services (by Services in 2005); Fredericksburg Ambulatory Surgery Center, LLC (FASC), owned 90% by Health Services; and Fredericksburg Professional Risk Exchange (ProRex), owned 97% by MediCorp.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. 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.

Allowance for Uncollectible Accounts

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

Inventories

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

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Assets Whose Use is Limited

Unrestricted resources appropriated or designated by the Board of Directors 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 are excluded from income from operations. Cost used in the determination of gains 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.

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.

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

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 26% and 6%, respectively, of MediCorp's net patient service revenue for the year ended December 31, 2006 (29% and 6%, respectively, in 2005). 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 \$197,000 and \$175,000 in 2006 and 2005, respectively, due to changes in amounts previously estimated as a result of final settlements.

Net patient service revenue for MediCorp for the year ended December 31, 2006 includes approximately \$94,500,000, \$111,200,000 and \$23,800,000 (2005 – \$79,200,000, \$101,500,000 and \$20,100,000) for services provided to beneficiaries of Anthem Blue Cross 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 payers 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, 2005.
- *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. 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 financial statements.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Discontinued Operations

On November 17, 2005, MediCorp sold certain assets and liabilities of Chancellor's Village Corporation, primarily the property, plant, and equipment and advance fees and deposits. The results of operations for the year ended December 31, 2005 for Chancellor's Village Corporation 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 \$15.9 million. The gain on the sale of Chancellor's Village Corporation 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 Chancellor's Village Corporation 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 years ended December 31, 2005:

Total revenue	\$ 4,986,686
Total expenses	5,229,326
(Loss) income from operations	<u>(242,640)</u>
Nonoperating gains	335,959
Excess of revenues and gains over expenses	<u>93,319</u>
Other changes in unrestricted net assets	0
Income from operations of discontinued business	<u>93,319</u>
Gain on sale of discontinued operations	13,011,284
Gain on discontinued operations	<u><u>\$13,104,603</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:

	2006	2005
Internally designated for healthcare programs and capital acquisitions:		
Cash and cash equivalents	\$ 16,380,756	\$ 9,171,957
Bonds and other marketable securities	33,893,689	33,621,941
Marketable equity securities	72,414,665	64,556,274
Other	2,224	1,996
	122,691,334	107,352,168
Externally restricted by donors:		
Cash and cash equivalents	1,876,736	1,305,680
Pledges receivable	6,087,616	4,121,154
Bonds and other marketable securities	2,891,894	3,139,259
Marketable equity securities	4,571,734	4,674,927
	15,427,980	13,241,020
Externally restricted under bond indenture agreement (held by trustee):		
Cash and cash equivalents	130,721,874	22,751,369
Externally restricted for malpractice claims:		
Cash and cash equivalents	217,570	834,379
Bonds and other marketable securities	3,368,144	2,631,344
Marketable equity securities	3,101,887	2,864,700
	6,687,601	6,330,423
Other:		
Cash and cash equivalents	135,687	627,588
	\$275,664,476	\$150,302,568

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:

	2006	2005
Revenues and other support:		
Interest and dividends	\$ 5,254,822	\$ 3,397,544
Nonoperating gains (losses):		
Realized gains on sales of investments	4,676,727	3,166,510
Other than temporary decline in the value of investments	0	(158,500)
Other changes in unrestricted net assets:		
Unrealized gains (losses) on investments	3,755,649	(564,132)
Income from operations of discontinued business:		
Interest and dividends	0	242,677
Realized gains on sales of investments	0	539,945
	13,687,198	6,624,044
Changes in temporarily restricted net assets:		
Interest and dividends	253,161	145,664
Realized gains (losses) on sales of investments	159,607	166,926
Unrealized gains on investments	796,172	0
	1,208,940	312,590
	\$ 14,896,138	\$ 6,936,634

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendations of advisors and the length of time and extent to which the market value has been less than cost. During the year ended December 31, 2006, there were no significant changes in fair value to be considered other-than-temporary. During the year ended December 31, 2005, MediCorp recorded a recognized loss for other-than-temporary declines in fair value of investments of approximately \$159,000, which is included in excess of revenues, gains and other support over expenses and losses.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

The following table summarizes the unrealized losses on investments that are considered to be temporary in nature at December 31, 2006:

Description of Securities	Less Than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable equity securities	\$ 5,164,679	\$1,019,267	\$ 1,197,913	\$ 151,463	\$ 6,362,592	\$ 1,170,730
Bonds and other marketable securities	2,804,526	47,109	7,405,265	231,660	10,209,791	278,769
Total	<u>\$ 7,969,205</u>	<u>\$1,066,376</u>	<u>\$ 8,603,178</u>	<u>\$ 383,123</u>	<u>\$ 16,572,383</u>	<u>\$ 1,449,499</u>

At December 31, 2006, the investments that had a cost greater than fair value for twelve months or longer consisted principally of international, pharmaceutical and technology investments. The decline in this portfolio of approximately 40 securities was determined to be temporary because of the relatively immaterial spread between fair value and cost and the short-term period for which the fair value has been below cost. Management believes these declines are the result of ordinary and temporary market fluctuations. Management believes the current economic improvement and investment recovery will enable MediCorp to recover the unrealized losses in these sectors.

3. Restricted Net Assets

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

	2006	2005
Healthcare programs and services	\$ 12,051,570	\$ 10,049,471
Acquisition of building and equipment	1,255,235	520,072
Educational seminars, scholarships and other	774,632	688,995
	<u>\$ 14,081,437</u>	<u>\$ 11,258,538</u>

Permanently restricted net assets (\$1,346,543 and \$1,345,017 at December 31, 2006 and 2005, respectively) are restricted to investments in perpetuity, the income from which is expendable to support charitable purposes specified by the donors.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Property, Plant and Equipment

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

	2006	2005
Land and land improvements	\$ 41,943,807	\$ 36,560,946
Buildings	183,868,115	179,022,685
Fixed equipment	66,734,514	59,894,615
Movable equipment	170,950,061	160,819,072
Construction in progress	16,322,841	8,658,158
	479,819,338	444,955,476
Less accumulated depreciation and amortization	257,704,082	234,509,156
	\$ 222,115,256	\$ 210,446,320

The estimated cost to complete construction in progress at December 31, 2006 is approximately \$139,000,000. 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.

5. Long-Term Obligations

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

	2006	2005
Mortgage note payable issued in November 1996 to the Industrial Development Authority of the City of Fredericksburg, Virginia, who in turn issued tax-exempt Hospital Facilities Revenue Refunding Bonds (Series 1996 Bonds). The Series 1996 Bonds are comprised of \$20,845,000 Serial bonds and \$69,975,000 Term bonds. The serial bonds mature in graduated annual amounts ranging from \$1,475,000 in 2006 to \$4,120,000 in 2011 and bear interest at varying rates ranging from 4.9% to 5.125%. The term bonds are due on June 15, 2016 (\$24,060,000) and June 15, 2023 (\$45,915,000) and bear interest at 5.25%. The Hospital is required to make mandatory annual sinking fund payments ranging from \$4,335,000 in 2012 to \$7,610,000 in 2023.	\$ 82,890,000	\$ 84,365,000

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

	2006	2005
<p>Mortgage note payable issued in September 1998 to the Industrial Development Authority of the County of Spotsylvania, Virginia, who in turn issued tax-exempt Residential Care Facility Revenue and Refunding Bonds (Series 1998 Bonds). The note was repaid in January 2006.</p>	\$ 0	\$ 16,465,000
<p>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 4.57% for the year ended December 31, 2006 (3.31% in 2005). Payments, including principal and interest, are due monthly through January 2013.</p>	5,488,076	6,202,295
<p>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%.</p>	5,765,000	7,505,000
<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

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

	2006	2005
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%.	\$ 125,000,000	\$ 0
Other	5,542,263	1,966,904
	289,685,339	181,504,199
Plus: Premium on Series 2002 Bond	88,116	122,226
Plus: Premium on Series 2006 Bonds	7,569,416	0
Less: Original issue discount on Series 2002B Bonds	(825,356)	(855,925)
	296,517,515	180,770,500
Current maturities of long-term obligations	6,316,591	20,570,837
	\$ 290,200,924	\$ 160,199,663

Maturities and sinking fund requirements of long-term obligations for each of the next five years and thereafter are approximately: 2007 – \$6,317,000, 2008 – \$6,351,000, 2009 – \$5,623,000, 2010 – \$7,138,000, 2011 – \$6,093,000 and thereafter – \$264,996,000.

In January 2002, MediCorp issued a mortgage note payable 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). On March 1, 2002, a portion of the net proceeds of the Series 2002 Bonds along with funds provided by the Hospital were used to defease and refund the Series 1991A Bonds. The remaining portion of the net proceeds were used to finance the acquisition and installation of Hospital equipment and the construction of renovations, improvements and expansions at the Hospital facility, including an expansion of the Hospital Emergency Department.

In September 2002, MediCorp issued a mortgage note payable to the Industrial Development Authority of the City of Fredericksburg, Virginia, who in turn issued tax-exempt Revenue Bonds (Series 2002B Bonds). The proceeds were used to finance the completion of the expansion of the Emergency Department, the construction and equipping of a 94-bed patient tower, and the construction and equipping of a one-story addition that provides space for various Hospital support services.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

In December 2006, Medicorp issued a note payable to the Economic Development Authority of Stafford County, Virginia, who in turn issued tax-exempt Revenue Bonds (Series 2006 Bonds). The proceeds will be used to finance the development, construction and equipping, including diagnostic and therapeutic equipment and miscellaneous hospital furnishings, of Stafford Hospital Center, a 100-bed acute care hospital facility in Stafford County, Virginia.

The Series 2006, 2002, 2002B and 1996 bonds are secured by a pledge of the gross receipts of each member of the Obligated Group (MediCorp, the Hospital, Stafford Hospital Center, the Foundation, and Properties) and the related trust indentures contain 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). Certain of the other long-term obligations described above require the quarterly or annual maintenance of specified ratios and other financial covenants, including a requirement that the Obligated Group maintain an annual debt service coverage ratio of not less than 135%. In the opinion of management, the Obligated Group was in compliance with all provisions of the trust indentures.

Trusted funds aggregating \$130,721,874 and \$22,751,369 at December 31, 2006 and 2005, respectively, are restricted for debt service on the mortgage notes under the terms of the related bond indenture agreements, including \$16,465,000 (2005), which was used to repay the Series 1998 Bonds on January 3, 2006, in connection with the sale of Chancellor's Village assets.

During the years ended December 31, 2006 and 2005, MediCorp paid approximately \$8,608,000 and \$9,220,000, respectively, for interest (net of amounts capitalized).

6. Retirement Plans

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.

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

Benefits to eligible participants, which are based upon fixed percentages of a participant's average earnings for credited years of service, 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.

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

	2006	2005
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 101,357,841	\$ 87,268,505
Service cost	6,123,923	5,410,414
Interest cost	6,014,526	5,182,462
Actuarial (gain) loss	(3,404,536)	5,448,885
Benefits paid	(2,178,510)	(1,952,425)
Projected benefit obligation at end of year	\$ 107,913,244	\$ 101,357,841
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 65,278,932	\$ 55,535,003
Actual return on plan assets	4,255,867	5,917,332
Employer contributions	5,420,837	5,779,022
Benefits paid	(2,178,510)	(1,952,425)
Fair value of plan assets at end of year	\$ 72,777,126	\$ 65,278,932

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

	2006	2005
Reconciliation of funded status		
Funded status	\$ (35,136,118)	\$ (36,078,909)
Unrecognized net actuarial loss	24,185,953	28,105,782
Unrecognized prior service cost	(1,113,187)	(1,343,742)
Contributions made after year end	903,473	0
Accrued benefit liability	(11,159,879)	(9,316,869)
Additional minimum liability	0	(39,659)
Net amount recognized	\$ (11,159,879)	\$ (9,356,528)
Accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	\$ 107,913,244	\$ 101,357,841
Accumulated benefit obligation	81,117,024	74,635,460
Fair value of assets	\$ 72,777,126	\$ 65,278,932
Net periodic benefit cost		
Service cost	\$ 6,123,923	\$ 5,410,414
Interest cost	6,014,526	5,182,462
Expected return on plan assets	(5,374,210)	(4,547,600)
Amortization of prior service cost	(230,555)	(230,555)
Recognized net actuarial loss	1,633,636	1,274,981
Net periodic benefit cost	\$ 8,167,320	\$ 7,089,702
Additional information		
Decrease in minimum liability included in other changes in net assets	\$ (39,659)	\$ (2,426,551)

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

	2006	2005
Assumptions		
Weighed-average assumptions used to determine benefit obligations at December 31:		
Discount rate	6.10%	6.00%
Rate of compensation increase	5.50%	5.50%
Weighed-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	6.00%	6.00%
Rates of increase in compensation levels	5.50%	4.00%
Expected long-term rate of return on assets	8.25%	8.25%

For financial reporting purposes under SFAS No. 87, *Employers' Accounting for Pensions*, MediCorp's pension plan was considered underfunded at December 31, 2005 because the fair value of plan assets was less than the accumulated benefit obligation.

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

Equity securities	67%	62%
Debt securities	28	24
Other (primarily cash and cash equivalents)	5	14
Total	100%	100%

MediCorp expects to contribute \$6,200,000 to the Plan in 2007.

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

2007	\$ 2,471,426
2008	2,634,479
2009	2,859,912
2010	3,147,256
2011	3,573,392
Years 2012 – 2016	27,937,083

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

In accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, MediCorp will need to recognize the full extent of any overfunded (an asset) or underfunded (a liability) status of a defined benefit post-retirement plan, which is measured as the difference between the fair value of the Plan assets and the projected benefit obligation. MediCorp will also need to recognize the full extent of actuarially-determined gains or losses and the prior service costs or credits that had been disclosed in the notes to the financial statements but not recorded in the accounting records. MediCorp will need to measure plan assets and benefit obligations as of the date of the statement of financial positions (i.e., the balance sheet date). Except for the coordination of the measurement date, these changes are effective for MediCorp's fiscal year ending December 31, 2007. The requirement to coordinate the measurement date of the plan assets and benefit obligations is effective for MediCorp's fiscal year ending December 31, 2008. The actuary for the Plan has reported that if this new standard had been adopted for the fiscal year ending December 31, 2006, the balance sheet liability would have been increased by \$23 million, with a corresponding decrease to unrestricted net assets.

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 Directors' discretion, additional amounts may be contributed. During 2006 and 2005, respectively, MediCorp contributed approximately \$2,979,000 and \$2,544,000 to the Supplemental Plan.

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

MediCorp Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Malpractice Insurance

Effective August 7, 2003, MediCorp obtained claims made professional liability coverage with a commercial carrier which includes coverage for all losses over \$1,700,000 for any individual claim and aggregate payments over \$5,100,000 for each policy year.

Effective July 1, 2004, MediCorp began managing 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 2006, ProRex retained risk for MediCorp and its subsidiaries of \$1,850,000 per claim and \$8,800,000 in the aggregate (\$1,750,000 and \$5,225,000 in 2005). Risks above those limits continue to be covered by a commercial carrier. 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 \$4,964,000 and \$6,671,000 related to estimated payments to be made under its professional liability insurance program for claims reported through December 31, 2006 and 2005. The amount of liability accrued is based on independent actuarial estimates calculated on a discounted basis using a 3.98% interest rate (4.4% in 2005). 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 \$2,301,000 and \$2,124,000 through December 31, 2006 and 2005, respectively, related to estimated payments to be made for claims occurring before but reported after the respective balance sheet dates. The amount of liability accrued is based on independent actuarial estimates calculated on a discounted basis using a 5% interest rate.

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>2006</u>	<u>2005</u>
Acute care services	\$ 434,676,834	\$ 374,208,828
Long-term care services	13,905,888	11,947,800
Fundraising and charitable giving	715,485	778,405
Property management	5,087,066	4,802,764
Management and general	13,375,271	14,900,326
	<u>\$ 467,760,544</u>	<u>\$ 406,638,123</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:

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term obligations	\$ 296,517,514	\$ 306,890,141	\$180,770,500	\$183,705,166

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 payer agreements. The mix of net receivables from patients, residents and third-party payers as of December 31 was as follows:

	2006	2005
Medicare	22%	22%
Medicaid	8	8
Anthem	18	18
Patients and other	52	52
	100%	100%

Other Financial Information

Report of Independent Auditors

Board of Directors
MediCorp Health System and Subsidiaries
Fredericksburg, Virginia

The audited consolidated financial statements of MediCorp Health System, Inc and subsidiaries and our report thereon are presented in the preceding section of this report. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information presented hereinafter as of and for the year ended December 31, 2006 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies, and is not a required part of the basic consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the basic 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.

March 23, 2007

MediCorp Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2006

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Assets				
Current assets:				
Cash and cash equivalents	\$ 45,073,020	\$ 5,588,000	\$ 34,291,612	\$ 335,861
Accounts receivable:				
Patient accounts	59,484,673	0	0	50,622,538
Due from affiliates	0	26,920,110	0	19,446,861
Settlements due from third parties	63,817	0	0	0
Other	2,360,186	509,859	912,688	328,228
	<hr/> 61,908,676	<hr/> 27,429,969	<hr/> 912,688	<hr/> 70,397,627
Notes receivable	21,702	0	0	0
Current portion of assets whose use is limited	6,523,005	0	0	147,231
Inventories	6,006,900	0	0	4,679,616
Prepaid expenses and other	4,059,777	0	989,853	1,810,405
Total current assets	<hr/> 123,593,080	<hr/> 33,017,969	<hr/> 36,194,153	<hr/> 77,370,740
Investments	0	0	0	0
Assets whose use is limited:				
Internally designated for healthcare programs and capital acquisitions	122,691,334	0	32,312,367	41,990,239
Externally restricted by donors	15,427,980	0	0	0
Externally restricted under bond indenture agreement	130,721,874	0	0	6,438,541
Externally restricted for malpractice claims	6,687,601	0	0	0
Other	135,687	0	0	0
	<hr/> 275,664,476	<hr/> 0	<hr/> 32,312,367	<hr/> 48,428,780
Less amounts available for current liabilities	6,523,005	0	0	147,231
	<hr/> 269,141,471	<hr/> 0	<hr/> 32,312,367	<hr/> 48,281,549
Property, plant and equipment	222,115,256	0	1,838,218	123,907,410
Other assets:				
Notes receivable	1,435,528	2,545,097	2,545,099	1,315,526
Due from affiliates	0	0	0	0
Deferred financing costs	4,185,219	0	0	3,253,142
Deferred marketing costs	0	0	0	0
Miscellaneous	5,333,062	0	3,478,612	867,884
Equity in subsidiaries	0	226,212,269	226,212,269	0
	<hr/> 0	<hr/> 226,212,269	<hr/> 226,212,269	<hr/> 0
Total assets	<hr/> <hr/> \$ 625,803,616	<hr/> <hr/> \$ 261,775,335	<hr/> <hr/> \$ 302,580,718	<hr/> <hr/> \$ 254,996,251

MediCorp at Stafford, LLC	MediCorp Properties, Inc.	MediCorp Health Services, Inc.	Mary Washington Hospital Foundation, Inc.	MediCorp Services, Inc.	Fredericks- burg Professional Risk Exchange
\$ 0	\$ 238,358	\$ 5,198,754	\$ 2,729,400	\$ 887,286	\$ 6,979,749
0	0	8,410,998	0	451,137	0
7,473,249	0	0	0	0	0
0	0	63,817	0	0	0
192,349	98,339	520,684	87,386	67,377	662,994
7,665,598	98,339	8,995,499	87,386	518,514	662,994
0	16,691	5,011	0	0	0
6,375,774	0	0	0	0	0
0	0	567,246	0	760,038	0
60,000	231,555	164,345	2,510	103,058	698,051
14,101,372	584,943	14,930,855	2,819,296	2,268,896	8,340,794
0	0	0	0	0	0
0	0	0	48,388,728	0	0
0	0	0	15,427,980	0	0
124,283,333	0	0	0	0	0
0	0	0	0	0	6,687,601
0	0	21,466	114,221	0	0
124,283,333	0	21,466	63,930,929	0	6,687,601
6,375,774	0	0	0	0	0
117,907,559	0	21,466	63,930,929	0	6,687,601
25,685	87,146,179	8,711,018	4,578	482,168	0
0	0	120,000	0	0	0
0	0	0	0	0	0
860,851	71,226	0	0	0	0
0	0	0	0	0	0
0	307,845	296,392	0	382,329	0
0	0	0	0	0	0
\$ 132,895,467	\$ 88,110,193	\$ 24,079,731	\$ 66,754,803	\$ 3,133,393	\$ 15,028,395

MediCorp Health System and Subsidiaries

Consolidating Balance Sheet

December 31, 2006

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 22,661,418	\$ 5,588,000	\$ 9,199,289	\$ 11,831,506
Due to affiliates	0	26,920,110	10,962,828	0
Employee compensation and professional fees	21,854,861	0	10,787,846	8,773,877
Interest payable	688,697	0	0	418,511
Current portion of accrued losses on malpractice claims	1,000,000	0	0	0
Unearned premiums	0	509,859	0	0
Pension liability	6,200,000	0	6,200,000	0
Current maturities of long-term obligations	6,316,591	0	0	2,993,085
Total current liabilities	58,721,567	33,017,969	37,149,963	24,016,979
Due to affiliates	0	0	0	0
Long-term obligations, less current maturities	290,200,924	2,545,097	0	147,470,001
Other liabilities:				
Accrued losses on malpractice claims	6,265,261	0	0	2,300,668
Pension liability	4,959,879	0	4,959,879	0
Advance fees and deposits	0	0	0	0
Annuities payable	72,285	0	0	0
Minority interest	5,112,824	0	0	0
Total liabilities	365,332,740	35,563,066	42,109,842	173,787,648
Net assets and stockholders' equity:				
Common stock	0	2,685,568	0	0
Retained earnings (deficit)	0	3,165,071	0	0
Unrestricted net assets	245,042,896	204,933,650	245,042,896	81,208,603
Temporarily restricted net assets	14,081,437	14,081,437	14,081,437	0
Permanently restricted net assets	1,346,543	1,346,543	1,346,543	0
	260,470,876	226,212,269	260,470,876	81,208,603
<hr/>				
Total liabilities and net assets	\$ 625,803,616	\$ 261,775,335	\$ 302,580,718	\$ 254,996,251

	MediCorp at Stafford, LLC	MediCorp Properties, Inc.	MediCorp Health Services, Inc.	Mary Washington Hospital Foundation, Inc.	MediCorp Services, Inc.	Fredericks- burg Professional Risk Exchange
\$	121,477	\$ 1,385,036	\$ 4,525,654	\$ 465,451	\$ 602,045	\$ 118,960
	0	3,713,993	2,702,967	3,960,908	5,579,414	0
	0	0	1,956,447	34,125	302,566	0
	174,103	96,083	0	0	0	0
	0	0	0	0	0	1,000,000
	0	0	0	0	0	509,859
	0	0	0	0	0	0
	552,983	2,770,523	0	0	0	0
	848,563	7,965,635	9,185,068	4,460,484	6,484,025	1,628,819
	0	0	0	0	0	0
	132,016,433	13,259,587	0	0	0	0
	0	0	0	0	0	3,964,593
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	72,285	0	0
	0	523,354	4,354,758	0	0	234,712
	132,864,996	21,748,576	13,539,826	4,532,769	6,484,025	5,828,124
	0	0	1,000	0	2,684,568	0
	0	0	0	0	(6,035,200)	9,200,271
	30,471	66,361,617	10,538,905	46,794,054	0	0
	0	0	0	14,081,437	0	0
	0	0	0	1,346,543	0	0
	30,471	66,361,617	10,539,905	62,222,034	(3,350,632)	9,200,271
<hr/>						
\$	132,895,467	\$ 88,110,193	\$ 24,079,731	\$ 66,754,803	\$ 3,133,393	\$ 15,028,395

MediCorp Health System and Subsidiaries

Consolidating Statement of Operations

Year Ended December 31, 2006

	Consolidated	Eliminations	MediCorp Health System	Mary Washington Hospital, Inc.
Revenues and other support:				
Net patient care and resident services revenue	\$ 460,158,857	\$ 2,565,548	\$ 0	\$ 386,240,150
Retail and pharmacy sales	5,426,424	932,806	0	0
Rental of facilities	4,197,125	7,616,917	0	97,227
Management and personnel services	3,694,006	44,702,477	39,264,227	6,285
Investment income	5,254,822	130,740	2,213,337	1,254,824
Unrestricted contributions	455,529	0	0	0
Other	9,489,433	8,434,886	1,475,532	4,077,339
	<u>488,676,196</u>	<u>64,383,374</u>	<u>42,953,096</u>	<u>391,675,825</u>
Expenses:				
Salaries and wages	168,454,421	0	18,568,875	115,459,607
Employee benefits	46,047,973	591,228	6,893,329	31,037,709
Contract personnel	13,367,780	1,303,679	88,530	8,802,956
Professional fees	26,336,240	45,291,848	6,172,349	49,282,615
General and administrative	14,987,506	513,814	8,039,202	3,685,353
Provisions for depreciation and amortization	25,661,561	0	489,305	18,528,161
Interest	8,637,632	130,740	201,621	7,806,144
Cost of pharmacy, construction services and other	4,716,340	0	0	0
Contract services	21,651,996	4,145,883	2,633,158	15,669,441
Supplies	82,638,159	1,045,774	1,547,722	72,628,184
Utilities	4,107,994	0	0	2,402,123
Insurance	2,958,576	3,553,263	140,955	4,039,989
Rent	6,209,164	7,616,917	2,387,182	6,126,322
Provision for bad debts	37,140,572	8,865	(838)	35,005,821
Other	4,844,630	181,363	189,906	3,542,839
	<u>467,760,544</u>	<u>64,383,374</u>	<u>47,351,296</u>	<u>374,017,264</u>
Income (loss) from operations	20,915,652	0	(4,398,200)	17,658,561
Nonoperating gains (losses):				
Realized gains on sales of investments	4,676,727	0	591,152	2,687,394
Other than temporary decline in value of investments	0	0	0	0
Gain (loss) on sales of fixed assets	(826,890)	0	0	(701,873)
(Loss) gain on investments in partnerships	12,969	0	9,655	0
Excess of revenues, gains and other support over expenses and losses before equity in earnings of subsidiaries and minority interest	24,778,458	0	(3,797,393)	19,644,082
Equity in earnings of subsidiaries	0	26,905,322	26,905,322	0
Minority interest	(1,670,529)	0	0	0
Excess of revenues, gains and other support over expenses and losses	<u>\$ 23,107,929</u>	<u>\$ 26,905,322</u>	<u>\$ 23,107,929</u>	<u>\$ 19,644,082</u>

MediCorp at Stafford, LLC	MediCorp Properties, Inc.	MediCorp Health Services, Inc.	Mary Washington Hospital Foundation, Inc.	MediCorp Services, Inc.	Fredericks- burg Professional Risk Exchange
\$ 0	0	\$ 75,286,408	\$ 0	\$ 1,197,847	\$ 0
0	0	0	0	6,359,230	0
0	11,716,085	730	0	0	0
0	250,917	7,466,490	0	1,408,564	0
30,471	23,100	222,477	1,377,629	0	263,724
0	0	407,946	47,583	0	0
0	1,932,961	1,719,865	198,574	4,167,995	4,352,053
30,471	13,923,063	85,103,916	1,623,786	13,133,636	4,615,777
0	0	30,275,935	247,089	3,902,915	0
0	0	7,365,010	83,863	1,259,290	0
0	0	5,456,007	3,349	320,617	0
0	1,790,836	12,752,407	84,772	995,045	550,064
0	715,071	2,283,393	268,962	338,286	171,053
0	4,107,689	2,404,296	2,819	129,291	0
0	755,869	4,738	0	0	0
0	0	0	0	4,716,340	0
0	1,755,154	5,546,585	8,889	184,652	0
0	204,851	8,857,472	41,952	402,792	960
0	1,333,817	362,710	0	9,344	0
0	99,500	1,100,372	1,768	40,742	1,088,513
0	0	4,799,051	0	513,526	0
0	209,024	2,013,274	0	(77,844)	0
0	736,000	485,434	4,192	67,622	0
0	11,707,811	83,706,684	747,655	12,802,618	1,810,590
30,471	2,215,252	1,397,232	876,131	331,018	2,805,187
0	13,128	53,986	1,357,314	13,514	(39,761)
0	0	0	0	0	0
0	(63,270)	(61,747)	0	0	0
0	0	0	0	3,314	0
30,471	2,165,110	1,389,471	2,233,445	347,846	2,765,426
0	0	0	0	0	0
0	(63,153)	(1,535,198)	0	0	(72,178)
\$ 30,471	2,101,957	\$ (145,727)	\$ 2,233,445	\$ 347,846	\$ 2,693,248

MediCorp Health System Obligated Group

Combining Balance Sheet

December 31, 2006

	Combined	Eliminations	MediCorp Health System
Assets			
Current assets:			
Cash and cash equivalents	\$ 37,595,231	\$ 0	\$ 34,291,612
Accounts receivable:			
Patient accounts	50,622,538	0	0
Due from affiliates	26,920,110	0	0
Settlements due from third party programs	0	0	0
Other	1,618,990	0	912,688
	<hr/> 79,161,638	0	912,688
Notes receivable	16,691	0	0
Current portion of assets whose use is limited	6,523,005	0	0
Inventories	4,679,616	0	0
Prepaid expenses and other	3,094,323	0	989,853
	<hr/> 131,070,504	0	36,194,153
Assets whose use is limited:			
Internally designated for health care programs and capital acquisition	122,691,334	0	32,312,367
Externally restricted by donors	15,427,980	0	0
Externally restricted under bond indenture agreement	130,721,874	0	0
Externally restricted for malpractice claims	0	0	0
Other	114,221	0	0
	<hr/> 268,955,409	0	32,312,367
Less amounts available for current liabilities	6,523,005	0	0
	<hr/> 262,432,404	0	32,312,367
Property, plant and equipment	212,922,070	0	1,838,218
Other assets:			
Notes receivable	1,315,528	2,545,097	2,545,099
Due from affiliates	0	0	0
Deferred financing costs	4,185,219	0	0
Miscellaneous	4,654,341	0	3,478,612
Equity in nonobligated subsidiaries	0	16,389,544	16,389,544
Equity in subsidiaries	0	209,822,725	209,822,725
	<hr/> 0	209,822,725	209,822,725
Total assets	<hr/> <hr/> \$ 616,580,066	<hr/> <hr/> \$ 228,757,366	<hr/> <hr/> \$ 302,580,718

Mary Washington Hospital, Inc.	MediCorp at Stafford, LLC	MediCorp Properties, Inc.	Mary Washington Hospital Foundation, Inc.
\$ 335,861	\$ 0	\$ 238,358	\$ 2,729,400
50,622,538	0	0	0
19,446,861	7,473,249	0	0
0	0	0	0
328,228	192,349	98,339	87,386
70,397,627	7,665,598	98,339	87,386
0	0	16,691	0
147,231	6,375,774	0	0
4,679,616	0	0	0
1,810,405	60,000	231,555	2,510
77,370,740	14,101,372	584,943	2,819,296
41,990,239	0	0	48,388,728
0	0	0	15,427,980
6,438,541	124,283,333	0	0
0	0	0	0
0	0	0	114,221
48,428,780	124,283,333	0	63,930,929
147,231	6,375,774	0	0
48,281,549	117,907,559	0	63,930,929
123,907,410	25,685	87,146,179	4,578
1,315,526	0	0	0
0	0	0	0
3,253,142	860,851	71,226	0
867,884	0	307,845	0
0	0	0	0
0	0	0	0
\$ 254,996,251	\$ 132,895,467	\$ 88,110,193	\$ 66,754,803

MediCorp Health System Obligated Group

Combining Balance Sheet

December 31, 2006

	Combined	Eliminations	MediCorp Health System
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 23,002,759	\$ 0	\$ 9,199,289
Due to affiliates	18,637,729	0	10,962,828
Employee compensation and professional fees	19,595,848	0	10,787,846
Interest payable	688,697	0	0
Current portion of accrued losses on malpractice claims	0	0	0
Notes payable	0	0	0
Pension liability	6,200,000	0	6,200,000
Current maturities of long-term obligations	6,316,591	0	0
Total current liabilities	74,441,624	0	37,149,963
Long-term obligations, less current maturities	290,200,924	2,545,097	0
Other liabilities:			
Accrued losses on malpractice claims	2,300,668	0	0
Pension liability	4,959,879	0	4,959,879
Annuities payable	72,285	0	0
Minority interest	523,354	0	0
Total liabilities	372,498,734	2,545,097	42,109,842
Net assets:			
Unrestricted	228,653,352	210,784,289	245,042,896
Temporarily restricted	14,081,437	14,081,437	14,081,437
Permanently restricted	1,346,543	1,346,543	1,346,543
	244,081,332	226,212,269	260,470,876
<hr/>			
Total liabilities and net assets	\$ 616,580,066	\$ 228,757,366	\$ 302,580,718

	Mary Washington Hospital, Inc.	MediCorp at Stafford, LLC	MediCorp Properties, Inc.	Mary Washington Hospital Foundation, Inc.
\$	11,831,506	\$ 121,477	\$ 1,385,036	\$ 465,451
	0	0	3,713,993	3,960,908
	8,773,877	0	0	34,125
	418,511	174,103	96,083	0
	0	0	0	0
	0	0	0	0
	2,993,085	552,983	2,770,523	0
	24,016,979	848,563	7,965,635	4,460,484
	147,470,001	132,016,433	13,259,587	0
	2,300,668	0	0	0
	0	0	0	0
	0	0	0	72,285
	0	0	523,354	0
	173,787,648	132,864,996	21,748,576	4,532,769
	81,208,603	30,471	66,361,617	46,794,054
	0	0	0	14,081,437
	0	0	0	1,346,543
	81,208,603	30,471	66,361,617	62,222,034
<hr/>				
\$	254,996,251	\$ 132,895,467	\$ 88,110,193	\$ 66,754,803

MediCorp Health System Obligated Group

Combining Statement of Operations

Year Ended December 31, 2006

	Combined	Eliminations	MediCorp Health System
Revenues and other support:			
Net patient care and resident services revenue	\$ 386,240,122	\$ 28	\$ 0
Rental of facilities	7,254,786	4,558,526	0
Management and personnel services	4,558,745	34,962,684	39,264,227
Investment income	4,768,621	130,740	2,213,337
Unrestricted contributions	47,583	0	0
Other	6,833,540	850,866	1,475,532
	409,703,397	40,502,844	42,953,096
Expenses:			
Salaries and wages	134,275,571	0	18,568,875
Employee benefits	37,921,622	93,279	6,893,329
Contract personnel	8,874,528	20,307	88,530
Professional fees	22,482,695	34,847,877	6,172,349
General and administrative	12,526,964	181,624	8,039,202
Provisions for depreciation and amortization	23,127,974	0	489,305
Interest	8,632,894	130,740	201,621
Contract services	19,575,657	490,985	2,633,158
Supplies	74,338,834	83,875	1,547,722
Utilities	3,735,940	0	0
Insurance	4,282,212	0	140,955
Rent	3,954,978	4,558,526	2,387,182
Provision for bad debts	35,214,007	0	(838)
Other	4,377,306	95,631	189,906
	393,321,182	40,502,844	47,351,296
Income (loss) from operations	16,382,215	0	(4,398,200)
Nonoperating gains (losses):			
Realized gains on sales of investments	4,648,988	0	591,152
Other than temporary decline in value of investments	0	0	0
Gains (losses) on sales of assets	(765,143)	0	0
Gain on investments in partnerships	9,655	0	9,655
Excess of revenues, gains and other support over expenses and losses before equity in earnings of subsidiaries and minority interest	20,275,715	0	(3,797,393)
Equity in earnings of nonobligated subsidiaries	0	2,925,838	2,925,838
Equity in earnings of subsidiaries	0	23,979,484	23,979,484
Minority interest	(63,153)	0	0
Excess of revenues, gains and other support over expense and losses	\$ 20,212,562	\$ 26,905,322	\$ 23,107,929

Mary Washington Hospital, Inc.	MediCorp Properties, Inc.	MediCorp Properties, Inc.	Mary Washington Hospital Foundation, Inc.
\$ 386,240,150	\$ 0	\$ 0	\$ 0
97,227	0	11,716,085	0
6,285	0	250,917	0
1,254,824	30,471	23,100	1,377,629
0	0	0	47,583
4,077,339	0	1,932,961	198,574
<u>391,675,825</u>	<u>30,471</u>	<u>13,923,063</u>	<u>1,623,786</u>
115,459,607	0	0	247,089
31,037,709	0	0	83,863
8,802,956	0	0	3,349
49,282,615	0	1,790,836	84,772
3,685,353	0	715,071	268,962
18,528,161	0	4,107,689	2,819
7,806,144	0	755,869	0
15,669,441	0	1,755,154	8,889
72,628,184	0	204,851	41,952
2,402,123	0	1,333,817	0
4,039,989	0	99,500	1,768
6,126,322	0	0	0
35,005,821	0	209,024	0
3,542,839	0	736,000	4,192
<u>374,017,264</u>	<u>0</u>	<u>11,707,811</u>	<u>747,655</u>
17,658,561	30,471	2,215,252	876,131
2,687,394	0	13,128	1,357,314
0	0	0	0
(701,873)	0	(63,270)	0
0	0	0	0
19,644,082	30,471	2,165,110	2,233,445
0	0	0	0
0	0	0	0
0	0	(63,153)	0
<u>\$ 19,644,082</u>	<u>\$ 30,471</u>	<u>\$ 2,101,957</u>	<u>\$ 2,233,445</u>

MediCorp Properties, Inc.
Consolidating Balance Sheet
December 31, 2006

	Consolidated	Eliminations	MediCorp Properties, Inc.
Assets			
Current assets:			
Cash and cash equivalents	\$ 238,358	\$ 0	\$ 0
Accounts receivable:			
Other	98,339	0	85,719
	98,339	0	85,719
Notes receivable	16,691	4,945,666	4,962,357
Current portion of assets whose use is limited	0	0	0
Inventories	0	0	0
Prepaid expenses and other	231,555	0	223,713
Total current assets	584,943	4,945,666	5,271,789
Property, plant and equipment	87,146,179	0	75,778,025
Other assets:			
Notes receivable	0	0	0
Deferred financing costs	71,226	0	53,855
Miscellaneous	307,845	0	307,845
Investment in partnership	0	1,790,476	1,790,476
Total assets	\$ 88,110,193	\$ 6,736,142	\$ 83,201,990

North Stafford Medical Mall Partnership		Tompkins Martin Medical Plaza, L.P.	
\$	30,391	\$	207,967
	2,248		10,372
	<u>2,248</u>		<u>10,372</u>
	0		0
	0		0
	0		0
	<u>2,117</u>		<u>5,725</u>
	34,756		224,064
	3,579,667		7,788,487
	0		0
	0		17,371
	0		0
	0		0
<hr/>		<hr/>	
\$	3,614,423	\$	8,029,922
<hr/>		<hr/>	

MediCorp Properties, Inc.
 Consolidating Balance Sheet

December 31, 2006

	Consolidated	Eliminations	MediCorp Properties, Inc.
Liabilities and Net Assets			
Current liabilities:			
Notes payable	\$ 0	\$ 4,945,666	\$ 0
Accounts payable and accrued expenses	1,385,036	0	1,344,121
Due to affiliates	3,713,993	0	3,676,100
Interest payable	96,083	0	96,083
Current maturities of long-term obligations	2,770,523	0	2,636,247
Total current liabilities	7,965,635	4,945,666	7,752,551
Long-term obligations, less current maturities	13,259,587	0	9,087,822
Minority interest	523,354	0	0
Total liabilities	21,748,576	4,945,666	16,840,373
Unrestricted net assets	66,361,617	1,790,476	66,361,617
Total liabilities and net assets	\$ 88,110,193	\$ 6,736,142	\$ 83,201,990

North Stafford Medical Mall Partnership		Tompkins Martin Medical Plaza, L.P.	
\$	0	\$	4,945,666
	14,924		25,991
	0		37,893
	0		0
	134,276		0
	<hr/> 149,200		<hr/> 5,009,550
	3,769,632		402,133
	(39,573)		562,927
	<hr/> 3,879,259		<hr/> 5,974,610
	(264,836)		2,055,312
<hr/> <hr/> \$	<hr/> <hr/> 3,614,423	<hr/> <hr/> \$	<hr/> <hr/> 8,029,922

MediCorp Properties, Inc.

Consolidating Statement of Operations

Year Ended December 31, 2006

	Consolidated	Eliminations	MediCorp Properties, Inc.
Revenues and other support:			
Rental of facilities	\$ 11,716,085	\$ 0	\$ 9,304,515
Management and personnel services	250,917	0	178,717
Investment income	23,100	280,304	303,330
Other	1,932,961	603	1,713,240
	13,923,063	280,907	11,499,802
Expenses:			
Professional services	1,790,836	0	1,611,675
General and administrative	715,071	603	548,435
Provisions for depreciation and amortization	4,107,689	0	3,443,425
Interest	755,869	280,304	512,702
Contract services	1,755,154	0	1,372,587
Supplies	204,851	0	145,328
Utilities	1,333,817	0	1,101,494
Insurance	99,500	0	78,436
Rent	0	0	0
Provision for bad debts	209,024	0	173,559
Other	736,000	0	525,266
	11,707,811	280,907	9,512,907
Income (loss) from operations	2,215,252	0	1,986,895
Nonoperating gains (losses):			
Realized gains on investments	13,128	0	13,128
Gain (loss) on sale of assets	(63,270)	0	(2,118)
Gain on investments in partnerships	0	104,052	104,052
Excess (deficiency) of revenues, gains and other support over expenses and losses before minority interest	2,165,110	104,052	2,101,957
Minority interest	(63,153)	0	0
Excess (deficiency) of revenues, gains and other support over expenses and losses	\$ 2,101,957	\$ 104,052	\$ 2,101,957

North Stafford Medical Mall Partnership	Tompkins Martin Medical Plaza, L.P.
\$ 416,856	\$ 1,994,714
6,062	66,138
74	0
8,779	211,545
<hr/> 431,771	<hr/> 2,272,397
54,598	124,563
32,264	134,975
182,714	481,550
210,400	313,071
76,968	305,599
12,254	47,269
46,754	185,569
7,978	13,086
0	0
0	35,465
60,049	150,685
<hr/> 683,979	<hr/> 1,791,832
(252,208)	480,565
0	0
(61,152)	0
0	0
<hr/> (313,360)	480,565
40,737	(103,890)
<hr/> (272,623)	<hr/> 376,675
\$	\$

MediCorp Health Services, Inc.

Consolidating Balance Sheet

December 31, 2006

	Consolidated	Eliminations	MediCorp Health Services, Inc.	Snowden Services, Inc.
Assets				
Current assets:				
Cash and cash equivalents	\$ 5,198,754	\$ 0	\$ 365,771	\$ 4,832,983
Accounts receivable:				
Patient accounts	8,410,998	0	1,874,717	6,536,281
Due from affiliates	0	0	0	0
Settlements due from third party programs	63,817	0	(37,887)	101,704
Other	520,684	0	1,737	518,947
	8,995,499	0	1,838,567	7,156,932
Notes receivable	5,011	0	0	5,011
Inventories	567,246	0	12,919	554,327
Prepaid expenses and other	164,345	0	26,507	137,838
Total current assets	14,930,855	0	2,243,764	12,687,091
Investments	0	0	0	0
Assets whose use is limited:				
Externally restricted under bond indenture agreement	0	0	0	0
Other	21,466	0	21,466	0
	21,466	0	21,466	0
Less amounts available for current liabilities	0	0	0	0
	21,466	0	21,466	0
Property, plant and equipment	8,711,018	0	710,532	8,000,486
Other assets:				
Deferred financing costs	0	0	0	0
Deferred marketing costs	0	0	0	0
Miscellaneous	296,392	0	0	296,392
Notes receivable	120,000	0	120,000	0
Equity in subsidiary	0	6,874,187	6,874,187	0
Total assets	\$ 24,079,731	\$ 6,874,187	\$ 9,969,949	\$ 20,983,969

MediCorp Health Services, Inc.

Consolidating Balance Sheet

December 31, 2006

	Consolidated	Eliminations	MediCorp Health Services, Inc.	Snowden Services, Inc.
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 4,525,654	\$ 0	\$ 631,705	\$ 3,893,949
Due to affiliates	2,702,967	0	(913,942)	3,616,909
Employee compensation and professional fees	1,956,447	0	406,313	1,550,134
Interest payable	0	0	0	0
Current maturities of long-term obligations	0	0	0	0
Total current liabilities	9,185,068	0	124,076	9,060,992
Due to affiliates	0	0	0	0
Long-term obligations, less current maturities	0	0	0	0
Advance fees and deposits	0	0	0	0
Minority interest	4,354,758	0	0	4,354,758
Total liabilities	13,539,826	0	124,076	13,415,750
Common Stock	1,000	1,000	1,000	1,000
Unrestricted net assets	10,538,905	6,873,187	9,844,873	7,567,219
	10,539,905	6,874,187	9,845,873	7,568,219
<hr/>				
Total liabilities and net assets	\$ 24,079,731	\$ 6,874,187	\$ 9,969,949	\$ 20,983,969

MediCorp Health Services, Inc.

Consolidating Statement of Operations

Year Ended December 31, 2006

	Consolidated	Eliminations	MediCorp Health Services, Inc.	Snowden Services, Inc.
Revenues and other support:				
Net patient care and resident services revenue	\$ 75,286,408	\$ 5,104	\$ 17,007,953	\$ 58,283,559
Rental of facilities	730	0	0	730
Management and personnel services	7,466,490	0	0	7,466,490
Investment income	222,477	0	91,666	130,811
Unrestricted contributions	407,946	0	0	407,946
Other	1,719,865	0	63,112	1,656,753
	85,103,916	5,104	17,162,731	67,946,289
Expenses:				
Salaries and wages	30,275,935	0	6,845,511	23,430,424
Employee benefits	7,365,010	0	1,924,765	5,440,245
Contract personnel	5,456,007	0	553,234	4,902,773
Professional fees	12,752,407	5,104	2,524,223	10,233,288
General and administrative	2,283,393	0	466,663	1,816,730
Provisions for depreciation and amortization	2,404,296	0	131,996	2,272,300
Interest	4,738	0	253	4,485
Contract services	5,546,585	0	172,341	5,374,244
Supplies	8,857,472	0	2,215,804	6,641,668
Utilities	362,710	0	177,864	184,846
Insurance	1,100,372	0	194,027	906,345
Rent	4,799,051	0	1,067,899	3,731,152
Provision for bad debts	2,013,274	0	105,205	1,908,069
Other	485,434	0	111,408	374,026
	83,706,684	5,104	16,491,193	67,220,595
Income from operations	1,397,232	0	671,538	725,694
Nonoperating gains (losses):				
Realized gains on sales of investments	53,986	0	16,584	37,402
Gain on sales of assets	(61,747)	0	(75,574)	13,827
Excess of revenues, gains and other support over expenses and losses before equity in loss of subsidiary	1,389,471	0	612,548	776,923
Equity in earnings of subsidiaries	0	(758,275)	(758,275)	0
Minority Interest	(1,535,198)	0	0	(1,535,198)
Excess of revenues, gains and other support over expenses and losses	\$ (145,727)	\$ (758,275)	\$ (145,727)	\$ (758,275)

MediCorp Health Services, Inc. (Parent Company only)

Balance Sheet by Division

December 31, 2006

	Total	MediCorp Health Services, Inc.	Carriage Hill Nursing Home	Hospice of Mary Washington
Assets				
Current assets:				
Cash and cash equivalents	\$ 365,771	\$ 0	\$ 363,411	\$ 2,360
Accounts receivable:				
Patient accounts	1,874,717	351	974,583	899,783
Due from affiliates	0	0	0	0
Settlements due from third parties	(37,887)	0	(13,275)	(24,612)
Other	1,737	1,737	0	0
	<u>1,838,567</u>	<u>2,088</u>	<u>961,308</u>	<u>875,171</u>
Inventories	12,919	0	12,919	0
Prepaid expenses and other	26,507	0	8,560	17,947
Total current assets	<u>2,243,764</u>	<u>2,088</u>	<u>1,346,198</u>	<u>895,478</u>
Assets whose use is limited:				
Other	21,466	0	21,466	0
	<u>21,466</u>	<u>0</u>	<u>21,466</u>	<u>0</u>
Property, plant and equipment	710,532	0	649,556	60,976
Other assets:				
Notes Receivable	120,000	120,000	0	0
Equity in subsidiary	6,874,187	6,874,187	0	0
Total assets	<u>\$ 9,969,949</u>	<u>\$ 6,996,275</u>	<u>\$ 2,017,220</u>	<u>\$ 956,454</u>

MediCorp Health Services, Inc. (Parent Company only)

Balance Sheet by Division

December 31, 2006

	Total	MediCorp Health Services, Inc.	Carriage Hill Nursing Home	Hospice of Mary Washington
Liabilities and Net Assets (Deficit)				
Current liabilities:				
Accounts payable and accrued expenses	\$ 631,705	\$ (5,826)	\$ 351,775	\$ 285,756
Due to affiliates	(913,942)	1,534,702	(3,104,789)	656,145
Settlements due to third parties	0		0	0
Employee compensation and professional fees	406,313	0	248,244	158,069
Total current liabilities	124,076	1,528,876	(2,504,770)	1,099,970
Due to affiliates	0	0	0	0
Total liabilities	124,076	1,528,876	(2,504,770)	1,099,970
Common stock	1,000	1,000		
Unrestricted net assets (deficit)	9,844,873	5,466,399	4,521,990	(143,516)
	9,845,873	5,467,399	4,521,990	(143,516)
Total liabilities and net assets (deficit)	\$ 9,969,949	\$ 6,996,275	\$ 2,017,220	\$ 956,454

MediCorp Health Services, Inc. (Parent Company only)

Statement of Operations by Division

Year Ended December 31, 2006

	Total	Eliminations	MediCorp Health Services, Inc.
Revenues and other support:			
Net patient care and resident services revenue	\$ 17,007,953	\$ 225,206	\$ 0
Investment income	91,666	0	91,509
Other	63,112	0	771
	<u>17,162,731</u>	<u>225,206</u>	<u>92,280</u>
Expenses:			
Salaries and wages	6,845,511	0	0
Employee benefits	1,924,765	0	2,221
Contract personnel	553,234	0	(13,994)
Professional fees	2,524,223	206,364	779
General and administrative	466,663	0	2,491
Provisions for depreciation and amortization	131,996	0	0
Interest	253		
Contract services	172,341	0	850
Supplies	2,215,804	18,842	(5,171)
Utilities	177,864	0	(36)
Insurance	194,027	0	66,779
Rent	1,067,899	0	0
Provision for bad debts	105,205	0	(4,171)
Other	111,408	0	5,914
	<u>16,491,193</u>	<u>225,206</u>	<u>55,662</u>
Income (loss) from operations	671,538	0	36,618
Nonoperating gains:			
Realized gains on sales of investments	16,584	0	0
Gain on sales of assets	(75,574)	0	(75,574)
	<u> </u>	<u> </u>	<u> </u>
Excess (deficiency) of revenues, gains and other support over expenses before equity in earnings of subsidiary	612,548	0	(38,956)
Equity in earnings of subsidiaries	<u>(758,275)</u>	<u>0</u>	<u>(758,275)</u>
Excess (deficiency) of revenues, gains and other support over expenses	<u>\$ (145,727)</u>	<u>\$ 0</u>	<u>\$ (797,231)</u>

Carriage Hill Rehabilitation and Nursing Center		Hospice of Mary Washington	
\$	10,828,974	\$	6,404,185
	0		157
	61,879		462
	<u>10,890,853</u>		<u>6,404,804</u>
	4,523,783		2,321,728
	1,290,422		632,122
	524,058		43,170
	1,310,794		1,419,014
	161,816		302,356
	104,772		27,224
			253
	134,868		36,623
	1,324,882		914,935
	167,555		10,345
	58,873		68,375
	985,974		81,925
	109,376		0
	62,710		42,784
	<u>10,759,883</u>		<u>5,900,854</u>
	130,970		503,950
	11,124		5,460
	0		0
	<u>142,094</u>		<u>509,410</u>
	0		0
\$	<u>142,094</u>	\$	<u>509,410</u>

Snowden Services, Inc.
Consolidating Balance Sheet

December 31, 2006

	Total	Eliminations	Snowden Services, Inc.	Fredericksburg Ambulatory Surgery Center, LLC
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,832,983	\$ 0	\$ 0	\$ 1,811,628
Accounts receivable:				
Patient accounts	6,536,281	0	0	1,702,319
Due from affiliates	0	0	0	0
Settlements due from third party programs	101,704	0	0	0
Other	518,947	0	317,088	0
	7,156,932	0	317,088	1,702,319
Notes receivable	5,011			
Inventories	554,327			554,327
Prepaid expenses and other	137,838	0	0	55,088
Total current assets	12,687,091	0	317,088	4,123,362
Property, plant and equipment	8,000,486	0	0	1,967,324
Miscellaneous	296,392	0	258,059	0
Equity in subsidiaries	0	(2,249,497)	(2,249,497)	0
Total assets	\$ 20,983,969	\$ (2,249,497)	\$ (1,674,350)	\$ 6,090,686

Snowden at Fredericksburg	CRNA LLC	Virginia Cardiovascular Services, Inc.	Medical Imaging of Fredericksburg, LLC	MediDoctors Holding Company
\$ 1,595	\$ 0	\$ 162	\$ 3,017,781	\$ 1,817
917,375	0	109,037	3,245,009	562,541
0	0	0	0	0
101,704	0			0
179,578	0			22,281
1,198,657	0	109,037	3,245,009	584,822
				5,011
26,446	3,685	26,751	17,706	8,162
1,226,698	3,685	135,950	6,280,496	599,812
1,996,981	0	40,182	3,644,299	351,700
0	0	0	0	38,333
0	0	0	0	0
\$ 3,223,679	\$ 3,685	\$ 176,132	\$ 9,924,795	\$ 989,845

Snowden Services, Inc.

Consolidating Balance Sheet

December 31, 2006

	Total	Eliminations	Snowden Services, Inc.	Fredericksburg Ambulatory Surgery Center, LLC
Liabilities and Net Assets (Deficit)				
Current liabilities:				
Accounts payable and accrued expenses	\$ 3,893,949	\$ 0	\$ 0	\$ 1,147,390
Due to affiliates	3,616,909		(10,567,334)	53,979
Employee compensation and professional fees	1,550,134	0	454,639	0
Total current liabilities	9,060,992	0	(10,112,695)	1,201,369
Minority interest	4,354,758	0	0	948,744
Total liabilities	13,415,750	0	(10,112,695)	2,150,113
Common stock	1,000	1,000	1,000	0
Unrestricted net assets (deficit)	7,567,219	(2,250,497)	8,437,345	3,940,573
	7,568,219	(2,249,497)	8,438,345	3,940,573
Total liabilities and net assets (deficit)	\$ 20,983,969	\$ (2,249,497)	\$ (1,674,350)	\$ 6,090,686

Snowden at Fredericksburg	CRNA LLC	Virginia Cardiovascular Services, Inc.	Medical Imaging of Fredericksburg, LLC	MediDoctors Holding Company
\$ 87,324	\$ 202,704	\$ 11,246	\$ 2,252,444	\$ 192,841
3,686,537	(249,968)	1,857,690	340,007	8,495,998
319,942	50,952		396,154	328,447
4,093,803	3,688	1,868,936	2,988,605	9,017,286
0	0		3,406,014	0
4,093,803	3,688	1,868,936	6,394,619	9,017,286
0	0	1,000		
(870,124)	(3)	(1,693,804)	3,530,176	(8,027,441)
(870,124)	(3)	(1,692,804)	3,530,176	(8,027,441)
\$ 3,223,679	\$ 3,685	\$ 176,132	\$ 9,924,795	\$ 989,845

Snowden Services, Inc.

Consolidating Statement of Operations

Year Ended December 31, 2006

	Total	Eliminations	Snowden Services, Inc.	Fredericksburg Ambulatory Surgery Center, LLC
Revenues and other support:				
Net patient care revenue	\$ 58,283,559	\$ 0	\$ 0	\$ 15,094,083
Rental of facilities	730			
Management and personnel services	7,466,490	7,309,797	7,309,834	0
Investment income	130,811	0	0	35,403
Unrestricted contributions	407,946			
Other	1,656,753	0	0	21,414
	<u>67,946,289</u>	<u>7,309,797</u>	<u>7,309,834</u>	<u>15,150,900</u>
Expenses:				
Salaries and wages	23,430,424	0	5,956,003	0
Employee benefits	5,440,245	0	1,345,790	351
Contract personnel	4,902,773	6,240,021	0	4,403,405
Professional fees	10,233,288	1,069,776	185,735	1,695,537
General and administrative	1,816,730	0	28,300	604,238
Provisions for depreciation and amortization	2,272,300	0	83,695	576,533
Interest	4,485			0
Contract services	5,374,244	0	6,581	873,337
Supplies	6,641,668	0	0	4,094,135
Utilities	184,846	0	0	2,870
Insurance	906,345	0	0	32,835
Rent	3,731,152	0	0	807,099
Provision for bad debts	1,908,069	0	(52,641)	286,867
Other	374,026	0	0	125,872
	<u>67,220,595</u>	<u>7,309,797</u>	<u>7,553,463</u>	<u>13,503,079</u>
Income (loss) from operations	725,694	0	(243,629)	1,647,821
Realized gain on sales of investments	37,402		4,137	15,072
Gain on sale of assets	13,827	0	7,167	(2,392)
Excess (deficiency) of revenues, gains and other support over expenses and losses before minority interest	776,923	0	(232,325)	1,660,501
Equity in earnings of subsidiaries	0	(666,633)	(666,633)	0
Minority interest	(1,535,198)	0	0	(152,626)
Excess (deficiency) of revenues, gains and other support over expenses and losses	<u>\$ (758,275)</u>	<u>\$ (666,633)</u>	<u>\$ (898,958)</u>	<u>\$ 1,507,875</u>

Snowden at Fredericksburg	CRNA LLC	Virginia Cardiovascular Services, Inc.	Medical Imaging of Fredericksburg, LLC	MediDoctors Holding Company
\$ 8,359,234	\$ 0	\$ 1,061,966	\$ 27,778,973	\$ 5,989,303
10		0	0	720
0	6,388,408	0	(15)	1,078,060
2,456	0	8	92,820	124
		0	0	407,946
1,335,951	0	1,444	17,143	280,801
9,697,651	6,388,408	1,063,418	27,888,921	7,756,954
4,497,788	2,092,644	0	5,088,575	5,795,414
1,272,672	297,213	0	1,516,025	1,008,194
9,416	3,813,779	1,877,121	446,531	592,542
1,028,776	0	3,750	8,091,662	297,604
174,999	72,428	42,978	625,869	267,918
225,721	0	5,977	1,283,978	96,396
0		4,485	0	0
756,497	0	62,874	3,170,653	504,302
678,362	635	35,990	1,595,074	237,472
136,672	0	0	23,963	21,341
123,221	111,709	110,116	124,747	403,717
74,160	0	85,799	2,347,667	416,427
496,725	0	24,742	709,153	443,223
92,267	0	17,385	43,447	95,055
9,567,276	6,388,408	2,271,217	25,067,344	10,179,605
130,375	0	(1,207,799)	2,821,577	(2,422,651)
10,308	0	0	0	7,885
0	0	0	0	9,052
140,683	0	(1,207,799)	2,821,577	(2,405,714)
0	0	0	0	0
0	0	0	(1,382,572)	0
\$ 140,683	\$ 0	\$ (1,207,799)	\$ 1,439,005	\$ (2,405,714)

MediCorp Services, Inc.
Consolidating Balance Sheet

December 31, 2006

	Consolidated	Eliminations	MediCorp Services, Inc.
Assets			
Current assets:			
Cash and cash equivalents	\$ 887,286	\$ 0	\$ 695,339
Accounts receivable:			
Patient accounts	451,137	0	451,137
Other	67,377	0	32,421
	518,514	0	483,558
Notes receivable	0	0	0
Inventories	760,038	0	760,038
Prepaid expenses and other	103,058	0	86,808
Total current assets	2,268,896	0	2,025,743
Property, plant and equipment	482,168	0	482,168
Other assets:			
Notes receivable	0	0	0
Miscellaneous	382,329	0	382,329
	382,329	0	382,329
Total assets	\$ 3,133,393	\$ 0	\$ 2,890,240

**FPRE,
LLC**

\$	191,947
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	<hr/> 34,956
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	16,250
	<hr/> 243,153
	0
	0
	<hr/> 0
\$	<hr/> <hr/> 243,153

MediCorp Services, Inc.
Consolidating Balance Sheet

December 31, 2006

	Consolidated	Eliminations	MediCorp Services, Inc.
Liabilities and Stockholders' Equity (Deficit)			
Current liabilities:			
Accounts payable and accrued expenses	\$ 602,045	\$ 0	\$ 523,542
Due to affiliates	5,579,414	0	5,414,764
Employee compensation and professional fees	302,566	0	302,566
Total current liabilities	6,484,025	0	6,240,872
Minority interest	0	0	0
Total liabilities	6,484,025	0	6,240,872
Stockholders' equity:			
Common stock	2,684,568	0	2,684,568
Retained earnings (deficit)	(6,035,200)	0	(6,035,200)
	(3,350,632)	0	(3,350,632)
Total liabilities and stockholders' equity (deficit)	\$ 3,133,393	\$ 0	\$ 2,890,240

**FPRE,
LLC**

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\$	78,503
	164,650
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\$	243,153
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MediCorp Services, Inc.

Consolidating Statement of Operations

Year Ended December 31, 2006

	Consolidated	Eliminations	MediCorp Services, Inc.
Revenues and other support:			
Net patient care revenue	\$ 1,197,847	\$ 0	\$ 1,197,847
Retail and pharmacy sales	6,359,230	0	6,359,230
Rental of facilities	0	0	0
Management and personnel services	1,408,564	0	1,027,262
Investment income	0	0	0
Other	4,167,995	0	4,167,995
	13,133,636	0	12,752,334
Expenses:			
Salaries and wages	3,902,915	0	3,902,915
Employee benefits	1,259,290	0	1,259,290
Contract personnel	320,617	0	320,617
Professional fees	995,045	0	613,773
General and administrative	338,286	0	338,256
Provisions for depreciation and amortization	129,291	0	129,291
Cost of pharmacy, construction services and other	4,716,340	0	4,716,340
Contract services	184,652	0	184,652
Supplies	402,792	0	402,792
Utilities	9,344	0	9,344
Insurance	40,742	0	40,742
Rent	513,526	0	513,526
Provision for bad debts	(77,844)	0	(77,844)
Other	67,622	0	67,622
	12,802,618	0	12,421,316
Income (loss) from operations	331,018	0	331,018
Realized gains on sales of investments	13,514	0	13,514
Gain on investment in partnership	3,314	0	3,314
Excess (deficiency) of revenues, gains and other support over expenses and losses before equity in loss of subsidiaries and minority interest	347,846	0	347,846
Excess (deficiency) of revenues, gains and other support over expenses and losses	\$ 347,846	\$ 0	\$ 347,846

