Consolidated Financial Statements

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

0810-0998550

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d/b/a Parkview Health

Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

Contents

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Report of Independent Auditors

The Board of Directors
Parkview Health System, Inc.

We have audited the accompanying consolidated balance sheets of Parkview Health System, Inc. and subsidiaries (the Corporation) 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 Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Parkview Health System, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations, 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

April 15, 2009

0810-0998550

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Balance Sheets

(In Thousands)

	December 31	
	2008	**2007**
Assets		
Current assets:		
Cash and cash equivalents	**$ 30,343**	$ 42,843
Patient accounts receivable, less allowances for bad debts of $33,981 and $27,289 in 2008 and 2007, respectively	**115,066**	104,071
Inventories	**12,812**	11,938
Prepaid expenses and other current assets	**149,695**	96,604
Estimated third-party payor settlements *(Note 4)*	**–**	27,809
Collateral from securities lending agreement *(Note 5)*	**20,474**	27,017
Total current assets	**328,390**	310,282
Investments *(Note 5)* :		
Board-designated debt reserve and capital replacement funds	**575,934**	746,225
Securities pledged	**22,868**	26,817
Other investments	**111**	137
	598,913	773,179
Property and equipment *(Note 6):*		
Cost	**811,106**	736,279
Less accumulated depreciation and amortization	**404,680**	367,871
	406,426	368,408
Other assets:		
Interest rate swaps	**6,729**	6,452
Deferred financing costs	**8,139**	8,274
Investments in joint ventures	**4,450**	4,293
Goodwill and intangible assets	**24,434**	13,439
Other assets	**44,619**	7,634
	88,371	40,092
Total assets	**$ 1,422,100**	$1,491,961

	December 31	
	2008	**2007**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 40,732**	$ 58,303
Salaries, wages, and related liabilities	**41,473**	38,780
Accrued interest	**1,044**	1,149
Estimated third-party payor settlements *(Note 4)*	**4,871**	–
Payable under securities lending agreement *(Note 5)*	**22,918**	27,017
Current portion of long-term debt *(Note 7)*	**14,694**	15,686
Other current liabilities	**128,511**	69,581
Total current liabilities	**254,243**	210,516
Noncurrent liabilities:		
Long-term debt, less current portion *(Note 7)*	**433,932**	466,118
Interest rate swaps	**101,204**	15,939
Accrued pension obligations *(Note 8)*	**80,797**	17,358
Other	**8,849**	6,777
	624,782	506,192
Minority interest	**14,966**	9,388
Net assets:		
Unrestricted net assets	**523,783**	761,821
Temporarily restricted net assets	**3,550**	3,271
Permanently restricted net assets	**776**	773
Total net assets	**528,109**	765,865
Total liabilities and net assets	**$ 1,422,100**	$ 1,491,961

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended December 31 2008	2007
Revenues:		
Net patient care service revenue, excluding charity care revenue foregone *(Note 4)*	**$ 728,732**	$ 693,471
Other revenue	**23,082**	45,236
	751,814	738,707
Expenses:		
Salaries and benefits	**337,259**	316,921
Supplies	**109,198**	102,043
Purchased services	**93,389**	92,886
Utilities, repairs, and maintenance	**31,358**	27,689
Depreciation and amortization	**51,638**	47,832
Provision for bad debts	**51,924**	55,826
Other	**17,163**	13,471
	691,929	656,668
Net operating income	**59,885**	82,039
Other income (expense):		
Interest, dividends, and realized gains on sales of investments *(Note 5)*	**48,878**	102,978
Unrealized losses on investments, net	**(159,599)**	(43,403)
Interest expense	**(14,379)**	(12,468)
Change in fair value of interest rate swaps	**(85,180)**	(15,542)
Other *(Note 2)*	**(5,167)**	(7,185)
(Deficit) excess of revenues over expenses	**(155,562)**	106,419

Continued on next page.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

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

(In Thousands)

	Year Ended December 31	
	2008	**2007**
Unrestricted net assets		
(Deficit) excess of revenues over expenses	**$ (155,562)**	$ 106,419
Pension-related changes other than net periodic pension cost	**(82,110)**	3,869
Other	**(366)**	347
(Decrease) increase in unrestricted net assets	**(238,038)**	110,635
Temporarily restricted net assets		
Contributions	**758**	583
Investment (loss) income	**(3)**	24
Net assets released from restrictions	**(20)**	(142)
Other	**(456)**	(485)
Increase (decrease) in temporarily restricted net assets	**279**	(20)
Permanently restricted net assets		
Contributions for endowment funds	**3**	3
Increase in permanently restricted net assets	**3**	3
(Decrease) increase in net assets	**(237,756)**	110,618
Net assets at beginning of year	**765,865**	655,247
Net assets at end of year	**$ 528,109**	$ 765,865

See accompanying notes.

Parkview Health System, Inc. and Subsidiaries
d/b/a Parkview Health

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31 2008	2007
Operating activities		
(Decrease) increase in net assets	**$ (237,756)**	$ 110,618
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Provision for bad debts	**51,924**	55,826
Depreciation and amortization	**51,638**	47,832
Change in fair value of interest rate swaps	**84,988**	15,530
Amortization of deferred financing costs and discount	**105**	647
Loss from disposal of property and equipment	**(435)**	639
Pension-related changes other than net periodic pension cost	**82,110**	(3,869)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(58,069)**	(62,313)
Inventories	**(451)**	(1,371)
Prepaid expenses and other current assets	**(52,434)**	(21,777)
Trading securities	**163,496**	(75,793)
Investment in equity method joint ventures	**(355)**	–
Accounts payable, accrued expenses, and other current liabilities	**47,148**	31,317
Estimated third-party payor settlements	**32,681**	(5,118)
Accrued pension obligation	**(18,671)**	(7,633)
Collateral posted on swaps	**(36,745)**	–
Other	**(13,592)**	318
Net cash provided by operating activities	**95,582**	84,853
Investing activities		
Property and equipment additions, net	**(86,049)**	(84,361)
Business acquisitions	**(11,936)**	–
Change in alternative investments	**10,770**	3,550
Proceeds from partial sale of equity interest in Ortho	**5,765**	–
Proceeds from sale of the Ortho operation to new LLC	**9,085**	–
Proceeds from sale of property and equipment	**1,270**	2,430
Net cash used in investing activities	**(71,095)**	(78,381)
Financing activities		
Issuance of long-term debt	**–**	24,562
Repayments of long-term debt	**(36,987)**	(14,250)
Net cash (used in) provided by financing activities	**(36,987)**	10,312
(Decrease) increase in cash and cash equivalents	**(12,500)**	16,784
Cash and cash equivalents at beginning of year	**42,843**	26,059
Cash and cash equivalents at end of year	**$ 30,343**	$ 42,843

Supplemental disclosures of cash flow information

The Corporation entered into capital lease obligations in the amount of $1,405 and $2,325 for new equipment in 2008 and 2007, respectively.

See accompanying notes.

1. Organization

Nature of Operations

Parkview Health System, Inc., d/b/a Parkview Health (PH or the Corporation), is a health care system that provides services in Northeast Indiana. PH's mission is to provide quality health care services to all who entrust their care to PH and to improve the health of the community. Services provided by PH include acute, nonacute, and tertiary care services on an inpatient, outpatient, and emergency basis; health care diagnostics and treatment services for individuals and families; home health care; and behavioral health care. The principal operating activities of PH are conducted by wholly owned or controlled affiliates and subsidiaries.

PH is the sole corporate member of Parkview Hospital, Inc. (PVH), which operates Parkview Hospital, a 487-bed acute care hospital located in Fort Wayne, Indiana. PVH also operates Parkview North Hospital, a 104-bed acute care hospital, located on the north side of Fort Wayne. In addition, PH is the sole corporate member of Huntington Memorial Hospital, Inc., Whitley Memorial Hospital, Inc., Community Hospital of Noble County, Inc., and Community Hospital of LaGrange County, Inc., each of which operates an acute care community hospital and related facilities in the northeast region of Indiana. These hospitals are collectively the "Hospital Affiliates."

PH and PVH are the corporate members of Managed Care Services, LLC, which provides managed care network access for the Hospital Affiliates. PH also owns and operates a physician network with primary care and specialist physicians in the five counties that make up the primary market.

(In Thousands)

1. Organization (continued)

The legal entity names, marketing brand names, and the acronyms for each significant entity within PH are as follows:

Legal Name	Marketing Brand (d/b/a) Name	Acronym
Parkview Health System, Inc.	Parkview Health	PH
Parkview Hospital, Inc.	Parkview Hospital	PVH
Orthopaedic Hospital at Parkview North, LLC	Parkview Ortho Hospital	ORTHO
Huntington Memorial Hospital	Parkview Huntington Hospital	PHH
Whitley Memorial Hospital, Inc.	Parkview Whitley Hospital	PWH
Community Hospital of Noble County, Inc.	Parkview Noble Hospital	PNH
Community Hospital of LaGrange County, Inc.	Parkview LaGrange Hospital	PLH
Managed Care Services, LLC	Managed Care Services	MCS
Parkview Occupational Health Center, Inc.	Parkview Occupational Health	POHCI
Parkview Foundation, Inc.	Parkview Foundation	PVHF
Whitley Memorial Hospital Foundation, Inc.	Parkview Whitley Hospital Foundation	PWHF
Community Hospital of Noble County Foundation, Inc.	Parkview Noble Hospital Foundation	PNHF
Huntington Memorial Hospital Foundation, Inc.	Parkview Huntington Hospital Foundation	PHHF

Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as net patient care service revenue. Other transactions are included with other revenue. Other revenue includes rentals of medical office buildings and equity income of unconsolidated subsidiaries and joint ventures.

Changes in Reporting Entity

On August 29, 2008, PH sold one seventh (14.29%) of its ownership interest in Orthopaedic Hospital at Parkview North, LLC for $5,765 to the only other partner in the venture, Northeast Orthopaedics Hospital Investors, LLC (NOHI). As a result of this transaction, ownership of ORTHO is divided between PH and NOHI at 60% and 40%, respectively.

On September 3, 2008, PH acquired a 51% interest in Foundation Surgery Affiliate of Fort Wayne, LLC (d/b/a Inverness Surgery Center) for $3,500. The remaining 49% ownership interest is held by the Class A Member group comprised of physician investors. In addition, PH paid $1,441 to buy out Foundation Management Affiliates, LP (Foundation) from the management services agreement existing between Foundation and Inverness Surgery Center.

1. Organization (continued)

On December 31, 2008, PH acquired First Care Family Physicians, Fort Wayne Cardiovascular Surgeons, Northeast Indiana Colon Rectal Surgeons, and Northeast Obstetrics and Gynecology. Total purchase price, including assumed debt, was $10,970. Together with Parkview Medical Group, a business unit of PH, and other Parkview employed physicians, Parkview Physicians' Group (PPG) has been developed to enhance the delivery of quality health care services. PPG will be a physician-led and physician-governed division of PH.

Community Benefits and Charity Care

The Corporation provides programs and services to address the needs of those in the communities it serves with limited financial resources, generally at no, or low, cost to those being served. Additional services are provided to beneficiaries of governmental programs (principally those relating to the Medicare and Medicaid programs) at substantial discounts from established rates and are considered part of the Corporation's benefit to the communities.

Assistance is also provided as needed to patients and their families for the submission of forms for insurance, financial counseling, and application to the Medicare and Medicaid programs for health service coverage. The costs of providing these programs and services are included in expenses.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Patients who meet certain criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Records are maintained to identify and monitor the level of charity care provided at the amount of standard charges foregone for services and supplies furnished. In October 2007, the Corporation expanded its traditional charity care policy to include a discount for uninsured patients.

PVH and each of the community hospitals administer community benefit programs for the areas in which they serve. Each hospital allocates 10% of the excess of their revenues over expenses for use in their respective community benefit program, subject to minimum contributions. PVH assumes a minimum level of contribution of $3,000, while each of the community hospitals designates no less than $50. These funds are controlled by the hospitals, and contributions made

1. Organization (continued)

as part of their community benefit program are under the direction of their respective Boards. The hospitals have a long tradition of community involvement, and their community benefit programs reflect their commitment and support to their respective communities and counties.

The Corporation and its subsidiaries have a commitment to improving the health of the citizens of the communities served. In all locations, PH has made a concerted effort to identify opportunities to partner with local organizations and to develop initiatives to improve the health of these communities. Health fairs and screenings are common efforts to identify problems before they become serious or life-threatening. Affiliates often partner with local organizations for community education, including the Minority Health Coalition, American Lung Association, SuperShot, YMCA, YWCA, Health Information Link, and American Heart Association. Parkview provides subsidies for the emergency medical services of the counties where our four community hospitals reside. An association with Fort Wayne Community Schools has provided nurses, dental care, and physicals to needy children. Parkview donations support nursing programs at Indiana University-Purdue University of Fort Wayne and the University of St. Francis. Efforts have helped provide health care to the medically underserved through support of the Neighborhood Health Clinic and Matthew 25. PH affiliates have supported homeless shelters, women's crisis shelters, safety councils, senior transportation programs, and poison control programs. Awareness and prevention programs dealing with safety, trauma, drugs, and alcohol are projects of PH.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of PH and all majority owned or controlled subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in joint ventures, partnerships, and companies where control or ownership is 20% to 50%. The cost method of accounting is used for investments in affiliated entities of less than 20%. For the years ended December 31, 2008 and 2007, PH's share of income (loss) recorded using the equity method approximated $2,010 and $1,821, respectively, and is recorded as other revenue in the consolidated statements of operations and changes in net assets.

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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.

Financial Instruments

Financial instruments include cash and cash equivalents, patient and other accounts receivable, Board-designated investments, accounts payable and accrued expenses, estimated third-party payor settlements, long-term debt, derivative financial instruments (i.e., interest rate swaps), and certain other current assets and liabilities. The fair values for cash and cash equivalents, patient and other accounts receivable, accounts payable and accrued expenses, estimated third-party payor settlements, 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 Board-designated investments, derivative financial instruments, and long-term debt are described in Notes 5 and 7.

Cash and Cash Equivalents

Investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts classified with Board-designated investments, are considered cash equivalents. The Corporation routinely invests in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments that potentially subject the Corporation to concentrations of credit risk include the Corporation's cash and cash equivalents. The Corporation 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.

2. Significant Accounting Policies (continued)

Patient Accounts Receivable, Estimated Third-Party Payor Settlements, and Net Patient Care Service Revenue

Patient accounts receivable and net patient care service revenue are reported at the estimated net realizable amounts due from patients, third-party payors (including insurers), and others for services rendered and include estimated retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are settled and are no longer subject to such audits, reviews, and investigations.

The Corporation grants credit to patients and does 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.

Allowances for Bad Debts

The provision for bad debts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically, management assesses the adequacy of the allowance for bad debts based upon these indicators and accounts receivable payor composition and aging and considering historical write-off experience by payor category and aging. The results of this review are then used to make any modifications to the provision for bad debt and to establish an appropriate allowance for bad debts. In addition, PH follows established guidelines for placing certain past-due patient balances with collection agencies.

Inventories

Inventories, determined by physical count, consist primarily of drugs and supplies and are stated at cost, which is not in excess of market, and are valued using the average cost method.

2. Significant Accounting Policies (continued)

Investments

Investments in equity and debt securities are measured at fair value based on the valuation methodologies used in Statement of Financial Accounts Standards (SFAS) No. 157, *Fair Value Measurements*. With respect to hedge funds, these investments are recorded under the equity method of accounting, which reflects the current fair values where determinable and the partner's contributed capital, as well as the partner's share of the underlying limited partnership's realized and unrealized gains and losses. The market value of investments held by the underlying limited partnerships is determined by the respective general partners.

Investment income or loss (including realized gains and losses on the sale of investments, unrealized gains and losses on investments, and changes in the carrying value of hedge funds) is reported as other income unless the income is restricted by donor or law. The cost of securities sold is based on the specific identification method.

Board-designated funds represent certain funds from operations and other sources designated by the Board of Directors (the Board) to be used for future capital asset replacements, for the retirement of long-term debt, and for other purposes. The Board retains control over these investments and may, at its discretion, subsequently designate the use of these investments for other purposes. Funds are invested in accordance with Board-approved policies which, among other matters, require diversification of the investment portfolio, establish credit risk parameters, and limit the amount of investment in any single organization. Substantially all investment transactions are managed by professional investment managers and are held in custody at a financial institution. All Board-designated funds are classified as trading securities.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at date of donation. Interest costs incurred as part of the related construction are capitalized during the period of construction. Depreciation is provided on a straight-line basis over the expected useful lives of the various classes of assets. Estimated useful lives range from 5 to 25 years for land improvements, 5 to 40 years for buildings, and 3 to 15 years for equipment. Amortization of capital leases is included within depreciation expense.

2. Significant Accounting Policies (continued)

Derivative Financial Instruments

PH investment fund managers use derivative financial instruments in the investment portfolio to moderate changes in value due to fluctuations in financial markets. PH has not designated its derivatives related to marketable securities as hedges, and the change in fair value of these derivatives is recognized as a component of realized and unrealized gains and losses on investments, net.

As part of its debt management program, the Corporation has entered into an interest rate swap program. SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires that derivative instruments be recognized as either assets or liabilities in the consolidated balance sheets at fair value. The Corporation does not account for any of its interest rate swap agreements as hedges, and accordingly, changes in the fair value of interest rate swap agreements are recorded in the consolidated statements of operations and changes in net assets as other income (expense). Included in other income (expense) in the consolidated statements of operations and changes in net assets are net settlement payments on interest rate swaps of $7,772 and $5,617 for the years ending 2008 and 2007, respectively.

Effective January 1, 2006, management elected to de-designate those derivative instruments that had previously qualified and been reported as hedging instruments. At the point of de-designation, there existed a balance of accumulated gains in unrestricted net assets totaling $6,141. Pursuant to paragraphs 24 and 25 of SFAS No. 133, this accumulated gain is being reclassified to other income over the period that the instrument impacts income (i.e., when interest expense on the hedged debt is incurred). This amortization will occur through 2029 and resulted in the reclassification of approximately $257 to the consolidated statements of operations and changes in net assets for each of the years ending 2008 and 2007. Approximately $5,369 and $5,626 were accumulated as a component of unrestricted net assets at December 31, 2008 and 2007, respectively.

2. Significant Accounting Policies (continued)

Pension Plans

PH's retirement program, called Trusted Choices Retirement Program, offers a defined-contribution plan. Contributions to the defined-contribution plan are based upon benefit service points and a combination of age and years of benefit service. Contributions are calculated as a percentage of eligible pay. In addition, active employees at December 31, 2004, were provided a one-time choice to remain in PH's defined-benefit plan or freeze their defined-benefit plan benefits and move to the employer funded defined-contribution plan. Definitions of eligibility, pay, benefit service, and vesting under the defined-benefit plan are the same as the defined-contribution plan. Contributions to these plans include amortization of prior service costs plus interest thereon and are funded currently.

In addition to participation in the defined-contribution plan and/or defined-benefit plan, eligible employees are provided a voluntary opportunity to participate in a 403(b) or a 401(k) plan, based upon the tax status of the employing corporation. The 403(b) and 401(k) plans have match provisions. Benefits for eligible employees are based on the employee's compensation.

Malpractice Insurance

The Corporation and its affiliates are subject to pending and threatened legal actions which arise in the normal course of its activities. Medical malpractice coverage is provided through a program of self-insurance and commercial insurance and considers limitations imposed by the Indiana Medical Malpractice Act, as amended (the Act). The Act limits the amount of individual claims to $1,250 (effective July 1, 1999), of which $1,000 would be paid by the State of Indiana Patient Compensation Fund and $250 by the Corporation or by its commercial insurer, Lexington Insurance Company (AIG).

Malpractice claims for incidents that may give rise to litigation have been asserted against the Corporation by various claimants. The claims are in various stages of resolution, and some may ultimately be brought to trial. There are also reported incidents that have occurred through December 31, 2008, that may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients. The reserve for medical malpractice includes amounts for claims and related legal expenses for these incurred but not reported incidents. This reserve is actuarially determined by combining industry data and

2. Significant Accounting Policies (continued)

the Corporation's historical experience. Accrued malpractice losses have been discounted at 5% in both 2008 and 2007 and, in management's opinion, provide adequate reserve for loss contingencies. At December 31, 2008 and 2007, management has accrued its best estimate of these contingent losses as an other liability on its consolidated balance sheets ($3,423 and $3,470, respectively) to the extent the incidents fall within the limits of the Corporation's self-insurance program.

The Corporation established a restricted trust for claims not covered by commercial insurance for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreements, the trust assets can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. The balance of the trust was $3,041 and $3,584 at December 31, 2008 and 2007, respectively. The trust is included in Board-designated debt reserve and capital replacement funds in the accompanying consolidated balance sheets.

Income Taxes

The Internal Revenue Service has determined that the Corporation and certain affiliated entities are tax-exempt organizations as defined in Section 501(c)(3) of the Internal Revenue Code. Certain subsidiaries of the Corporation are taxable entities, the tax expense and liabilities of which are not material to the consolidated financial statements.

Operating Indicator

Net operating income as reflected in the accompanying consolidated statements of operations and changes in net assets 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 on Board-designated investments (including changes in unrealized gains and losses), interest expense, changes in the fair value of interest rate swaps, minority interest, and gains and losses deemed by management not to be directly related to providing health care services.

(In Thousands)

2. Significant Accounting Policies (continued)

Performance Indicator

(Deficit) excess of revenues over expenses as reflected in the accompanying consolidated statements of operations and changes in net assets includes operating income and nonoperating income and expense. Contributions of long-lived assets and any other pension-related changes are excluded from the (deficit) excess of revenues over expenses.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Investment return is allocated to unrestricted and temporarily restricted net assets based on the respective net asset balances and the wishes of the donor. The net assets are generally restricted for indigent and other patient services, medical education and research programs, facilities, and medical supplies and equipment.

Reclassifications

Certain 2007 amounts were reclassified to conform to the 2008 presentation. Such reclassifications had no effect on previously reported excess of revenues over expenses or net assets.

Goodwill and Intangible Assets

The following table summarizes the PH goodwill and other intangibles as of December 31, 2008:

	Original	Accumulated	Amortization Over the Next Five Years				
	Amount	**Amortization**	**2009**	**2010**	**2011**	**2012**	**2013**
Goodwill	$ 16,246	$ 1,256	$1,955	$ 1,483	$ 1,483	$ 1,476	$ 1,104
Intangible assets	10,052	608	848	787	787	787	787
Total	$ 26,298	$ 1,864	$2,803	$ 2,270	$ 2,270	$ 2,263	$ 1,891

2. Significant Accounting Policies (continued)

On November 8, 2007, PH transferred the business of its orthopedic hospital to Orthopaedic Hospital at Parkview North, LLC (ORTHO) and sold a 30% minority interest to Northeast Orthopedics Hospital Investors, LLC. From a consolidated perspective, the result of the transactions was the recognition of $7,813 of intangible assets at the point of sale, which are being amortized on a straight-line basis over 15 years. For the years ended December 31, 2008 and 2007, accumulated amortization was $608 and $87, respectively. Amortization expense of approximately $521 was recognized in 2008 and is expected for each of the next five years.

On September 3, 2008, PH acquired a 51% interest in Foundation Surgery Affiliate of Fort Wayne, LLC (d/b/a Inverness Surgery Center) for $3,500. The remaining 49% ownership interest is held by the Class A Member group comprised of physician investors. Goodwill of $3,111 related to the purchase of PH's share of Inverness Surgery Center is being amortized on a straight line basis over 10 years. Amortization expense of approximately $311 is expected for each of the next five years.

On December 31, 2008, PH acquired First Care Family Physicians, Fort Wayne Cardiovascular Surgeons, Northeast Indiana Colon Rectal Surgeons, and Northeast Obstetrics and Gynecology. Total purchase price was $8,436. The business combination was recorded using the purchase method. Goodwill and other intangibles of $5,463 were recognized at the point of sale and will be amortized on a straight line basis over 10 years. Annual amortization expense of approximately $546 is expected for each of the next five years.

Adoption of New Accounting Standards

Effective January 1, 2008, PH adopted SFAS No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value of certain assets and liabilities and expands disclosures about fair value measurements. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. PH has not determined what effect, if any, the adoption will have on PH's consolidated financial position or consolidated results of operations.

2. Significant Accounting Policies (continued)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS No. 159). SFAS 159 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. PH adopted SFAS No. 159 on January 1, 2008. PH 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.

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

In December 2008, the FASB issued FSP 132(R)-1, *Employers' Disclosure About Postretirement Benefit Plan Assets*, which amends SFAS No. 132, *Employers' Disclosures About Pensions and Other Postretirement Benefits*. This FSP requires sponsors of postretirement benefit plans to disclose additional information about the plan's invested assets. Sponsors will be required to disclose the fair value of each major category of assets in the plans as of each annual reporting date and the basis for determining the value, more detailed description of investment policies and strategies, and more detailed descriptions of concentrations of credit risk. The additional disclosures are required for fiscal years ended after December 15, 2009. PH will adopt this FSP in 2009.

3. Fair Value Measurement

In September 2006, the FASB issued SFAS No. 157, Fair *Value Measurements*. SFAS No. 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

(In Thousands)

3. Fair Value Measurement (continued)

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in the markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at December 31, 2008:

	Total	Level 1 Quoted Prices in Active Markets for Identical Assets or	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets				
Operating cash	$ 30,343	$ 30,343	$ –	$ –
Investible cash and fixed income securities	260,582	250,309	10,273	–
Marketable equity securities	298,267	298,267	–	–
Real estate held for investment	29,667	–	–	29,667
Interest rate swaps	6,729	–	6,729	–
Loaned securities as part of securities lending program	22,868	22,868	–	–
Collateral from securities lending	20,474	20,474	–	–
Total assets	$ 668,930	$ 622,261	$ 17,002	$ 29,667
Liabilities				
Interest rate swaps	$ (101,204)	$ –	$ –	$ (101,204)
Collateral under swap contracts	36,745	36,745	–	–
Interest rate swaps net of collateral posted	(64,459)	36,745	–	(101,204)
Obligation to return collateral under securities lending program	(22,918)	(22,918)	–	–
Total liabilities	$ (87,377)	$ 13,827	$ –	$ (101,204)

3. Fair Value Measurement (continued)

The data presented in the table above excludes $48,169 of alternative investments which are recorded using the equity method. These investments are not measured at fair value and do not apply to this presentation.

Following is a description of the Corporation's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. The fair values of the interest rate swap contracts included in Level 2 are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The fair values of other fixed income securities included in Level 2 are based on quoted market prices for similar assets. Fair value for Level 3 assets, which includes investments in real estate, is based on unobservable market data which includes third-party independent appraisals. Fair value for Level 3 liabilities, which includes interest rate swaps, is determined based on the present value of expected future cash flows adjusted for credit spreads as estimated by the Corporation.

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

(In Thousands)

3. Fair Value Measurement (continued)

The following table is a rollforward of the consolidated balance sheet amounts for financial instruments classified by the Corporation within Level 3 of the valuation hierarchy defined above:

	Financial Assets – Investments in Real Estate	Financial Liabilities – Derivative Financial Instruments
Fair value at January 1, 2008	$ 18,651	$ –
Transfers into Level 3	–	(12,731)
Purchases	11,976	–
Unrealized losses included in deficit of revenue over expenses	(960)	(88,473)
Fair value at December 31, 2008	$ 29,667	$ (101,204)
Change in unrealized losses related to financial instruments held at December 31, 2008	$ (960)	$ (88,473)

PH transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable.

4. Net Patient Care Service Revenue

Certain agreements with third-party payors provide for payments at amounts different from established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Certain inpatient care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are reimbursed based upon established fee schedules. Outpatient services are reimbursed utilizing prospectively determined rates.

(In Thousands)

4. Net Patient Care Service Revenue (continued)

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Differences between established rates and payment under these agreements are reflected as contractual allowances. A reconciliation of patient service revenue at established rates to net patient care service revenue as presented in the consolidated statements of operations and changes in net assets is as follows:

	Year Ended December 31	
	2008	**2007**
Inpatient services	**$ 829,932**	$ 729,309
Outpatient and ambulatory care services	**711,376**	607,441
Charges at established rates	**1,541,308**	1,336,750
Less traditional charity care revenue foregone	**36,259**	27,214
Less uninsured patient charity adjustment	**17,932**	4,521
Charges at established rates	**1,487,117**	1,305,015
Less contractual allowances	**764,878**	644,089
Indiana Medicaid disproportionate share *(Note 11)*	**6,493**	32,545
Net patient care service revenue	**$ 728,732**	$ 693,471

Medicare and Medicaid revenue accounted for approximately 43% and 12%, respectively, of charges at established rates in both 2008 and 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing. While no such regulatory inquiries have been made, compliance with health care industry laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid

(In Thousands)

4. Net Patient Care Service Revenue (continued)

programs. As a result, there is at least a reasonable possibility that recorded estimated settlements could change. It is also reasonably possible that recorded settlements could change by a material amount in the near term. PH received Medicare and Medicaid settlements and resolutions on prior year filed and appealed cost reports and other matters, which decreased the excess (deficit) of revenues over expenses by $4,483 in 2008 and increased the excess of revenues over expenses by $846 in 2007.

Components of accounts receivable at established rates at December 31, 2008 and 2007, respectively, include Medicare, 26% and 31%; Medicaid, 14% and 11%; commercial insurers, 45% and 46%; and other, 15% and 12%. One managed care provider, Wellpoint, Inc., represented 15% and 14% of patient accounts receivables in 2008 and 2007, respectively.

5. Investments

The composition of investments is as follows:

	December 31	
	2008	**2007**
Cash and short-term investments	**$ 18,946**	$ 122,717
Fixed income securities:		
U.S. government and agency obligations	**145,588**	114,216
Corporate and other bonds	**109,195**	54,087
Mutual funds and other marketable equity securities	**307,988**	409,418
Hedge funds	**48,169**	72,844
Real estate held for investment	**29,667**	18,651
	659,553	791,933
Less amounts included in other current assets	**60,640**	18,754
	$ 598,913	$ 773,179

PH's investments are exposed to various kinds and levels of risk. Fixed income securities expose PH to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.

(In Thousands)

5. Investments (continued)

Equity securities expose PH to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for international equities and small capitalization equity companies.

Hedge funds are not necessarily readily marketable and may include short sales on securities and trading on future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments, and the composition of the individual investments within these funds is not readily determinable. The hedge fund investments are partnership interests in limited partnerships. These investments are not publicly traded, and the value is determined based upon the partner's contributed capital and ownership interest in the realized and unrealized gains and losses of the limited partnership. Certain alternative investments have liquidity limitations which may lead to additional risk of loss.

The real estate investments present valuation risks, as they are not actively traded and the value is determined based upon independent third-party appraisals and management estimates. Additionally, these investments present a concentration of risk, as they are held within the same geographic region, Northeast Indiana.

The composition of investment return recognized in the consolidated statements of operations and changes in net assets is as follows:

	Year Ended December 31	
	2008	**2007**
Investment income:		
Unrealized losses on investments, net	**$(159,599)**	$ (43,403)
Dividend and interest income	**34,493**	32,967
Net realized gain on the sale of investments	**14,385**	70,011
	48,878	102,978
	$(110,721)	$ 59,575

(In Thousands)

5. Investments (continued)

Trade Settlement and Broker Receivables and Payables

At the balance sheet dates, receivables and payables for investment trades not settled are presented with other current assets and other current liabilities. Unsettled sales resulted in receivables due from brokers of $67,871 and $50,827 at December 31, 2008 and 2007, respectively. Unsettled buys resulted in payables of $128,511 and $69,581 at December 31, 2008 and 2007, respectively.

Securities Lending

The Corporation participates in securities lending transactions, whereby a portion of its investments are loaned to a broker in return for cash, letters of credit, or U.S. government securities from the broker as collateral for securities loaned. The Corporation participates in a program with its trustee to reinvest the cash collateral received in other short-term investments. The Corporation earns income on the collateral pledged while related securities are outstanding, but has risk of loss on the collateral received due to the reinvestment program. In the accompanying consolidated balance sheets, the market value of securities purchased with the cash collateral held for loaned marketable securities was $20,474 and $27,017 at December 31, 2008 and 2007, respectively, and is reported as other current assets. A payable for repayment of the cash collateral received, upon settlement of the lending arrangement, is reported as other current liabilities of $22,918 and $27,017 at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the market value of the marketable securities on loan was $22,868 and $26,817, respectively.

6. Property and Equipment

The costs of property and equipment consist of the following:

	December 31	
	2008	**2007**
Land and improvements	**$ 43,066**	$ 40,062
Buildings	**362,551**	322,580
Equipment	**383,652**	338,193
Construction in progress	**21,837**	35,444
	$ 811,106	$ 736,279

(In Thousands)

6. Property and Equipment (continued)

Cost of commitments to complete construction-in-progress projects is estimated to be $47,000 at December 31, 2008.

7. Long-Term Debt

Long-term debt consists principally of tax-exempt bonds as follows:

Description	Interest Rates	December 31 2008	2007
Tax-exempt, variable rate demand bonds:			
Series 2007 due through 2032	2.38%	**$ 24,360**	$ 24,930
Series 2005 due through 2033	5.11%	**187,070**	189,620
Series 2001 due through 2031	0.05% – 0.315%	**174,875**	201,425
Tax-exempt, fixed rate serial and term bonds:			
Series 1998 due through 2028	4.5% to 5.4%	**57,655**	60,190
Other	Various	**2,558**	–
Capital leases	Various	**4,681**	8,344
		451,199	484,509
Less unamortized original issue discount		**2,573**	2,705
		448,626	481,804
Less current portion		**14,694**	15,686
		$ 433,932	$ 466,118

The carrying value of the Corporation's tax-exempt, variable rate, and other debt approximates fair value. The fair value of the fixed rate debt (all of which is tax-exempt) is estimated using discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Corporation's tax-exempt, fixed rate debt at December 31, 2008, was approximately $54,969.

(In Thousands)

7. Long-Term Debt (continued)

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

Year ending December 31:	
2009	$ 14,694
2010	14,162
2011	13,592
2012	13,469
2013	13,429
Thereafter	381,853
	$ 451,199

Total interest paid was approximately $14,379 in 2008 and $12,469 in 2007. Interest cost of $613 in 2008 and $1,076 in 2007 was capitalized as part of the cost of construction.

Obligations Through Use of Master Indenture

PH and PVH have issued tax-exempt revenue, revenue refunding, and variable rate demand bonds through the use of a Master Indenture, as amended and supplemented. The various agreements require PH and PVH not to incur indebtedness secured by an encumbrance and not to mortgage certain facilities except under certain circumstances. The agreements require the maintenance of debt service coverage ratios and contain certain other restrictive covenants.

Fixed Rate Debt

In November 1998, PH and PVH issued $144,610 of fixed rate, tax-exempt revenue bonds (the Series 1998 Bonds) using the Master Indenture through the Hospital Authority of the City of Fort Wayne, Indiana. The proceeds of the Series 1998 Bonds and certain other funds of the Corporation were used to advance refund (primarily through an in-substance defeasance) the Series 1989A Bonds and Series 1992 Bonds then outstanding, to finance or reimburse PH and PVH for a portion of the cost of the acquisition and construction of certain capital improvements, and to pay financing costs. The Series 1998 Bonds consist of serial and term bonds and require

7. Long-Term Debt (continued)

annual principal or mandatory sinking fund redemption, with interest payable semiannually. A portion ($64,125) of the Series 1998 Bonds was advance refunded (primarily through an in-substance defeasance) with the Series 2005 Bonds.

Variable Rate Bonds

In November 2001, PH and PVH issued $220,000 of variable rate, tax-exempt auction revenue bonds (the Series 2001 Bonds) using the Master Indenture and through the Indiana Health Facility Financing Authority. The proceeds of the Series 2001 Bonds and certain other funds of the Corporation were used to advance refund (primarily though an in-substance defeasance) the Series 1989B and 1985BCD Bonds outstanding (of which principal aggregating $69,500 related to PH), to finance or reimburse PH and PVH for a portion of the cost of the acquisition and construction of certain capital improvements, and to pay financing costs. These Series 2001 Bonds auction every 28 days. If the auction fails, the interest rate for the next 28-day cycle is the 7-Day AA Composite Commercial Paper Rate times 125%. The bonds have a maximum rate of 15%.

Beginning in February 2008, PH’s 2001 Bonds failed to attract sufficient bids to be remarketed. As a result of the failed auctions, interest rates are set based upon a formula contained in the bond documents. The interest rate formula is based upon the seven-day AA Composite Commercial Paper rate times a factor. This factor can vary from 125% to 225%, depending upon the credit rating of the bond. The bond rating is equal to the rating of either the insurer of the debt or the issuer, whichever is higher. At December 31, 2008, the factor was 175%. The 2001 Bonds are secured by a financial guaranty insurance policy provided by Ambac Assurance Corporation. In November, Ambac was downgraded to Baa1 by Moody’s, while Parkview has retained its Moody’s rating of A1.

In July 2005, PH and PVH issued $194,930 of variable rate, tax-exempt revenue demand bonds (the Series 2005 Bonds) using the Master Indenture and through the Indiana Health and Education Facility Financing Authority. The proceeds of the Series 2005 Bonds and certain other funds of the Corporation were used to advance refund (primarily though an in-substance defeasance) a portion of the Series 1998 Bonds outstanding (of which principal aggregating $64,125 related to PH), to finance or reimburse PH and PVH for a portion of the cost of the acquisition and construction of certain capital improvements, and to pay financing costs. These

(In Thousands)

7. Long-Term Debt (continued)

Series 2005 Bonds bear interest at a weekly rate, and interest is paid monthly. The bonds are backed by a Standby-Bond Purchase Agreement (SBPA) written by JP Morgan Chase Bank. The bond issue has a maximum rate of 12%.

The Series 2005 bonds, also insured by Ambac Assurance Corporation, do not have a viable market for trading. As a result, $182,785, or 98% of the total bond issue, has been put to JPMorgan Chase, as part of the SBPA, at a rate of prime plus 1%. The SBPA with JPMorgan Chase is set to expire on July 28, 2010. For bonds that have not been remarketed at that time, an accelerated principal paydown schedule becomes effective and amortization occurs over the following five years. As such, no principal payments, if any, are required until July 2010. Subsequent to December 31, 2008, no bonds have been remarketed.

On March 15, 2007, PLH issued $24,930 of adjustable rate, tax-exempt revenue bonds. The bonds were issued through the Indiana Health and Education Facility Financing Authority. The proceeds of the Series 2007 Bonds and certain other funds of PLH are being used to finance the construction and furnishing of a new hospital facility and to pay financing costs. These Series 2007 Bonds bear interest at a weekly rate, and interest is paid monthly. These bonds have a full line of credit backed by National City Bank, which expires on March 16, 2012. This bond issue has a maximum rate of 15%. The borrower’s obligations under the bond documents are secured by a security interest in and lien upon all of the borrower’s real and personal property.

The following table presents the five-year and thereafter maturity schedule if no bonds are remarketed by July 2010:

Year ending December 31:	
2009	$ 14,694
2010	14,162
2011	45,592
2012	45,224
2013	45,194
Thereafter	286,333
	$ 451,199

7. Long-Term Debt (continued)

PH utilizes a combination of swap agreements with the objective to mitigate the impact interest rate fluctuations have on their interest payments. PH utilizes fixed payor, fixed spread basis, fixed receiver and forward fixed payor contracts entered into with various third parties. Interest rate swap contracts between PH and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. This is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for PH's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. PH does not anticipate nonperformance by its counterparties. As interest rates deteriorated and the fair value of the fixed payor and fixed spread basis swaps fell, obligations exceeded contractual thresholds and triggered the necessity of posting cash collateral with the counterparties. Collateral provided by PH to certain counterparties totaled $36,745 and $-0- at December 31, 2008 and 2007, respectively, and is included with other assets on the consolidated balance sheets.

(In Thousands)

7. Long-Term Debt (continued)

At December 31, 2008 and 2007, the market value of the swaps is included in the other asset and noncurrent liability captions of the consolidated balance sheets. The following table presents the fair values at December 31, 2008 and 2007, respectively, as presented on the consolidated balance sheets:

Expiration Date	PH Pays	PH Receives	Notional December 31 2008	Notional December 31 2007	Aggregate Fair Value December 31 2008	Aggregate Fair Value December 31 2007
2020 – 2031	(1) 3.47% – 3.65%	67% of one-month LIBOR	**$ 196,025**	$ 201,425	**$ (34,012)**	$ (8,476)
2028 – 2033	(2) 3.26% – 2.48%	62.4% of one-month LIBOR + 0.29% margin	**187,070**	189,620	**(29,694)**	(1,768)
2011 – 2016	(3) BMA/SIFMA Index	3.61% – 4.0%	**90,000**	151,735	**6,729**	3,273
2037	(4) 3.74%	61.8% of one-month LIBOR + 0.31% margin	**150,000**	150,000	**(30,527)**	(5,187)
2014 – 2025	(4) BMA/SIFMA Index	68% of one-month LIBOR + 0.37% – 0.52% margin	**180,000**	180,000	**(6,971)**	2,699
2009	(4) 0%	0%	**150,000**	180,000	**–**	(28)
			$ 953,095	$1,052,780	**$ (94,475)**	$ (9,487)
Amounts included in other assets					**$ 6,729**	$ 6,452
Amounts included in noncurrent liabilities					**$(101,204)**	$ (15,939)

(1) The objective of these interest swaps is to mitigate interest rate fluctuations and fix the interest rate of the Series 2001 Bonds.

(2) The objective of these interest rate swaps is to mitigate interest rate fluctuations and fix the interest rate of the Series 2005 Bonds.

(3) The objective of these interest rate swaps is to convert certain fixed rate exposure to variable rate exposure.

(4) The objective of these interest rate swaps is to take advantage of yield curve differences and mitigate risk on future bond offerings. These interest rate swaps are not associated with outstanding debt.

7. Long-Term Debt (continued)

The SFAS No. 157 fair value obligation under swap agreements of $(94,475), net, exclusive of collateral posted, may not be indicative of what the Corporation would pay upon an early termination of the swap agreements. At December 31, 2008, the unadjusted fair value of the obligations under swap agreements totaled $(116,234), and the balance sheet swap net liability of $(94,475) reflects the SFAS No. 157 adjustment of $21,759.

8. Pension Plans

Defined-Benefit Pension Plan

The Corporation sponsors a noncontributory, defined-benefit pension plan (the Plan) covering eligible employees employed prior to January 2005. Plan benefits are based on years of service and an employee's compensation during a consecutive 5-year term of employment within the 10 years prior to benefit determination, which results in the highest earnings. An employee became a plan participant upon reaching age 21 and completing at least 1 year of eligible service. A year of eligible service is credited to an employee upon the completion of at least 1,000 hours of service in a calendar year. The Corporation's funding policy is to contribute annually the amount necessary to fully fund the Plan's Accumulated Benefit Obligation (ABO).

(In Thousands)

8. Pension Plans (continued)

This amount exceeds the minimum contribution required to comply with Employee Retirement Income Security Act of 1974 regulations.

	December 31	
	2008	**2007**
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 221,339**	$ 207,487
Service cost	**7,851**	7,667
Interest cost	**13,486**	12,495
Actuarial loss (gain)	**19,764**	(1,506)
Benefits paid	**(5,161)**	(4,804)
Projected benefit obligation at end of year	**257,279**	221,339
Change in plan assets		
Plan assets at fair value at beginning of year	**203,981**	178,627
Actual (loss) gain on plan assets	**(46,938)**	15,158
Corporation and subsidiary contributions	**24,600**	15,000
Benefits paid	**(5,161)**	(4,804)
Plan assets at fair value at end of year	**176,482**	203,981
Funded status of the Plan	**$ (80,797)**	$ (17,358)

	Year Ended December 31	
	2008	**2007**
Items not yet recognized as a component of net periodic pension cost		
Net actuarial loss	**$ 120,011**	$ 37,725
Prior service cost	**804**	979
	$ 120,815	$ 38,704

(In Thousands)

8. Pension Plans (continued)

Changes in plan assets and benefit obligation recognized in unrestricted net assets during 2008 and 2007 include:

	Year Ended December 31 2008	2007
Unrecognized actuarial loss (gain)	**$ 83,974**	$ (1,578)
Amortization of actuarial loss	**(1,688)**	(2,115)
Amortization of prior service cost	**(176)**	(176)
	$ 82,110	$ (3,869)

The actuarial loss and prior service cost included in unrestricted net assets and expected to be recognized in the net periodic pension cost during the year ended December 31, 2009, total $9,457 and $176, respectively.

	Year Ended December 31 2008	2007
Periodic benefit cost		
Service cost	**$ 7,851**	$ 7,667
Interest cost	**13,486**	12,495
Expected return on plan assets	**(17,273)**	(15,085)
Amortization of unrecognized net loss	**1,688**	2,114
Amortization of unrecognized prior service cost	**176**	176
Net periodic benefit cost	**$ 5,928**	$ 7,367

	Year Ended December 31 2008	2007
Accumulated benefit obligation	**$ 230,070**	$ 196,887
Plan assets at fair market value	**176,482**	203,981
Funded status (based on accumulated benefit obligation)	**$ (53,588)**	$ 7,094

(In Thousands)

8. Pension Plans (continued)

The weighted-average assumptions used to determine benefit obligations at December 31 and net periodic benefit costs for the years then ended are as follows:

	2008	**2007**
Assumptions – benefit obligations		
Discount rate	**5.79%**	6.14%
Expected return on plan assets	**8.00%**	8.25%
Rate of compensation increase	**3.50%**	3.50%
Assumptions – net periodic benefit cost		
Discount rate	**6.14%**	6.12%
Expected return on plan assets	**8.25%**	8.25%
Rate of compensation increase	**3.50%**	3.50%

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the Plan.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The plan allocation is weighted toward fixed income (56%) versus growth assets (44%). In addition, management believes its active strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the Plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

The Plan's weighted-average asset allocations at December 31, 2008 and 2007, by asset category, are as follows:

	2008	**2007**
Equity securities	**44%**	57%
Debt securities	**51%**	38%
Short-term investments	**5%**	5%
Total	**100%**	100%

(In Thousands)

8. Pension Plans (continued)

The Corporation's policy on investment allocation for the Plan consists of an allocation of 40% to 70% for growth investments and 30% to 60% for fixed-income investments. Within the growth investment classification, the Plan's asset strategy encompasses equity and equity-like instruments that are of both public and private market investments. These equity and equity-like instruments are public equity securities that are well diversified and invested in U.S. and international companies.

Estimated future benefit payments:	
2009	$ 6,557
2010	7,367
2011	8,341
2012	9,424
2013	10,665
2014–2018	78,194

The Corporation expects to contribute $25,000 to its defined benefit pension plan in 2009.

Defined-Contribution and Other Pension Plans

Eligible employees hired after December 31, 2004, and employees who were active at December 31, 2004, and elected at that time to participate in the defined-contribution plan and freeze their benefits in the defined-benefit plan, participate in the defined-contribution plan. The accrued liability for the defined-contribution pension plan is $5,724 and $5,161 at December 31, 2008 and 2007, respectively, and is recorded as a current liability on the consolidated balance sheets. During 2008 and 2007, expense for this plan totaled $5,724 and $5,121, respectively.

Contributions to the tax-sheltered annuity and 401(k) plans are based on a percentage of eligible employee salaries, as defined. The contributions for the tax-shelter annuity and 401(k) plans were $4,967 in 2008 and $4,784 in 2007.

(In Thousands)

9. Commitments and Contingencies

Certain property and equipment is leased using noncancelable operating lease arrangements. The leases expire in various years through 2020. Future minimum lease payments required under noncancelable operating leases for property and equipment as of December 31, 2008, are as follows:

Year Ending December 31	Operating Leases	Capital Leases
2009	$ 2,922	$ 2,528
2010	2,841	1,675
2011	2,822	710
2012	1,919	100
2013	1,738	14
Thereafter	13,856	–
Total minimum lease payments	$ 26,098	5,027
Less amount representing interest		346
Present value of net minimum lease payments		$ 4,681

10. Functional Expenses

The Corporation, as an integrated health care delivery system, provides and manages the health care needs of its patients and members. Aggregate direct expenses for these services as a percent of total expenses were approximately 88% and 87% for the years ended December 31, 2008 and 2007, respectively.

11. Indiana Medicaid Disproportionate Share

Under Indiana law (IC 12-15-16(1-3)), health care providers qualifying as State of Indiana Medicaid Acute Disproportionate Share and Medicaid Safety Net Hospitals (DSH providers) are eligible to receive Indiana Medicaid Disproportionate Share (State 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. DSH payments by the State of Indiana are paid according to

(In Thousands)

11. Indiana Medicaid Disproportionate Share (continued)

the fiscal year of the state, which ends on June 30 of each year and are based on the cost of uncompensated care provided by the DSH providers during their respective fiscal year ended during the state fiscal year. State DSH payments are recorded when payments are probable and reasonably estimatable.

Parkview Huntington and Parkview Hospital have qualified as DSH providers in recent years. During 2008, PH received payments for Parkview Hospital and Parkview Huntington of $33,773 and $4,799, respectively. These payments pertained to state fiscal years 2005, 2006, 2007, and 2008. Of the $33,773 received by Parkview Hospital, $21,859 pertained to state fiscal years 2006 and 2007. Of the $4,799 received by Parkview Huntington, $1,996 pertains to state fiscal years 2005, 2006, and 2007. As a result of these payments, the Corporation recorded an unfavorable change in estimate of $5,832 in 2008.

The State DSH payments to Parkview Huntington and Parkview Hospital are included in the consolidated statements of operations and changes in net assets when notified by the State of Indiana and applied to the most recent year for which audited financial statements have not been issued. The following summary of Parkview Health gives effect to using historical information to report the State DSH revenue recognized by Parkview Health and the state fiscal year to which the revenue relates.

	Year Ended December 31			
	2005	**2006**	**2007**	**2008**
Net operating income, excluding State DSH revenue	$ 48,672	$ 55,771	$ 49,494	**$ 53,392**
State DSH revenue relating to state fiscal year:				
2004	1,299	–	–	**1,121**
2005	–	10,086	–	**1,346**
2006	–	10,621	–	**(9,714)**
2007	–	–	20,058	**493**
2008	–	–	12,487	**13,247**
Net operating income, as reported	$ 49,971	$ 76,478	$ 82,039	**$ 59,885**

At December 31, 2008 and 2007, PH recorded State DSH payments receivable of $0 and $30,327, respectively.