BLANK HOSPITAL, INCORPORATED AND AFFILIATES

Forecasted Combined Financial Statements

For the Years Ending
September 30, 2007 through 2011

(With Independent Accountants' Report
On Applying Agreed-Upon-Procedures)

BLANK HOSPITAL, INCORPORATED AND AFFILIATES

Forecasted Combined Financial Statements

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Independent Accountants' Report

Board of Directors
Blank Hospital, Incorporated and Affiliates
364 White Oak St.
Anywhere, North Carolina 27000

North Carolina Medical Care Commission
701 Barbour Drive
Council Building
Raleigh, North Carolina 27603

North Carolina Local Government Commission
4505 Fair Meadows Lane
Suite 102
Raleigh, North Carolina 27607

At your request, we have performed certain agreed-upon-procedures, as enumerated below, with respect to the forecasted combined balance sheets, forecasted combined statements of operations and changes in net assets, and cash flows of Blank Hospital, Incorporated and Affiliates ("Blank" or the "Organizations") as of September 30, 2007, 2008, 2009, 2010, and 2011, and for each of the years then ending (the "Forecast"). These procedures, which were agreed to by Blank, the North Carolina Medical Care Commission and the North Carolina Local Government Commission (the "Specified Users") were performed solely to assist the Specified Users in their evaluation of the Forecast. This evaluation is in connection with Blank management's plan to finance the construction of a new outpatient center and cancer center, as well as redeem existing debt (the "Project"). The Project will be financed from the proceeds of the issuance of $49,230,000 of North Carolina Medical Care Commission Variable Rate Demand Bonds, Series 2007. These forecasts have been prepared including these undertakings. Blank's management is responsible for the Forecast.

This agreed-upon-procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Specified Users. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We make no representations regarding questions of legal interpretation, nor do we provide any assurance as to matters relating to Blank's solvency, adequacy of capital or ability to pay its debts. The agreed-upon-procedures described below should not be taken to supplant any additional inquiries and procedures that the Specified Users should undertake in their consideration of the Forecast.

During the course of this engagement, we performed the following procedures:

1. We read the Forecast and general assumptions related to fiscal years 2007-2011.

2. We obtained management's representations that the assumptions underlying the Forecast have a reasonable basis for purposes of an analysis of forecasted operations and that management developed the assumptions based upon their general knowledge of, and expectations for, the industry and their specific knowledge of and plans for Blank, assuming the Project described above.

3. We obtained a list of management's significant assumptions providing the basis for the Forecast and compared the list of assumptions to those used in preparing the Forecast.

4. We considered whether any significant assumption contradicts or is inconsistent with another.

5. We tested the Forecast for mathematical accuracy and tested the computations made in translating the assumptions into forecasted amounts.

6. We read the audited combined financial statements for FY 2005 and FY 2006, and compared the accounting principles used in the Forecast to those used in the preparation of those audited financial statements.

7. We compared significant underlying assumptions, described in Pages 9-21 to historical trends and considered whether the assumptions were consistent with the trends.

8. We compared the forecasted debt service coverage ratio, as calculated by management for each of the fiscal years ending September 30, 2007 through 2011, to the definition of terms within the bond document provided by management.

We found no exceptions as a result of these procedures.

We were not engaged to, and did not perform an examination, the objective of which would be the expression of an opinion on the accompanying forecasted combined financial statements. Accordingly, we do not express an opinion on whether the forecasted combined financial statements are presented in conformity with AICPA presentation guidelines or whether the underlying assumptions provide a reasonable basis for the presentation. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

This report is intended solely for the use of Blank's management, the North Carolina Medical Care Commission and the North Carolina Local Government Commission, as the Specified Users of this report, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

May 31, 2007

BLANK HOSPITAL, INCORPORATED AND AFFILIATES

Forecasted Combined Balance Sheets

For the Years Ending September 30, 2007 through 2011

	Forecasted				
	2007	**2008**	**2009**	**2010**	**2011**
Current assets:					
Cash and cash equivalents	$ 4,061,332	$ 4,317,750	$ 4,634,024	$ 4,949,110	$ 5,279,408
Short-term investments	18,360,555	18,911,372	19,478,713	20,063,075	20,664,967
Patient accounts receivable, net	18,751,091	19,987,234	21,506,643	23,085,147	24,717,946
Other receivables	1,292,385	1,331,157	1,371,092	1,412,224	1,454,591
Unconditional promises to give	80,950	80,950	80,950	80,950	80,950
Inventories	2,446,180	2,624,454	2,840,868	3,068,761	3,309,876
Prepaid expenses	888,017	951,927	1,020,585	1,092,098	1,167,503
Estimated third-party payor Settlements	717,776	753,665	791,348	830,915	872,461
Total current assets	46,598,286	48,958,509	51,724,223	54,582,280	57,547,702
Long-term investments restricted for capital acquisition	6,020,777	10,815,333	12,074,437	17,275,503	22,123,479
Assets limited as to use:					
Construction fund	11,019,210	9,561	512	-	-
Capitalized interest fund	1,326,980	189,134	-	-	-
Other	1,107,568	1,140,795	1,175,019	1,210,270	1,246,578
Long-term investments	17,391,173	17,912,908	18,450,295	19,003,804	19,573,918
Investment in Blank Cancer Center	316,850	323,187	329,650	336,243	342,968
Property and equipment, net	59,287,150	71,135,091	72,234,982	70,027,925	68,039,611
Deferred financing costs, net	322,502	311,303	300,104	288,905	277,706
Other long-term assets	154,310	157,396	160,544	163,755	167,030
Total assets	$143,544,806	$150,953,217	$156,449,766	$162,888,685	$169,318,992

(continued)

BLANK HOSPITAL, INCORPORATED AND AFFILIATES

Forecasted Combined Balance Sheets, Continued

For the Years Ending September 30, 2007 through 2011

	Forecasted				
	2007	**2008**	**2009**	**2010**	**2011**
Current liabilities:					
Current portion of long-term debt and capital lease obligations	$ 1,982,679	$ 2,040,891	$ 2,194,030	$ 2,224,225	$ 2,104,698
Accounts payable	1,494,640	1,602,207	1,717,767	1,838,132	1,965,048
Accrued compensation	4,213,465	4,468,500	4,800,099	5,135,542	5,486,040
Estimated third-party payor Settlements	2,621,392	2,752,462	2,890,085	3,034,589	3,186,319
Patient refunds	822,643	822,643	822,643	822,643	822,643
Other accrued liabilities	1,160,276	1,195,085	1,230,937	1,267,865	1,305,901
Total current liabilities	12,295,095	12,881,788	13,655,561	14,322,996	14,870,649
Long-term liabilities:					
Minimum pension liability	1,167,084	1,167,084	1,167,084	1,167,084	1,167,084
Other long-term liabilities	229,580	126,269	69,448	38,196	21,008
Long-term debt, less current portion	51,453,207	50,448,148	48,254,118	47,065,725	44,961,027
Total liabilities	65,144,966	64,623,289	63,146,211	62,594,001	61,019,768
Net assets:					
Unrestricted	75,816,248	83,598,320	90,422,841	97,263,754	105,116,944
Temporarily restricted	1,248,565	1,258,381	1,268,393	1,278,606	1,289,023
Permanently restricted	1,335,027	1,473,227	1,612,321	1,752,324	1,893,257
Total net assets	78,399,840	86,329,928	93,303,555	100,294,684	108,299,224
Total liabilities and net assets	$143,544,806	$150,953,217	$156,449,766	$162,888,685	$169,318,992

See Summary of Significant Forecast Assumptions and Accounting Policies and Independent Accountants' Report.

BLANK HOSPITAL, INCORPORATED AND AFFILIATES

Forecasted Combined Statements of Operations and Changes in Net Assets

For the Years Ending September 30, 2007 through 2011

	Forecasted				
	2007	**2008**	**2009**	**2010**	**2011**
Revenue:					
Net patient service revenue	$ 104,703,469	$ 111,911,684	$ 120,090,084	$ 128,904,228	$ 138,021,548
Other revenue	1,580,751	1,604,462	1,628,529	1,652,957	1,677,751
Rental income from Cancer Center	-	49,666	199,862	199,862	199,862
Net assets released from restrictions used for operations	404,202	412,286	420,531	428,942	437,521
Total revenues, gains and other support	106,688,422	113,978,098	122,339,006	131,185,989	140,336,682
Expenses:					
Salaries and wages	37,116,870	39,471,348	42,284,598	45,239,549	48,327,126
Employee benefits	9,963,844	10,595,892	11,351,096	12,144,338	12,973,183
Salaries and wages – BMA	4,075,810	4,218,464	4,505,825	4,663,529	4,826,753
Employee benefits – BMA	708,254	733,042	782,977	810,382	838,745
Supplies and drugs	13,771,909	14,816,067	15,993,992	17,277,022	18,634,490
Insurance	1,203,853	1,359,239	1,495,162	1,644,679	1,809,146
Utilities	1,125,861	1,275,961	1,333,072	1,393,055	1,455,602
Other operating expenses	14,570,358	15,518,221	16,428,624	17,406,144	18,426,153
Provision for bad debts	14,587,854	15,523,891	16,582,407	17,714,418	18,871,908
Depreciation and amortization	4,982,942	5,459,594	6,800,442	8,218,256	8,999,513
Interest	956,779	1,124,270	1,969,183	2,122,127	1,992,815
Total expenses	103,064,334	110,095,989	119,527,378	128,633,499	137,155,434
Operating income	3,624,088	3,882,109	2,811,628	2,552,490	3,181,248
Nonoperating income:					
Loss on extinguishment of debt	(114,665)	-	-	-	-
Investment income	2,346,828	3,135,281	3,248,212	3,523,740	3,907,260
Capital campaign	1,000,000	750,000	750,000	750,000	750,000
Other	14,682	14,682	14,682	14,682	14,682
Excess of revenues over expenses	6,870,933	7,782,072	6,824,522	6,840,912	7,853,190
Change in temporarily restricted net assets:					
Investment income	9,624	9,816	10,012	10,213	10,417
Change in permanently restricted net assets:					
Investment income	43,763	44,638	45,531	46,442	47,371
Contributions	93,562	93,562	93,562	93,562	93,562
Increase in net assets	7,017,882	7,930,088	6,973,627	6,991,129	8,004,540
Net assets - beginning of year	71,381,958	78,399,840	86,329,928	93,303,555	100,294,684
Net assets - end of year	$ 78,399,840	$ 86,329,928	$ 93,303,555	$ 100,294,684	$ 108,299,224

See Summary of Significant Forecast Assumptions and Accounting Policies and Independent Accountants' Report.

BLANK HOSPITAL, INCORPORATED AND AFFILIATES

Forecasted Combined Statements of Cash Flows

For the Years Ending September 30, 2007 through 2011

	Forecasted				
	2007	**2008**	**2009**	**2010**	**2011**
Cash flows from operating activities:					
Change in net assets	$ 7,017,882	$ 7,930,088	$ 6,973,627	$ 6,991,129	$ 8,004,540
Adjustments to reconcile change in net assets to net cash provided by operating activities and non-operating items:					
Depreciation and amortization	4,982,942	5,459,594	6,800,442	8,218,256	8,999,513
Provision for bad debts	14,587,854	15,523,891	16,582,407	17,714,418	18,871,908
Restricted contributions	(1,000,000)	(750,000)	(750,000)	(750,000)	(750,000)
Changes in operating assets and liabilities:					
Patient accounts receivable, net	(15,893,433)	(16,760,034)	(18,101,816)	(19,292,922)	(20,504,707)
Estimated third-party payor settlements	90,648	95,181	99,940	104,937	110,184
Other receivables, net	(37,642)	(38,772)	(39,935)	(41,132)	(42,367)
Inventories	(177,147)	(178,274)	(216,414)	(227,893)	(241,115)
Prepaid expenses	(59,384)	(63,910)	(68,658)	(71,513)	(75,405)
Other long-term assets	(3,026)	(3,086)	(3,148)	(3,211)	(3,275)
Accounts payable	99,951	107,567	115,560	120,365	126,916
Accrued compensation	267,368	255,035	331,599	335,443	350,498
Other long-term liabilities	(1,162,770)	(103,311)	(56,821)	(31,252)	(17,188)
Change in unconditional promises to give	261,924	-	-	-	-
Other accrued liabilities	33,794	34,809	35,852	36,928	38,036
Net cash provided by operating activities	9,008,961	11,508,778	11,702,634	13,103,553	14,867,538
Cash flows from investing activities:					
Purchase of property and equipment	(20,106,016)	(17,296,336)	(7,889,134)	(6,000,000)	(7,000,000)
Change in construction fund	(11,019,210)	11,009,649	9,049	512	-
Change in capitalized interest fund	(1,326,980)	1,137,846	189,134	-	-
Change in investment in RCC	(6,213)	(6,337)	(6,463)	(6,593)	(6,725)
Change in long-term investments restricted for capital acquisition	(6,026,260)	(5,867,108)	(2,363,832)	(6,338,937)	(6,019,982)
Change in assets limited as to use	(32,259)	(33,227)	(34,224)	(35,251)	(36,308)
Net cash used in investing Activities	(38,516,938)	(11,055,513)	(10,095,470)	(12,380,269)	(13,063,015)
Cash flows from financing activities:					
Restricted contributions	1,000,000	750,000	750,000	750,000	750,000
Issuance of long-term debt	49,230,000	-	-	-	-
Payments on long-term debt	(20,247,093)	(946,847)	(2,040,891)	(1,158,198)	(2,224,225)
Deferred financing costs incurred	(219,036)	-	-	-	-
Net cash provided (used) by financing activities	29,763,871	(196,847)	(1,290,891)	(408,198)	(1,474,225)
Net increase in cash and cash equivalents	255,894	256,418	316,274	315,086	330,298
Cash and cash equivalents, beginning of Year	3,805,438	4,061,332	4,317,750	4,634,024	4,949,110
Cash and cash equivalents, end of year	$ 4,061,332	$ 4,317,750	$ 4,634,024	$ 4,949,110	$ 5,279,408

See Summary of Significant Forecast Assumptions and Accounting Policies and Independent Accountants' Report.

BLANK HOSPITAL, INCORPORATED AND AFFILIATES

Schedule of Forecasted Financial Ratios

For the Years Ending September 30, 2007 through 2011

	Forecasted				
	2007	**2008**	**2009**	**2010**	**2011**
Increase in unrestricted net assets	$ 6,870,933	$ 7,782,072	$ 6,824,522	$ 6,840,912	$ 7,853,190
Depreciation, amortization and interest	5,939,721	6,583,864	8,769,625	10,340,383	10,992,328
Income available for debt service	$12,810,654	$14,365,936	$15,594,147	$17,181,295	$18,845,518
Annual debt service	$ 2,450,868	$ 3,106,949	$ 4,010,074	$ 4,316,157	$ 4,217,040
Annual debt service coverage	5.23	4.62	3.89	3.98	4.47
Maximum annual debt service (Note 1)	$ 4,084,688	$ 3,263,357	$ 4,456,157	$ 4,456,157	$ 4,299,040
Maximum annual debt service coverage	3.14	4.40	3.50	3.86	4.38
Days cash on hand	174.69	185.22	180.72	189.45	196.20
Long-term debt to capitalization	41.34%	38.57%	35.81%	33.63%	30.93%
Cash to long-term debt	7.60%	8.23%	9.19%	10.04%	11.22%

Note 1 – Maximum annual debt service on the Series 2007 Bonds is $1,882,400 for FY 2007 and 2008 and $3,075,200 for FY 2009, 2010 and 2011. The remaining maximum annual debt service is related to non-project debt.

See Summary of Significant Forecast Assumptions and Accounting Policies and Independent Accountants' Report.

BLANK HOSPITAL, INCORPORATED AND AFFILIATES

Summary of Significant Forecast Assumptions and Accounting Policies

For the Years Ending September 30, 2007 through 2011

1. **Organization**

Blank Hospital, Incorporated (the "Hospital"), is a 145-bed not-for-profit acute-care hospital located in Blank, North Carolina. The Hospital provides inpatient, outpatient, and emergency care services for residents of Blank County, North Carolina and surrounding counties.

Blank Medical Associates ("BMA") was formed as a membership corporation where the sole member of the Corporation is Blank Hospital, Incorporated. BMA was formed as a non-profit entity to promote, improve and enhance the quality of health care services in Blank County, North Carolina, and surrounding counties.

The Blank Hospital Community Health Foundation (the "Foundation") was formed to award health care related grants within Blank County.

2. **Basis for Assumptions**

The financial forecasts present, to the best of the knowledge and belief of the management of Blank, their expected financial position, results of operations and changes in cash flows and debt service coverage for the forecast period. Accordingly, the forecasts reflect management's judgment as of May 31, 2007, the date of this forecast, of Blank's most likely set of conditions and its most likely course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. In addition, the validity of the forecasts may decrease in proportion to the time elapsed since their determination. Management does not intend to update this financial forecast. Subsequent events and circumstances may differ from those assumed as of the date of this forecast. Accordingly, the forecasted results should be evaluated in light of such changes.

Management's purpose in preparing these financial forecasts relates to management's plan to finance the construction of a new outpatient center and cancer center, as well as redeem existing debt.

This forecast has been prepared in accordance with accounting principles generally accepted in the United States of America, and the guide related to prospective financial information published by the American Institute of Certified Public Accountants. Significant accounting policies are described in the appropriate assumptions and notes to forecasted financial statements.

Unless otherwise noted, references to time periods used in this report refer to the fiscal year of Blank, which ends on September 30. References to management in this report are to the Board of Directors of Blank and to members of Hospital administration.

Historical revenues and operating expenses from operations and cash flows of the Hospital, in addition to the assumed sources and uses of debt funds, form the basis for assumptions used in the forecast. Forecasted revenue is generally based on a forecast of patient service utilization and the rate structure described below. Forecasted operating expenses are generally based on historical expenses of the Hospital, adjusted for inflation, and expected changes in utilization and operations.

3. General Description of the Hospital

Blank is located in Blank, North Carolina and serves the residents of Blank and surrounding communities. The Hospital has 145 staffed hospital beds, providing acute care services with the support of 118 medical staff.

Blank is governed by a twelve member Board of Directors representing different segments of the community.

4. Project Description

Tax exempt revenue bonds are being issued to finance the construction of a new outpatient center and cancer center, and redeem Blank's outstanding North Carolina Medical Care commission Series 1999 Health Care Facilities Revenue Bonds ("1999 Bonds"), collectively referred to as the Project.

5. Financing Plan

Blank plans to finance the Project from the proceeds of the issuance of $49,230,000 of North Carolina Medical Care Commission Variable Rate Demand Bonds, Series 2007 ("Series 2007 Bonds"). The Series 2007 Bonds are assumed to be dated and delivered June 14, 2007, bear interest at a variable rate estimated at an average coupon rate of 4.0 percent, and have a term of 30 years. The obligation to pay debt service on the Series 2007 Bonds is that of the Hospital.

The first payment (interest only) on the Series 2007 Bonds is assumed to be due October 1, 2007. The first principal payment on the Series 2007 Bonds is assumed to be due October 1, 2008, and annually thereafter until October 1, 2037.

The forecasted sources and uses of the Project's funds are as follows:

	Series 2007 Bonds
Estimated sources	
Series 2007 Bonds	$ 49,230,000
Equity Contribution	1,000,000
	$ 50,230,000
Estimated uses	
Project Fund Deposits:	
Outpatient Center Project ("OPC")	$ 17,571,140
Cancer Center Project ("CC")	9,986,422
Redeem Series 1999 Bonds	20,670,000
OPC Capitalized Interest	1,039,804
CC Capitalized Interest	626,659
Costs of Issuance	202,753
Underwriter's Discount	125,091
Letter of Credit	8,131
	$ 50,230,000

Assumptions related to the proposed financing plan, interest rates, costs of issuance and other bond-related costs were provided by Anyone Capital Markets.

6. Significant Accounting Policies

Principles of Combination - The combined financial statements include the accounts of the Hospital, BMA and the Foundation (the "Organizations"). All significant intercompany balances and transactions have been eliminated in combination.

Tax-Exempt Status - The Hospital, BMA, and Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Classification of Net Assets - The Organizations classify net assets into three categories, based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Such net assets may be designated by the Boards of Directors for specific purposes or limited by contractual agreements with outside parties.

Temporarily Restricted - Net assets whose use is subject to donor-imposed stipulations that can be fulfilled by specific actions pursuant to such stipulations or expired by the passage of time.

Permanently Restricted - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by action. Such net assets, which must be maintained in perpetuity, generally include only the original amount of the contribution since the donors of these assets most often permit the use of all investment earnings for specific or general purposes.

Excess of Revenues Over Expenses – The combined statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, cash on deposit and temporary cash investments with an original maturity of three months or less when purchased.

Assets Limited as to Use - Assets limited as to use primarily include assets set aside for board designated purposes or limited in substance under terms of debt indenture and trust agreements.

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

Patient Accounts Receivable - The Hospital and BMA grant credit to patients without collateral, substantially all of whom are from Randolph and the surrounding counties. Allowances for uncollectible accounts are computed based on historical collection experience and a review of the current status of existing receivables. An account receivable is written off when management determines the receivable is uncollectible.

Other Receivables - Other receivables consist primarily of physician receivables and sales tax receivables. Amounts are recorded at net realizable value.

Investment in Blank Cancer Center - Blank Hospital owns 50% of Blank Cancer Center with an initial investment of $25,000. Under the equity method of accounting, the investment in this affiliated entity is initially recorded at cost and subsequently adjusted for contributions, distributions and the respective share of undistributed earnings or losses of the entity.

Inventories - Inventories are recorded at the lower of cost (first-in, first-out method) or market.

Property and Equipment - Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs - Deferred financing costs are incurred in obtaining long-term financing for the construction of certain additions and improvements to the Organizations' facilities. These costs are amortized over the life of the related bond issue.

Net Patient Services Revenue/Receivables - The Hospital and BMA have agreements with third-party payors that provide for payments to the Hospital and BMA at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, review, and investigations. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as adjustments become known or as years are no longer subject to such audits, review, or investigations.

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

Donor-Restricted Gifts - Unconditional promises to give cash and other assets to the Organizations are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift 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 combined statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

Concentration of Credit Risk - The Hospital and BMA grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements.

The Organizations maintain bank accounts at various financial institutions covered by the Federal Depository Insurance Corporation ("FDIC"). At various times throughout the year, the Organizations may maintain bank account balances in excess of the FDIC insured limit. Due to the strong credit rating of these financial institutions, the Organizations believe they are not exposed to any significant credit risk related to these deposits.

Professional Liability Coverage – The Organizations are involved in litigation in the ordinary course of business related to professional liability claims. Management believes all claims will be settled within the limits of insurance coverage. Other claims may be asserted arising from past services provided. Management believes these claims, if asserted, would be settled within the limits of insurance coverage. The Organizations maintain a claims-made policy with basic coverage of $1,000,000 per occurrence and an excess coverage policy limited to $3,000,000 in the aggregate.

Consortium – The Hospital invested in the Consortium, a risk retention group (RRG) in September 2002 to provide professional and general liability insurance to the Hospital and its physician practices. The investment is for a minimum three-year period. The RRG includes approximately 27 hospitals in North Carolina. The RRG is non-assessable and the Hospital's exposure is limited to its investment.

Fair Value of Financial Instruments - The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the short maturity of these financial instruments. Investments are reported at fair value.

The carrying amounts of accounts payable, accrued liabilities, and estimated third-party payor settlements approximate fair value because of the short maturity of these financial instruments. The carrying amount of the long-term debt approximates fair value because these instruments have variable interest rates which reflect current market rates for similar debt.

7. **Net Patient Service Revenue**

The Hospital and BMA have agreements with third-party payors that provide for payments to the Hospital and BMA at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

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 nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for outpatient services under a prospective payment system called the Ambulatory Payment Classification System ("APCs"). The Hospital is reimbursed for 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 classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed for 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 Medicaid fiscal intermediary.

Other Payors - The Hospital and BMA have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital and BMA under these agreements includes prospectively determined rates per discharge, and discounts from established charges.

Medicaid Disproportionate Share Program - The Hospital participates in a voluntary Medicaid disproportionate share program (the "Program"). The Program allows the Hospital to receive additional annual Medicaid funding. Prior to 2001, funding was received prior to final approval of the Program by the Centers for Medicare and Medicaid Services ("CMS") and was subject to final settlement by the state of North Carolina once approved by CMS. Beginning in 2001, CMS approved the Program year concurrent with the funding of the Program. Program years run concurrent with the federal fiscal year, which is the period from October 1 through September 30. Due to the fact the payments in connection with the Program are subject to final settlement by the State of North Carolina, refunding of the amounts received may be required. During FY 2006, 1997 to 2002 years were finalized by the State.

Gross revenue and contractual allowances for all payors are shown below:

	Forecasted				
	2007	2008	2009	2010	2011
Gross revenue	$193,224,669	$209,084,829	$227,166,048	$246,901,672	$267,698,590
Contractual allowances	$ 83,981,451	$ 92,005,544	$101,201,636	$111,331,327	$122,131,349
Revenue deductions - BMA	$ 3,791,322	$ 4,054,569	$ 4,335,653	$ 4,635,758	$ 4,956,151
Contractual allowance %	45.4%	45.9%	46.5%	47.0%	47.5%
Charity care provision	$ 748,427	$ 1,113,032	$ 1,538,675	$ 2,030,359	$ 2,589,542
Charity care %	0.39%	0.53%	0.68%	0.82%	0.97%
Forecasted rate increase:	4.0%	4.0%	4.0%	4.0%	4.0%

This forecast assumes that the payment methodologies currently in effect will remain in effect throughout the forecast period.

8. Utilization

	Forecasted				
	2007	2008	2009	2010	2011
Inpatient Discharges	6,335	6,335	6,335	6,335	6,335
Outpatient Visits	105,619	114,323	124,608	135,471	146,008
Emergency Room Visits	42,610	44,741	46,978	49,326	51,793
BMA Visits	71,917	74,074	76,296	78,585	80,943
Home Health Visits	22,166	22,831	23,515	24,221	24,948
CAP Billed Hours	107,108	110,321	113,630	117,039	120,551

9. Other Revenue

Other revenue is derived from services other than providing health care services to patients. These services include cafeteria sales, gift shop sales and others. For fiscal year ("FY") 2007 to FY 2011, other revenue is forecast to increase at a rate of 1.5 percent per year.

Also included in non-patient care related revenue is net assets released from restrictions, which are forecast to increase by 2.0 percent each year from FY 2007-2011, and rental income from the Blank Cancer Center, which is forecast to be $49,666 in FY 2008, and $199,862 per year in FY 2009-2011.

10. Non-Operating Income

Non-operating income consists primarily of investment income and unrestricted gifts. For FY 2007-2011, investment income is forecast based on the average annual balance of cash and investments. The average investment rate on cash held and other investments is forecast at 6.0 percent for average cash and investment balances. Unrestricted gifts related to Blank's Capital Campaign are forecast to be $1,000,000 in FY 2007, and $750,000 per year for the remainder of the forecast period.

11. Operating Expenses

Operating expenses include costs of salaries and wages, employee benefits, supplies, insurance, utilities, bad debt, depreciation and amortization, interest and other operating expenses. Forecasts for these services are based on historical relationships to patient service volumes, where possible and historic usage rates.

Salaries and Wages - As of September 30, 2006, Blank had 835 full-time equivalent employees (FTE's). This equates to 5.42 FTE's per adjusted occupied bed. The table below compares the forecasted number of FTE's (fixed and variable) with the forecasted average daily census adjusted for the effect of outpatient and non-acute care services (adjusted occupied beds) for the forecast period.

	Forecasted				
	2007	2008	2009	2010	2011
Staffing					
FTE's	860	882	913	941	969
Adjusted occupied Beds	161	167	175	184	192
FTE's/AOB	5.34	5.28	5.22	5.11	5.05

For Blank, salaries and wages per employee are forecast to increase 3.5 percent for each year of the forecast period. The forecast assumes a modest reduction in FTE's/AOB for the forecast period to improve Blank's operating efficiency.

Employee Benefits - Employee benefit expense is based upon historical cost as related to salaries and wages and forecasted staffing patterns for the periods presented. Management has estimated these expenses for the Hospital at 26.8 percent of salaries and wages for each year of the forecast period, which is consistent with historical experience. For BMA, these expenses are forecast at 17.4 percent.

Supplies and Drugs – Supply and drug expense is based upon historical experience of Blank. For the forecast period, supplies expense has been forecast to change at a composite annual rate for inflation of 4.5 percent, and changes in patient service volumes for a total of approximately 7.8 percent in FY 2007, 7.6 percent for FY 2008, 8.0 percent for FY 2009 and FY 2010, and 7.9 percent for FY 2011.

Insurance - Insurance expense is based upon the historical experience of Blank. For the forecast period, insurance expense is forecast to increase for inflation at a rate of 10.0 percent for FY 2007, 12.9 percent for FY 2008 and 10.0 percent per year for the remainder of the forecast period.

Utilities - Utilities expense is based upon the historical experience of Blank. For the forecast period, utilities expense has been forecast to change at a composite annual rate for inflation of 4.0 percent, and changes in patient service volumes for a total of approximately 4.5 percent for FY 2007, 13.3 percent for FY 2008, and 4.5 percent for FY 2009 to FY 2011. The FY 2008 increase is based on the inflation adjustment and volume increases as described above, but in addition a result of the additional square footage related to the Project.

Other Operating Expenses - Other operating expenses are based upon historical experience of Blank. Included in other operating expenses are ongoing expenses associated with the issuance of the Series 2007 Bonds, including letter of credit and remarketing fees. For the forecast period, other operating expenses have been forecast to change at a composite annual rate for inflation of 3.5 percent, and changes in patient service volumes for a total of approximately 6.6 percent in FY 2007, 6.5 percent for FY 2008, 5.9 percent for FY 2009, 6.0 percent for FY 2010, and 5.9 percent for FY 2011.

Loss on Extinguishment of Debt – The retirement of existing debt will create a loss of $114,665 in FY 2007.

Depreciation and Amortization Expense - Depreciation on existing assets was forecast based upon the Hospital's existing plant ledger, remaining book values and useful lives. Depreciation on future capital expenditures was forecast based upon the expected useful lives of the respective assets. Depreciation expense is calculated using the straight-line method with estimated useful lives of:

- 20-40 years for buildings.
- 5-20 years for building renovations, fixed equipment and land improvements.
- 5-7 years for major movable equipment and routine replacements.

Provision for bad debts - Bad debts are based upon historical experience of Blank as related to gross patient service revenue. Bad debts for the forecast period have been forecast at 7.6 percent of gross patient service revenue for FY 2007, 7.4 percent for FY 2008, 7.3 and FY 2009, 7.2 percent for FY 2010 and 7.1 percent of gross patient service revenue for FY 2011. The projected decrease in the bad debt percentage is based on a

Hospital initiative to better identify charity care eligible patients. This decrease in the bad debt percentage is also shown as an increase in the charity care percentage.

Interest Expense - Interest expense is forecast based on the amortization schedules provided for the existing long-term debt and the amortization schedule provided by Anyone Capital Markets for the Series 2007 Bonds.

Changes in Assets and Liabilities - Assets and liabilities have been forecast based on the Hospital's historical experience and management's expected course of operations, and are estimated as follows:

- Cash and cash equivalents - Cash and cash equivalents are forecast at approximately 18.0 days of operating expenses for each year of the forecast period. Any excess cash is transferred to long-term investments restricted for capital acquisition.
- Short-term investments – Short-term investments are forecast to increase 3.0 percent each year in the forecast period.
- Patient accounts receivable, net - Accounts receivable, net of reserves at September 30 of each year have been forecast at approximately 65.0 days of net patient service revenues.
- Other receivables - Other current receivables are forecast to increase 3.0 percent each year in the forecast period.
- Unconditional promises to give – Unconditional promises to give are forecast to remain constant during the forecast period.
- Inventories - Inventories are forecast at approximately 65.0 days of supplies expense.
- Prepaid expenses - Prepaid expenses are forecast at approximately 11.0 days of non-salary expenses, less interest, depreciation and amortization.
- Estimated third party settlements – Third party settlements are forecast to increase 5.0 percent each year in the forecast period.
- Deferred financing costs, net - Deferred financing costs include the cost of issuing debt, including the Project debt. These costs are amortized over the life of the related bond issue.
- Accounts payable - Accounts payable are forecast at approximately 18 days of non-salary expenses, less interest, depreciation and amortization, and bad debts.
- Accrued compensation – Accrued compensation is forecast at approximately 33.0 days of salaries and benefits expenses
- Patient refunds – Patient refunds are forecast to remain constant during the forecast period.
- Other accrued liabilities - General accrued liabilities are forecast to increase 3.0 percent each year in the forecast period.
- Minimum pension liability – Minimum pension liability is forecast to remain constant during the forecast period.

12. **Capital Expenditures**

Routine capital expenditures for equipment were forecast based on the Hospital's historical experience and anticipated future needs. Non-Project related capital expenditures and routine equipment expenditures are forecast at approximately $4,000,000 in FY 2007, $5,000,000 in FY 2008 and FY 2009, $6,000,000 in FY 2010, and $7,000,000 in FY 2011. Project related capital expenditures are forecast at approximately $16.1 million in FY 2007, $12.3 million in FY 2008, and $2.9 million in FY 2009.

Forecasted property and equipment balances are presented below:

	Forecasted				
	2007	**2008**	**2009**	**2010**	**2011**
Land and land improvements	$ 3,804,935	$ 3,804,935	$ 3,804,935	$ 3,804,935	$ 3,804,935
Buildings and leasehold Improvements	48,252,347	48,252,347	76,180,837	76,180,837	76,180,837
Equipment	37,676,442	42,676,442	50,376,442	56,376,442	63,376,442
Capitalized interest	339,483	1,477,330	1,666,463	1,666,463	1,666,463
Construction in progress	16,770,000	27,928,490	-	-	-
Subtotal	106,843,207	124,139,544	132,028,677	138,028,677	145,028,677
Accumulated depreciation	(47,556,057)	(53,004,453)	(59,793,695)	(68,000,752)	(76,989,066)
Property and equipment, Net	$ 59,287,150	$ 71,135,091	$ 72,234,982	$ 70,027,925	$ 68,039,611

13. Non-Project Long Term Debt

Proceeds from the Series 2007 bond issue (see Note 5 for details on the Series 2007 Bonds) are to be used to refund the remaining balance of the Hospital's 1999 bond issue. After the refunding, Blank, in addition to the Series 2007 bond issue, will have the following debt outstanding:

- Loan payable with 6% interest rate due in monthly installments of $12,244 through February 28, 2012; collateralized by building
- Capital lease obligations, at varying rates of imputed interest; collateralized by leased equipment

The following schedule summarizes non-Project related debt principal and interest payments during the forecast period:

	Principal	Interest	Total
2007	$ 1,500,261	$ 708,199	$ 2,208,460
2008	932,679	291,104	1,223,783
2009	990,891	232,891	1,223,782
2010	1,144,030	236,927	1,380,957
2011	1,074,225	149,615	1,223,840
Total	$ 5,642,086	$ 1,618,736	$ 7,260,822