KPMG

SHRINERS HOSPITALS FOR CHILDREN

Combined Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

The Board of Directors
Shriners Hospitals for Children:

We have audited the accompanying combined statements of financial position of Shriners Hospitals for Children as of December 31, 2007 and 2006, and the related combined statements of activities, and cash flows for the years then ended. These combined financial statements are the responsibility of the management of Shriners Hospitals for Children. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Shriners Hospitals for Children as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 8 to the combined financial statements, Shriners Hospitals for Children adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2006.

KPMG LLP

April 4, 2008
Certified Public Accountants

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Financial Position

December 31, 2007 and 2006

(In thousands)

Assets		**2007**	**2006**
Cash and cash equivalents	$	13,664	24,506
Cash and marketable securities held as collateral under securities lending transactions		1,348,842	1,427,170
Receivables		13,128	13,647
Accrued interest and dividends		29,800	28,850
Patient transportation funds held by Shrine temples		43,971	40,668
Inventories and deferred charges		19,796	13,166
Marketable securities		8,312,077	8,075,217
Real estate, mortgages, and miscellaneous		72,364	72,030
Estates in process		237,743	311,677
Beneficial interest in trusts		510,375	481,304
Land, buildings, and equipment, net of accumulated depreciation		689,466	700,994
Total assets	$	11,291,226	11,189,229
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	84,144	74,524
Pension benefits		100,600	111,953
Liabilities under securities lending transactions		1,348,842	1,427,170
Other liabilities		41,494	39,896
Total liabilities		1,575,080	1,653,543
Net assets (net of cumulative foreign currency translation adjustment of $6,928 in 2007 and $5,149 in 2006):			
Unrestricted:			
Operations		572,632	398,972
Board designated endowment		6,859,063	6,802,490
Board designated for capital expenditures		303,302	301,245
Land, buildings, and equipment		689,466	702,962
Total unrestricted		8,424,463	8,205,669
Temporarily restricted		295,542	355,557
Permanently restricted		996,141	974,460
Total net assets		9,716,146	9,535,686
Total liabilities and net assets	$	11,291,226	11,189,229

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Activities

Years ended December 31, 2007 and 2006

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total 2007	Unrestricted	Temporarily restricted	Permanently restricted	Total 2006
Operating revenues, gains, and other support:								
Investment return designated for support of current operations	$ 580,281	—	—	580,281	554,301	—	—	554,301
Gifts and bequests	41,397	—	—	41,397	34,994	—	—	34,994
Fund raising	25,570	—	—	25,570	17,878	—	—	17,878
Hospital assessments	1,726	—	—	1,726	1,769	—	—	1,769
Reimbursements from Canadian Provinces	6,362	—	—	6,362	4,657	—	—	4,657
Other	2,862	—	—	2,862	2,630	—	—	2,630
Total operating revenues, gains, and other support	658,198	—	—	658,198	616,229	—	—	616,229
Operating expenses:								
Hospitals	579,494	—	—	579,494	529,760	—	—	529,760
Research	32,354	—	—	32,354	30,240	—	—	30,240
Headquarters, administrative, and board related	42,289	—	—	42,289	36,814	—	—	36,814
Fund raising	12,151	—	—	12,151	8,174	—	—	8,174
Total operating expenses	666,288	—	—	666,288	604,988	—	—	604,988
Increase (decrease) in net assets from operating activities	(8,090)	—	—	(8,090)	11,241	—	—	11,241
Other changes:								
Investment return (less) greater than amounts designated for support of current operations	(7,931)	—	—	(7,931)	407,820	—	—	407,820
Gifts and bequests	155	154,334	21,744	176,233	394	243,883	41,419	285,696
Life memberships	109	—	—	109	181	—	—	181
Change in patient transportation funds held by Shrine temples	3,303	—	—	3,303	(52)	—	—	(52)
Change in minimum pension liability	—	—	—	—	(4,248)	—	—	(4,248)
Pension related changes other than net periodic pension costs	22,058	—	—	22,058				
Other, net	(5,830)	(1,108)	(63)	(7,001)	(5,839)	(1,072)	10	(6,901)
Net assets released from restrictions	213,241	(213,241)	—	—	221,382	(221,382)	—	—
Foreign currency translation adjustments	1,779	—	—	1,779	(92)	—	—	(92)
Total other changes	226,884	(60,015)	21,681	188,550	619,546	21,429	41,429	682,404
Increase (decrease) in net assets before effect of adoption of SFAS No. 158	218,794	(60,015)	21,681	180,460	630,787	21,429	41,429	693,645
Effect of adoption of SFAS No. 158	—	—	—	—	(57,338)	—	—	(57,338)
Increase in net assets	218,794	(60,015)	21,681	180,460	573,449	21,429	41,429	636,307
Net assets at beginning of year	8,205,669	355,557	974,460	9,535,686	7,632,220	334,128	933,031	8,899,379
Net assets at end of year	$ 8,424,463	295,542	996,141	9,716,146	8,205,669	355,557	974,460	9,535,686

See accompanying notes to combined financial statements.

SHRINERS HOSPITALS FOR CHILDREN

Combined Statements of Cash Flows

Years ended December 31, 2007 and 2006

(In thousands)

		2007	2006
Cash flows from operating activities:			
Change in net assets	$	180,460	636,307
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		47,196	43,763
Loss on disposal of property and equipment		5,387	6,258
Realized and unrealized gains on investments		(572,350)	(720,018)
Gifts and bequests designated by the board or restricted by donor for long-term investment		(176,342)	(285,877)
Changes in operating assets and liabilities:			
Receivables		519	(4,721)
Accrued interest and dividends		(950)	(2,085)
Patient transportation funds held by Shrine temples		(3,303)	52
Inventories and deferred charges		(6,630)	(3,732)
Estates in process		73,934	(22,386)
Beneficial interest in trusts		(29,071)	(36,486)
Accounts payable and accrued expenses		9,620	(87)
Pension benefits		(11,353)	61,585
Net cash used in operating activities		(482,883)	(327,427)
Cash flows from investing activities:			
Additions to property and equipment		(41,055)	(21,192)
Proceeds from sale of investments		7,161,329	5,860,529
Investment purchases		(6,826,173)	(5,791,832)
Net cash provided by investing activities		294,101	47,505
Cash flows from financing activities:			
Gifts and bequests designated for board endowment		154,489	244,277
Gifts and bequests permanently restricted by donors		21,744	41,419
Life memberships		109	181
Change in other liabilities		1,598	1,491
Net cash provided by financing activities		177,940	287,368
Net (decrease) increase in cash and cash equivalents		(10,842)	7,446
Cash and cash equivalents at beginning of year		24,506	17,060
Cash and cash equivalents at end of year	$	13,664	24,506

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

(a) Combined Organizations

Shriners Hospitals for Children (the Hospitals) provide quality, specialized medical care, in the areas of orthopaedics, severe burns, and spinal cord injuries, through a network of 22 hospitals located throughout the United States, Canada, and Mexico. This medical care is provided at no cost to patients, families, or third-party payors. The Hospitals also fund intensive programs in pediatric orthopaedic and burns research. The Hospitals rely principally on gifts and investment earnings to support their operations and research programs.

The combined financial statements of Shriners Hospitals for Children include the following organizations:

- Shriners Hospitals for Children, a Colorado Corporation
- Shriners Hospitals for Children, a Canadian Corporation
- Shriners Hospitals for Children (Quebec) Inc.
- The Shriners' Hospital for Children, a Massachusetts Corporation
- Shriners Hospitals for Children, a Mexican Association

Additionally, the combined financial statements include the activities of Promotora Mexicana de Servicios Medicos S.A. de C.V., a Mexican Corporation, which was organized to facilitate the construction of the new Mexico City hospital. All significant accounts and transactions between Hospital corporations have been eliminated.

Shriners Hospitals for Children, a Colorado Corporation and The Shriners' Hospital for Children, a Massachusetts Corporation, have been recognized as exempt from U.S. federal income tax on related income under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3) of the Internal Revenue Code. The Canadian and Quebec Corporations and the Mexican Association and Corporation are also exempt from income tax on related income in accordance with the laws of their respective countries.

(b) Use of Estimates

The preparation of the combined financial statements requires management of the Hospitals to make a number of estimates and assumptions that affect the reported amounts in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

Significant estimates have been made by management with regards to estates in process and beneficial interests in trusts. These estimates are subject to significant fluctuation due to changes that occur in the valuation of assets associated with these estates and trusts and the timing of information received from trustees and executors of these estates. Actual results could differ materially from these estimates, making it reasonably possible that a material change in these estimates could occur in the near term.

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(c) Basis of Presentation

The combined financial statements are presented on the accrual basis of accounting. Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets. The Hospitals report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

- Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the activities of the Hospitals. The majority of unrestricted net assets as of December 31, 2007 and 2006 represent board designated endowment.
- Temporarily restricted net assets represent those amounts which are not available until future periods or are donor restricted for specific purposes. The Hospitals report estates in process, charitable lead trusts, and charitable remainder trusts, as increases in temporarily restricted net assets as these assets are not available for expenditure until future periods.
- Permanently restricted net assets result from gifts and bequests from donors who place restrictions on the use of the funds, which mandate that the original principal be invested in perpetuity. Permanently restricted net assets also include perpetual lead trusts.

(d) Operating Measure

Changes in net assets from operating activities represents the revenues, gains, and other support designated to operate the Hospitals, less expenses and other costs associated with Hospital operating and research activities and costs to generate operating revenues.

Receipts from unrestricted noncash gifts, unrestricted bequests, life memberships from Shriners, and realized and unrealized gains (losses) from investments (not part of the investment return designated for operations) are generally designated by the board of directors (the Board) for endowment purposes. All other unrestricted revenues are available to support the operations of the Hospitals.

(e) Liquidity

Assets are presented in the accompanying combined statements of financial position according to their nearness of conversion to cash, and liabilities according to the nearness of their maturity and resulting use of cash.

(f) Cash and Cash Equivalents

The Hospitals consider all highly liquid investments made from operating cash accounts and with a maturity of three months or less when purchased to be cash equivalents.

(g) Inventories

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

(h) Marketable Securities

Marketable securities are measured at fair value based on quoted market prices at the reporting date for these or similar investments. Investment income (including gains and losses on investments, interest, and dividends) is included in the combined statements of activities as increases or decreases in unrestricted net assets unless the income is restricted by donor or law.

It is the Board's policy to maintain a long-term investment portfolio to support the operating and research activities of the Hospitals. In order to preserve the value of the investment portfolio and to eliminate the impact of market fluctuations on operations, the Board designates only a portion of cumulative realized gains for support of current operations. Remaining amounts are included in other changes in the combined statements of activities and are reinvested to support operations of future years.

(i) Securities Loaned

Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140) requires the Hospitals to recognize cash received as collateral for assets transferred to brokers in security lending transactions along with the obligation to return the cash. The Hospitals generally receive collateral in the form of cash in an amount in excess of the fair value of securities loaned. The Hospitals monitor the fair value of securities loaned on a monthly basis with additional collateral obtained as necessary. At December 31, 2007 and 2006, the Hospitals held $1,348,842 and $1,427,170, respectively of cash and marketable securities as collateral deposits. The collateral is included as both an asset and a liability in the Hospitals' combined statements of financial position. The securities on loan had a fair value of $1,308,870 and $1,387,214 at December 31, 2007 and 2006, respectively, and are included in marketable securities in the accompanying statements of financial position.

(j) Estates in Process

The Hospitals recognize a receivable and revenue for their interest in estates in process based on the inventories of estate assets and conditions contained in the respective wills. Amounts expected to be received in future years are discounted to provide estimates in current year dollars. The Hospitals record estates in process (when the court declares the related will valid) as either temporarily restricted net assets, as these assets will not be available for expenditures until future periods (typically one to five years), or as permanently restricted net assets. As funds from an estate (other than permanently restricted) are collected, temporarily restricted net assets are reclassified to unrestricted net assets, and reported in the combined statements of activities as net assets released from restrictions.

(k) Beneficial Interest in Trusts

The Hospitals have a beneficial interest in a variety of trust agreements. Many of these trusts are charitable lead trusts where the Hospitals receive distributions from the trust, which in most cases are administered by a third party. Perpetual lead trusts are recorded at the fair value of the trust assets and are classified as permanently restricted net assets. All other charitable lead trusts are recorded at the present value of the estimated future distributions expected to be received by the Hospitals, and are classified as temporarily restricted net assets.

Charitable remainder trusts and pooled income funds represent trust agreements where the Hospitals maintain custody of the related assets and make specified distributions to a designated beneficiary or beneficiaries over the term of the trust. Assets under both types of trusts are recorded at fair value. Annuity liabilities associated with charitable remainder trusts are determined based on the present value of the estimated future payments to be paid to the designated beneficiaries. Deferred income is recognized on gifts to pooled income funds representing the discounted value of the assets for the estimated time period until the donor’s death. The difference between the recorded assets and the annuity liabilities or deferred income associated with pooled income funds is classified as temporarily restricted net assets.

Subsequent adjustments to the carrying value of the respective assets and related liabilities or deferred income are recognized in the combined statements of activities and are included in gifts and bequests.

Included in other liabilities in the accompanying combined statements of financial position are annuity liabilities of $31,279 and $30,794 and deferred income of $10,093 and $8,979 at December 31, 2007 and 2006, respectively.

(l) Land, Buildings, and Equipment

Land, land improvements, buildings, and equipment are stated at cost, if purchased, or at estimated fair value at date of receipt if acquired by gift. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

(m) Impairment or Disposal of Long-Lived Assets

The Hospitals account for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(n) Foreign Currency Translation

Revenues and expenses of the Canadian and Quebec corporations and the Mexican Association and Corporation are translated using average exchange rates during the year, while monetary assets and liabilities are translated into U.S. dollars using current exchange rates at the end of the year. Nonmonetary asset and liability items (land, buildings, and equipment) and related revenues,

(Continued)

(In thousands)

expenses, gains and losses are remeasured using historical exchange rates. Resulting translation adjustments are accumulated in the combined statements of financial position caption "Cumulative foreign currency translation adjustment," a separate component of net assets.

(o) Contributed Services

No amounts have been reflected in the combined financial statements for contributed services. The Hospitals' programs pay for most services requiring specific expertise. However, many individuals (Shriners and non-Shriners) volunteer their time at the Hospitals and perform a variety of tasks that assist the Hospitals with specific programs and various committee assignments.

(p) Reclassifications

Certain amounts from the 2006 financial statements have been reclassified to conform with the 2007 financial statement presentation.

(2) Marketable Securities

Marketable securities at December 31, 2007 and 2006 consist of:

	2007		2006	
	Cost	**Fair value**	**Cost**	**Fair value**
Short-term investments	$ 224,323	224,323	373,390	373,390
U.S. Government securities	1,583,875	1,465,964	1,880,857	1,900,855
Corporate bonds	856,277	852,904	553,917	553,045
International stocks	1,128,532	1,459,571	990,821	1,302,466
Common and preferred stocks	3,447,768	4,309,315	3,204,983	3,945,461
	$ 7,240,775	8,312,077	7,003,968	8,075,217

(In thousands)

Investment income and total return was comprised of the following components for the years ended December 31, 2007 and 2006, respectively:

		2007	2006
Interest	$	142,600	134,618
Dividends		106,902	95,837
Trust income		19,011	17,401
Rents and royalties		8,780	8,838
Other income		5,080	3,466
Less investment management fees		(19,512)	(18,057)
Total income from investments		262,861	242,103
Net realized gains from investments		392,805	291,982
Net unrealized (losses) gains from investments		(83,316)	428,036
Total return on investments		572,350	962,121
Less investment return designated for support of current operations:			
Income from investments		(262,861)	(242,103)
Cumulative realized gains from investments sales		(317,420)	(312,198)
		(580,281)	(554,301)
Investment return (less) greater than amounts designated for support of current operations	$	(7,931)	407,820

(3) Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2007 and 2006 consist of:

		2007	2006	Estimated useful lives
Land	$	23,941	24,046	—
Land improvements		11,659	11,344	5 – 20 years
Buildings		821,844	809,382	40 – 50 years
Equipment		328,378	312,868	4 – 25 years
		1,185,822	1,157,640	
Less accumulated depreciation		(513,275)	(464,297)	
		672,547	693,343	
Construction in progress		16,919	7,651	
Land, buildings, and equipment, net	$	689,466	700,994	

(Continued)

(In thousands)

(4) Board Designated for Capital Expenditures

The Board has designated a portion of net assets to fund future commitments for land, building, and equipment expenditures.

Construction and other major projects committed to by the Board are as follows:

Project		Total appropriation	Unexpended at December 31, 2007
Honolulu	$	78,000	71,498
St. Louis		84,163	83,883
Intermountain		4,383	724
Portland		76,437	73,873
Philadelphia		14,100	14,001
Other		15,277	11,495
Approved equipment expenditures:			
PACS imaging		22,417	21,888
Information systems projects		21,275	14,006
Other equipment		11,934	11,934
	$	327,986	303,302

At December 31, 2007, $7,765 of expenditures for information systems projects under development had been capitalized as equipment.

(5) Transactions with the Imperial Council of the Ancient Arabic Order of the Nobles of the Mystic Shrine for North America

The Shriners Hospitals for Children organizations were founded by the Imperial Council of the Ancient Arabic Order of the Nobles of the Mystic Shrine for North America (Imperial Council).

The International Headquarters building and equipment is owned by Shriners Hospitals for Children. A portion of the building is occupied by the Imperial Council, which is allocated a share of the operating costs and depreciation of the building and equipment. The allocation of the costs is based upon the portion of the building occupied by the Imperial Council in relation to the total occupied space in the building.

The Hospitals and the Imperial Council also share other costs based on the estimated fair value received by each organization. Additionally, hospital assessments, donations, and other charitable receipts from Shrine temples are collected and remitted to the Hospitals by the Imperial Council.

At December 31, 2007 and 2006, amounts of $122 and $117, respectively, were due from the Imperial Council, and are included in receivables in the accompanying combined statements of financial position.

(Continued)

(In thousands)

(6) Fund Raising Activities

The Hospitals are financially supported through each Shriner's annual hospital assessment, income from investments, gifts and bequests from the general public and from Shriners, and certain fund raising activities conducted by Shriners. Shrine temples and Shriners raise funds for both fraternal and charitable purposes. Shrine fund raising activities consist of paper sale donations, football games, golf tournaments, and other miscellaneous activities. The name "Shriners Hospitals for Children" may be used in connection with a fund raising activity by a Shrine temple or Shriner only with the written consent of the Imperial Council and the Hospitals when the proceeds are to benefit Shriners Hospitals for Children. Some of these funds are retained by individual Shrine temples for the support of their respective hospital patient transportation fund.

Through the efforts of the donor relations committee, which oversees the development activities of the Hospitals, gifts and bequests are solicited and received to support the operations of the Hospitals or are designated by the Board for endowment purposes. Although the costs of these activities are included in fund raising expenses, the associated revenues are reported as gifts and bequests in the accompanying combined statements of activities.

The Hospitals also engage in other fund raising activities to generate donations and to develop their donor base. These activities are conducted through an agreement with Barton Cotton, an unrelated third party.

Fund raising revenues and costs for the years ended December 31, 2007 and 2006 consist of the following:

		2007	2006
Revenues from Shrine temple sponsored events	$	10,990	10,245
Barton Cotton revenue		12,140	7,394
Other revenue		2,440	239
	$	25,570	17,878
Fund raising costs paid directly by Shrine temples in connection with fund raising events	$	1,448	1,587
Donor relations expense		3,209	2,336
Barton Cotton expense		4,920	4,154
Other allocated costs		2,574	97
	$	12,151	8,174

Revenues from Shrine temple sponsored events are reported net of direct costs of $4,176 and $4,095 for 2007 and 2006, respectively.

(Continued)

(In thousands)

(7) Patient Transportation Funds Held by Shrine Temples

Shrine temples pay for substantially all of the costs of transporting patients to individual Shriners Hospitals. These costs are supported by funds retained from fund raising events held for the benefit of Shriners Hospitals for Children (see note 6), as well as local donations from Shriners and the general public. The activities of the Shrine temple patient transportation funds are reflected as a change in patient transportation funds held by Shrine temples in the accompanying combined statements of activities.

The activities of the patient transportation funds reflected for the years ended December 31, 2007 and 2006 are as follows:

		2007	2006
Temple revenues restricted for patient transportation	$	17,430	16,586
Patient transportation costs		(14,127)	(16,638)
Net change	$	3,303	(52)

(8) Retirement Plans and Other Postretirement Benefits

The employees of U.S. hospitals are included in the Shriners Hospitals for Children Employees' Retirement Plan and the Shriners Hospitals for Children Supplemental Retirement Plan (collectively, the Pension Plans). Benefits are based on years of service and the employees' compensation during the highest five consecutive years of employment. Contributions are made to the Pension Plans in accordance with ERISA requirements. In addition, the Hospitals sponsor a postretirement life insurance plan (the Postretirement Plan).

Effective December 31, 2006, the Hospitals adopted the recognition and disclosure provisions of SFAS 158. SFAS 158 requires organizations to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability on its statement of financial position.

The actuarially computed net periodic pension cost for the Shriner's Hospital Pension Plans and the Postretirement Plan for the years ended December 31, 2007 and 2006 included the following components:

		Pension Plans		Postretirement Plan	
		2007	2006	2007	2006
Service cost – benefits earned during the period	$	15,045	14,151	334	365
Interest cost on projected benefit obligation		16,757	15,170	494	484
Expected return on plan assets		(13,956)	(13,020)	—	—
Net amortized and deferral of unrecognized gains and losses		2,844	2,048	335	334
Net periodic pension cost	$	20,690	18,349	1,163	1,183

(In thousands)

The following table sets forth the Pension Plans' and the Postretirement Plan's funded status and amounts recognized in the combined balance sheets as of December 31, 2007 and 2006, respectively (using a measurement date of September 30):

	Pension Plans		Postretirement Plan	
	2007	**2006**	**2007**	**2006**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 281,278	253,861	8,360	8,167
Service cost	15,045	14,151	334	364
Interest cost	16,757	15,170	494	484
Actuarial (gain) loss	(6,450)	9,647	(904)	(485)
Benefits paid	(12,466)	(10,026)	(170)	(170)
Settlements	—	(1,525)	—	—
Benefit obligation at end of year	294,164	281,278	8,114	8,360
Change in plan assets:				
Fair value of plan assets at beginning of year	177,685	159,103	—	—
Actual return on plan assets	25,482	8,124	—	—
Employer contributions	10,977	20,484	170	200
Benefits paid	(12,466)	(10,026)	(170)	(200)
Fair value of plan assets at end of year	201,678	177,685	—	—
Funded status at the end of year	$ (92,486)	(103,593)	(8,114)	(8,360)

The accumulated benefit obligation for the Pension Plans was $237,735 and $225,907 at December 31, 2007 and 2006, respectively. The accumulated benefit obligation differs from the benefit obligation above in that it includes no assumption about future compensation levels. It represents the actuarial present value of future payments to plan participants using current and past compensation levels.

Weighted average assumptions used to determine projected benefit obligations at December 31, 2007 and 2006 were as follows:

	Pension Plans		Postretirement Plan	
	2007	**2006**	**2007**	**2006**
Discount rate	6.00%	5.75%	6.00%	5.75%
Rate of compensation increase	4.00	4.00	N/A	N/A

(Continued)

(In thousands)

Weighted average assumptions used to determine the net periodic benefit costs of the Pension Plans and the Postretirement Plan are:

	Pension Plans		Postretirement Plan	
	2007	**2006**	**2007**	**2006**
Discount rate	5.75%	5.75%	6.00%	6.00%
Expected long-term rate of return on plan assets	7.75	7.75	N/A	N/A
Rate of compensation increase	4.00	4.00	N/A	N/A

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The following are deferred pension costs which have not yet been recognized in periodic pension expense but instead are accrued in unrestricted net assets as of December 31, 2007. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

	Pension Plans		Postretirement Plan	
	Amounts recognized in unrestricted net assets at December 31, 2007	**Amounts in unrestricted net assets to be recognized during the next fiscal year**	**Amounts recognized in unrestricted net assets at December 31, 2007**	**Amounts in unrestricted net assets to be recognized during the next fiscal year**
Actuarial loss	$ 2,891	1,886	—	—
Prior service (credit) cost	(47)	32	300	300
Transition obligation	—	—	34	34
Total	$ 2,844	1,918	334	334

(In thousands)

Plan Assets

The weighted average allocation of the Pension Plans assets at December 31, 2007 and 2006 were as follows:

Asset category	2007	2006
Common stocks	53%	46%
U.S. government and agency issues	25	15
Corporate and miscellaneous bonds	13	21
Mutual funds	6	14
Short-term investments	3	4
Total assets	100%	100%

The Hospitals' investment policies and strategies for pension benefits do not use target allocations for the individual asset categories. The Hospitals' investment goals are to maximize returns subject to specific risk management policies.

Contributions

Annual contributions are determined based upon calculations prepared by the plans' actuary. Expected contributions to the Pension Plans and the Postretirement Plan are $13,886 and $255, respectively, in 2008.

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the plans:

	Pension Plans	Postretirement Plan
Fiscal year:		
2008	$ 10,477	255
2009	11,484	277
2010	13,091	300
2011	13,871	325
2012	15,128	352
2013-2016	101,894	2,234

The Hospitals also have a retirement savings plan for all eligible employees. Under this plan, the Hospitals match 50% of the first 6% of voluntary contributions made from eligible compensation by employees. Matching contributions by the Hospitals to the retirement savings plan were $6,407 and $4,823 in 2007 and 2006, respectively.

Canadian and Mexican hospital employees are included in government retirement programs.

(9) Estimated Malpractice Costs and Other Contingencies

The Hospitals are self-insured for claims attributed to malpractice and workers compensation from providing professional and patient care services. Claims alleging malpractice have been asserted against the Hospitals and are currently in various stages of litigation. Additional claims may be asserted against the Hospitals arising from services provided to patients through December 31, 2007. Liabilities for malpractice and workers compensation claims are established based on specific identification and historical experience using actuarial methodologies. It is the opinion of management that estimated malpractice and workers compensation claims accrued should be adequate to provide for potential losses resulting from both reported claims and claims incurred but not reported.

The Hospitals are also a party to various other claims and legal actions arising in the ordinary course of business. Management does not believe that the ultimate outcome of such claims and legal actions will have a material adverse effect on the financial position or activities of the Hospitals.