Consolidated Financial Statements and Other Financial Information

Clarian Health Partners, Inc. and subsidiaries
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

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Consolidated Financial Statements and Other Financial Information

Years Ended December 31, 2008 and 2007

Contents

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Report of Independent Auditors

The Board of Directors
Clarian Health Partners, Inc.

We have audited the accompanying consolidated balance sheets of Clarian Health Partners, Inc. (an Indiana nonprofit corporation) and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of Clarian Health Partners, Inc. and subsidiaries. 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 Clarian Health Partners, Inc.'s internal control over financial reporting. Our audit 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 Clarian Health Partners, Inc.'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.

The schedule of community benefits and charity care on page 51 is not a required part of the consolidated financial statements, and we did not audit or apply limited procedures to such information and express no opinion on it.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clarian Health Partners, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 17, 2009

Clarian Health Partners, Inc. and subsidiaries

Consolidated Balance Sheets

(Thousands of Dollars)

	December 31	
	2008	**2007**
Assets		
Current assets:		
Cash and cash equivalents	**$ 140,707**	$ 54,453
Patient accounts receivable, less allowance for uncollectible accounts of $148,876 and $102,830 in 2008 and 2007, respectively	**394,857**	338,685
Member premium and other receivables	**35,200**	42,543
Prepaid expenses	**25,385**	19,635
Inventories	**51,795**	44,272
Current portion of trustee-held funds for construction	**6,516**	7,060
Total current assets	**654,460**	506,648
Assets limited as to use:		
Board-designated investment funds	**815,579**	1,294,095
Funds held under swap credit annex agreements	**44,726**	–
Trustee-held funds for construction and debt service, less current portion	**5,491**	143,450
Total assets limited as to use, less current portion	**865,796**	1,437,545
Property and equipment:		
Cost of property in service	**3,502,773**	2,949,203
Less accumulated depreciation	**(1,692,641)**	(1,524,878)
	1,810,132	1,424,325
Construction-in-progress	**332,227**	392,918
Total property and equipment, net	**2,142,359**	1,817,243
Other assets:		
Equity interest in managed care organization	**9,451**	49,834
Equity interest in unconsolidated subsidiaries	**35,530**	25,667
Interest in net assets of foundations	**80,502**	70,311
Interest rate swaps	**–**	36,799
Unamortized bond issuance costs	**13,079**	19,205
Other	**18,714**	24,925
Total other assets	**157,276**	226,741
Total assets	**$ 3,819,891**	$ 3,988,177

	December 31	
	2008	**2007**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 324,299**	$ 227,710
Accrued salaries, wages, and related liabilities	**131,744**	100,148
Accrued health claims	**24,836**	33,916
Estimated third-party payor allowances	**25,504**	33,265
Note payable to bank	**36,000**	–
Current portion of long-term debt	**30,340**	29,541
Total current liabilities	**572,723**	424,580
Noncurrent liabilities:		
Long-term debt, less current portion	**1,437,803**	1,441,338
Interest rate swaps	**258,223**	5,237
Accrued pension obligations	**50,846**	18,668
Accrued medical malpractice claims	**53,412**	50,083
Other	**16,222**	11,508
Total noncurrent liabilities	**1,816,506**	1,526,834
Total liabilities	**2,389,229**	1,951,414
Net assets:		
Unrestricted	**1,347,637**	1,963,967
Temporarily restricted	**44,486**	38,448
Permanently restricted	**38,539**	34,348
Total net assets	**1,430,662**	2,036,763
Total liabilities and net assets	**$ 3,819,891**	$ 3,988,177

See accompanying notes.

Clarian Health Partners, Inc. and subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Thousands of Dollars)

	Year Ended December 31	
	2008	**2007**
Revenue:		
Net patient service revenue	**$ 2,932,548**	$ 2,412,588
Member premium revenue	**71,935**	294,809
Other revenue	**110,831**	106,485
Total operating revenue	**3,115,314**	2,813,882
Expenses:		
Salaries, wages, and benefits	**1,345,058**	1,175,570
Supplies, drugs, purchased services, and other	**961,796**	865,982
Health claims to providers	**68,313**	168,145
Depreciation and amortization	**178,589**	164,851
Provision for uncollected patient accounts	**197,918**	150,514
Interest	**52,408**	47,191
Total operating expenses	**2,804,082**	2,572,253
Operating income before educational and research support	**311,232**	241,629
Educational and research support to Indiana University	**(255,483)**	(192,109)
Total operating income	**55,749**	49,520
Nonoperating income (losses):		
Investment income (losses), net	**(383,563)**	114,963
Gain (loss) on interest rate swaps, net	**(249,649)**	16,829
Other	**(12,237)**	–
Total nonoperating income (losses)	**(645,449)**	131,792
Excess (deficiency) of revenues over expenses	**(589,700)**	181,312

Continued on next page.

Clarian Health Partners, Inc. and subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Thousands of Dollars)

	Year Ended December 31	
	2008	**2007**
Unrestricted net assets:		
Excess (deficiency) of revenues over expenses	**$ (589,700)**	$ 181,312
Change in pension obligations	**(31,894)**	8,730
Contributions for capital expenditures	**11,532**	14,305
Other	**(6,268)**	(787)
	(616,330)	203,560
Temporarily restricted net assets:		
Increase in beneficial interest in net assets of foundations	**6,038**	335
Permanently restricted net assets:		
Increase in beneficial interest in net assets of foundations	**4,191**	5,943
Increase (decrease) in net assets	**(606,101)**	209,838
Net assets at beginning of year	**2,036,763**	1,826,925
Net assets at end of year	**$ 1,430,662**	$ 2,036,763

See accompanying notes.

Clarian Health Partners, Inc. and subsidiaries

Consolidated Statements of Cash Flows

(Thousands of Dollars)

	Year Ended December 31	
	2008	**2007**
Operating activities		
Increase (decrease) in net assets	**$ (606,101)**	$ 209,838
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Change in fair value of interest rate swaps	**289,785**	5,524
Loss on extinguishment of debt	**5,616**	–
Change in pension liability	**31,894**	(8,730)
Income in unconsolidated subsidiaries	**(18,436)**	(17,904)
Depreciation and amortization	**178,589**	164,851
Restricted contributions	**(10,229)**	(6,278)
Net changes in operating assets and liabilities:		
Patient accounts receivable, net	**(41,289)**	(32,795)
Inventories and other assets	**8,136**	(8,400)
Trading securities	**572,293**	(24,775)
Accounts payable and accrued liabilities	**80,747**	32,538
Salaries, wages, and related liabilities	**27,761**	10,472
Estimated third-party payor allowances	**(7,761)**	8,441
Net cash provided by operating activities	**511,005**	332,782
Investing activities		
Acquisition of subsidiary, net of cash received	**(3,315)**	–
Distributions received from managed care organization	**40,383**	–
Purchase of property and equipment, net of disposals	**(470,285)**	(350,524)
Net cash used in investing activities	**(433,217)**	(350,524)
Financing activities		
Increase in restricted net assets	**10,229**	6,278
Repayments on long-term debt	**(253,570)**	(29,248)
Proceeds from issuance of long-term debt	**215,807**	25,000
Proceeds from note payable under line of credit	**36,000**	–
Net cash provided by financing activities	**8,466**	2,030
Increase (decrease) in cash and cash equivalents	**86,254**	(15,712)
Cash and cash equivalents at beginning of year	**54,453**	70,165
Cash and cash equivalents at end of year	**$ 140,707**	$ 54,453

See accompanying notes.

Mission Statement

The mission of Clarian Health is to improve the health of our patients and community through innovation and excellence in care, education, research and service.

Clarian Health will preserve, strengthen and build upon these values:

*A patient's **total care**, including mind, body and spirit*
*Excellence in **education** for health care providers*
*Quality of care and **respect** for life*
***Charity**, equality and justice in health care*
*Leadership in health promotion and **wellness***
*Excellence in **research***
*An internal community of **trust** and respect*

1. Organization and Nature of Operations

Organization

Clarian Health Partners, Inc. (Clarian Health), an Indiana nonprofit corporation, and subsidiaries operate as a health care delivery system providing health care services throughout the state of Indiana. Services provided by Clarian Health and its subsidiaries include: acute, nonacute, tertiary, and quaternary care services on an inpatient, outpatient, and emergency basis; medical education and research; medical management services; health care diagnostic and treatment services for individuals and families in physician clinics and physician-group practices; occupational health care for businesses; and personal and home health care.

1. Organization and Nature of Operations (continued)

Clarian Health was formed as an Indiana nonprofit corporation through a consolidation, as of January 1, 1997, under the terms of a Definitive Health Care Resources Consolidation Agreement, as amended (the Consolidation Agreement), and certain other related agreements by and between the Trustees of Indiana University and Methodist Health Group, Inc. The facilities and operations of Indiana University Hospital and Outpatient Center (I.U. Hospital), James Whitcomb Riley Hospital for Children (Riley Hospital), and Methodist Hospital of Indiana (Methodist Hospital) (collectively, the Downtown Hospital Facilities) were merged and consolidated to form Clarian Health, which was licensed as a single, acute care hospital.

Under terms of the Consolidation Agreement and related agreements, substantially all real property of I.U. Hospital, Riley Hospital, and Methodist Hospital was sold, transferred, leased, or otherwise conveyed on a long-term basis (99 years) to Clarian Health at an annual, nominal amount. Substantially all liabilities were also assumed or, in the case of long-term debt, refinanced by Clarian Health. Members of the Board of Directors of Clarian Health are selected by its two classes of members – the Methodist Class (members of which are members of Methodist Health Group, Inc.) and the University Class (members of which are the individuals who are the Trustees of Indiana University).

Nature of Operations

The principal operating activities of Clarian Health and its subsidiaries are conducted at owned facilities or majority-owned or controlled subsidiaries and consist of the following:

> **Downtown Hospital Facilities (Hospital Campuses)** – Consist of three acute, nonacute, tertiary, and quaternary care, and diagnostic facilities, licensed as a single hospital, which comprise the core hospital and health care delivery system of Clarian Health, whose operations are located in the downtown area of Indianapolis, Indiana. Medical education and research, a significant portion of which is provided in conjunction with the Indiana University School of Medicine (School of Medicine) as defined in the Consolidation Agreement, are key elements of Clarian Health's operations.

1. Organization and Nature of Operations (continued)

Suburban Facilities (Clarian West and Clarian North) – Consist of two acute care hospitals and medical office buildings located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Clarian West commenced operations in December 2004, and Clarian North commenced operations in December 2005.

Statewide Facilities – Consist of acute care hospitals and health care systems located in Bedford, Lafayette, LaPorte, and Goshen, Indiana. Principal subsidiaries include Bedford Regional Medical Center, Inc. (Bedford), Clarian Arnett Health System, Inc. (Clarian Arnett), LaPorte Regional Health System, Inc. (LaPorte), and Goshen Health System, Inc. (Goshen). Clarian Arnett commenced operations in October 2008 and includes primary care and multi-specialty physician clinic operations.

Ambulatory Care – Consists of occupational health care, personal and home health care, physician offices, and physician-group practices and clinics, substantially all of which are located in Indianapolis, Indiana. Principal subsidiaries or divisions include Methodist Medical Group Physicians, Emergency Medical Group, Inc., Methodist Cardiology Physicians, LLC, Clarian Cardiovascular Surgeons Group, LLC, Indiana Radiology Partners, Inc., Methodist Occupational Health Centers, Inc., Heart Partners of Indiana, LLC, and Clarian Home Care.

Medical Risk – Consists of the medical management of health care services of members whose health care coverage is provided by the managed care networks of Clarian Health. During 2008, Clarian Health Plans, Inc., a taxable corporation, was formed for the purpose of providing health insurance to Medicare beneficiaries.

1. Organization and Nature of Operations (continued)

Clarian Health and its subsidiaries have also entered into certain partnership agreements with physicians for the operation of ambulatory surgery and diagnostic centers (located in Indianapolis, Indiana, and the surrounding suburban areas); network or management arrangements with several other hospitals to provide or operate hospital, rural outreach, or other medical services and programs (located in Terre Haute, Tipton, Martinsville, South Bend, Evansville, and Kokomo, Indiana); a joint venture arrangement with another Indianapolis, Indiana, hospital for the operation of a long-term rehabilitative care hospital (also located in Indianapolis, Indiana); a 50% membership interest with a county governmental institution (located in Indianapolis, Indiana) in a nonprofit corporation that holds a health maintenance organization license and manages networks serving Medicaid patients; and a 50% membership interest with Indiana University Emerging Technology Corp., a nonprofit corporation, in a specialized cancer treatment and diagnostic clinic (located in Bloomington, Indiana).

2. Community Benefit and Charity Care

Clarian Health and its subsidiaries provide health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, improve the health of low-income patients, and foster medical education and research through its affiliation with the School of Medicine. In addition, Clarian Health and its subsidiaries provide services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources or are uninsured or underinsured. Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of Clarian Health's benefit provided to the community since a substantial portion of such services are reimbursed at amounts less than cost.

Clarian Health's charity care and financial assistance policy is designed to provide care to patients regardless of their ability to pay. Patients who meet certain criteria for charity care (generally based on up to 400% of federal poverty income guidelines), or who meet criteria to be part of Clarian Health's medical education and research programs, are provided care without charge or at amounts less than established rates. Subsidiaries of Clarian Health have adopted policies which are consistent with the charity care and financial assistance policy of Clarian Health.

2. Community Benefit and Charity Care (continued)

The amount of charity care provided is determined based on the qualifying criteria, as defined in the charity care and financial assistance policy, through approved applications completed by patients and their families or beneficiaries, or based on analysis of patients without third-party insurance coverage who did not apply for charity and whose income was equal to or less than 200% of federal poverty income guidelines. No payment for services is anticipated for those patients whose charity care applications have been approved, as well as for those other patient accounts identified whose income is equal to less than 200% of federal poverty income guidelines and meet certain other criteria. Charity care, measured by the difference between standard charges for services rendered and the amount, if any, ultimately received, was $142,669 and $110,125 in 2008 and 2007, respectively. In addition, Clarian Health and its subsidiaries provide a significant amount of uncompensated care to other uninsured and underinsured patients, which is included in the provision for uncollected patient accounts.

Reimbursements are received by Clarian Health and its subsidiaries for Medicare and Medicaid beneficiaries in accordance with reimbursement agreements and related regulatory rules and regulations. Also, as a Medicaid Disproportionate Share (DSH) provider (see Note 3), Clarian Health receives certain DSH payments for those patients who qualify as medically indigent. These reimbursements and payments are less than the cost of providing the related services.

Clarian Health also provides education for health care providers, including support to the School of Medicine; counseling centers and chaplaincy programs which support patients' medical, spiritual, and emotional needs; programs to enhance quality of and respect for life, including neighborhood revitalization, community health clinics, and school clinics; charity, equality, and justice programs, including education programs available to independent health providers, and an AIDS clinic, older adult clinics, and other clinical programs; health promotion and wellness programs, including OASIS (an over 55-age program), Indiana Poison Center, safe driving, pregnancy and parenting classes, and other prevention and intervention programs; other medical research and support to the Medical Knowledge Fund and Children's Values Fund; and an internal community of trust, respect, and empowerment, including employee wellness development. The costs of providing these programs and services are included in expenses in the accompanying consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Clarian Health and all majority-owned or controlled subsidiaries. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where control is participatory with others or where ownership is 50% or less. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements, in conformity with U.S. generally accepted accounting principles (GAAP), requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassification

Clarian Health has reclassified the 2007 educational and research support to Indiana University to conform with the current year's presentation. The reclassifications had no effect on operating income or excess (deficiency) of revenues over expenses, as previously reported.

Fair Values of Financial Instruments

Financial instruments include cash and cash equivalents, patient, member premium, and other accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor allowances, note payable to bank, long-term debt, derivative financial instruments (i.e., interest rate, basis, and short duration swaps), and certain other current assets and liabilities. The fair values for cash and cash equivalents, patient, member premiums, and other accounts receivable, accounts payable and accrued expenses, estimated third-party payor allowances, note payable to bank, and certain other current assets and liabilities approximate the carrying amounts reported in the consolidated balance sheets and, in the opinion of management, represent highly liquid assets or short-term obligations not subject to being discounted. The fair values for assets limited as to use, derivative financial instruments, and long-term debt are described in Notes 4 and 6.

3. Summary of Significant Accounting Policies (continued)

In September 2006, Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement* (SFAS 157), was issued. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS 157 was effective for years beginning after November 15, 2007, with earlier application encouraged. Clarian Health adopted SFAS 157 on January 1, 2008. As a result of the adoption of SFAS 157, Clarian Health made a $39,278 fair value adjustment to the carrying value of its interest rate swaps as of December 31, 2008. (See Notes 6 and 7.)

In February 2007, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), was issued. SFAS 159 allows for-profit and not-for-profit companies to elect to measure financial instruments, with certain exceptions, and certain other items at fair value. This standard is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, and requires adoption on the same date or after adoption of SFAS 157. Clarian Health adopted SFAS 159 on January 1, 2008, and, as permitted under the standard, elected not to measure any other additional financial instruments at fair value that were not previously required to be measured at fair value. (See Note 7.)

Derivative Financial Instruments

As part of its Asset/Debt Management Program, Clarian Health has entered into interest rate swap, basis swap, and short duration swap transactions. Clarian Health accounts for its derivative instruments under SFAS No.133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended, and Statement of Position (SOP) 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-profit Healthcare Organizations* (SOP 02-2). SOP 02-2 requires that not-for-profit health care organizations apply the provisions of SFAS 133 (including the provision pertaining to cash flow hedge accounting) in the same manner as for-profit enterprises, and clarifies that the performance indicator reported by not-for-profit health care organizations is analogous to income from continuing operations for a for-profit enterprise. SFAS 133 requires that derivative instruments be recognized as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and on the type of hedging relationship.

3. Summary of Significant Accounting Policies (continued)

For those derivative instruments that are designated and qualify as hedging instruments, a determination must be made as to whether such instruments are a fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. To the extent that such derivative financial instruments are designated and qualify as cash flow hedging instruments, the effective portion of the gain or loss on the derivative instrument is reported as a component of net assets and reclassified to excess (deficiency) of revenues over expenses in the same period or periods during which the hedged transaction affects earnings. As of and for the years ended December 31, 2008 and 2007, Clarian Health's basis swap and constant maturity swap agreements did not qualify for hedge accounting. Additionally, the interest rate swap agreements entered into in connection with the Series 2005A, B, C, and D and Series 2003A, B, C, D, E, F, and G bonds, which previously qualified for hedge accounting, were de-designated by management on January 1, 2007. All changes in the fair value of these derivative instruments in 2008 and 2007 were reflected as a component of nonoperating income in the accompanying consolidated statements of operations and changes in net assets. Upon de-designation, approximately $18,885 was accumulated as a component of net assets as of December 31, 2006, and is being amortized into nonoperating income as the previously hedged debt affects earnings. During the years ended December 31, 2008 and 2007, respectively, $1,185 and $1,296 were reclassified into nonoperating income based upon this allocation method. In addition, the 2003A, B, C, and D interest rate swaps were terminated in June 2008 for a one-time cash receipt of $1,539, and $5,668 of the previously unamortized gain was recorded into nonoperating income as allowed by SFAS 133 because the previously hedged debt was refunded.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others at the time services are rendered. Certain revenue is subject to estimated retroactive revenue adjustments under reimbursement agreements with third-party payors due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period that the related services are rendered, and such amounts are adjusted in future periods as adjustments become known.

For the year ended December 31, 2008, the percentage of net patient service revenue derived under Medicare, Medicaid, and managed care programs approximated 19%, 12%, and 52%, respectively (19%, 8%, and 51%, respectively, in 2007). A managed care provider represented 29% of net patient service revenue in 2008 and 21% in 2007. Provision has been made, by a

3. Summary of Significant Accounting Policies (continued)

charge to contractual allowances as an offset to patient service revenue, for the differences between gross charges for patient services and estimated reimbursement from these government and insurance programs.

Clarian Health qualifies as a Medicaid DSH provider under Indiana law (IC 12-15-16(1-3)) and, as such, is eligible to receive DSH payments. The amount of these additional DSH funds is dependent on regulatory approval by agencies of the federal and state governments, and is determined by the level, extent, and cost of uncompensated care (as defined) and various other factors. For the years ended December 31, 2008 and 2007, DSH payments have been made by the state of Indiana, and Clarian Health recorded such amounts as revenue based on preliminary data acceptable to the state of Indiana less any amounts management believes may be subject to adjustment. DSH payments by the state of Indiana are based on the fiscal year of the state, which ends June 30th of each year.

Laws and regulations governing Medicare, Medicaid, and other governmental programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated settlements could change by a material amount in the near term. Clarian Health received favorable Medicare, Medicaid, and Champus settlements and resolutions on prior year filed and appealed cost reports and other matters, which increased excess (deficiency) of revenues over expenses by $8,717 in 2008 and $3,095 in 2007. The state of Indiana finalized Clarian Health's reimbursement under the State DSH program for the state fiscal years 2005, 2006, and 2007, resulting in additional excess (deficiency) of revenues over expenses in 2008, including changes in estimated allowances, aggregating $40,363 ($31,925 recognized in 2007).

Member Premium Revenue and Health Claims

Clarian Health and its subsidiaries have agreements to provide medical services to subscribing participants or members. These agreements generally provide for predefined payments (on a per member/per month basis) regardless of services actually performed.

The cost to provide health care services under these agreements is accrued in the period in which the health care services are provided to a member based, in part, on estimates, including an accrual for medical services provided but not yet reported. A portion of these expenses is intercompany between Clarian Health and its subsidiaries, which is eliminated in consolidation. Expenses which are not related to Clarian Health are reported as health claims to providers in the accompanying consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Polices (continued)

Cash Equivalents

Investments in highly liquid instruments with an original maturity of three months or less when purchased, excluding assets limited as to use, are considered by management to be cash equivalents. Clarian Health and its subsidiaries routinely invest in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments that potentially subject Clarian Health to concentrations of credit risk include Clarian Health's cash and cash equivalents. Clarian Health places its cash and cash equivalents with institutions with high-credit quality. However, at certain times, such cash and cash equivalents may be in excess of government-provided insurance limits.

Accounts Receivable and Allowance for Uncollectible Accounts

Clarian Health and its subsidiaries extend credit to patients, substantially all of whom are residents of the state of Indiana, and do not require collateral or other security for the delivery of health care services. However, assignment of benefit payments payable under patients' health insurance programs and plans (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies) is routinely obtained, consistent with industry practice.

The provision for uncollected patient accounts is based upon management's assessment of historical and expected net collections considering business and economic conditions, changes and trends in health care coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for uncollectible accounts based upon accounts receivable payor composition and aging, and historical write-off experience by payor category, as adjusted for collection indicators. The results of this review are then used to make any modifications to the provision for uncollected patient accounts and the allowance for uncollectible accounts. In addition, Clarian Health and its subsidiaries follow established guidelines for placing certain past due patient balances with collection agencies. Patient accounts which are uncollected, including those placed with collection agencies, are initially charged against the allowance for uncollectible accounts in accordance with collection policies of Clarian Health and, in certain cases, are reclassified to charity care if deemed to otherwise meet Clarian Health's charity care and financial assistance policy.

(Thousands of Dollars)

3. Summary of Significant Accounting Polices (continued)

The composition of net patient accounts receivable is summarized as follows as of December 31:

	2008	**2007**
Managed care	**52%**	50%
Medicare	**18**	12
Medicaid	**9**	7
Other third-party payors	**9**	11
Patients	**12**	20
	100%	100%

A managed care payor represented 26% and 20% of net patient accounts receivables at December 31, 2008 and 2007, respectively.

Inventories

Inventories consist primarily of drugs and supplies, are stated at the lower of cost or market, and are generally valued using the average cost method.

Assets Limited as to Use

Assets limited as to use include: (i) cash and cash equivalents and designated investment assets set aside by the Board of Directors (the Board) for future capital improvements and for other purposes, over which the Board retains control and may, at its discretion, use for other purposes, (ii) assets held by trustees under bond or trust indenture agreements for construction and debt service, and (iii) funds held under swap credit annex agreements that serve as collateral provided to swap counterparties. Substantially all assets limited as to use are invested and managed by professional investment managers and are held in custody by financial institutions. All such funds are classified as trading securities. Accordingly, changes in unrealized gains and losses in the fair value of investments are included in nonoperating income with investment income in the accompanying consolidated statements of operations and changes in net assets.

3. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Included in property and equipment are costs for software developed for internal use accounted for in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

Equipment under capital lease obligations is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation in the accompanying consolidated statements of operations and changes in net assets. Interest cost incurred on borrowed funds during the period of construction and other interest costs related to tax-exempt bonds are capitalized as a component of the cost of constructing the assets. In addition, interest earnings on unexpended borrowed funds related to tax-exempt financings are offset to capitalized interest. Repair and maintenance costs are expensed when incurred.

Clarian Health and its subsidiaries evaluate when events or changes in circumstances have occurred which would indicate that the remaining estimated useful life of long-lived assets warrant revision or that the remaining balance of such assets may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Such events or changes in circumstances may include any of the following: a significant decrease in the market price of a long-lived asset; a significant adverse change in the extent or manner in which a long-lived asset is being used or its physical condition; a significant adverse change in legal factors or business climate that could affect the value of a long-lived asset; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset; a protracted loss of cash flows that would indicate continued losses associated with the use of a long-lived asset; and a current expectation that a long lived-asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Such estimates of loss are identified and calculated in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

3. Summary of Significant Accounting Polices (continued)

Environmental Obligations

Clarian Health follows the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of SFAS No. 143* (FIN 47). SFAS 143 provides guidance on accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Asset retirement obligations include, but are not limited to, certain types of environmental issues where there is a legal requirement to remediate upon an asset's retirement, as well as contractually required asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be conditional on a future event and/or where the timing or method of such settlement may be uncertain. Guidance in FIN 47 requires such conditional asset retirement obligations be estimated and recognized. Application of these pronouncements primarily affects the Downtown Hospital Facilities with respect to required future asbestos remediation. As of December 31, 2008 and 2007, remediation costs aggregating $4,449 and $4,351, respectively, were carried for future abatement of asbestos and are included in other noncurrent liabilities on the accompanying balance sheets.

Unamortized Bond Issuance Costs and Bond Discount or Premium

Costs incurred in connection with the issuance of long-term debt and bond discounts or premiums are amortized or accreted using the effective interest rate method. Amortization and accretion is included in interest expense in the accompanying consolidated statements of operations and changes in net assets. (See Note 6.)

Medical Malpractice

Clarian Health's medical malpractice coverage is provided through a program of commercial insurance with a self-insured retention for claims made prior to July 1, 2002, and coverage through captive insurance companies effective July 1, 2002. The program of medical malpractice coverage considers limitations in claims and damages prescribed by the Indiana Medical Malpractice Act (the Act), which limits the amount of individual claims to $1,250 and annual aggregate claims to $7,500, of which up to $1,000 would be paid by the State of Indiana Patient Compensation Fund (the Fund) and $250 by Clarian Health for each occurrence of malpractice. The Act also requires that health care providers meet certain requirements, including making funding payments to the Fund, and maintaining certain insurance levels. Clarian Health has met

3. Summary of Significant Accounting Policies (continued)

these requirements and is a qualified provider under the Act, retaining risk of $250 per occurrence and $7,500 in the annual aggregate.

Subsidiaries and affiliates of Clarian Health also participate in the medical malpractice program, including coverage offered by the captive insurance companies (or, from July 1, 2002 to June 30, 2004, by the fronting carrier, Continental Casualty Company). Commercial insurance carriers also provide reinsurance for certain excess general liability coverage of the captive insurance companies on a claims-made basis (aggregating $100,000). To the extent that insurance coverage for medical malpractice is not provided by commercial insurance carriers, including reinsurers, contributions to the program are determined on a claims-made basis.

Contributions to the captive program are expensed as incurred and loss reserves are established for incurred but not yet reported claims. Laws in the jurisdiction in which the captive insurance companies are domiciled require, among other matters, that certain capital and funding requirements be met. Clarian Health and its subsidiaries have recorded an actuarially determined amount of approximately $53,412 and $50,083 at December 31, 2008 and 2007, respectively, for malpractice claims. For the years ended December 31, 2008 and 2007, $13,981 and $16,986, respectively, were expensed.

Investments held by the captive insurance companies aggregated $58,474 and $55,922 at December 31, 2008 and 2007, respectively, and are included in the accompanying consolidated balance sheets with board-designated investment funds. In addition, included with other assets in the consolidated balance sheets are board-designated investment funds held in trust of $775 and $1,140 at December 31, 2008 and 2007, respectively, which are designated for malpractice and certain other claims.

Temporarily and Permanently Restricted Net Assets

Interests in net assets of foundations are accounted for in accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, the underlying assets of which consist primarily of cash and cash equivalents, money market and mutual funds, and marketable equity and debt securities.

3. Summary of Significant Accounting Policies (continued)

Temporarily and permanently restricted net assets are those assets whose use has been limited by donors to a specific time period or purpose. These net assets are generally restricted for indigent and other patient care services, medical education and research programs, and medical supplies and equipment. Contributions with donor-imposed restrictions are reported as unrestricted if the restrictions are met in the same reporting period.

Operating and Performance Indicators

The activities of Clarian Health and its subsidiaries are primarily related to providing health care services and, accordingly, expense information by functional classification is not used as a basis for measuring performance. Further, since substantially all resources are derived from providing health care services, similar to that if provided by a business enterprise, the following indicators are considered important in evaluating how well management has discharged their stewardship responsibilities:

Operating Indicator (Operating Income) – Includes all unrestricted revenue, gains, and other support, equity income of unconsolidated health care subsidiaries, and expenses directly related to the recurring and ongoing health care operations during the reporting period. The operating indicator excludes investment income (losses) on assets limited as to use (including changes in unrealized gains and losses on investments), changes in the fair value of interest rate, basis, and short duration swaps, loss on the extinguishment of debt, minority interest, and gains and losses deemed by management not to be directly related to providing health care services.

Performance Indicator (Excess (Deficiency) of Revenues over Expenses) – Includes operating income and nonoperating income (losses). The performance indicator excludes certain changes in pension obligations and contributions for capital expenditures.

3. Summary of Significant Accounting Policies (continued)

Income Taxes

The Internal Revenue Service has determined that Clarian Health and certain of its affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code. The Suburban Hospitals are organized as pass-through limited liability companies for which Clarian Health's share of operating results is generally not taxable. Certain subsidiaries of Clarian Health are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

In June 2006, FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), was issued and effective January 1, 2007. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Uncertainty in Income Taxes*, and prescribes a recognition threshold and measurement attribute for the financial statement recognition, measurement of a tax position taken or expected to be taken in a tax return, and guidance on derecognition, classification, interest, and penalties, accounting for interim periods, disclosure, and transition. Compliance with this standard had no material impact on the consolidated financial statements of Clarian Health.

Recent Accounting Standards Not Required for 2008

In March 2008, SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS 133* (SFAS 161), was issued. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for years, including interim periods, beginning after November 15, 2008. Clarian Health has not yet completed its assessment of the impact, if any, SFAS 161 will have on its consolidated financial statement disclosures.

4. Assets Limited as to Use

Board-designated investment funds are invested in accordance with Board-approved policies, which include, among other matters, targeted investment returns balanced by diversification of the investment portfolio, establishment of credit risk parameters, and limitation in the amount of investment in any single organization. Trustee-held funds are generally invested in cash

4. Assets Limited as to Use (continued)

equivalents and U.S. government and agency obligations, as defined by the debt agreements. Clarian Health has determined the estimated fair value of the assets limited as to use using market information and other appropriate valuation methodologies.

Clarian Health also has investments with limited liability partnerships (LLPs) that focus on absolute return investment strategies. These LLPs utilize a multi-manager, fund of funds approach designed to attempt to produce positive investment returns regardless of market direction. The underlying investments may include equity, fixed income securities, commodities, currencies, and derivatives. These instruments are subject to various risks similar to nonderivative financial instruments including market, credit, liquidity, operational, and foreign exchange risk. The largest fund allocation to any fund of funds manager is $107,700 at December 31, 2008. Clarian Health's investment in any individual LLP is less than 8% of that fund's net assets. Generally, redemption may be made with written notice ranging from 60 to 90 days. These investments are accounted for under the equity method of accounting, based on the LLPs' financial information, which is generally one month in arrears when Clarian Health prepares its financial statements. Changes in fair value of these LLPs are included in nonoperating income with investment income in the accompanying consolidated statements of operations and changes in net assets.

The methods and assumptions used by Clarian Health and its subsidiaries to estimate the fair value of assets limited as to use are: cash and cash equivalents — the carrying amounts reported in the consolidated balance sheets approximate fair value; marketable securities — the fair value amounts of marketable securities are based on quoted market prices or, if quoted market prices are not available, fair values are based on quoted market prices of comparable instruments; and other investments, including the fund of funds investments — these investments are accounted for under the equity method based upon the net asset values as determined by the administrators of each underlying fund, in consultation with fund investment managers.

(Thousands of Dollars)

4. Assets Limited as to Use (continued)

The composition of assets limited as to use is set forth below.

	December 31	
	2008	**2007**
Cash and cash equivalents	**$ 94,002**	$ 185,214
Marketable securities:		
U.S. government and agency obligations	**71,386**	117,341
U.S. corporate obligations	**73,741**	56,073
U.S. equity securities	**352,387**	624,565
Non-U.S. equity securities	**49,244**	134,564
Total marketable securities	**546,758**	932,543
Other investments:		
Absolute return strategy (fund of funds):		
BlackRock Alternative Advisors	**107,700**	143,218
Aurora Offshore Fund, Ltd.	**88,600**	113,325
Magnitude International	**22,100**	27,681
Tiff ARP	**–**	31,746
Real estate investment trusts and other	**13,152**	10,878
Total other investments	**231,552**	326,848
	872,312	1,444,605
Less current portion	**(6,516)**	(7,060)
Total assets limited as to use, less current Portion	**$ 865,796**	$ 1,437,545

The current portion of assets limited as to use represents construction draws on trustee-held funds for amounts included in accounts payable.

(Thousands of Dollars)

4. Assets Limited as to Use (continued)

In December 2007, Clarian Health redeemed the securities held in Tiff ARP. All redeemed funds were deposited into a money market account at redemption, which Clarian Health continued to display as an investment in Tiff ARP at December 31, 2007. The redemption proceeds were reinvested in other absolute return strategy funds in 2008.

The aggregate cost of investments was $1,041,434 and $1,147,337 at December 31, 2008 and 2007, respectively. The composition and presentation of investment income recognized in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Year Ended December 31	
	2008	**2007**
Investment income (losses):		
Interest income on borrowed funds not capitalized	**$ 378**	$ 989
Interest and dividend income	**25,394**	27,198
Investment management and administration fees	**(4,227)**	(3,076)
Realized gains (losses) on sales of investments, net	**(49,621)**	60,914
Unrealized losses on investments	**(289,948)**	(7,979)
Equity gains (losses) of Absolute Return Strategy investments	**(65,539)**	36,917
	$ (383,563)	$ 114,963

(Thousands of Dollars)

5. Property and Equipment

The cost of property and equipment in service is summarized as follows:

	December 31	
	2008	**2007**
Land and improvements	**$ 185,519**	$ 182,198
Buildings and improvements	**1,793,407**	1,435,636
Equipment (including software developed for internal use of $161,234 in 2008 and $151,507 in 2007)	**1,523,847**	1,331,369
	$ 3,502,773	$ 2,949,203

Useful lives of each category of assets are based on the estimated useful time frame that the particular assets are expected to be in service, generally in accordance with guidelines established by the American Hospital Association. Assets are depreciated on a straight-line basis beginning in the month when placed in service with asset lives ranging as follows: land improvements (20–30 years), buildings and improvements (15–40 years), and equipment, including software developed for internal use (3–10 years).

Construction-in-progress is anticipated to extend through 2013 and includes commitments for the construction, refurbishment, and replacement of facilities and equipment. A summary of the construction-in-progress is as follows:

	December 31	
	2008	**2007**
Riley Simon Family Tower	**$ 203,256**	$ 100,376
Software developed for internal use	**22,398**	18,727
Fairbanks Hall	–	26,825
IU Simon Cancer Center	–	107,903
Clarian Arnett hospital	–	104,629
Clarian Saxony development	**17,116**	–
Other facilities and equipment	**89,457**	34,458
	$ 332,227	$ 392,918

(Thousands of Dollars)

5. Property and Equipment (continued)

Firm commitments for construction-in-progress totaled $129,866 at December 31, 2008. However, other amounts are anticipated to be incurred but are not legally required or committed and are subject to change or authorization by the Board, aggregating approximately $495,000.

Certain buildings, medical and computer equipment, and software are accounted for as capital leases expiring in various years through 2021 and are included in property and equipment. Amortization of assets under capital leases is included in depreciation expense. The following is a summary of property held under capital leases:

	December 31	
	2008	**2007**
Software	**$ 20,885**	$ 20,885
Computer equipment	**1,148**	1,139
Medical equipment	**6,757**	8,060
Buildings	**15,587**	–
	44,377	30,084
Less accumulated amortization	**(17,162)**	(13,938)
	$ 27,215	$ 16,146

Annual interest rates on capital leases vary from 2.9% to 9.3% and are imputed based on the lower of the incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

6. Long-Term Debt

Obligated Group

A Master Trust Indenture (MTI), as amended, provides for the issuance of long-term debt under an obligated group structure. The Obligated Group includes Clarian Health and LaPorte as members. This group is required to meet covenants under the MTI, and the members are jointly and severally liable for the obligations under the MTI. The Obligated Group is also subject to financial performance covenants that, among other compliance requirements, require the maintenance of debt service ratios and limit the Obligated Group's ability to encumber certain of its respective assets. Certain affiliates of Clarian Health have been designated by Clarian Health, pursuant to the terms of the MTI, as Obligated Group Affiliates. While Obligated Group

6. Long-Term Debt (continued)

Affiliates are not directly liable for payment of obligations, the MTI requires that each Obligated Group Affiliate be controlled by a member of the Obligated Group. This control helps ensure compliance with the covenants of the MTI. Each Obligated Group Affiliate is required to pay, loan, or otherwise transfer to members of the Obligated Group such amounts as necessary to pay outstanding obligations that were made available to the Obligated Group Affiliate and any other amounts necessary for the Obligated Group members to pay such obligations. As of December 31, 2008, management of the Obligated Group and Obligated Group Affiliates believe that they are in compliance with all financial covenants.

Due to the dislocation in the Auction Rate Securities (ARS) markets in 2008, Clarian Health modified or refunded its ARS debt. A portion of these securities were converted from the auction rate mode, with interest rate resets occurring every 7 to 35 days, to variable rate demand notes, with weekly interest rate resets. Additionally, portions of the ARS were refunded to variable rate demand notes supported by direct-pay letters of credit or were converted to a direct bank loan.

Issuance and Extinguishment of Debt

During May and August 2008, Clarian Health modified ARS Series 2005A ($80,575), 2005B ($80,600), 2005C ($74,825), 2005D ($75,150), 2003E ($65,600), and 2003G ($109,375). The modifications were done in response to the increase in interest costs in the ARS market and are being accounted for as a modification of debt pursuant to Emerging Issues Task Force (EITF) Issue No. 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*. No changes were made to the provisions of the bond documents other than to change the mode of interest payments. As a result, the bonds will pay interest as variable rate demand notes, rather than through the ARS market. Series 2005A, 2005B, 2003E, and 2003G are each backed by separate stand-by bond purchase agreements. These agreements expire in May 2011, but terminate earlier in the event of a downgrade in the credit rating of their insurer. Series 2005C and 2005D are supported by direct-pay letters of credit expiring in August 2011. Certain other changes in insurance were made to enhance the credit standing of the issues. The cost for modification approximated $3,769, of which $2,390 was included in unamortized bond issuance costs and $1,379 was included in other nonoperating expenses at December 31, 2008, and for the year ended, respectively.

On September 11, 2008, ARS Series 2003A ($24,950), 2003B ($60,300), 2003C ($24,975), and 2003D ($60,275) were refunded by issuing Series 2008A ($45,000), 2008B ($51,055), 2008C ($49,905), and 2008D ($25,000) tax-exempt bonds and resulted in the write-off of unamortized

6. Long-Term Debt (continued)

bond issuance costs of $5,616. The 2008A through D Series bonds, which are on a weekly interest rate mode, are supported by direct-pay letters of credit expiring in September 2011.

On October 9, 2008, Series 2003F bonds ($43,775) were refunded by executing a direct bank loan for $44,000 with interest at London Interbank Offered Rate (LIBOR), plus margin, and will mature in 2033.

On December 7, 2007, Clarian Health entered into an unsecured loan agreement for $25,000 with Stonehenge Community Development VII, LLC. The proceeds were used to partially finance the cost of construction of the education and resource center (Fairbanks Hall).

Bank Bonds

Clarian Health has executed stand-by purchase and direct-pay letter-of-credit agreements on various bond series, which require the credit provider to purchase bonds in the event the bonds are not remarketed. During 2008, various bonds covered by the stand-by purchase agreements were not remarketed. The credit provider charges the "Bank Bond" rate of interest, or 12%, while the bonds are held by the credit provider (bank mode) for the first 60 days. After such time, the interest rate reverts back to the market rate of interest charged on related, market-rate bonds, which was 4.5% at December 31, 2008. The stand-by purchase agreements provide for the repayment over the original terms of the indentures. As of December 31, 2008, $89,375 of 2003G and $45,300 of 2005B Series bonds were in bank mode and paying interest at the market rate of 6.45%. In January 2009, all $45,300 of 2005B bank bonds were remarketed.

(Thousands of Dollars)

6. Long-Term Debt (continued)

Long-term debt as of December 31, 2008 and 2007 consists of the following

	2008	2007
Indiana Health and Educational Facility Financing Authority:		
Variable Rate Demand Securities, Tax-Exempt Revenue Bonds, Series 2008A, B, C, and D, payable in varying installments from 2008 through 2033, variable interest rates of 0.95%, 0.65%, 1.01%, and 0.68%, respectively, at December 31, 2008	**$ 170,960**	$ –
Variable Rate Demand Securities, Tax-Exempt Revenue Bonds, Series 2005A, B, C, and D (interest rate mode change of ARS 2005A, B, C, and D) payable in varying principal installments from 2008 through 2030, variable interest rates of 4.25%, 4.50%, 0.65%, and 0.68%, respectively, at December 31, 2008	**311,150**	–
Variable Rate Demand Notes, Taxable Hospital Revenue Bonds, Series E and G Serial Bonds (interest rate mode change of ARS 2003E and G), payable in varying principal installments commencing in 2007 through 2033, variable interest rates of 5.50% and 6.45%, respectively, at December 31, 2008	**174,975**	–
Fixed Rate, Tax-Exempt Hospital Refunding Revenue Bonds, Series 2006B Serial and Term Bonds, payable in varying principal installments commencing in 2007 through 2040, with interest rates ranging from 4.75% to 5.00%	**364,375**	369,960
Fixed Rate, Tax-Exempt Hospital Revenue Bonds, Series 2006A Serial Term Bonds, payable in varying principal installments from 2008 through 2040, with interest rates ranging from 4.75% to 5.25%	**327,170**	327,170
Fixed Rate Tax-Exempt Hospital Revenue Bonds, Series 2000A Serial Bonds, payable in varying principal installments from 2008 through 2010, with interest rates ranging from 4.75% to 5.20%	**2,550**	3,755
Auction Rate Securities, Tax-Exempt Revenue Bonds, Series 2005A, B, C, and D, Serial Bonds, payable in varying principal installments from 2007 through 2030, variable interest rates of 4.15%, 4.25%, 4.55%, and 5.00%, respectively, at December 31, 2007	**–**	322,625
Auction Rate Securities, Taxable Hospital Revenue Bonds, Series 2003E and G, Serial Bonds, payable in varying principal installments commencing in 2007 through 2033, variable interest rates of 5.60% and 5.60, respectively, at December 31, 2007	**–**	177,550
Auction Rate Securities, Tax-Exempt Revenue Bonds, Series 2003A, B, C, and D, Serial Bonds, refunded in September 2008, previously payable in varying installments from 2007 through 2033, variable interest rates of 4.00%, 4.75%, 4.40%, and 5.00%, respectively, at December 31, 2007	**–**	175,325
Auction Rate Securities, Taxable Hospital Revenue Bonds, Series 2003F, Serial Bonds, payable in varying principal installments commencing in 2007 through 2033, variable interest rate of 5.60% at December 31, 2007	**–**	44,425
Variable rate direct bank loan, payable in varying principal installments from 2008 through 2033, with an interest rate of 1.61% at December 31, 2008	**44,000**	–
Stonehenge Community Development VII, LLC:		
Fixed Rate, Unsecured New Market Tax Credit Notes A and B, due in 2014 at an interest rate of 3.29%	**25,000**	25,000
Capital lease obligations (interest rates ranging from 2.9% to 9.3%)	**37,224**	17,277
Other	**5,661**	2,928
	1,463,065	1,466,015
Unamortized premium	**5,078**	4,864
Less current portion	**(30,340)**	(29,541)
Long-term portion, less current portion	**$ 1,437,803**	$ 1,441,338

(Thousands of Dollars)

6. Long-Term Debt (continued)

The scheduled maturities and mandatory redemptions of long-term debt are as follows:

Year ending December 31:	
2009	$ 30,340
2010	33,853
2011	33,471
2012	31,861
2013	31,963
Thereafter	1,301,577
	$ 1,463,065

The estimated fair value of the revenue bonds at December 31, 2008 and 2007 amounted to $1,185,387 and $1,408,115, respectively, based on market interest rates and conditions for similar issues as of those dates. The recorded value of the variable rate direct bank loan and the Stonehenge Community Development notes approximated fair value at December 31, 2008 and 2007.

Interest Rate Swap Arrangements

Clarian Health has entered into long-term interest rate swap arrangements related to the Series 2005 and Series 2003 Revenue Bonds to mitigate interest rate risk. Specifically, Clarian Health holds the following fixed payor swaps stated with original notional amounts as of December 31, 2008:

- $161,175 Series 2005A and B receiving 62.3% LIBOR plus .24% and paying 3.19%.
- $149,975 Series 2005C and D receiving 62.3% LIBOR plus .24% and paying 3.35%.
- $218,750 Series 2003E, Direct Bank Loan (2003F refunded), and 2003G receiving LIBOR and paying 4.92%.

6. Long-Term Debt (continued)

In addition, Clarian Health has entered into long-term basis swap arrangements to mitigate the effect of cash flows and holds the following basis swaps as of December 31, 2008:

- $995,296 basis swaps receiving 75.0% LIBOR and paying the securities industry and financial markets association index (SIFMA).
- $250,000 basis swap receiving 80.5% LIBOR and paying SIFMA.
- $250,000 basis swap receiving 81.5% LIBOR and paying SIFMA.

As of December 31, 2008, Clarian Health's interest rate swap program had a total notional amount of $2,025,196, including $529,900 of fixed payer swaps and $1,495,296 of basis swaps.

During January 2008, basis swaps with notional amounts totaling $1,005,510 were acquired by converting $381,556 of existing fixed receiver swaps, which created a one-time cash receipt of $11,420, and executing $618,400 in new contracts. Also in January 2008, fixed receiver swaps with notional amounts totaling $325,000 were terminated for a one-time cash receipt of $16,078. Additional fixed receiver swaps with notional amounts of $170,525, which were previously used to hedge interest rate risk for Series 2003A, B, C, and D, were terminated during June 2008 for a one-time cash receipt of $1,446. Basis swaps with notional amounts of $500,000 were executed in September to mitigate the effect of cash flows, and constant maturity swaps with a notional amount totaling $500,000 were terminated for a one-time cash receipt of $10,382 in December 2008.

In July 2007, Clarian Health entered into a long-term fixed receiver swap to replace the expiring short-duration swap program. Specifically, Clarian Health entered into $325,000 notional fixed receiver swap, Series 2006A paying 69.6% LIBOR and receiving 4.23%. In May 2007, constant maturity swaps with notional amounts for $500,000 were executed with forward starting dates in 2008. As stated above, all of these swaps were terminated in 2008.

6. Long-Term Debt (continued)

Under agreements executed with counterparties, Clarian Health is obligated to fund collateral amounts when the aggregate market value of swaps made with each counterparty falls below certain thresholds. As of December 31, 2008, Clarian Health had funded $44,726 of collateral with counterparties, and such amounts are shown as funds held under swap credit annex agreements on the consolidated balance sheet.

Guidance from SFAS 157 stipulates that a credit valuation adjustment (CVA) should be applied to the mark-to-market valuation position of Clarian Health's interest rate swaps to more closely capture the fair value of such instruments. Collateral arrangements reduce the credit exposure and are considered in determining the CVA. As of December 31, 2008, Clarian Health's fair value of interest rate swaps was $258,223, which is net of CVA of $39,278. The fair values of the swaps have been included with other assets and noncurrent liabilities in the accompanying consolidated balance sheets.

During March 2009, Clarian Health transferred uninsured swaps to a new counterparty and negotiated with existing counterparties to restructure various contractual terms associated with interest rate swaps. Negotiations included transferring the assigning interest rate swaps with the intention of mitigating the posting of collateral. Of the $44,726 of collateral posted at December 31, 2008, $2,684 was returned to Clarian Health in March 2009.

Total interest paid on long-term debt for the years ended December 31, 2008 and 2007 aggregated $69,680 and $67,829, respectively. Total interest capitalized during the years ended December 31, 2008 and 2007 amounted to $25,770 and $23,490, respectively, which was offset by interest income of $2,830 and $8,868, respectively, on nontaxable, unexpended borrowed funds.

Clarian Health has a $50,000 unsecured bank line of credit which bears a variable interest rate based on LIBOR. As of December 31, 2008, $36,000 was outstanding under this line of credit.

7. Fair Value Measurements

As discussed in Note 3, in September 2006, the FASB issued SFAS 157 and in February 2007, issued SFAS 159. Both standards address aspects of the expanding application of fair value accounting. Effective January 1, 2008, Clarian Health adopted SFAS 157 and SFAS 159. Pursuant to the provisions of FASB Staff Position No. 157-2, *Effective Date of FASB*

7. Fair Value Measurements (continued)

Statement No. 157, Clarian Health has deferred adoption of SFAS 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. There was no adjustment to net assets as a result of the adoption of SFAS 157. SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value that were not previously required to be measured at fair value. Clarian Health has elected, as permitted under the standard, to not measure any financial assets or financial liabilities at fair value that were not previously required to be measured at fair value.

SFAS 157 provides, among other matters, for the following: 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; establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date; requires consideration of nonperformance risk when valuing liabilities; and expands disclosures about instruments measured at fair value. The three-level hierarchy is based upon the nature of valuation techniques and whether such techniques are based upon observable or unobservable inputs, as defined.

Observable inputs are intended to reflect market data obtained from independent sources, while unobservable inputs may reflect market assumptions made by management. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets;
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and
- Level 3 – Instruments whose significant inputs are unobservable.

The following table sets forth by level within the fair value hierarchy Clarian Health's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Clarian Health's assessment of the significance of a particular input to the fair value measurement requires judgment, could be subject to change or variation, and may affect the valuation of fair value assets and liabilities and their classification within the fair value hierarchy levels.

(Thousands of Dollars)

7. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	
	Quoted Price in Active Market for Identical Assets or Liabilities	**Quoted Price for Similar Investments and Model-Derived Valuations Whose Significant Inputs are Observable**	**Price Based on Significant Unobservable Inputs**	**Total**
Assets				
Cash and cash equivalents	$ 191,949	$ –	$ –	$ 191,949
Trading securities	473,096	129,574	–	602,670
Total assets measured at fair value on a recurring basis	$ 665,045	$ 129,574	$ –	$ 794,619
Liabilities				
Interest rate swaps	$ –	$ –	$ 258,223	$ 258,223
Total liabilities measured at fair value on a recurring basis.	$ –	$ –	$ 258,223	$ 258,223

Cash Equivalents – A majority of Clarian Health's domestic cash equivalents are invested in institutional money market funds. There is an active market for these funds, and it is considered a Level 1 input.

Trading Securities – A substantial portion of Clarian Health's investment portfolio is comprised of trading securities for which identical quotes exist on active exchanges. These securities are classified as Level 1. Clarian Health also holds an investment in an institutional investment fund which holds securities that are quoted on active exchanges. Third-party quotes are available for this fund, and it is therefore considered a Level 2 input. Clarian Health's $218,400 of alternative investments are not included in the trading securities total because they are accounted for under the equity method.

7. Fair Value Measurements (continued)

Derivative Instruments – Derivative financial instruments consist solely of interest rate swap agreements for which the fair value is determined based upon forward interest rate curves, as adjusted for the CVA discussed in Note 6, the valuation of which is based upon unobservable inputs.

The following table is a rollforward of the statement of financial position amounts for financial instruments classified by Clarian Health within Level 3 of the valuation hierarchy defined above:

	Financial Liabilities – Derivative Financial Instruments
Fair value at January 1, 2008	$ –
Transfers into level 3	(8,574)
Purchases	–
Unrealized losses included in deficit of revenue over expenses	(249,649)
Fair value at December 31, 2008	$ (258,223)
Change in unrealized losses related to financial instruments held at December 31, 2008	$ (249,649)

Clarian Health transfers assets and liabilities in or out of Level 3 when significant inputs used for the fair value measurement become observable or unobservable.

(Thousands of Dollars)

8. Commitments and Contingencies

Leases

In December 1998, Clarian Health entered into a sale-leaseback arrangement with a real estate investment trust. Under the arrangement, various outpatient and professional office facilities were sold and then leased back. The leaseback has been accounted for as an operating lease. The gain of $24,345 realized on this transaction was deferred and accreted to income on a straight-line basis over the lease term. For the years ended December 31, 2008 and 2007, $2,232 and $2,434 of gain were recognized relating to the sale. At December 31, 2008, the lease term ended and the deferred gain was fully accreted. Certain of these leases were subsequently renewed during 2008. Lease payments under the agreement were $7,085 and $7,125 for the years ended December 31, 2008 and 2007, respectively.

Rent and lease expense amounted to $43,218 and $41,047, respectively, for the years ended December 31, 2008 and 2007.

Other buildings and medical and office equipment are leased under noncancelable operating leases. Future minimum lease payments as of December 31, 2008 are as follows:

Year ending December 31:	Operating Leases	Capital Leases
2009	$ 22,393	$ 9,381
2010	15,150	7,962
2011	10,949	7,812
2012	8,654	4,865
2013	6,523	3,508
Thereafter	20,930	19,492
Total minimum lease payments	$ 84,599	53,020
Less amount representing interest		(15,796)
Present value of net minimum lease payments		$ 37,224

9. Retirement Plans

Defined Contribution Plans

The Downtown Hospital Facilities established defined contribution plans at the time of Clarian Health's formation. LaPorte, Goshen, and Bedford each have a defined contribution plan. The Suburban Hospitals have profit-sharing plans in which their employees are eligible to participate. Consequently, pension benefits are provided to substantially all employees of Clarian Health and its subsidiaries primarily through defined contribution plans. Contributions to the defined contribution plans are based on compensation of qualified employees and amounted to $50,582 in 2008 and $47,419 in 2007 (net of forfeitures of $2,177 and $2,235 in 2008 and 2007, respectively).

Defined Benefit Plans

Pension benefits provided through noncontributory, defined benefit pension plans are principally limited to current and former employees of Clarian Health who elected not to participate in the defined contribution plan established at the time of Clarian Health's formation, current and former executives of Clarian Health who participated in a supplemental employee retirement plan, and current and former employees of LaPorte who were participants in the LaPorte defined benefit pension plan as of November 30, 2006. The defined benefit plans have been curtailed, and no new participants are permitted. Pension benefits are based on years of service and compensation of employees (as defined) and are actuarially determined. Where applicable, the funding policy is to annually contribute the contribution required to comply with the Employee Retirement Income Security Act and Internal Revenue Service (IRS) regulations.

Effective December 31, 2006, Clarian Health adopted the recognition and disclosure requirements of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Adjustments to pension liability to reflect funded status are charged or credited to unrestricted net assets. An additional pension liability of $32,178 has been recorded in 2008 due in large part to the effect of market volatility on plan assets.

In 2008, LaPorte, in compliance with SFAS 158, transitioned its curtailed defined benefit plan to a fiscal year-end measurement date of December 31 using its 2007 year-end measurement of plan assets and benefit obligations as the basis for determining transition adjustments. The net periodic pension costs were allocated proportionally between unrestricted net assets and net periodic benefit cost. The effect of changing LaPorte's measurement date from November 30 to December 31 resulted in an additional pension expense reduction of $78 for a total benefit cost reduction of $1,030 in 2008.

(Thousands of Dollars)

9. Retirement Plans (continued)

The following table sets forth the funded status of the defined benefit pension plans and amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2008 and 2007. The date of data collection was January 1 for 2008 and 2007 (rolled forward to year-end and adjusted for changes in employment status).

	2008	2007
Change in benefit obligation of the plans:		
Benefit obligation at beginning of the year	**$ 114,946**	$ 119,667
Service cost and other	**909**	1,001
Interest cost	**7,135**	6,688
Actuarial loss (gain)	**385**	(8,237)
Benefits paid	**(4,939)**	(4,173)
Plan amendments	**(1,369)**	–
Benefit obligation at end of year	**$ 117,067**	$ 114,946
Change in assets of the plans:		
Fair value of assets at beginning of year	**$ 96,278**	$ 88,887
Actual return on assets	**(25,274)**	7,129
Employer contributions	**156**	4,435
Benefits paid	**(4,939)**	(4,173)
Fair value of assets at end of year	**$ 66,221**	$ 96,278
Funded status at December 31	**$ (50,846)**	$ (18,668)
Items not yet recognized as a component of net periodic pension cost:		
Net actuarial loss	**$ 422**	$ 1,690
Prior service cost	**59**	80
Net transition obligation	**(320)**	406
	$ 161	$ 2,176

(Thousands of Dollars)

9. Retirement Plans (continued)

	2008	2007
Components of net pension benefit cost:		
Service cost	**$ 909**	$ 1,001
Interest cost	**7,135**	6,688
Expected return on assets	**(7,962)**	(7,313)
Amortization of unrecognized prior service cost	**71**	106
Amortization of unrecognized net asset	**84**	87
Amortization of unrecognized net loss	**6**	483
Net periodic pension cost	**$ 243**	$ 1,052
Plan year-end measurement dates:		
Clarian Health	December 31, 2008	December 31, 2007
LaPorte	December 31, 2008	November 30, 2007
Weighted-average actuarial assumptions to determine benefit cost were:		
Discount rate for net periodic pension cost	**6.39%**	5.75%
Discount rate for benefit obligations	**6.30**	6.24
Expected rate of return on plan assets	**8.00**	8.25
Rate of compensation increase	**4.25**	4.25
Accumulated benefit obligation	**$ (113,652)**	$ (110,992)
Accumulated benefit obligations exceeding fair value of plan assets	**$ (47,431)**	$ (14,714)

Expected future benefit payments:	
2009	$10,501
2010	6,161
2011	6,626
2012	7,026
2013	8,416
2014 – 2018	49,632

Clarian Health expects to contribute $13,200 to the defined benefit pension plans during 2009.

(Thousands of Dollars)

9. Retirement Plans (continued)

Accumulated adjustments to unrestricted net assets at December 31, 2008 include amounts related to net actuarial loss, prior service costs, and transition obligations that have not yet been recognized in net pension benefit cost. Expected amortization of amounts in unrestricted net assets will increase net periodic pension costs of $323 during the year ended December 31, 2009.

The principal long-term determinant of a plan's investment return is its asset allocation. The plans' allocations are heavily weighted towards equity assets versus other investments. The expected long-term rate of return assumption is based on the mix of assets in the plans, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. These assumptions are periodically benchmarked against peer plans.

The weighted-average asset allocations of the plans at December 31, by asset category, are as follows:

Asset category	**2008**	**2007**
Equity and equity-like securities	**49%**	64%
Debt securities	**42**	28
Absolute return strategy (fund of funds)	**8**	7
Cash and cash equivalents	**1**	1
	100%	100%

The allocation strategy for the plans currently comprises approximately 50% to 85% of equity investments and 15% to 50% of fixed-income investments. The largest component of these equity and equity-like instruments is public equity securities that are diversified and invested in U.S. and international companies.

10. Related Party and Certain Other Strategic Transactions

Indiana University School of Medicine

The Consolidation Agreement requires that Clarian Health fund salaries and related employee benefit costs for medical doctor interns and residents of the School of Medicine who provide services at Clarian Health's facilities. Clarian Health's Board annually reviews and determines the level of support to the School of Medicine for these programs and the number of internships and residencies to be supported by Clarian Health. These costs totaled $36,153 and $33,554 in

10. Related Party and Certain Other Strategic Transactions (continued)

2008 and 2007, respectively, and have been reported with salaries, wages, and benefits expense in the accompanying consolidated statements of operations and changes in net assets.

The Consolidation Agreement also provides for additional support to the School of Medicine to recognize, as a result of the consolidation, the enhanced and increased level of services being provided, including services to the medically indigent through medical education and research. Annually (or more often), an appointed committee consisting of representatives of Clarian Health, Methodist Health Group, Inc., and Indiana University determines the amount of such additional support to be provided to the School of Medicine, including indirect support to the School of Medicines medical education activities. During 2008 and 2007, Clarian Health expensed $255,483 and $192,109, respectively, related to educational and research support provided to the School of Medicine. There was no unpaid amount at December 31, 2008.

The School of Medicine rents space at Fairbanks Hall under a 34-year lease agreement with Clarian Health. The School of Medicine prepaid the rent, totaling $4,887 under the agreement. Clarian Health is recognizing the rent on a straight-basis over the life of the lease.

Clarian Health purchases certain services from the School of Medicine. These expenses, principally for medical care case management services, utilities, laboratory services, and other services, totaled $29,097 and $20,904 for the years ended December 31, 2008 and 2007, respectively, and have been reported with supplies, drugs, purchased services, and other expenses in the accompanying consolidated statements of operations and changes in net assets. Clarian Health also provided financial subsidies to I.U. Medical Group – Primary Care, consisting primarily of physicians employed by the School of Medicine, totaling $1,110 during each of the years ended December 31, 2008 and 2007.

Clarian Arnett

Clarian Arnett, located in Lafayette, Indiana, opened on October 16, 2008. The hospital construction was completed during October 2008 at an aggregate cost of approximately $215,273. In addition, start-up, organization, and development costs aggregated $10,712 and $2,315 during the years ended December 31, 2008 and 2007, respectively, and have been

10. Related Party and Certain Other Strategic Transactions (continued)

charged to operations. Clarian Health is the sole corporate member of Clarian Arnett. Clarian Arnett operates the hospital and physician clinics, whose physicians and staff were previously employed by Arnett Clinic. Clarian Arnett is an Indiana private, nonprofit organization and has applied for tax-exempt status.

Effective October 14, 2008, Clarian Arnett executed an asset purchase agreement with Arnett Physician Group, P.C., Lafayette Practice Association, LLC, and Arnett Realty, LLC, under which it acquired substantially all of the assets and assumed the liabilities of Arnett Clinic. The purchase price was $1.00, plus the assumption of liabilities of $47,755. The transaction was accounted for as a purchase by Clarian Arnett with the assets acquired and liabilities assumed recorded at their fair market value as of the effective date of the purchase. The fair value assigned to the net assets acquired approximated the value of liabilities assumed. The results of operations of the Arnett Clinic since the date of purchase have been included in the consolidated statement of operations and changes in net assets for the year ended December 31, 2008.

The revenues for Arnett Clinic were $145,180 and expenses were $155,981 for the year ended December 31, 2007 (unaudited). The revenues were $93,359 and expenses were $93,948 for the nine months ended September 30, 2008 prior to the purchase (unaudited).

Indiana Endoscopy Centers

Indiana Endoscopy Centers, LLC (IEC) is an Indiana limited liability company organized by Clarian Health to own and operate one or more ambulatory surgery centers (ASCs) in the Indianapolis area. IEC is a taxable, for-profit organization.

On June 27, 2008, IEC executed an asset purchase agreement with Meridian Medical Group, P.C. that owned and operated two ASCs. Meridian Medical Group, P.C. sold all the assets of its ASCs to IEC in exchange for $3,315 and a 49% membership interest in IEC, independently valued at $3,185. The transaction was accounted for as a purchase by IEC and resulted in goodwill of $4,842. The goodwill is being accounted for in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, and is adjusted, if required, for impairment annually in the fourth quarter of each year.

10. Related Party and Certain Other Strategic Transactions (continued)

Suburban Hospitals

In 2004 and 2005, Clarian Health completed the development and construction of two hospitals and related medical office buildings located in the western and northern suburban areas of metropolitan Indianapolis, Indiana. Limited liability corporations were formed by Clarian Health for the ownership and operation of the hospitals and medical office buildings (collectively, the Companies). Through the issuance of private placement memorandums, membership interests in these Companies, including the medical office buildings, have been sold to individual physicians and physician-group practices meeting certain eligibility requirements. The terms of the offerings for the hospital joint ventures stipulate that Clarian Health will hold not less than 60% of the membership interests in these Companies owning and operating the joint venture hospitals. However, Clarian Health's membership interests in the Companies owning and operating any related medical office buildings is not stipulated and could be less than 50%, dependent on the extent of participation in ownership by the physicians and physician-group practices.

The governance and management responsibilities of the Companies have been transferred by Clarian Health to the respective governing bodies of the hospital and medical office building corporations. Representation on the governing bodies of each of the Companies approximates the percentage of the members' ownership interests.

The Suburban Facilities have been financed through capital contributions of its physician members and borrowings from Clarian Health. Amounts borrowed from Clarian Health are payable on a long-term basis and at fixed interest rates. During 2008, $240 of member interests were sold by Clarian Health to Clarian West and were resold to physician members. At December 31, 2008 and 2007, capital contributions by the physician members aggregated $484 and $22, respectively. Minority interest in the operating losses are limited to the minority interests' capital contributions which have been exceeded by their proportionate share of the operating losses. Accordingly, Clarian Health has recognized all subsequent losses.

(Thousands of Dollars)

10. Related Party and Certain Other Strategic Transactions (continued)

Summarized financial information for Clarian West and Clarian North is as follows as of and for the years ended December 31, 2008 and 2007:

	2008	2007
Current assets	**$ 51,553**	$ 45,735
Property and equipment, net	**342,858**	358,455
Other assets	**6,106**	3,977
Total assets	**$ 400,517**	$ 408,167
Current liabilities	**$ 43,491**	$ 27,604
Notes payable to Clarian Health	**439,197**	465,996
Other noncurrent liabilities	**2,615**	825
Members' deficit	**(84,786)**	(86,258)
Total liabilities and members' deficit	**$ 400,517**	$ 408,167
Operating revenue	**$ 299,813**	$ 248,184
Operating expenses	**298,105**	260,182
Operating income (loss)	**1,708**	(11,998)
Other	**457**	838
Excess (deficiency) of revenues over expense	**$ 2,165**	$ (11,160)

Related Foundations

Methodist Health Foundation, Inc. and Riley Children's Foundation are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are organized primarily to provide support to indigent and other patient care programs, fund medical education and research activities, and engage in fundraising activities, a substantial portion of which is on behalf of, or for, specific health care activities of Clarian Health. The financial statements of these foundations are not included in the consolidated financial statements. The interest in net assets of these related foundations is included with other assets and net assets in the accompanying consolidated balance sheets and amounted to $80,502 and $70,311 at December 31, 2008 and 2007, respectively, in accordance with SFAS No. 136. The consolidated net assets include unrestricted support, provided by Riley Children's Foundation, of $7,250 and $12,000

10. Related Party and Certain Other Strategic Transactions (continued)

for the years ended December 31, 2008 and 2007, respectively, including $5,250 and $10,000 for the years ended December 31, 2008 and 2007, respectively for the Riley Simon Family Tower. Other changes in the net assets of these foundations are generally reflected with temporarily and permanently restricted net assets.

Other Equity Interest Ventures

In the accompanying consolidated financial statements, Clarian Health has recorded its equity in the income of its unconsolidated subsidiaries which provide health-related services with other operating revenue, totaling $13,090 and $17,904 for the years ended December 31, 2008 and 2007, respectively.

Clarian Health holds an 87% ownership interest in The HealthCare Group, LLC (THCG). THCG's wholly owned subsidiary, The M●Plan, is a licensed health maintenance organization (HMO) that provided coverage to enrolled members throughout the state of Indiana. The M●Plan exited the business of providing health care coverage effective December 31, 2007, and is winding down its operations during 2008 and 2009. Clarian Health's share of the estimated net costs and expense of the winding down approximated $13,548, which reduced the value of Clarian Health's equity investment in THCG. These amounts were included in the equity income of unconsolidated health-related subsidiaries, which is classified as other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

As a part of the wind down of The M●Plan, a distribution of $35,036 was made to Clarian Health during the fourth quarter of 2008. Clarian Health Plans, Inc. purchased certain assets and liabilities of The M●Plan in August 2008 and assumed the health care management associated with approximately 6,000 covered lives currently enrolled in the Medicare Senior Smart Choice program (SSC). However, Methodist Medical Group (MMG), a related tax-exempt entity, continued to assume the health care risk for SSC as of December 31, 2008.

Payments to THCG for health care benefits relating to Clarian Health employees who have chosen The M●Plan products were $3,826 and $61,105 for the years ended December 31, 2008 and 2007, respectively. Member premium payments to MMG from THCG amounted to $26,721 and $226,413 for the years ended December 31, 2008 and 2007, respectively. Additionally, MMG has a receivable from THCG of $165 and $1,372 as of December 31, 2008 and 2007, respectively.

(Thousands of Dollars)

10. Related Party and Certain Other Strategic Transactions (continued)

Clarian Health has a 50% membership interest in MDWise, Inc., a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code, which holds an HMO license and manages a network of health care providers serving Medicaid patients through the state of Indiana's Medicaid managed care program. Included in prepaid expenses at December 31, 2008 and 2007, is $3,007 and $4,437, respectively, representing prepayments to MDWise, Inc. of future administrative fees. MDWise, Inc. provides administrative and health claims payment processing for these networks, including Carewise, a division of Clarian Health.

Clarian Health and its subsidiaries also have joint venture arrangements for the operation of ambulatory surgery centers, a long-term rehabilitative care hospital, and cancer treatment and diagnostic clinics.

Summarized financial information for THCG, MDWise, Inc., the ambulatory surgery centers, rehabilitative hospital, and cancer treatment and diagnostic clinics as of and for the years ended December 31 as reported by the respective entities is as follows:

	2008	2007
Net assets	**$ 65,379**	$ 105,709
Total revenue	**$ 689,296**	$ 1,264,698
Excess of revenues over expense	**$ 29,354**	$ 43,788

11. Guarantees and Other

Clarian Health has guaranteed with its joint venture partner a portion of the long-term debt of the rehabilitative care hospital aggregating approximately $7,497 as of December 31, 2008.

Clarian Health and its subsidiaries have guaranteed loans to outside entities aggregating approximately $51 at December 31, 2008 and 2007. No accrual related to these guarantees is reflected in the consolidated financial statements. At December 31, 2008 and 2007, the unpaid balance remaining on these loans was $51.

Clarian Health and its subsidiaries also have agreements with physician groups and others that guarantee minimum revenue totals. Accruals are made periodically for any minimum revenue guarantee and aggregated $2,339 at December 31, 2008 ($825 at December 31, 2007).

11. Guarantees and Other (continued)

Cash and cash equivalents held and managed by Clarian Health on behalf of organizations that are not consolidated (principally consisting of cash accounts for The M●Plan as of December 31, 2007) aggregated $18,201 and $60,210 at December 31, 2008 and 2007, respectively, and are included with accounts payable and accrued expenses.

12. Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services, Medicare and Medicaid fraud and abuse, and security, privacy, and standards of health information. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and noncompliance with regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, significant repayments for patient services previously billed, and disruptions or delays in processing administrative transactions, including the adjudication of claims and payment.

In the opinion of management, there are no known regulatory inquiries which are expected to have a material adverse effect on the consolidated financial statements of Clarian Health; however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

13. Pending Transactions and Subsequent Events (unaudited)

Assets Limited as to Use

In order to reduce Clarian Health's exposure to recent volatility in the public capital markets, management, in February and March 2009, reduced its exposure to the U.S. and foreign equity markets by disposing of certain equity investments, the proceeds of which were invested in highly liquid investments. As a result of these transactions, Clarian Health moved its allocation of equity investments from 46% at December 31, 2008 to 26% of total assets limited as to use. The value of Clarian Health's assets limited as to use at February 28, 2009 was $772,961 (net of assets held by entities acquired in 2009), as compared to $872,312 at December 31, 2008.

(Thousands of Dollars)

13. Pending Transactions and Subsequent Events (unaudited) (continued)

Cardinal Health System, Inc. Merger

On November 19, 2008, Clarian Health entered into an Integration Agreement (the Cardinal Agreement) with Cardinal Health System, Inc. and its subsidiaries (Cardinal). Cardinal is a regional health care delivery system located in Muncie, Indiana, and provides health services to the people of east central Indiana. Effective January 1, 2009, Cardinal merged into its wholly owned subsidiary, Ball Memorial Hospital, Inc. (Ball Memorial), and Clarian Health replaced Cardinal as the sole corporate member of Ball Memorial. The Cardinal Agreement was designed to enable both organizations to further their common charitable missions of improving the health of their respective patients and communities that they serve.

Pursuant to the Cardinal Agreement, on January 2, 2009, Clarian Health funded $15,000 to the Ball Memorial Foundation (the Foundation), a wholly owned subsidiary of Ball Memorial.

As a result of the change in control, the membership structure of Ball Memorial changed, but the commitments and operational obligations of Ball Memorial and its subsidiaries will remain with Ball Memorial. The Ball Memorial debt obligations will remain the obligation of the Ball Memorial obligated group (Ball Memorial and Blackford Hospital, a wholly owned subsidiary of Ball Memorial).

As the sole corporate member of Ball Memorial, Clarian Health has control of Ball Memorial through appointment of the majority of the Board of Directors. The financial results of Ball Memorial were consolidated with Clarian Health effective January 1, 2009. Clarian Health expects operations to be fully integrated. The following table summarizes the abbreviated financial results of Cardinal prior to the affiliation with Clarian Health:

	Year Ended June 30	
	2008	**2007**
	(Unaudited)	
Total revenue, including operating and nonoperating revenue	$ 336,680	$ 337,511
Total expense, including operating and nonoperating expenses	326,064	327,851
Excess of revenue over expenses	$ 10,616	$ 9,660

(Thousands of Dollars)

13. Pending Transactions and Subsequent Events (unaudited) (continued)

Tipton County Memorial Hospital Merger

On October 31, 2008, Clarian Health entered into an Affiliation and Asset Purchase Agreement (the Tipton Agreement) with Tipton County Memorial Hospital, a county hospital located in Tipton, Indiana, whereby effective January 1, 2009, Tipton County Hospital ceased to exist and sold its assets and liabilities (excluding Tipton Hospital Foundation) to Tipton Hospital, Inc. (Tipton), a newly created, nonprofit organization which has received tax-exempt status from the IRS. The purchase price was $1.00, plus the assumption of liabilities of $34,504. Concurrent with the aforementioned transaction, Clarian Health became the sole corporate member of Tipton. The Tipton Agreement was designed to enable both organizations to better position themselves to serve patients and to provide Tipton with system support. In connection with the transaction, Clarian Health committed to loaning Tipton $7,500 to fund the remainder of certain capital projects. The loan is structured as a variable rate line of credit maturing in December 2009, at which time the obligation will be refinanced to a term loan with principal to be repaid over a period of 20 years at an interest rate yet to be negotiated.

The following table summarizes the abbreviated financial results of Tipton County Memorial Hospital prior to the affiliation with Clarian Health:

	Year Ended December 31 2008	2007
	(Unaudited)	
Total revenue, including operating and nonoperating revenue	$ 41,362	$ 34,870
Total expenses, including operating and nonoperating expenses	43,849	33,113
Excess (deficiency) of revenue over expenses	$ (2,487)	$ 1,757

The structure of the integration is not yet finalized. Clarian Health expects operations to be partially integrated.

13. Pending Transactions and Subsequent Events (unaudited) (continued)

At December 31, 2008 Tipton Memorial County Hospital was not in compliance with certain of its financial covenants. The financial covenants were waived by the lender as of December 31, 2008. Provisions of the Master Trust Indenture are in the process of being amended, and such amendments will be effective on January 1, 2009. The next financial covenant measurement date is June 30, 2009, and management believes that actions have taken place to ensure compliance with financial covenants on June 30, 2009.

Pending Bloomington Hospital, Inc. Merger

Clarian Health has signed a definitive agreement with Bloomington Hospital, Inc., a not-for-profit organization which operates two hospital campuses in Bloomington, Indiana, and Orange County, Indiana. Bloomington Hospital, Inc. provides a comprehensive continuum of care in ten counties. The definitive agreement establishes an 18-month planning period, and it is anticipated that following this planning period Bloomington Hospital, Inc. will be merged with Clarian Health.

Other Financial Information

Clarian Health Partners, Inc. and subsidiaries

Schedule of Community Benefits and Charity Care (Unaudited)
(Thousands of Dollars)

December 31, 2008 and 2007

The unreimbursed cost of providing community benefit and charity care, net of reimbursements and payments, is summarized below:

	Year Ended December 31 2008	2007
	(Unaudited)	
Medicare and Medicaid beneficiaries	**$ 580,712**	$ 506,713
Uncompensated care (charity care and uncollected patient accounts)	**168,061**	134,465
Education for health care providers, including support to the School of Medicine	**53,860**	50,868
Commitment to medical, spiritual, and emotional needs, including counseling centers and chaplaincy programs	**8,529**	6,162
Programs to enhance quality of and respect for life, including neighborhood revitalization, community health clinics, and school clinics	**697**	860
Charity, equality, and justice programs, including AIDS clinic, older adult clinics, and other clinical programs	**5,034**	4,280
Health promotion and wellness programs, including OASIS (an over 55-age program), Indiana Poison Center, safe driving, pregnancy and parenting classes, and other prevention and intervention programs	**5,524**	5,544
Other medical research	**3,221**	3,190
Medical Knowledge Fund – medical research	**863**	1,041
Children's Values Fund – supporting pediatric faculty	**2,000**	2,002
Internal community of trust, respect, and empowerment, including employee wellness development	**552**	622
Total identified or quantified community benefits and charity care	**$ 829,053**	$ 715,747