AUDITED FINANCIAL STATEMENTS

Lakewood Hospital Association
December 31, 2008 and 2007
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

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Lakewood Hospital Association

Audited Financial Statements

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Contents

Ernst & Young

Ernst & Young LLP
Suite 1300
925 Euclid Avenue
Cleveland, Ohio 44115
Tel: 216 861 5000
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, 2008 and 2007, 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, 2008 and 2007, 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

April 27, 2009

Lakewood Hospital Association

Balance Sheets
(In Thousands)

	December 31 2008	December 31 2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,436**	$ 32,948
Patient receivables, net of allowances for uncollectible accounts of $2,643 in 2008 and $2,042 in 2007	**18,340**	20,446
Due from a related party	**1**	46
Other current assets	**3,733**	3,648
Total current assets	**27,510**	57,088
Investments:		
Long-term investments	**58,811**	62,876
Funds held by bond trustees	**3,193**	3,588
Donor restricted assets	**2,718**	3,087
	64,722	69,551
Property, plant, and equipment, net	**49,043**	51,912
Interest in Lakewood Hospital Foundation, Inc.	**16,711**	26,098
Other assets:		
Pledges receivable, net	**3,596**	–
Other noncurrent assets	**6,073**	5,309
	9,669	5,309
Total assets	**$ 167,655**	$ 209,958

Lakewood Hospital Association

Balance Sheets (continued)
(In Thousands)

	December 31 2008	December 31 2007
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 6,926**	$ 5,477
Compensation and amounts withheld from payroll	**4,884**	5,063
Estimated amounts due to third-party payors	**637**	5,747
Current portion of long-term debt	**2,563**	2,405
Variable rate debt classified as current	**590**	3,750
Other current liabilities	**2,387**	3,175
Total current liabilities	**17,987**	25,617
Long-term debt:		
Hospital revenue bonds	**18,772**	21,070
Notes payable and capital leases	**12,721**	13,153
	31,493	34,223
Other liabilities	**196**	43
Net assets:		
Unrestricted	**93,595**	120,432
Temporarily restricted	**13,530**	16,881
Permanently restricted	**10,854**	12,762
Total net assets	**117,979**	150,075
Total liabilities and net assets	**$ 167,655**	$ 209,958

See accompanying notes.

Lakewood Hospital Association

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

	Year Ended December 31	
	2008	2007
Unrestricted revenues		
Net patient service revenue	$ 140,654	$ 137,724
Other	7,582	8,664
Total unrestricted revenues	148,236	146,388
Expenses		
Salaries, wages, and benefits	80,237	78,426
Supplies	15,246	17,151
Pharmaceuticals	5,266	5,039
Purchased services	6,571	7,003
Administrative services	14,864	10,887
Facilities	9,960	8,210
Insurance	2,160	2,704
Provision for uncollectible accounts	8,305	6,807
	142,609	136,227
Operating income before interest, depreciation and amortization expenses	5,627	10,161
Interest	1,813	2,057
Depreciation and amortization	7,065	7,371
Operating (loss) income	(3,251)	733
Nonoperating gains and losses		
Interest and dividends	1,312	2,336
Net realized and unrealized (losses) gains on investments	(24,926)	4,432
Other, net	(58)	(53)
Net nonoperating gains and losses	(23,672)	6,715
(Deficiency) excess of revenues over expenses	(26,923)	7,448

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, 2007	$ 108,042	$ 15,363	$ 11,399	$ 134,804
Excess of revenues over expenses	7,448	–	–	7,448
Net assets released from restrictions for capital	507	(507)	–	–
Gifts and bequests	–	367	–	367
Net investment income	–	298	–	298
Net assets released from restrictions used for operations included in other unrestricted revenues	–	(35)	–	(35)
Transfers from affiliates, net (*Note 15)*	4,435	–	–	4,435
Change in interest in Lakewood Hospital Foundation	–	1,395	1,326	2,721
Change in value of perpetual trusts	–	–	37	37
Increase in net assets	12,390	1,518	1,363	15,271
Balances at December 31, 2007	120,432	16,881	12,762	150,075
Deficiency of revenues over expenses	**(26,923)**	**–**	**–**	**(26,923)**
Net assets released from restrictions for capital	**86**	**(86)**	**–**	**–**
Gifts and bequests	**–**	**4,964**	**–**	**4,964**
Net investment loss	**–**	**(650)**	**–**	**(650)**
Net assets released from restrictions used for operations included in other unrestricted revenues	**–**	**(1)**	**–**	**(1)**
Change in interest in Lakewood Hospital Foundation	**–**	**(7,578)**	**(1,809)**	**(9,387)**
Change in value of perpetual trusts	**–**	**–**	**(99)**	**(99)**
Decrease in net assets	**(26,837)**	**(3,351)**	**(1,908)**	**(32,096)**
Balances at December 31, 2008	**$ 93,595**	**$ 13,530**	**$ 10,854**	**$ 117,979**

See accompanying notes.

Lakewood Hospital Association

Statements of Cash Flows

(In Thousands)

	Year Ended December 31 2008	2007
Operating activities		
(Decrease) increase in net assets	$ **(32,096)**	$ 15,271
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Change in interest in Lakewood Hospital Foundation	**9,387**	(2,721)
Loss on extinguishment of debt	**8**	–
Net decrease (increase) in investments classified as trading	**4,434**	(5,770)
Depreciation and amortization	**7,065**	7,371
Provision for uncollectible accounts	**8,305**	6,807
Transfers from affiliates, net	**–**	(4,435)
Restricted gifts, bequests and investment income	**(4,314)**	(665)
Change in value of perpetual trusts	**99**	(37)
Amortization of bond premium	**(162)**	(168)
Changes in operating assets and liabilities:		
Patient receivables	**(6,199)**	(8,510)
Other assets	**78**	(422)
Accounts payable and other current liabilities	**(4,582)**	1,249
Other liabilities	**153**	(360)
Net cash (used in) provided by operating activities	**(17,824)**	7,610
Financing activities		
Payments to purchase bonds in lieu of redemption	**(3,160)**	–
Principal payments on long-term debt	**(2,410)**	(2,281)
Change in pledges receivable	**(4,596)**	–
Restricted gifts, bequests and investment income	**4,314**	665
Net cash used in financing activities	**(5,852)**	(1,616)
Investing activities		
Expenditures for property and equipment, net	**(4,231)**	(8,419)
Transfers from affiliates, net	**–**	4,435
Decrease in nontrading investments, net	**395**	214
Net cash used in investing activities	**(3,836)**	(3,770)
(Decrease) increase in cash and cash equivalents	**(27,512)**	2,224
Cash and cash equivalents at beginning of year	**32,948**	30,724
Cash and cash equivalents at end of year	$ **5,436**	$ 32,948

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, Level III trauma center, major vascular procedures, intracardiac electrophysiological 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 10). The real and personal property are included in the Hospital's balance sheets as of December 31, 2008 and 2007. 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 (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 as defined by Statement of Financial Accounting Standards (SFAS) No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. 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.

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 $5.2 million and $4.2 million at December 31, 2008 and 2007, 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 $1.0 million and $1.1 million in 2008 and 2007, respectively, in other unrestricted revenue.

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

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 accounts receivable 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. Medicare payments for capital are received on a prospective basis and on 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 $6.5 million and a decrease in net patient revenue of $0.7 million in 2008 and 2007, 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.

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 2008 and 2007, measured at established rates, approximated $23.8 million and $19.7 million, respectively, and is not included in net patient service revenue.

3. Accounting Policies (continued)

Concentration of Credit Risk

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 32%, 9%, and 9% at December 31, 2008 and 40%, 8%, and 12% at December 31, 2007, respectively, of the Hospital's total patient receivables. Revenues from the Medicare and Medicaid programs and one commercial payor accounted for approximately 50%, 7%, and 14%, respectively, in 2008, and 49%, 7%, and 15%, respectively, in 2007 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.

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.

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 2.2% and 5.1% in 2008 and 2007, respectively. The Hospital's share of the STIP is $5.4 million and $32.9 million at December 31, 2008 and 2007, respectively.

3. Accounting Policies (continued)

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.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation 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

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 \$253,000 and \$299,000 at December 31, 2008 and 2007, respectively.

Other Current and Noncurrent Liabilities

Other current liabilities include patient account credit balances, accrued interest payable and current portion of accrued self-insured workers' compensation claims.

Other noncurrent liabilities, net of current portion, consist of accrued self-insured workers' compensation claims 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 measured at fair value in the balance sheets and are classified as trading excluding funds held by bond trustees which are classified as nontrading. 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 (loss) 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, including realized and unrealized gains and losses, is included in temporarily restricted net assets.

The credit and liquidity crisis in the United States of America and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. Certain of the Hospital's assets and liabilities are exposed to various risks such as interest rate, market, and credit risks.

Total investment return is comprised of the following for the years ended December 31, 2008 and 2007 (in thousands):

	2008	2007
Other revenue:		
Interest income and dividends	$ 41	$ 149
Nonoperating (losses) gains, net:		
Interest income and dividends	1,312	2,336
Net realized (losses) gains on sales of investments	(4,567)	4,649
Equity method (loss) income on alternative investments	(4,294)	1,175
Net unrealized losses on investments	(16,065)	(1,392)
	(23,614)	6,768
Other changes in net assets:		
Net (depreciation) appreciation on restricted investments	(650)	298
	$ (24,223)	$ 7,215

3. Accounting Policies (continued)

Contributions

Unconditional promises 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, the earnings of which are primarily restricted for various Hospital programs.

(Deficiency) Excess of Revenues Over Expenses

The statements of operations and changes in net assets include (deficiency) excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from (deficiency) excess of revenues over expenses, consistent with industry practice, include transfers from (to) affilitates and 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).

3. Accounting Policies (continued)

Income Taxes

The Hospital adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48) in 2007. FIN 48 creates a single model to address accounting for uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 had no impact on the financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation, which had no impact on previously reported (deficiency) excess of revenues over expenses or net assets. Certain liabilities were reclassified from long-term to current.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following at December 31, 2008 and 2007, (in thousands):

	2008	2007
Pledges receivable	**$ 4,596**	$ –
Plant replacement and expansion funds	**1,295**	1,412
Specific purpose funds	**1,423**	1,675
Interest in Lakewood Hospital Foundation, Inc.'s temporarily restricted net assets	**6,216**	13,794
	$ 13,530	$ 16,881

5. Permanently Restricted Net Assets

Permanently restricted net assets are comprised of the following at December 31, 2008 and 2007, (in thousands):

	2008	2007
Interest in Lakewood Hospital Foundation, Inc.'s permanently restricted net assets	**$ 10,495**	$ 12,304
Perpetual trust	**359**	458
	$ 10,854	$ 12,792

6. Cash, Cash Equivalents, and Investments

The composition of cash, cash equivalents, and investments at December 31, 2008 and 2007, is as follows (in thousands):

	2008	2007
Cash and cash equivalents	**$ 9,660**	$ 37,236
Government fixed income securities	–	33
Cleveland Clinic Foundation Long-Term Investment Pool	**60,498**	65,230
Total cash, cash equivalents, and investments	**$ 70,158**	$ 102,499

7. Fair Value Measurements

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

7. Fair Value Measurements (continued)

The carrying values of cash and cash equivalents, accounts receivable and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. At December 31, 2008 and 2007, 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 credit, was \$21.3 million and \$26.6 million (Note 11), respectively. Other noncurrent assets and liabilities have carrying values that approximate fair value.

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

As noted above, SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is 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.
- 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.

7. Fair Value Measurements (continued)

The Hospital has $60.5 million in the LTIP at December 31, 2008. The fair value of the financial assets that comprise the LTIP were determined using inputs comprised of the following at December 31, 2008:

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash equivalents	24%	15%	–%	39%
Fixed income securities	3	17	–	20
Common and preferred stocks	38	3	–	41
Total	65%	35%	–%	100%

Within the LTIP, the fair values of the securities included in Level 1 is based upon quoted market prices. Fair value for Level 2 is 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 are obtained from various sources including market participants, dealers, and brokers.

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, 2008 and 2007 (in thousands):

	2008	2007
Land and improvements	$ 4,141	$ 4,140
Buildings	110,013	107,868
Equipment	57,699	56,124
Construction-in-progress	3,500	3,034
	175,353	171,166
Accumulated depreciation	(126,310)	(119,254)
	$ 49,043	$ 51,912

9. Pledges Receivable

Outstanding pledges receivable at December 31, 2008, are as follows (in thousands):

	2008
Pledges due:	
In less than one year	$ 1,000
In one to five years	4,000
	5,000
Present value discount	(404)
Current portion	(1,000)
	$ 3,596

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.

10. Captive Insurance Company (continued)

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)	Due Date	Amount Outstanding December 31 2008	2007
City of Lakewood, Ohio Hospital Revenue Bonds:				
Series 2003	3.58% to 4.75%	Through 2015	**$ 19,860**	$ 21,885
Series 1983	Variable rate	Through 2010	**590**	3,750
			20,450	25,635
Unamortized premium			**1,047**	1,210
Current portion			**(2,135)**	(2,025)
Long-term variable rate debt classified as other current liabilities			**(590)**	(3,750)
			$ 18,772	$ 21,070

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.

The Series 1983 Bonds are to mature in 2010 with early redemption provisions available. The bonds bear interest at a floating rate established semiannually based upon prevailing interest rates at the time and are secured by a letter of credit, which expires November 1, 2010. The interest rates on the bonds at December 31, 2008 and 2007, were 2.80% and 3.80%, respectively. Under terms of the letter of credit agreement, if required, the bank will make liquidity loans to the Hospital in the amount necessary to purchase a portion of the variable rate demand revenue bonds if not remarketed. Liquidity loans are payable to the bank in less than one year, and as such, the bonds are classified as other current liabilities in the accompanying balance sheets.

11. Hospital Revenue Bonds (continued)

In October 2008, pursuant to provisions for purchase in lieu of redemption, the Hospital purchased $3.2 million of outstanding Series 1983 variable-rate Revenue Bonds. The transaction was accounted for as an extinguishment for accounting purposes.

Combined aggregate maturities of the bonds for the five years subsequent to December 31, 2008, are as follows (in thousands): 2009 – $2,135; 2010 – $2,840; 2011 – $2,375; 2012 – $2,510, and 2013 – $2,645.

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, 2008 and 2007, funds held under the indenture for debt service reserve, debt service costs and project funds 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, 2008, the Hospital was not in compliance with the debt service ratio covenant requirement. Non-compliance requires corrective action but is not considered an event of default under the trust indenture. The Hospital will take 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, 2008 of $454,000, of which $74,000 is included in current portion of long-term debt and $380,000 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 5.50% and 8.75% at December 31, 2008 and 2007, respectively. Maturities of this obligation for the five years subsequent to December 31, 2008, are as follows (in thousands): 2009 – $74; 2010 – $78; 2011 – $83; 2012 – $87; 2013 – $92; and thereafter – $40.

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. 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 of $12.7 million and $13.0 million at December 31, 2008 and 2007, respectively (discounted at an interest rate of 6%), is included in notes payable and capital leases, except for the current portion of $0.4 million and $0.3 million at December 31, 2008 and 2007, respectively, which is included in current portion of long-term debt.

12. Notes Payable and Capital Leases (continued)

Total interest paid on Hospital Revenue Bonds, notes payable, and capital leases approximated \$1.9 million and \$2.1 million in 2008 and 2007, 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 Foundation also sponsors a contributory, defined contribution plan covering substantially all employees and staff including those of the Hospital. The Hospital's contribution is based on 50% of an individual employee's contributions up to a maximum of 6% of the employee's compensation. Included in the Hospital's salaries, wages and benefits is retirement benefit expense pertaining to the defined contribution plan of approximately \$830,000 and \$822,000 in 2008 and 2007, respectively.

14. Commitments and Contingencies

The Hospital leases various equipment and facilities under operating lease arrangements. Total rental expense in 2008 and 2007 was \$2.2 million and \$1.6 million, respectively. Minimum future operating lease payments are as follows (in thousands): 2009 – \$1,209; 2010 – \$1,138; 2011 – \$1,126; 2012 – \$1,143; 2013 – \$939, and thereafter – \$4,436.

At December 31, 2008, the Hospital has commitments for construction and other related contracts of \$459,000.

15. Related-Party Transactions

Amounts due from a related party of $1,000 and $46,000 at December 31, 2008 and 2007, respectively, represent amounts due from CCHSICo.

The Hospital contracts with the Foundation and its affiliates for certain services in the normal course of business. Expenses include $16.1 million and $12.8 million in 2008 and 2007, respectively, for these services.

In 2007, the Hospital recorded $4.4 million of transfers from affiliates, comprised of $3.9 million from the Cleveland Clinic Community Physician Partnership related to amounts previously contributed in 2002, and $0.5 million from the Foundation that represents pension funding previously contributed from the Hospital to the Foundation in excess of the Hospital's required funding amount.

16. Functional Expenses

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

	2008	**2007**
Health care services	**$ 132,875**	$ 128,292
Research	**7**	36
General and administrative	**18,605**	17,327
	$ 151,487	$ 145,655

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