AUDITED FINANCIAL STATEMENTS

Lakewood Hospital Association
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

Lakewood Hospital Association

Audited Financial Statements

Years Ended December 31, 2010 and 2009

Contents

Ernst & Young LLP
Suite 1300
925 Euclid Avenue
Cleveland, OH 44115-1476

Tel: +1 216 861 5000
Fax: +1 216 583 2271
www.ey.com

Report of Independent Auditors

The Board of Trustees
Lakewood Hospital Association

We have audited the accompanying balance sheets of Lakewood Hospital Association d.b.a. Lakewood Hospital (the Hospital) as of December 31, 2010 and 2009, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at December 31, 2010 and 2009, and the results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

May 5, 2011

Lakewood Hospital Association

Balance Sheets
(In Thousands)

	December 31	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	**$ 584**	$ 2,792
Patient receivables, net of allowances for uncollectible accounts of $4,774 in 2010 and $3,893 in 2009	**13,518**	16,844
Other current assets	**5,366**	4,571
Total current assets	**19,468**	24,207
Investments:		
Long-term investments	**53,843**	62,918
Funds held by bond trustees	**3,179**	3,188
Donor restricted assets	**2,701**	2,300
	59,723	68,406
Property, plant, and equipment, net	**52,063**	47,595
Interest in Lakewood Hospital Foundation, Inc.	**23,496**	20,191
Other assets:		
Pledges receivable, net	**2,170**	3,174
Other noncurrent assets	**1,235**	1,594
	3,405	4,768
Total assets	**$ 158,155**	$ 165,167

	December 31	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 6,414**	$ 5,186
Compensation and amounts withheld from payroll	**4,754**	4,893
Estimated amounts due to third-party payors	**660**	720
Current portion of long-term debt	**2,854**	3,296
Other current liabilities	**1,620**	2,219
Total current liabilities	**16,302**	16,314
Long-term debt:		
Hospital revenue bonds	**13,806**	16,352
Notes payable and capital leases	**11,784**	12,263
	25,590	28,615
Other liabilities	**183**	184
Net assets:		
Unrestricted	**86,007**	92,433
Temporarily restricted	**16,820**	16,069
Permanently restricted	**13,253**	11,552
Total net assets	**116,080**	120,054
Total liabilities and net assets	**$ 158,155**	$ 165,167

See accompanying notes.

Lakewood Hospital Association

Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended December 31	
	2010	**2009**
Unrestricted revenues		
Net patient service revenue	**$ 137,269**	$ 135,186
Other	**7,084**	7,747
Total unrestricted revenues	**144,353**	142,933
Expenses		
Salaries, wages, and benefits	**75,334**	81,227
Supplies	**16,314**	14,985
Pharmaceuticals	**4,273**	5,083
Purchased services	**7,103**	7,376
Administrative services	**19,491**	15,083
Facilities	**9,923**	9,661
Insurance	**2,263**	2,274
Provision for uncollectible accounts	**16,306**	8,626
	151,007	144,315
Operating loss before interest, depreciation and amortization expenses	**(6,654)**	(1,382)
Interest	**1,495**	1,512
Depreciation and amortization	**6,858**	6,756
Operating loss	**(15,007)**	(9,650)
Nonoperating gains and losses		
Investment return	**6,989**	9,093
Other, net	**45**	(51)
Net nonoperating gains and losses	**7,034**	9,042
Deficiency of revenues over expenses	**(7,973)**	(608)

Continued on next page.

Lakewood Hospital Association

Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

	Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2009	$ 92,360	$ 13,530	$ 10,854	$ 116,744
Deficiency of revenues over expenses	(608)	–	–	(608)
Net assets released from restrictions for capital	681	(681)	–	–
Gifts and bequests	–	518	–	518
Net investment income	–	251	–	251
Net assets released from restrictions used for operations included in other unrestricted revenues	–	(428)	–	(428)
Change in interest in Lakewood Hospital Foundation, Inc.	–	2,879	601	3,480
Change in value of perpetual trusts	–	–	97	97
Increase in net assets	73	2,539	698	3,310
Balances at December 31, 2009	92,433	16,069	11,552	120,054
Deficiency of revenues over expenses	**(7,973)**	**–**	**–**	**(7,973)**
Net assets released from restrictions for capital	**1,547**	**(1,547)**	**–**	**–**
Gifts and bequests	**–**	**647**	**–**	**647**
Net investment income	**–**	**366**	**–**	**366**
Net assets released from restrictions used for operations included in other unrestricted revenues	**–**	**(335)**	**–**	**(335)**
Change in interest in Lakewood Hospital Foundation, Inc.	**–**	**1,620**	**1,685**	**3,305**
Change in value of perpetual trusts	**–**	**–**	**16**	**16**
(Decrease) increase in net assets	**(6,426)**	**751**	**1,701**	**(3,974)**
Balances at December 31, 2010	**$ 86,007**	**$ 16,820**	**$ 13,253**	**$ 116,080**

See accompanying notes.

Lakewood Hospital Association

Statements of Cash Flows
(In Thousands)

	Year Ended December 31	
	2010	**2009**
Operating activities		
(Decrease) increase in net assets	**$ (3,974)**	$ 3,310
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Change in interest in Lakewood Hospital Foundation, Inc.	**(3,305)**	(3,480)
Net realized and unrealized gains on investments	**(6,462)**	(8,878)
Income from equity investee	**(790)**	(947)
Depreciation and amortization	**6,858**	6,756
Provision for uncollectible accounts	**16,306**	8,626
Restricted gifts, bequests and investment income	**(1,013)**	(769)
Change in value of perpetual trusts	**(16)**	(97)
Amortization of bond premium	**(171)**	(172)
Changes in operating assets and liabilities:		
Patient receivables	**(12,980)**	(7,130)
Other assets	**364**	5,181
Accounts payable and other current liabilities	**(380)**	(1,808)
Other liabilities	**(1)**	(12)
Net cash (used in) provided by operating activities	**(5,564)**	580
Financing activities		
Principal payments on long-term debt	**(3,296)**	(2,565)
Change in pledges receivable	**1,004**	(78)
Restricted gifts, bequests and investment income	**1,013**	769
Net cash used in financing activities	**(1,279)**	(1,874)
Investing activities		
Expenditures for property and equipment	**(10,510)**	(6,544)
Net change in cash equivalents reported in long-term investments	**(161)**	672
Purchases of investments	**(694)**	(478)
Sales of investments	**16,000**	5,000
Net cash provided by (used in) investing activities	**4,635**	(1,350)
Decrease in cash and cash equivalents	**(2,208)**	(2,644)
Cash and cash equivalents at beginning of year	**2,792**	5,436
Cash and cash equivalents at end of year	**$ 584**	$ 2,792

See accompanying notes.

1. Organization

Lakewood Hospital Association (the Hospital) is a short-term, acute care general hospital located in Lakewood, Ohio, offering an expansive range of services from routine inpatient care to the higher levels of acuity care such as joint replacement surgery, neurosurgery, MRI, major vascular procedures, and numerous specialized medical care capabilities. The Hospital also provides continuum of care services through its inpatient rehabilitation program, skilled nursing unit, and a broad spectrum of specialized community-oriented programs.

The Hospital is a tax-exempt, nonprofit Ohio corporation organized and operated to provide medical and hospital care. In March 1997, the Hospital entered into an agreement with The Cleveland Clinic Foundation (Foundation) whereby the Foundation became the sole corporate member of the Hospital.

The City of Lakewood, Ohio (the City) leases real and personal property to the Hospital for the purpose of operating the Hospital under the terms of the Hospital Revenue Bonds (Note 11). The real and personal property are included in the Hospital's balance sheets as of December 31, 2010 and 2009. The lease between the City and the Hospital, originally executed in 1987, was amended in 1996 (Amended Lease). The term of the Amended Lease is 30 years, and the Hospital has the option to renew the Amended Lease for an additional 30-year term. At the end of the lease term, the real and personal property and all monies, accounts, and inventories then held by the Hospital shall be returned to the City. As part of the Amended Lease, the Hospital has agreed to pay in each year the amount necessary to satisfy debt service on the Hospital's outstanding debt. In addition, in consideration for entering into the Amended Lease, the Hospital has agreed to certain additional payments to the City (Note 12).

2. Affiliations

Lakewood Hospital Foundation, Inc. (LHF) is a not-for-profit organization whose purpose is to seek private gifts to support the work and activities of the Hospital. LHF and the Hospital are deemed to be financially interrelated organizations. Accordingly, the Hospital records its interest in the net assets of LHF as a noncurrent asset and as temporarily and permanently restricted net assets, as appropriate.

2. Affiliations (continued)

The Hospital has a joint venture agreement with Fairview Hospital, a subsidiary of the Foundation, whereby each party owns 50% of Westlake Imaging Center, LLC (WIC). WIC provides radiology services and began operations in July 2003. The Hospital's investment in WIC is $0.4 million and $0.7 million at December 31, 2010 and 2009, respectively, and is recorded in other noncurrent assets in the balance sheets. The Hospital accounts for its investment in WIC using the equity method of accounting and has recorded its 50% share of WIC's earnings of $0.7 million and $1.0 million in 2010 and 2009, respectively, in other unrestricted revenue. The Hospital received distributions of $1.0 million and $5.5 million from WIC in 2010 and 2009, respectively, representing the Hospital's return on the investment.

3. Accounting Policies

Use of Estimates

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

Net Patient Service Revenue and Patient Receivables

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others, including retroactive adjustments under payment agreements with third-party payors. The Hospital has agreements with third-party payors that generally provide for payments to the Hospital at amounts different from its established rates. An estimated allowance is recorded which results in patient receivables being reported at the net amount expected to be received from third-party payors.

3. Accounting Policies (continued)

The Hospital is paid a prospectively determined rate for the majority of inpatient acute care and outpatient, skilled nursing and rehabilitation services provided (principally Medicare, Medicaid and certain insurers). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Payments for capital are received on a prospective basis for Medicare and a cost reimbursement methodology for Medicaid. The Hospital is paid 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. Provision for estimated retroactive adjustments, if any, resulting from regulatory matters or other adjustments under payment agreements are estimated in the period the related services are provided. The Hospital recorded an increase in net patient revenue of $0.3 million and a decrease in net patient revenue of $0.1 million in 2010 and 2009, respectively, related to changes in estimates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action, and in the normal course of business the Hospital is subject to contractual reviews and audits. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of health care providers. The Hospital is not exempt from these regulatory efforts and has received correspondence from federal agencies with regard to such initiatives. In consultation with legal counsel, management anticipates these matters will be resolved without material adverse effect on the Hospitals' financial position or results of operations.

The Hospital's concentration of credit risk relating to patient receivables is limited due to the diversity of patients and payors. Patient receivables consist of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. Patient receivables due from the Medicare and Medicaid programs, and one commercial payor represents approximately 37%, 8%, and 10% at December 31, 2010 and 31%, 7%, and 9% at December 31, 2009, respectively, of the Hospital's total patient receivables. Revenues from the Medicare and Medicaid programs and one commercial payor accounted for approximately 42%, 8%, and 15%, respectively, in 2010, and 45%, 7%, and 14%, respectively, in 2009 of the Hospital's net patient service revenue. Excluding these payors, no one payor source represents more than 10% of the Hospital's patient receivables or net patient service revenue.

3. Accounting Policies (continued)

The provision for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverages and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the Hospital follows established guidelines for placing certain past due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Hospital.

Charity Care

The Hospital provides care to patients who do not have the ability to pay and who qualify for charity services pursuant to established policies of the Hospital. Charity services are defined as those services for which patients have the obligation and willingness to pay but do not have the ability to do so. Charity care provided in 2010 and 2009, measured at established rates, approximated $27.4 million and $26.0 million, respectively, and is not included in net patient service revenue.

Cash and Cash Equivalents

Cash equivalents include short-term investments with maturities when purchased of three months or less. They also include the Hospital's share in the Foundation's Short-Term Investment Pool (STIP). The STIP consolidates the management and control of cash and cash equivalents of the Foundation and certain of its controlled affiliates. The STIP primarily consists of money market and overnight investments. Interest earnings are allocated to the participants based on the participants' relative share of the total STIP. Interest earnings averaged 0.2% and 0.5% in 2010 and 2009, respectively. The Hospital's share of the STIP is $0.6 million and $2.7 million at December 31, 2010 and 2009, respectively.

Inventories

Inventories (primarily supplies and pharmaceuticals) are stated at the lower of cost (first-in, first-out method) or market and are included in other current assets.

3. Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment purchased by the Hospital are stated at cost. Donated property, plant, and equipment are recorded at fair value at the date of donation. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation, including amortization of capital leased assets, is computed by the straight-line method using the estimated lives of individual assets. Buildings are assigned a useful life of up to forty years. Equipment is assigned a useful life ranging from three to fifteen years. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Bond Financing Costs

Bond financing costs are amortized over the period the obligation is outstanding using the straight-line method, which approximates the interest method. Unamortized bond financing costs included in other noncurrent assets approximated $170,000 and $212,000 at December 31, 2010 and 2009, respectively.

Other Current and Noncurrent Liabilities

Other current liabilities include patient account credit balances, accrued interest payable, and state franchise fee liability.

Other noncurrent liabilities, net of current portion, consist of deferred revenue and amounts due to third-party payors.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the balance sheets and are primarily classified as trading. Investment transactions are recorded on a settlement date basis. Realized gains and losses are determined using the average cost method.

3. Accounting Policies (continued)

Investments include the Hospital's share in the Foundation's Long-Term Investment Pool (LTIP). The LTIP consolidates the management and control of the investment assets of the Foundation and certain of its controlled affiliated entities. Participating entities purchase units of the LTIP at market value. All investment earnings, including dividends, interest, realized and unrealized gains and losses, and investment-related expenses are allocated to participants based on their units held. The LTIP primarily consists of equity and debt securities with readily determinable fair values and direct alternative investments (hedge funds, private equity, and real estate) which are reported using the equity method of accounting. LTIP units are valued based on the underlying fair value of the LTIP assets (Note 7).

Return on investments, including equity method income on alternative investments, is reported as nonoperating gains and losses except for earnings on funds held by bond trustees, which are included in other unrestricted revenues. Donor restricted investment return on temporarily and permanently restricted investments is included in temporarily restricted net assets.

Certain of the Hospital's assets and liabilities are exposed to various risks such as interest rate, market, and credit risks.

Fair Value Measurements

Fair value measurements are defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Authoritative guidance provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The Hospital did not elect fair value accounting for any assets or liabilities that are not currently required to be measured at fair value.

The framework for measuring fair value is comprised of a three-level hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

3. Accounting Policies (continued)

- Level 2 **–** inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 **–** inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Contributions

Unconditional donor pledges to give cash, marketable securities, and other assets are reported at fair value at the date the pledge is made to the extent estimated to be collectible by the Hospital. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statements of operations and changes in net assets as other unrestricted revenues if the purpose relates to operations, or reported as a change in unrestricted net assets if the purpose relates to capital.

No amounts have been reflected in the financial statements for donated services. The Hospital pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Hospital with various programs.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time period or purpose, from resources on which no restrictions have been placed or that arise from the general operations of the Hospital. Temporarily restricted gifts and bequests are recorded as an addition to temporarily restricted net assets in the period received. Permanently restricted net assets consist of amounts held in perpetuity or for terms designated by donors, including the fair value of a perpetual trust for which the Hospital is an income beneficiary. Earnings on permanently restricted net assets are primarily restricted for various hospital programs.

3. Accounting Policies (continued)

Deficiency of Revenues Over Expenses

The statements of operations and changes in net assets include deficiency of revenues over expenses. Changes in unrestricted net assets, which are excluded from deficiency of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation, which had no impact on previously reported excess of revenues over expenses or net assets.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for interim and annual periods beginning after December 15, 2009, except for the disclosure on the rollforward activities for Level 3 fair value measurements, which will become effective for interim and annual periods beginning after December 15, 2010. The Hospital adopted the required provisions of the new guidance (Note 7). Adoption of the new guidance had no impact on the financial results.

3. Accounting Policies (continued)

In August 2010, the FASB issued authoritative guidance on the measurement basis used in the disclosure of charity care. The guidance requires that cost be used as the measurement basis for charity care disclosure, and the disclosure should include the direct and indirect costs of providing charity care. The guidance also requires disclosure of the method used to identify or determine such costs. The guidance becomes effective for fiscal years beginning after December 15, 2010 and should be applied retrospectively. The Hospital is currently evaluating the new guidance and will make additional disclosures as required upon the effective date.

In August 2010, the FASB issued authoritative guidance on the accounting by health care entities for medical malpractice and similar liabilities and their related anticipated insurance recoveries. The guidance clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The guidance becomes effective for interim and annual periods beginning after December 15, 2010. The Hospital is currently evaluating the new guidance and will adopt the provisions as required upon the effective date.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following at December 31, 2010 and 2009, (in thousands):

	2010	**2009**
Pledges receivable	**$ 3,403**	$ 4,674
Plant replacement and expansion funds	**1,568**	1,423
Specific purpose funds	**1,134**	877
Interest in Lakewood Hospital Foundation, Inc.'s temporarily restricted net assets	**10,715**	9,095
	$ 16,820	$ 16,069

5. Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following at December 31, 2010 and 2009, (in thousands):

	2010	2009
Interest in Lakewood Hospital Foundation, Inc.'s permanently restricted net assets	**$ 12,781**	$ 11,096
Perpetual trust	**472**	456
	$ 13,253	$ 11,552

6. Cash, Cash Equivalents, and Investments

The composition of cash, cash equivalents, and investments at December 31, 2010 and 2009, is as follows (in thousands):

	2010	2009
Cash and cash equivalents	**$ 4,297**	$ 6,344
Cleveland Clinic Foundation Long-Term Investment Pool	**56,010**	64,854
Total cash, cash equivalents, and investments	**$ 60,307**	$ 71,198

Total investment return, including LTIP earnings allocated to the Hospital, is comprised of the following for the years ended December 31, 2010 and 2009 (in thousands):

	2010	2009
Other revenue:		
Interest income and dividends	**$ 8**	$ 2
Nonoperating gains, net:		
Interest income and dividends	**737**	451
Net realized gains (losses) on sales of investments	**1,181**	(5,101)
Net change in unrealized gains on investments	**3,500**	13,386
Equity method income on alternative investments	**1,571**	357
	6,989	9,093
Other changes in net assets:		
Investment income on restricted investments	**366**	251
	$ 7,363	$ 9,346

7. Fair Value Measurements

The carrying values of accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments held by the LTIP, other than alternative investments, are recorded at their fair value. The fair value of the Hospital's pledges receivable based on discounted cash flow analysis and adjusted for consideration of the donor's credit was \$3.4 million and \$4.7 million (see carrying value at Note 9) at December 31, 2010 and 2009, respectively. The fair value of the Hospital's long-term debt, as estimated by discounted cash flow analyses using current borrowing rates for similar types of borrowing arrangements and adjusted for the Hospital's credit was \$16.2 million and \$19.2 million (see carrying value at Note 11) at December 31, 2010 and 2009, respectively. Other noncurrent assets and liabilities have carrying values that approximate fair value.

The Hospital's share of the LTIP was \$56.0 million and \$64.9 million at December 31, 2010 and 2009, respectively. The following tables present the financial instruments that comprise the LTIP measured at fair value on a recurring basis based on the valuation hierarchy:

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	**5%**	**<1%**	**–%**	**5%**
Fixed income securities:				
U.S. treasuries	**25**	**–**	**–**	**25**
U.S. government agencies	**–**	**<1**	**–**	**<1**
U.S. corporate	**–**	**8**	**–**	**8**
U.S. government agencies asset-backed	**–**	**<1**	**–**	**<1**
Foreign	**–**	**1**	**–**	**1**
Common and preferred stocks:				
U.S.	**20**	**<1**	**–**	**20**
Foreign	**11**	**–**	**–**	**11**
Common collective trusts:				
Fixed income	**–**	**16**	**–**	**16**
Equity	**–**	**14**	**–**	**14**
Total investments	**61%**	**39%**	**–%**	**100%**

7. Fair Value Measurements (continued)

December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Investments:				
Cash and cash equivalents	23%	3%	–%	26%
Fixed income securities:				
U.S. treasuries	18	–	–	18
U.S. government agencies	–	1	–	1
U.S. corporate	–	4	–	4
U.S. government agencies asset-backed	–	<1	–	<1
Corporate asset-backed	–	1	–	1
Foreign	–	1	–	1
Common and preferred stocks:				
U.S.	17	–	–	17
Foreign	11	–	–	11
Common collective trusts:				
Fixed income	–	9	–	9
Equity	–	12	–	12
Total investments	69%	31%	–%	100%

The following tables present the financial instruments measured at fair value on a recurring basis, exclusive of the Hospital's share of the LTIP, as of December 31, 2010 and 2009, based on the valuation hierarchy (in thousands):

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	**$ 4,297**	**$ –**	**$ –**	**$ 4,297**
Perpetual trust	**–**	**472**	**–**	**472**
Total	**$ 4,297**	**$ 472**	**$ –**	**$ 4,769**

December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 6,344	$ –	$ –	$ 6,344
Perpetual trust	–	456	–	456
Total	$ 6,344	$ 456	$ –	$ 6,800

See Note 6 for the location of cash and cash equivalents on the balance sheets. The Hospital's perpetual trust is reported in other noncurrent assets on the balance sheets. Other noncurrent assets include $0.8 million and $1.1 million at December 31, 2010 and 2009, respectively, of assets that are not measured at fair value on a recurring basis.

7. Fair Value Measurements (continued)

The following is a description of the Hospital's and LTIP's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 investments are primarily determined using techniques that are consistent with the market approach. Valuations are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs, which include broker/dealer quotes, reported/comparable trades and benchmark yields, are obtained from various sources including market participants, dealers, and brokers.

The fair value of the perpetual trust is determined based on the present value of expected cash flows to be received from the trust using a discount rate of 4.1%, which is based on Treasury yield curve rates.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

8. Property, Plant, and Equipment

Property, plant, and equipment are comprised of the following at December 31, 2010 and 2009 (in thousands):

	2010	2009
Land and improvements	**$ 4,109**	$ 4,109
Buildings	**119,093**	113,334
Equipment	**42,992**	41,696
Construction-in-progress	**4,152**	503
Computer hardware and software	**10,443**	10,538
	180,789	170,180
Accumulated depreciation	**(128,726)**	(122,585)
	$ 52,063	$ 47,595

9. Pledges Receivable

Outstanding pledges receivable at December 31, 2010 and 2009 are as follows (in thousands):

	2010	2009
Pledges due:		
In less than one year	**$ 1,233**	$ 1,500
In one to five years	**2,366**	3,500
	3,599	5,000
Present value discount	**(196)**	(326)
Current portion	**(1,233)**	(1,500)
	$ 2,170	$ 3,174

10. Captive Insurance Company

The Hospital's professional liability and commercial general liability risks are insured by CCHS Indemnity Co., Ltd. (CCHSICo), a captive insurance company and a controlled affiliated entity of the Foundation. CCHSICo provides professional and general liability insurance coverage on a claims-made basis. The Hospital does not have any uninsured risk related to general and professional liability claims. CCHSICo has reinsurance arrangements in place relative to a portion of the risks. Annual premiums charged to the Hospital are based upon an actuarially determined allocation of the total premium assessed to all of the Foundation's affiliates which are insured by CCHSICo.

In the ordinary course of business, professional and general liability claims have been asserted against the Hospital by various claimants. These claims are in various stages of processing or, in certain instances, are in litigation. In addition, there are known incidents, and there may also be unknown incidents, which may result in the assertion of additional claims. Unasserted claims are accrued on the Foundation's balance sheet, and the Hospital has been charged an allocated portion relative to its risk.

11. Hospital Revenue Bonds

Long-term debt is comprised of the following (in thousands):

	Interest Rate(s)	Final Maturity	Amount Outstanding December 31 2010	2009
City of Lakewood, Ohio Hospital Revenue Bonds:				
Series 2003	4.16% to 4.75%	2015	**$ 15,475**	$ 17,725
Series 1983	Variable rate	2010	**–**	590
			15,475	18,315
Unamortized premium			**706**	877
Current portion			**(2,375)**	(2,840)
			$ 13,806	$ 16,352

In November 2003, pursuant to certain agreements between the Hospital and the City, the City issued $27.6 million of fixed rate Hospital Revenue Bonds (the Series 2003 Bonds). Proceeds from the sale of the Series 2003 Bonds were used to refund certain then-outstanding bonds, and to finance certain capital expenditures of the Hospital.

Combined aggregate maturities of the bonds for the five years subsequent to December 31, 2010, are as follows (in thousands): 2011 – $2,375; 2012 – $2,510; 2013 – $2,645; 2014 – $2,785; and 2015 – $5,160.

In connection with the outstanding Hospital Revenue Bonds, the trust indenture between the City and the trust provides that the Hospital shall establish and maintain a debt service reserve fund separate and distinct from all other funds. At December 31, 2010 and 2009, funds held under the indenture for debt service reserve and debt service costs are classified as funds held by bond trustees in the balance sheets. The trust indenture also contains certain restrictive covenants, including provisions relating to maintaining certain debt ratios and other matters. At December 31, 2010 and 2009, the Hospital was not in compliance with the debt service ratio covenant requirement. Noncompliance requires corrective action but is not considered an event of default under the trust indenture. The Hospital is implementing corrective action in accordance with the provisions of the trust indenture.

12. Notes Payable and Capital Leases

The Hospital has an installment note payable outstanding at December 31, 2010 of $298,000, of which $80,000 is included in current portion of long-term debt and $218,000 is included in notes payable and capital leases. The note is due in 2014 with interest adjusted annually in June at rates equal to prime plus 0.5%. The interest rate was 3.75% at December 31, 2010 and 2009. Maturities of this obligation for the four years subsequent to December 31, 2010, are as follows (in thousands): 2011 – $83; 2012 – $87; 2013 – $90; and 2014 – $38.

In connection with executing the Amended Lease in 1996 with the City (Note 1), the Hospital has agreed to make additional payments to the City. The additional payments commenced in 1997 and range in annual amounts from $1.0 million to $1.2 million through 2026. Future minimum lease payments, including total interest of $6.8 million, are as follows (in thousands): 2011 – $1,100; 2012 – $1,125; 2013 – $1,125; 2014 – $1,125; 2015 – $1,150; and thereafter – $13,100.

The Hospital has the option to renew the Amended Lease for an additional term of 30 years. The net present value of the additional payments is $12.0 million and $12.3 million at December 31, 2010 and 2009, respectively (discounted at an interest rate of 6%), which is included in notes payable and capital leases, except for the current portion of $0.4 million at December 31, 2010 and 2009, which is included in current portion of long-term debt.

Total interest paid on Hospital Revenue Bonds, notes payable, and capital leases approximated $1.5 million and $1.6 million in 2010 and 2009, respectively.

13. Retirement Benefit Plans

The Hospital's employees participate in the retirement benefit plans established by the Foundation, including a defined benefit pension plan covering substantially all employees. The benefits provided are based on age, years of service and compensation. It is the policy of the Foundation to fund at least the minimum amounts required by the Employee Retirement Income Security Act of 1974. The cost incurred on the defined benefit plan is based upon an allocation of the cost of the plan expense from the Foundation. The defined benefit plan ceased benefit accruals as of December 31, 2009 for substantially all employees.

13. Retirement Benefit Plans (continued)

The Hospital implemented a new noncontributory, defined contribution plan effective January 1, 2010, which covers substantially all of the Hospital's employees. The Hospital's contribution for the plan is based upon a percentage of employee compensation and years of service. The Hospital also sponsors an additional noncontributory, defined contribution plan, which covers certain of its employees. The Hospital's contribution to the plan is based upon a percentage of employee compensation, as defined, determined according to age.

The Hospital sponsors a contributory, defined contribution plan, which covers substantially all employees. The Hospital's contributions to the contributory plan, if required, are determined based on employee contributions.

Included in the Hospital's salaries, wages and benefits is retirement benefit expense pertaining to the defined contribution plans of approximately $3.5 million and $1.0 million in 2010 and 2009, respectively.

14. Commitments and Contingencies

The Hospital leases various equipment and facilities under operating lease arrangements. Total rental expense was $1.9 million and $1.8 million in 2010 and 2009, respectively. Minimum future operating lease payments are as follows (in thousands): 2011 – $1,379; 2012 – $1,346; 2013 – $1,324; 2014 – $1,253; 2015 – $1,186; and thereafter – $2,602.

At December 31, 2010, the Hospital has commitments for construction and other related contracts of $2.3 million.

15. Related-Party Transactions

The Hospital contracts with the Foundation and its affiliates for certain services in the normal course of business. Expenses include $20.9 million and $16.1 million in 2010 and 2009, respectively, for these services.

16. Functional Expenses

The Hospital's functional expenses are as follows (in thousands):

	2010	2009
Health care services	**$ 139,994**	$ 133,881
Research	**11**	25
General and administrative	**19,355**	18,677
	$ 159,360	$ 152,583

17. Subsequent Events

The Hospital evaluated events and transactions occurring subsequent to December 31, 2010 through May 5, 2011, the date the financial statements were issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements and there were no nonrecognized subsequent events requiring disclosure.

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