Consolidated Financial Statements and Other Financial Information

St. Vincent Health, Inc. – Member of Ascension Health
Years Ended June 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

St. Vincent Health, Inc.

Consolidated Financial Statements
and Other Financial Information

Years Ended June 30, 2010 and 2009

Contents

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Report of Independent Auditors

The Board of Directors
St. Vincent Health, Inc.

We have audited the accompanying consolidated balance sheets of St. Vincent Health, Inc. as of June 30, 2010 and 2009, 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 St. Vincent Health, Inc.'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 St. Vincent Health, Inc.'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 St. Vincent Health, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Vincent Health, Inc. at June 30, 2010 and 2009, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidating balance sheet, consolidating statement of operations and changes in net assets, and schedule of net cost of providing care of persons who are poor and community benefit programs as of and for the year ended June 30, 2010, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Ernst & Young LLP

September 17, 2010

St. Vincent Health, Inc.

Consolidated Balance Sheets

(Dollars in Thousands)

	June 30 2010	June 30 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 98,272**	$ 119,633
Short-term investments	**35,402**	31,036
Accounts receivable, less allowances for uncollectible accounts ($54,282 and $66,060 in 2010 and 2009, respectively)	**211,121**	202,303
Current portion of assets limited as to use	**1,962**	1,711
Inventories	**22,207**	20,410
Other	**42,687**	24,325
Total current assets	**411,651**	399,418
Board-designated investments	**1,397,006**	1,093,775
Other investments	**23,823**	15,626
Assets limited as to use:		
Under bond indenture agreement	**–**	1,197
Temporarily or permanently restricted	**45,619**	43,890
Total assets limited as to use	**45,619**	45,087
Property and equipment:		
Land and improvements	**59,788**	59,652
Building and equipment	**1,456,602**	1,445,091
Construction in progress	**16,868**	14,420
Less accumulated depreciation	**970,649**	913,706
Total property and equipment, net	**562,609**	605,457
Other assets:		
Goodwill and intangible assets	**48,849**	51,007
Investment in unconsolidated entities	**75,506**	35,991
Notes and other receivables	**5,000**	6,690
Investments in land	**4,263**	4,263
Other	**8,722**	7,366
Total other assets	**142,340**	105,317
Total assets	**$ 2,583,048**	$ 2,264,680

	June 30	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 2,768**	$ 6,304
Accounts payable and accrued liabilities	**204,613**	173,192
Estimated third-party payor settlements, net	**21,433**	17,968
Current portion of self-insurance liabilities	**3,026**	2,942
Other	**6,032**	2,175
Total current liabilities	**237,872**	202,581
Noncurrent liabilities:		
Long-term debt	**336,296**	338,239
Self-insurance liabilities	**233**	189
Pension and other postretirement liabilities	**121,334**	112,109
Minority interest liability	**11,473**	31,774
Other	**35,436**	19,064
Total noncurrent liabilities	**504,772**	501,375
Total liabilities	**742,644**	703,956
Net assets:		
Unrestricted	**1,792,823**	1,515,123
Temporarily restricted	**31,626**	30,284
Permanently restricted	**15,955**	15,317
Total net assets	**1,840,404**	1,560,724
Total liabilities and net assets	**$ 2,583,048**	$ 2,264,680

See accompanying notes.

St. Vincent Health, Inc.

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended June 30	
	2010	**2009**
Operating revenue:		
Net patient service revenue	**$ 1,803,052**	$ 1,761,934
Other revenue	**67,814**	56,791
Income from unconsolidated entities, net, including impairment of $2,300 and $4,300 in 2010 and 2009, respectively	**12,867**	6,963
Net assets released from restrictions for operations	**5,405**	6,210
Total operating revenue	**1,889,138**	1,831,898
Operating expenses:		
Salaries and wages	**668,928**	652,909
Employee benefits	**184,356**	158,390
Purchased services	**164,427**	153,826
Professional fees	**91,905**	74,079
Supplies	**268,102**	259,355
Insurance	**10,201**	8,929
Bad debts	**79,524**	98,829
Interest	**11,365**	12,805
Depreciation and amortization	**84,957**	84,088
Other	**167,708**	152,358
Total operating expenses	**1,731,473**	1,655,568
Income from operations	**157,665**	176,330
Nonoperating gains (losses):		
Investment return	**169,205**	(205,501)
Income (loss) from unconsolidated entities	**1,424**	(168)
Minority interest in consolidated entities	**(8,825)**	(9,907)
Other	**(5,269)**	(5,298)
Total nonoperating gains (losses), net	**156,535**	(220,874)
Excess (deficit) of revenues and gains over expenses and losses	**314,200**	(44,544)

Continued on next page.

St. Vincent Health, Inc.

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

	Year Ended June 30	
	2010	**2009**
Unrestricted net assets:		
Excess (deficit) of revenues and gains over expenses and losses	**$ 314,200**	$ (44,544)
Pension and other postretirement liability adjustments	**(1,867)**	(60,329)
Adjustment to adopt measurement date provision for pension	**(194)**	(5,649)
Transfer to sponsor and other affiliates, net	**(40,127)**	(20,955)
Net assets released from restrictions for property acquisitions	**4,710**	12,232
Other	**978**	(2,377)
Increase (decrease) in unrestricted net assets	**277,700**	(121,622)
Temporarily restricted net assets:		
Contributions and grants	**7,952**	7,061
Net change in unrealized gains/losses on investments	**1,406**	(1,155)
Investment return	**1,009**	(2,543)
Net assets released from restrictions	**(10,115)**	(18,442)
Other	**1,090**	9,044
Increase (decrease) in temporarily restricted net assets	**1,342**	(6,035)
Permanently restricted net assets:		
Contributions	**523**	1,347
Net change in unrealized gains/losses on investments	**24**	344
Investment return	**111**	57
Other	**(20)**	(3,797)
Increase (decrease) in permanently restricted net assets	**638**	(2,049)
Increase (decrease) in net assets	**279,680**	(129,706)
Net assets, beginning of the year	**1,560,724**	1,690,430
Net assets, end of the year	**$ 1,840,404**	$ 1,560,724

See accompanying notes.

St. Vincent Health, Inc.

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30	
	2010	**2009**
Cash flows from operating activities		
Increase (decrease) in net assets	**$ 279,680**	$ (129,706)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	**84,957**	84,088
Provision for bad debts	**79,524**	98,829
Deferred pension costs	**2,061**	65,978
Net realized and change in unrealized gains/losses on investments	**(170,635)**	206,312
Loss (gain) on sale of assets, net	**21**	(821)
Transfers to sponsor and other affiliates, net	**40,127**	20,955
Restricted contributions, investment return, and other restricted activity	**(10,665)**	(11,169)
Income from unconsolidated entities, net	**(16,591)**	(11,095)
Impairment on unconsolidated entities	**2,300**	4,300
Distributions from unconsolidated entities	**18,662**	16,171
(Increase) decrease in:		
Short-term investments	**(4,366)**	(790)
Accounts receivable	**(88,342)**	(61,283)
Inventories and other current assets	**(17,723)**	(18,017)
Investments classified as trading	**(142,645)**	(194,625)
Other assets	**(3,937)**	1,130
Increase in:		
Accounts payable and accrued liabilities	**30,343**	6,186
Estimated third-party payor settlements, net	**3,465**	2,586
Other current liabilities	**4,248**	5,435
Other noncurrent liabilities	**11,634**	11,223
Net cash provided by operating activities	**102,118**	95,687
Cash flows from investing activities		
Property and equipment additions	**(29,697)**	(51,148)
Proceeds from sale of property and equipment and other assets	**367**	2,831
Capital contributions to unconsolidated entities	**(43,886)**	(4,487)
Purchases of new operating assets	**(8,119)**	(1,560)
Net cash used in investing activities	**(81,335)**	(54,364)
Cash flows from financing activities		
Issuance of long-term debt	**47,120**	–
Repayment of long-term debt	**(52,599)**	(6,212)
Decrease (increase) in assets under bond indenture agreements	**1,197**	(50)
Distributions to minority interest partners	**(8,400)**	(7,000)
Transfers to sponsor and other affiliates, net	**(40,127)**	(20,955)
Restricted contributions, investment return, and other restricted activity	**10,665**	11,169
Net cash used in financing activities	**(42,144)**	(23,048)
Net (decrease) increase in cash and cash equivalents	**(21,361)**	18,275
Cash and cash equivalents at beginning of year	**119,633**	101,358
Cash and cash equivalents at end of year	**$ 98,272**	$ 119,633

See accompanying notes.

1. Organization and Mission

Organizational Structure

St. Vincent Health, Inc. (the Corporation) is a member of Ascension Health. Ascension Health is a Catholic, national health system consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 20 of the United States and the District of Columbia. Ascension Health is sponsored by the Northeast, Southeast, East Central, and West Central Provinces of the Daughters of Charity of St. Vincent de Paul, the Congregation of St. Joseph, and the Congregation of the Sisters of St. Joseph of Carondelet.

The Corporation, located in Indianapolis, Indiana, is a nonprofit acute care hospital system. The Corporation's hospitals provide inpatient, outpatient, and emergency care services for the residents of central Indiana. Admitting physicians are primarily practitioners in the local area. The Corporation is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services.

The Corporation is continuing to enhance its development as an integrated health care delivery system through relationships and affiliations with other providers, practitioners, and insurers throughout the states of Indiana and Ohio. In this connection, the Corporation has formed separate affiliation arrangements with Cardinal Health System, Inc. (Delaware County) and Columbus Regional Hospital, Inc. (Bartholomew County) to develop joint services in the communities they commonly serve. In addition, the Corporation entered into an agreement with Cincinnati Children's Medical Center to enhance the pediatric subspecialty services to Peyton Manning Children's Hospital at St. Vincent. The Corporation has also entered into an agreement with the Cleveland Clinic to manage the renal transplant program at the St. Vincent Indianapolis Hospital. None of these affiliations have resulted in significant asset transfers and have not resulted in consolidation of the related entities.

1. Organization and Mission (continued)

The Corporation includes the following not-for-profit hospitals and health care entities:

<u>Acute Care Hospitals:</u>

St. Vincent Hospital and Health Care Center, Inc., d/b/a St. Vincent Hospital and Health Services (SVHHS) includes the following hospitals in Indianapolis, Indiana:

St. Vincent Indianapolis Hospital
St. Vincent Women's Hospital
St. Vincent Stress Center
St. Vincent Medical Center Northeast
Peyton Manning Children's Hospital at St. Vincent

- *St. Vincent Carmel Hospital, Inc. (St. Vincent Carmel)*, Carmel, Indiana.
- *St. Joseph Hospital & Health Center, Inc. (St. Joseph-Kokomo)*, Kokomo, Indiana.
- *Saint John's Health System (Saint John's)*, Anderson, Indiana.
- *St. Vincent Seton Specialty Hospital, Inc. (Seton)*: Seton is a long-term acute care hospital with locations in Indianapolis and Lafayette, Indiana.
- *St. Vincent New Hope, Inc. (New Hope)*: New Hope is a residential treatment facility primarily providing residential and rehabilitation services for adults with a variety of developmental disabilities and is located in Indianapolis, Indiana.

The following acute care facilities are designated by Medicare as critical access hospitals:

- *St. Vincent Williamsport Hospital, Inc. (Williamsport):* Williamsport is an acute care hospital located in Williamsport, Indiana.
- *St. Vincent Jennings Hospital, Inc. (Jennings):* Jennings is an acute care hospital located in North Vernon, Indiana.
- *St. Vincent Frankfort Hospital, Inc. (Frankfort):* Frankfort is an acute care hospital located in Frankfort, Indiana.
- *St. Vincent Randolph Hospital, Inc. (Randolph):* Randolph is an acute care hospital located in Winchester, Indiana.
- *St. Vincent Clay Hospital, Inc. (Clay):* Clay is an acute care hospital located in Brazil, Indiana.
- *St. Vincent Mercy Hospital (Mercy):* Mercy is an acute care hospital located in Elwood, Indiana.

1. Organization and Mission (continued)

- *St. Vincent Salem Hospital, Inc. (Salem):* Salem is an acute care hospital located in Salem, Indiana.
- *St. Vincent Dunn Hospital, Inc. (Dunn):* Dunn is an acute care hospital located in Bedford, Indiana.

<u>Other Health Care Entities:</u>

- *St. Vincent Hospital Foundation, Inc., Saint John's Foundation, Inc., St. Joseph Foundation of Kokomo, Indiana, Inc., St. Vincent Frankfort Hospital Foundation, Inc., St. Vincent Randolph Hospital Foundation, Inc., St. Vincent Williamsport Hospital Foundation, Inc., St. Vincent Jennings Hospital Foundation, Inc., and St. Vincent Mercy Hospital Foundation, Inc. (the Foundations)*: The Foundations provide fund-raising efforts to support the charitable, religious, scientific, and educational purposes of charitable works of SVHHS, Saint John's, St. Joseph-Kokomo, Frankfort, Randolph, Williamsport, Jennings, Mercy, and other health facilities in accordance with the mission and values of Ascension Health.

- *Central Indiana Health System Cardiac Services, Inc. (CIHSCS)*: CIHSCS serves as a joint venture partner in two freestanding cardiac catheterization laboratories supporting the Corporation. CIHSCS is a 49% joint venture partner in Lafayette Heart Program Holdings, LLC, a cardiac program in Lafayette, Indiana. CIHSCS also owns 70% of St. Vincent Heart Center of Indiana, LLC (SVHCI), which opened in December 2002.

- *St. Vincent Health, Inc. (SVH)*: SVH provides the corporate support functions for the Corporation.

- *St. Vincent Physician Network, LLC (SPN)*: SPN is the Corporation's primary and specialty care network of physicians. SPN was incorporated on January 1, 2005, and its operations had previously been included as part of SVHHS.

- *St. Vincent Medical Center Northeast, Inc. (SVMCNE)*: SVMCNE is a real estate holding company that is holding land for future expansion of health care services.

1. Organization and Mission (continued)

Acquisitions

Effective February 1, 2010, Salem entered into an agreement to lease certain assets of Washington County Memorial Hospital (WCMH) from Critical Access Health Services Corp., which was an entity formed to own and operate WCMH while the hospital was in bankruptcy. Assets leased include the WCMH building and land, nearby medical office buildings, and the majority of the property and equipment.

The lease calls for Salem to pay $500 per year for five years. The lease agreement includes an option to purchase the hospital at the end of the five-year term for an additional $1,000. The lease agreement also includes an option to extend the lease for two terms of five years each, if Salem does not purchase the hospital at the end of the lease term. Salem incurred $2,283 in intangible acquisition costs, which were capitalized and are being amortized over the lease term with accumulated amortization of $190 at June 30, 2010. The operations of Salem hospital have been included in the accompanying consolidated statement of operations and changes in net assets beginning February 1, 2010.

Effective June 30, 2010, Dunn acquired certain assets, including property and equipment, inventory, and prepaid assets, and assumed certain liabilities of Dunn Memorial Hospital, Inc. for a purchase price of $8,119. The aforementioned assets and liabilities have been reflected in the accompanying consolidated balance sheet as of June 30, 2010. Dunn will begin operating the hospital effective July 1, 2010.

Effective July 7, 2006, CIHSCS purchased an additional 15% interest in SVHCI for $50,000. As a result, CIHSCS owned 65% of SVHCI and The Care Group Heart Hospital, LLC (TCGHH) owned the remaining 35%. The transaction was accounted for as a purchase, and SVHCI was consolidated as part of the Corporation’s financial statements effective with the purchase date.

CIHSCS exercised an Option Agreement to purchase an additional five units on December 31, 2009, for a purchase price of $19,019. As a result, CIHSCS now owns 70% of SVHCI and TCGHH owns the remaining 30%. The purchase price included a down payment of $4,000 with the remaining purchase price to be paid in two equal annual installments due July 2011 and July 2012, which are included in other noncurrent liabilities in the accompanying consolidated balance sheet. Pursuant to the Option Agreement, interest will accrue on all unpaid amounts at a

1. Organization and Mission (continued)

rate equal to 4.25% with no penalty for early payment. The total purchase of 20% interest from these two transactions resulted in $63,758 of goodwill. The goodwill is amortized on a straight-line basis over a 15-year period and has accumulated amortization of $17,002 at June 30, 2010.

Mission

Ascension Health directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with Ascension Health's mission of service to those who are poor and vulnerable, each Health Ministry accepts patients regardless of their ability to pay. Ascension Health uses four categories to identify the resources utilized for the care of persons who are poor and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

- Unpaid cost of public programs represents the unpaid cost of services provided to persons covered by public programs for the poor.

- Cost of other programs for the poor includes unreimbursed costs of programs intentionally designed to serve the poor and vulnerable of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.

- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the poor, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons who are poor and community benefit programs. The cost of providing care of persons who are poor and community benefit programs is estimated using internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association (CHA) and the Internal Revenue Service (IRS).

(Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately $50,719 and $29,623 for the years ended June 30, 2010 and 2009, respectively. The amount of unpaid cost of public programs, cost of other programs for the poor, and community benefit cost are reported in the accompanying other financial information.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the Corporation or one of its member corporations are consolidated, and all inter-entity transactions have been eliminated in consolidation. Investments in entities where the Corporation does not have operating control are recorded under the equity or cost method of accounting. Under the equity method of accounting, the Corporation recognizes a proportional interest in the earnings of its unconsolidated investments in relation to its ownership percentage. These investments are reviewed for impairment when indicators of impairment are present. For entities recorded under the equity method of accounting, the following reflects the Corporation's interest in unconsolidated entities in the consolidated balance sheets, as well as income or loss for such entities included in the consolidated excess (deficit) of revenues and gains over expenses and losses in the consolidated statements of operations and changes in net assets:

	Investment Recorded in Consolidated Balance Sheets as of June 30		**Effect on Consolidated Excess (Deficit) of Revenues and Gains Over Expenses and Losses for the Year Ended June 30**	
	2010	**2009**	**2010**	**2009**
Mid America Clinical Laboratories, LLC	**$ 4,637**	$ 4,892	**$ 1,972**	$ 2,236
Naab Road Surgery Center, LLC	**1,230**	1,261	**3,353**	3,587
The Surgery Center of Indianapolis, LLC	**1,533**	1,131	**2,610**	598
Advantage Health Solutions, Inc.	**8,157**	6,672	**1,485**	(132)
Carmel Ambulatory Surgery Center, LLC	**2,044**	2,913	**5,757**	8,999
Lafayette Heart Program Holdings, LLC	**7,800**	9,500	**(1,700)**	(7,269)
Indiana Orthopaedic Hospital, LLC	**40,399**	–	**2,450**	–
Rehabilitation Hospital of Indiana, Inc.	**212**	1,070	**(858)**	(806)
Other	**9,494**	8,552	**(778)**	(418)
	$ 75,506	$ 35,991	**$ 14,291**	$ 6,795

2. Significant Accounting Policies (continued)

The Corporation purchased an equity interest in Indiana Orthopaedic Hospital, LLC effective October 23, 2009, for a purchase price of $40,000. The transaction resulted in approximately $37,788 of goodwill, and the balance is maintained within the investment in unconsolidated entities in the accompanying consolidated balance sheets. The goodwill is being amortized on a straight-line basis over a 15-year period to income from unconsolidated entities, net in the accompanying consolidated statements of operations and changes in net assets. The accumulated amortization on the goodwill at June 30, 2010, was $1,679.

The loss on Rehabilitation Hospital of Indiana, Inc. includes an impairment charge of $600 included in income from unconsolidated entities in the consolidated statement of operations and changes in net assets for the year ended June 30, 2010. The joint venture has experienced cash flow issues, and the investment has been written down to fair value using Level 3 inputs (see Note 4), which approximates the value of the remaining debt guarantee.

The loss on Lafayette Heart Program Holdings, LLC includes an impairment charge of $1,700 and $4,300 in 2010 and 2009, respectively, included in income from unconsolidated entities in the consolidated statements of operations and changes in net assets. The joint venture has not distributed any cash dividends since inception. The current market value of the investment was estimated based upon valuing the put and call option in the joint venture agreement using an income valuation approach using the discounted net cash flow method with a five-year projection period, with an adjustment for minority discount and discount for lack of marketability using Level 3 inputs (see Note 4).

Use of Estimates

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximates fair value. The fair values of financial instruments classified other than current assets and current liabilities are disclosed in the Fair Value Measurements, Long-Term Debt, Pension Plans, and Related-Party Transactions footnotes.

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less and certain highly liquid, interest-bearing securities with maturities that may extend longer than three months but are convertible to cash within a one-month time period under the terms of the agreement with the investment manager.

Investments and Investment Return

The Corporation holds investments through the Health System Depository (HSD), an investment pool of funds in which a limited number of nonprofit health care providers participate for purposes of establishing investment goals and monitoring performance under agreed-upon socially responsible investment guidelines. The investments are managed by external investment managers within established investment guidelines. The value of the Corporation's investment in the HSD represents the Corporation's pro rata share of the HSD's investments held for participants. At June 30, 2010 and 2009, the Corporation's investment in the HSD was $1,472,547 and $1,196,029, respectively.

The Corporation also invests in cash and short-term investments, U.S. government obligations, corporate obligations, marketable equity securities, international securities, and real estate investments that are locally managed. Most of these funds are held in locally managed foundations where the Corporation has control over foundation assets. The Corporation reports both its investment in the HSD and in locally managed investments in the accompanying consolidated balance sheets based upon the long- or short-term nature of its investment and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Corporation.

The HSD's assets required to be recorded at fair value are comprised of equity and various fixed income investments. The HSD also holds investments in hedge funds, private equity, and real estate funds that are recorded under the equity method of accounting. In addition, the HSD participates in securities lending transactions whereby a portion of its investments is loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned.

Investment returns are comprised of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. All of the Corporation's

2. Significant Accounting Policies (continued)

investments, including its investment in the HSD, are designated as trading investments. Accordingly, all investment returns, including unrealized gains and losses, are reported as nonoperating gains or losses in the consolidated statements of operations and changes in net assets, except for returns restricted by donor or law.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value utilizing first-in, first-out (FIFO), or a methodology that closely approximates FIFO.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date the gift is received. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2010 and 2009 was $80,237 and $78,768, respectively.

Estimated useful lives by asset category are as follows: land improvements – 10 to 15 years; buildings – 20 to 40 years; and equipment – 3 to 10 years. Interest costs incurred as part of related construction are capitalized during the period of construction. Net interest capitalized in 2010 and 2009 was $0 and $536, respectively.

Costs incurred in the development and installation of internal use software are expensed or capitalized depending on the software development stage in which the cost is incurred. Generally, costs incurred in the preliminary project stage or post-implementation stage are expensed as incurred, while costs incurred during the application development stage are generally capitalized. Amounts capitalized are amortized over the useful life of the developed asset following project completion. The unamortized computer software costs included in building and equipment in the accompanying consolidated balance sheets were $49,340 and $51,127 at June 30, 2010 and 2009, respectively. Amortization of computer software costs included in depreciation expense was $12,858 and $9,153 in 2010 and 2009, respectively.

Several capital projects have remaining construction and related equipment purchase commitments of approximately $6,002 as of June 30, 2010.

2. Significant Accounting Policies (continued)

The Corporation recognizes the fair value of asset retirement obligations, including conditional asset retirement obligations if fair value can be reasonably estimated, in the period in which the liability is incurred. Asset retirement obligations include, but are not limited to, certain types of environmental issues that are legally required to be remediated 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. Subsequent to initial recognition, accretion expense is recognized until the asset retirement liability is estimated to be settled.

The Corporation's most significant asset retirement obligation relates to asbestos remediation in certain hospital buildings. Asset retirement obligations of $8,163 and $7,760 as of June 30, 2010 and 2009, respectively, are recorded in other noncurrent liabilities in the accompanying consolidated balance sheets. During 2010 and 2009, $11 and $562 of retirement obligations were incurred and settled, respectively. Accretion expense of $414 and $395 was recorded in 2010 and 2009, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

Performance Indicator

The performance indicator is the excess or deficit of revenues and gains over expenses and losses, which excludes transfers to or from sponsors and other affiliates, pension adjustments, net assets released from restrictions for property acquisitions, contributions of property and equipment, and other transfers between funds.

2. Significant Accounting Policies (continued)

Operating and Nonoperating Activities

The Corporation's primary mission is to meet the health care needs in its market area through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation's primary mission are considered to be nonoperating, consisting primarily of investment return and income (loss) from certain unconsolidated joint ventures, offset by minority interest expense and grants.

Net Patient Service Revenue, Accounts Receivable, and Allowance for Uncollectible Accounts

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by approximately $6,375 and $13,836 for the years ended June 30, 2010 and 2009, respectively.

During 2010 and 2009, approximately 28% and 29%, respectively, of net patient service revenue was received under the Medicare program and 7% and 5%, respectively, under various state Medicaid programs. The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable at June 30, 2010 and 2009, include Medicare (17%), Medicaid (8% and 5%), Blue Cross (18%), managed care and commercial (43% and 39%), and self-pay (14% and 21%), respectively.

The provision for bad debts is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the

2. Significant Accounting Policies (continued)

allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Corporation follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies.

The Corporation has an agreement to transfer certain patient receivables with recourse to a third party in exchange for cash at a discounted rate. The Corporation is deemed to have retained the risk of ownership of the receivables, which serve as collateral for the cash advanced to the Corporation, and the Corporation continues to reflect the receivables and related liability to the third party on its consolidated balance sheets. As of June 30, 2010 and 2009, receivables subject to this arrangement were $24,232 and $8,796, respectively, and are included in other current assets. The Corporation estimates its recourse obligation, which is reflected in accounts payable and other accrued liabilities.

Amortization

Bond issuance costs, bond discounts, and bond premiums are amortized over the term of the bonds using a method approximating the effective interest method. Other intangible assets include lease acquisition costs related to Salem and goodwill related to the additional ownership interest in SVHCI. Amortization expense for 2010 and 2009 was $4,720 and $5,320, respectively.

Adoption of New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 establishes the FASB's Accounting Standards Codification™ (the Codification, or ASC) as the single authoritative source of generally accepted accounting principles for interim and annual periods ending after September 15, 2009. SFAS 168 also replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 168 was subsequently included

2. Significant Accounting Policies (continued)

in the Codification as ASC Topic 105, *Generally Accepted Accounting Principles*. In conjunction with its effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards. The Corporation adopted SFAS 168 and the Codification on July 1, 2009. The adoption of the Codification did not impact the Corporation's consolidated financial statements for the year ended June 30, 2010.

In January 2010, the FASB issued ASC Accounting Standards Update (ASU) No. 2010-06 (ASU 2010-06), which guidance clarifies certain existing fair value measurement disclosure requirements of ASC Topic 820 (formerly SFAS 157) and also requires additional fair value measurement disclosures. Specifically, ASU 2010-06 clarifies that assets and liabilities must be leveled by major class of asset or liability and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques, for those assets or liabilities designated as Level 2 or Level 3 instruments.

Disclosures regarding transfers between Level 1 and Level 2 assets and liabilities are required, as well as a deeper level of disaggregation of activity within existing rollforwards of the fair value of Level 3 assets and liabilities. See the Fair Value Measurements note for these additional fair value measurement disclosure requirements for the year ended June 30, 2010, excluding the additional requirements related to Level 3 rollforward activity, which are not required to be adopted until the Corporation's fiscal year ended June 30, 2012. The adoption of this guidance did not have a significant impact on the Corporation's consolidated financial statements for the year ended June 30, 2010.

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in ASC Topic 715 (formerly FSP FAS 132(R)-1). This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See the Pension Plans note for these additional disclosures for the year ended June 30, 2010. The adoption of this guidance did not have a significant impact on the Corporation's consolidated financial statements for the year ended June 30, 2010.

2. Significant Accounting Policies (continued)

In September 2006, the FASB issued authoritative guidance on fair value measurements, currently included in ASC Topic 820 (formerly SFAS 157), which was adopted by Ascension Health for the year ended June 30, 2009. This guidance provides a definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements impacting certain assets and liabilities. See the Fair Value Measurements note for fair value measurement disclosures for the years ended June 30, 2010 and 2009.

Income Taxes

The member health care entities of the Corporation, an Indiana not-for-profit corporation, are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The Corporation accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

SVHCI members have elected, under the applicable provisions of the Internal Revenue Code, to be taxed as a partnership whereby taxable income is taxed directly to the members and not to SVHCI. The allocable share of earnings from SVHCI is also exempt from income tax because it is related to the Corporation’s tax-exempt purpose. Accordingly, the consolidated financial statements do not include any provision for federal or state income taxes.

Regulatory Compliance

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Corporation. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of these investigations will not have a material adverse impact on the consolidated financial statements of the Corporation.

Reclassifications

Certain reclassifications were made to the 2009 consolidated financial statements to conform to the 2010 presentation. These reclassifications had no impact on the change in net assets previously reported.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Subsequent Events

The Corporation evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or disclosure in the notes to the consolidated financial statements. The Corporation evaluated events occurring subsequent to June 30, 2010 through September 17, 2010, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Additionally, there were no nonrecognized subsequent events that required disclosure other than those disclosed in the Subsequent Events note.

3. Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use

The Corporation's investments are comprised of the Corporation's pro rata share of the HSD's funds held for participants and certain other investments such as those investments held and managed by foundations. Board-designated investments represent investments designated by resolution of the Board of Trustees to put amounts aside primarily for future capital expansion and improvements. Assets limited as to use primarily include investments restricted by donors. The Corporation's investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	June 30	
	2010	**2009**
Cash and cash equivalents	**$ 98,272**	$ 119,633
Short-term investments	**35,402**	31,036
Current portion of assets limited as to use	**1,962**	1,711
Board-designated investments	**1,397,006**	1,093,775
Other investments	**23,823**	15,626
Assets limited as to use:		
Under bond indenture agreement	–	1,197
Temporarily or permanently restricted	**45,619**	43,890
Total assets limited as to use	**45,619**	45,087
Total	**$ 1,602,084**	$ 1,306,868

(Dollars in Thousands)

3. Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use (continued)

The composition of cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments is summarized as follows:

	June 30 2010	June 30 2009
Cash, cash equivalents, and short-term investments	**$ 76,504**	$ 61,188
U.S. government obligations	**1,853**	4,299
Corporate and foreign fixed income investments	**10,534**	8,531
Asset backed securities	**2,930**	2,192
Equity securities	**27,881**	24,997
International securities	**5,891**	5,572
Pledges receivable, net	**2,645**	3,399
Other investments	**1,299**	661
Subtotal, included in cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments	**129,537**	110,839
Pro rata share of HSD funds held for participants	**1,472,547**	1,196,029
Cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments	**$ 1,602,084**	$ 1,306,868

As of June 30, 2010 and 2009, the composition of total HSD investments is as follows:

	June 30 2010	June 30 2009
Cash, cash equivalents, and short-term investments	**5.8%**	10.6%
U.S. government obligations	**26.0%**	16.5%
Asset backed securities	**11.3%**	20.8%
Corporate and foreign fixed income investments	**17.5%**	18.0%
Equity, private equity, and other investments	**39.4%**	34.1%
Total	**100.0%**	100.0%

(Dollars in Thousands)

3. Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use (continued)

Investment return recognized by the Corporation is summarized as follows:

	Year Ended June 30	
	2010	**2009**
Investment return in HSD	**$ 164,461**	$ (197,233)
Interest and dividends	**3,155**	2,771
Net gains (losses) on investments reported at fair value	**4,139**	(14,336)
Total investment return	**$ 171,755**	$ (208,798)
Investment return included in nonoperating gains (losses)	**$ 169,205**	$ (205,501)
Increase (decrease) in restricted net assets	**2,550**	(3,297)
Total investment return	**$ 171,755**	$ (208,798)

4. Fair Value Measurements

The Corporation adopted the FASB's authoritative accounting guidance on fair value measurements for the fiscal year ended June 30, 2009, as well as updated fair value measurement guidance for the fiscal year ended June 30, 2010. In accordance with this guidance, assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable. The Corporation follows the three-level fair value hierarchy to categorize these assets and liabilities, which prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs that are unobservable for the asset or liability.

4. Fair Value Measurements (continued)

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

As of June 30, 2010 and 2009, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables on the following pages utilize the following valuation techniques and inputs:

Cash and cash equivalents and short- term investments
Short-term investments designated as Level 2 investments are primarily comprised of commercial paper, whose fair value is based on amortized cost. Significant observable inputs include security cost, maturity, and credit rating. Cash and cash equivalents and additional short-term investments are primarily comprised of certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

U.S. government obligations
The fair value of investments in U.S. government, state, and municipal obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Corporate and foreign fixed income investments
The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

4. Fair Value Measurements (continued)

Asset backed securities
The fair value of U.S. agency and corporate asset backed securities is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Equity securities
The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Guaranteed pooled fund
The fair value of guaranteed pooled fund investments is based on cost plus guaranteed, annuity contract based, interest rates.

As discussed in Notes 2 and 3, the Significant Accounting Policies and the Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use notes, the Corporation has an investment in the HSD and certain other investments, such as those investments held and managed by foundations. As of June 30, 2010, 25%, 67%, and 8% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively, while 2%, 45%, and 53% of total HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2 and Level 3 inputs, respectively. As of June 30, 2009, 27%, 68%, and 5% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while 6%, 45%, and 49% of total HSD liabilities that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2010, for all other financial assets and liabilities that are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2010				
Cash and cash equivalents	$ 4,226	$ –	$ –	$ 4,226
Short-term investments	17,663	17,856	–	35,519
U.S. government obligations	–	1,853	–	1,853
Corporate and foreign fixed income investments	–	10,534	–	10,534
Asset backed securities	–	2,930	–	2,930
Equity securities	25,756	2,125	–	27,881
International securities	5,891	–	–	5,891
Subtotal of assets at fair value	$ 53,536	$ 35,298	$ –	88,834
Assets not at fair value				40,703
Subtotal, included in cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments				$ 129,537
Deferred compensation assets, included in other noncurrent assets, invested in:				
Mutual funds	$ 4,912	$ –	$ –	$ 4,912
Guaranteed pooled fund	$ –	$ –	$ 963	$ 963

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2009, for all other financial assets and liabilities that are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2009				
Cash and cash equivalents	$ 4,832	$ 314	$ –	$ 5,146
Short-term investments	7,518	23,519	–	31,037
U.S. government obligations	–	4,299	–	4,299
Corporate and foreign fixed income investments	–	8,531	–	8,531
Asset backed securities	–	2,192	–	2,192
Equity securities	24,623	374	–	24,997
International securities	5,572	–	–	5,572
Subtotal of assets at fair value	$ 42,545	$ 39,229	$ –	81,774
Assets not at fair value				29,065
Subtotal, included in cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments				$ 110,839
Deferred compensation assets, included in other noncurrent assets, invested in:				
Mutual funds	$ 3,575	$ –	$ –	$ 3,575
Guaranteed pooled fund	$ –	$ –	$ 783	$ 783

During the years ended June 30, 2010 and 2009, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) were comprised of the following. Transfers in or out of Level 3 are recognized as of the beginning of the reporting period. The balance at July 1, 2008, was $514; purchases, issuances, and settlements were $26; and transfers into Level 3 were $243. The balance at July 1, 2009, was $783; purchases, issuances, and settlements were $112; and transfers into Level 3 were $68; resulting in an ending balance at June 30, 2010, of $963.

(Dollars in Thousands)

5. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2010	**2009**
Intercompany debt with Ascension Health, payable in installments through November 2047; interest (3.9% and 3.5% at June 30, 2010 and 2009, respectively) adjusted based on the prevailing blended market interest rate of underlying debt obligations	**$ 339,031**	$ 295,708
Hospital Revenue Bonds, redeemed March 17, 2010	**–**	48,685
Obligations under capital leases	**33**	150
	339,064	344,543
Less current portion	**2,768**	6,304
Long-term debt, less current portion	**$ 336,296**	$ 338,239

Scheduled principal repayments of long-term debt are as follows:

Year ending June 30:	
2011	$ 2,768
2012	2,189
2013	2,201
2014	4,925
2015	5,151
Thereafter	321,830
Total	$ 339,064

Certain members of Ascension Health formed the Ascension Health Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member or senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (the Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by Ascension Health. Though senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI, each senior

5. Long-Term Debt (continued)

limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health with stipulated repayment terms and conditions, each subject to the governing law of the limited designated affiliate's state of incorporation.

In addition, Ascension Health may cause each senior designated affiliate to transfer such amounts as are necessary to enable the senior obligated group members to comply with the terms of the Senior MTI, including payment of the outstanding obligations. The Corporation is a senior obligated group member under the terms of the Senior MTI.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (the Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by Ascension Health. Though subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI, each subordinate limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health with stipulated repayment terms and conditions, each subject to the governing law of the limited designated affiliate's state of incorporation. The Corporation is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper, and other obligations, the proceeds of which are in turn loaned to the Senior and Subordinate Credit Group members subject to a long-term amortization schedule of 1 to 37 years.

Certain portions of Senior and Subordinate Credit Group borrowings may be periodically subject to interest rate swap arrangements to effectively convert borrowing rates on such obligations from a floating to a fixed interest rate or vice versa based on market conditions. Additionally, Senior and Subordinate Credit Group borrowings may, from time to time, be refinanced or restructured in order to take advantage of favorable market interest rates or other financial

5. Long-Term Debt (continued)

opportunities. Any gain or loss on refinancing, as well as any bond premiums or discounts, are allocated to the Senior and Subordinate Credit Group members based on their pro rata share of the Senior and Subordinate Credit Group's obligations. Senior and Subordinate Credit Group refinancing transactions rarely have a significant impact on the outstanding borrowings or intercompany debt amortization schedule of any individual Senior and Subordinate Credit Group member.

Members of Ascension Health may also periodically draw from the invested funds of other members of Ascension Health on a relatively short-term basis and subject to certain conditions.

During the year ended June 30, 2010, Ascension Health completed multiple debt transactions which ultimately resulted in an increase of $15,744 to the total debt of Ascension Health. As a result of these transactions, the Corporation's pro rata portion of intercompany debt to Ascension Health increased approximately $825, reflected as a transfer from sponsor and other affiliates, net, in the accompanying consolidated statement of operations and changes in net assets for the year ended June 30, 2010.

The carrying amounts of intercompany debt with Ascension Health and other debt approximate fair value based on a portfolio market valuation provided by a third party.

The Senior and Subordinate Credit Group financing documents contain certain restrictive covenants, including a debt service coverage ratio.

As of June 30, 2010, the Senior Credit Group has a line of credit of $250,000 related to its commercial paper program toward which bank commitments totaling $250,000 extend to November 18, 2010. As of June 30, 2010 and 2009, there were no borrowings under the line of credit.

As of June 30, 2010, the Senior Credit Group has a line of credit of $500,000 for general corporate purposes toward which bank commitments totaling $500,000 extend to April 2, 2012. As of June 30, 2010, there were no borrowings under the line of credit.

As of June 30, 2010, the Subordinate Credit Group has a $50,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $50,000 extends to December 29, 2010. The revolving line of credit may be accessed solely in the form of Letters of

5. Long-Term Debt (continued)

Credit issued by the bank for the benefit of the members of the Credit Groups. As of June 30, 2010, $37,033 of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt, which can be as short as 30 days or as long as 29 years. The maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under their guarantees, letters of credit, and other commitments at June 30, 2010, is approximately $125,000.

The outstanding principal amount of all hospital revenue bonds is $4,130,280, which represents 48% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at June 30, 2010.

The Hospital Revenue Bonds at June 30, 2009, consist of $48,685 in Series 2002 Auction Rate Notes (the Notes). The Notes were issued in May 2002 on behalf of SVHCI through the Ascension Health Credit Group (the Credit Group). The members of the Credit Group served as guarantors of these obligations for SVHCI through a Reimbursement Agreement (the Agreement) entered into between Ascension Health and SVHCI in connection with the issuance of the Notes. Accordingly, the Notes were secured by quarterly guarantee fee payments made to Ascension Health pursuant to the Agreement at a rate of 1.5% of the outstanding debt balance. The Agreement also required the maintenance of certain debt service coverage ratios, limits on additional borrowings, and required compliance with various other restrictive covenants. The Notes were redeemed March 17, 2010, at par with proceeds from additional intercompany debt with Ascension Health of $46,295.

During the years ended June 30, 2010 and 2009, interest paid was approximately $11,365 and $13,341, respectively. Capitalized interest was approximately $0 and $536 for the years ended June 30, 2010 and 2009, respectively.

6. Pension Plans

Ascension Health Pension Plan

The Corporation participates in the Ascension Health Pension Plan (the Ascension Plan), which is a noncontributory, defined-benefit pension plan sponsored by Ascension Health, which covers all eligible employees of certain Ascension Health entities. Benefits are based on each participant's years of service and compensation. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust (the Trust), a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Net periodic pension cost of $30,590 in 2010 and $21,727 in 2009 was charged to the Corporation. The service cost component of net periodic pension cost charged to the Corporation is actuarially determined, while all other components are allocated based on the Corporation's pro rata share of Ascension Health's overall projected benefit obligation.

The assets of the Ascension Plan are available to pay the benefits of eligible employees of all participating entities. In the event entities participating in the Ascension Plan are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so. As of June 30, 2010, the Ascension Plan had a net unfunded liability of $649,818. The Corporation's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at June 30, 2010 and 2009, was $121,073 and $111,843, respectively. As a result of updating the funded status of the Ascension Plan, Ascension Health transferred an additional pension liability of $1,867 and $60,329 to the Corporation during 2010 and 2009, respectively. These transfers are included in pension and other postretirement liability adjustments in the accompanying consolidated statements of operations and changes in net assets.

Ascension Health adopted the measurement date provision of existing authoritative guidance on employers' accounting for defined-benefit pension and other postretirement plans as of July 1, 2008. As a result, Ascension Health transferred an additional pension liability of $194 and $5,649, respectively, to the Corporation, which is included in adjustment to adopt measurement date for provision for pension in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2010 and 2009.

6. Pension Plans (continued)

As of June 30, 2010 and 2009, the fair value of the Ascension Plan's assets available for benefits was $3,089,076 and $2,525,941, respectively. As discussed in Note 4, the Fair Value Measurements note, the Corporation, as well as Ascension Health, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of June 30, 2010, 29%, 42%, and 29% of the Ascension Plan's assets that are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3 investments, respectively. With respect to the Ascension Plan's liabilities measured at fair value on a recurring basis, 0%, 13%, and 87% were categorized as Level 1, Level 2, and Level 3, respectively, as of June 30, 2010.

Ascension Health Defined Contribution Plan

The Corporation participates in the Ascension Health Defined Contribution Plan (the Defined Contribution Plan), a noncontributory, defined-contribution plan sponsored by Ascension Health and which covers all eligible associates. There are two primary types of contributions to the Defined Contribution Plan: employer automatic contributions and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary. These benefits are funded annually.

Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period. Participants become fully vested in all employer contributions immediately. Defined-contribution expense, representing both employer automatic contributions and employer matching contributions, was $10,279 and $9,793 for the years ended June 30, 2010 and 2009, respectively.

St. Vincent Heart Center of Indiana Retirement Plan

SVHCI has established a defined-contribution retirement plan which covers substantially all employees. SVHCI makes a nonelective contribution which is based on the participating employee's compensation. Employees are immediately vested in this portion of the plan. In addition, SVHCI matches the participating employee's elective 401(k) contributions up to 3% of the employee's compensation. Vesting in SVHCI matching contributions is based on years of service, and such contributions are 100% vested to the employee after five years of service. Defined-contribution expense, representing both employer automatic contributions and employer matching contributions, was $1,473 and $1,480 for the years ended June 30, 2010 and 2009, respectively.

7. Other Postretirement Benefits

The Corporation has recorded a liability for life insurance policies for retirees amounting to $261 and $266 at June 30, 2010 and 2009, respectively, in pension and other postretirement liabilities in the accompanying consolidated balance sheets for some prior employees at Saint John's.

8. Self-Insurance Programs

The Corporation participates in Ascension Health's self-insurance programs for professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2010 and 2009. In the event that sufficient funds are not available from the self-insurance programs, each participating entity may be assessed its pro rata share of the deficiency. If contributions exceed the losses paid, the excess may be returned to participating entities.

General/Professional Liability Programs

The Corporation participates in Ascension Health's professional and general liability self-insured program, which provides occurrence form and claims-made coverage, respectively, through a wholly owned on-shore trust and offshore captive insurance company. The Corporation has a deductible of up to $100 per claim depending on the size of the hospital, and the program has a self-insured retention of $10,000 per occurrence with no aggregate. Excess coverage is provided through Ascension Health Insurance Limited (AHIL), a wholly owned captive insurance company, with limits up to $185,000. AHIL retains $5,000 per occurrence and $5,000 annual aggregate for professional liability. AHIL also retains a 20% quota share of the first $25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers. Approved self-insured entities in the state of Indiana are provided professional liability coverage on an occurrence basis with limits up to $250 per occurrence and an aggregate of $5,000 or $7,500, based on the size of the hospital, in compliance with participation in the State of Indiana Patient Compensation Funds. The Patient Compensation Funds apply to claims in excess of the primary self-insured limit.

8. Self-Insurance Programs (continued)

The Corporation is subject to the provisions of the Indiana Medical Malpractice Act, which limits the maximum recovery for professional liability to $1,250 per occurrence, $250 of which would be paid by the Ascension Health Trust Fund and the balance would be paid by the State of Indiana Patient Compensation Funds.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is general and professional liability expense of $8,033 and $6,907 for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, the general and professional liability reserves included in self-insurance liabilities (current and long term) in the accompanying consolidated balance sheets were approximately $3,259 and $3,131, respectively.

Workers' Compensation

The Corporation participates in Ascension Health's workers' compensation self-insurance program, which provides occurrence coverage through a grantor trust. The self-insured retention of the trust provides coverage up to $1,000 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members through self-insurance and excess insurance against catastrophic loss. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported. Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of $5,182 and $4,786 for the years ended June 30, 2010 and 2009, respectively.

Medical and Dental Claims

The Corporation is self-insured for medical and dental claims. The Corporation estimates its liability for covered medical and dental claims, including claims incurred but not reported, based upon historical costs incurred and payment processing experience. At June 30, 2010 and 2009, the liability for such covered medical and dental claims was $5,870 and $4,970, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

(Dollars in Thousands)

9. Lease Commitments

Future minimum payments under noncancelable operating leases with terms of one year or more are:

Year ending June 30:	
2011	$ 29,201
2012	25,900
2013	20,072
2014	17,832
2015	15,237
Thereafter	32,236
Total	$ 140,478

The Corporation has subleased certain of its space under the operating leases reported above. Total future minimum rents to be received under noncancelable subleases with terms of one year or more are $8,739.

Rental expense under operating leases amounted to $49,279 and $44,991 in 2010 and 2009, respectively.

In addition, the Corporation is a lessor under certain operating lease agreements, primarily ground leases related to third-party owned medical office buildings on land owned by the Corporation. The Corporation also leases space to others in some buildings it owns. Future minimum rental receipts under all noncancelable operating leases with terms of one year or more are:

Year ending June 30:	
2011	$ 1,154
2012	1,154
2013	1,162
2014	1,162
2015	996
Thereafter	33,372
Total	$ 39,000

9. Lease Commitments (continued)

In May 2003, the Corporation sold various outpatient and professional medical office buildings (MOBs) to a real estate investment trust (REIT) and contemporaneously leased back certain space in those buildings to support ongoing ministry operations for a period of 12 years with leases extending through 2015. These space leases are being accounted for as operating leases based on their terms, and future minimum lease payments under these leases are included in the amounts reported above. The building sales were accounted for as sale-lease transactions, and as such, certain gains on the sales were deferred. As of June 30, 2010 and 2009, net deferred gains of $2,146 and $2,693, respectively, were included in other noncurrent liabilities in the accompanying consolidated balance sheets. These gains are being recognized as operating income over the related leaseback terms. In connection with that sale, the Corporation entered into a long-term ground lease for the property underlying the buildings whereby the REIT is able to take control of the buildings for 50 years with one 25-year renewal at the option of the REIT.

10. Related-Party Transactions

The Corporation utilized various centralized programs and overhead services of Ascension Health or its other sponsored organizations, including risk management, retirement services, treasury, debt management, executive management support, administrative services, and information technology services. The charges allocated to the Corporation for these services represent both allocations of common costs and specifically identified expenses that are incurred by Ascension Health on behalf of the Corporation. Allocations are based on relevant metrics such as the Corporation's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of Ascension Health. The amounts charged to the Corporation for these services may not necessarily result in the net costs that would be incurred by the Corporation on a stand-alone basis. The charges allocated to the Corporation were approximately $92,304 and $90,046 for the years ended June 30, 2010 and 2009, respectively.

On July 1, 2010 and 2009, the Corporation transferred cash and investments of $39,148 and $19,977, respectively, in support of Ascension Health's strategic initiatives.

The Corporation purchased $23,029 of laboratory services in 2010 ($20,963 in 2009) from Mid America Clinical Laboratories, LLC (MACL). SVHHS is a 25% owner of MACL.

SVHHS purchased $6,172 and $14,103 in 2010 and 2009, respectively, of blood factor products from Chartwell Midwest Indiana, LLC (Chartwell). SVHHS was a 50% owner of Chartwell. Chartwell has ceased operations as of June 30, 2010.

10. Related-Party Transactions (continued)

The Corporation paid $734 and $794 to Suburban Health Organization (SHO) in 2010 and 2009, respectively, for items such as physician recruitment dues, third-party administration (TPA) services, and network development. SHO processed $39,576 and $33,063 in claim payments for the Corporation in 2010 and 2009, respectively. SVH is a Class D stockholder of SHO.

The Corporation paid $835 and $1,529 to NeuroOncology Equipment, LLC (Novalis) in 2010 and 2009, respectively, for rental of equipment. SVHHS is a 50% owner of Novalis.

The Corporation paid $2,305 and $1,689 to United Hospital Services, LLC (UHS) in 2010 and 2009, respectively, for laundry services. SVHHS is a 16.7% owner of UHS.

The Corporation paid $3,425 and $3,225 to Indiana Heart Institute, LLC (IHI) in 2010 and 2009, respectively, for heart base and coding services. SVH is a 33.3% owner of IHI. See Note 12, Subsequent Events.

Care Group Cardiovascular Management, LLC (CGC) was formed to provide management services to the cardiovascular programs at SVHCI, SVHHS, St. Vincent Carmel, and Lafayette Heart Program Holdings, LLC (Lafayette). CIHSCS is a 5% member entity of CGC and a 49% owner of Lafayette. The Corporation paid $8,572 and $8,929 in management fees to CGC in 2010 and 2009, respectively. See Note 12, Subsequent Events.

The Corporation participates in a joint venture arrangement for the operation of the Rehabilitation Hospital of Indiana, Inc. (RHI), a free-standing, not-for-profit, comprehensive rehabilitation facility. The Corporation guarantees 50% of the outstanding bonds and line-of-credit amounts ($6,800 at June 30, 2010), using a supporting letter of credit for payment of principal and interest on certain debt issued on behalf of RHI. The guarantee extends through the term of the debt and expires on November 1, 2020. A long-term liability of $212 and $233, respectively, has been recorded in the accompanying consolidated balance sheets at June 30, 2010 and 2009, representing the fair value of this guarantee determined using a discounted cash flow analysis. The Corporation also provided RHI with a working capital loan of $1,500 in June 2010.

The Corporation is a 34.5% owner of Advantage Health Solutions, Inc. (Advantage). SVHHS is a 50% guarantor on the minimum statutory net worth requirement with the Indiana Department of Insurance. The guarantee amount approximates $3,243 at June 30, 2010; however, Advantage is well in excess of the minimum statutory net worth requirements; thus, the Corporation estimates the fair value of this guarantee to be zero.

10. Related-Party Transactions (continued)

The Corporation paid $615 to Breast MRI Leasing Company, LLC (Breast MRI) in 2010 and 2009 for rental of equipment. SVHHS is a 50% owner of Breast MRI.

As part of the formation of the Meridian Heights Associates, LLC joint venture with St. Vincent Carmel, St. Vincent Carmel pledged 9.51 acres of land as collateral for the financing of the joint venture. St. Vincent Carmel is a 50% owner of the Meridian Heights Associates, LLC joint venture.

The Corporation provides professional services to some of its joint ventures. The revenue received for these services was $23,711 and $18,021 in 2010 and 2009, respectively, and is included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

The Corporation provides professional services to another member of Ascension Health. The revenue recorded for these services was $1,207 in 2010.

11. Contingencies and Commitments

In addition to professional liability claims, the Corporation is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the Corporation's consolidated financial position and results of operations.

The Corporation enters into agreements with non-employed physicians that include minimum revenue guarantees. These guarantees provide financial incentives to induce physicians to relocate their practices to a health ministry that serves an area with a demonstrated community need. Guarantees are designed to assist a physician in establishing a viable medical practice in a community in order to promote the health of the community. Generally, subsidies are not provided for more than two years, and the arrangement requires a commitment by the physician to practice in the community for a defined period of time. The Corporation agrees to make payments to the physician at the end of specific time periods if the gross receipts generated by the practice do not equal or exceed a specific dollar amount. The carrying amounts of the liability for the Corporation's obligation under these guarantees were $709 and $809 at June 30, 2010 and 2009, respectively, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets. The maximum amount of future payments that the Corporation could be required to make under these guarantees is $1,000.

11. Contingencies and Commitments (continued)

The Corporation has certain supply commitments totaling $6,210 at June 30, 2010.

12. Subsequent Events

Effective July 1, 2010, the Corporation acquired certain assets owned by The Care Group, LLC (TCG), Northside Cardiac Cath Lab Partnership (Northside), The Care Labs, LLC (TCL), CGC, and IHI. Such acquired assets were used in the operation of a medical practice, several cardiac and vascular catheterization laboratories, a management services company, and a data collections company. In addition, a wholly owned subsidiary of the Corporation, CIHSCS, acquired approximately four additional units of ownership interest in SVHCI, bringing its total ownership interest to approximately 74%. The total purchase price for these transactions was allocated among fixed assets, inventory, and goodwill and intangible assets of these businesses.

The purchase price was financed by the Corporation through promissory notes, which will be repaid out of its cash flow from operations pursuant to the following schedule: a $5,000 down payment that was paid upon the execution of a definitive agreement in May 2010, and is included in other assets in the accompanying balance sheet, 50% of the balance was paid in August 2010, 40% of the balance to be paid in July 2011, and 10% of the balance to be paid in July 2012. The promissory notes bear interest at 4.25% and are secured by certain fixed assets of the Corporation. Effective July 1, 2010, the Corporation owns and operates the medical practice, the cardiac and vascular catheterization laboratories, the management services company, and the data collections company through two of its wholly owned subsidiaries, St. Vincent Medical Group, Inc., an Indiana nonprofit corporation, and Quality Healthcare Solutions, LLC, an Indiana limited liability company.

Other Financial Information

St. Vincent Health, Inc.
Consolidating Balance Sheet
June 30, 2010
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC
Assets								
Current assets:								
Cash and cash equivalents	$ 98,272	$ –	$ 2,640	$ –	$ 6,190	$ 11,655	$ 1,158	$ 11,972
Short-term investments	35,402	–	–	–	3,378	–	–	29,230
Accounts receivable, less allowances for uncollectible accounts of $54,282	211,121	–	–	–	13,180	20,894	–	14,134
Current portion of assets limited as to use	1,962	–	–	–	–	211	–	–
Inventories	22,207	–	–	–	1,161	2,693	–	912
Other	42,687	(40,508)	30,271	–	964	4,216	–	2,034
Total current assets	411,651	(40,508)	32,911	–	24,873	39,669	1,158	58,282
Board-designated investments	1,397,006	–	148	–	89,964	47,597	33,935	–
Other investments	23,823	–	–	–	–	–	–	–
Assets limited as to use:								
Temporarily or permanently restricted	45,619	–	50	–	1,653	4,275	–	6
Total assets limited as to use	45,619	–	50	–	1,653	4,275	–	6
Property and equipment:								
Land and improvements	59,788	–	1,084	–	3,773	7,723	7,138	–
Building and equipment	1,456,602	–	191,297	–	136,123	132,923	–	69,543
Construction in progress	16,868	–	8,710	–	84	133	–	24
Less accumulated depreciation	970,649	–	127,220	–	105,109	101,387	1,386	40,859
Total property and equipment, net	562,609	–	73,871	–	34,871	39,392	5,752	28,708
Other assets:								
Goodwill and intangible assets	48,849	–	–	–	–	–	46,757	–
Investment in unconsolidated entities	75,506	–	9,752	–	368	47	8,253	–
Notes and other receivables	5,000	(46,295)	49,468	–	228	140	–	–
Investments in land	4,263	–	1,716	535	–	–	–	–
Other	8,722	–	6,033	–	234	526	–	–
Total other assets	142,340	(46,295)	66,969	535	830	713	55,010	–
Total assets	$ 2,583,048	$ (86,803)	$ 173,949	$ 535	$ 152,191	$ 131,646	$ 95,855	$ 86,996

St. Vincent Health, Inc.
Consolidating Balance Sheet
June 30, 2010
(Dollars in Thousands)

	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.
Assets								
Current assets:								
Cash and cash equivalents	$ 18,431	$ 6,732	$ 3,746	$ 3,275	$ 4,589	$ 4,361	$ 4,144	$ 2,544
Short-term investments	–	–	344	–	55	–	–	151
Accounts receivable, less allowances for uncollectible accounts of $54,282	113,493	3,941	2,579	16,427	2,980	2,956	1,916	2,711
Current portion of assets limited as to use	–	–	8	–	–	–	–	–
Inventories	12,805	131	175	925	302	424	–	335
Other	37,009	1,197	2,206	3,426	199	349	33	311
Total current assets	181,738	12,001	9,058	24,053	8,125	8,090	6,093	6,052
Board-designated investments	733,831	–	3,164	377,287	7,623	18,044	–	19,290
Other investments	22,315	–	–	–	–	–	–	–
Assets limited as to use:								
Temporarily or permanently restricted	2,485	–	91	241	392	1,197	277	134
Total assets limited as to use	2,485	–	91	241	392	1,197	277	134
Property and equipment:								
Land and improvements	27,849	8	973	7,292	722	320	940	206
Building and equipment	675,028	10,085	26,981	98,093	23,747	17,658	7,580	7,833
Construction in progress	6,861	105	188	276	120	324	–	43
Less accumulated depreciation	465,859	6,712	15,509	54,390	9,756	11,391	5,356	5,010
Total property and equipment, net	243,879	3,486	12,633	51,271	14,833	6,911	3,164	3,072
Other assets:								
Goodwill and intangible assets	–	–	–	–	–	–	–	–
Investment in unconsolidated entities	52,916	–	–	4,170	–	–	–	–
Notes and other receivables	699	404	17	13	–	–	–	10
Investments in land	1,760	–	–	–	–	–	–	–
Other	505	6	–	–	84	–	–	–
Total other assets	55,880	410	17	4,183	84	–	–	10
Total assets	$ 1,240,128	$ 15,897	$ 24,963	$ 457,035	$ 31,057	$ 34,242	$ 9,534	$ 28,558

St. Vincent Health, Inc.
Consolidating Balance Sheet
June 30, 2010
(Dollars in Thousands)

	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Assets						
Current assets:						
Cash and cash equivalents	$ 6,683	$ 2,753	$ 3,228	$ –	$ 3,335	$ 836
Short-term investments	–	–	–	–	–	2,244
Accounts receivable, less allowances for uncollectible accounts of $54,282	2,059	2,166	2,518	–	9,167	–
Current portion of assets limited as to use	–	–	–	–	–	1,743
Inventories	232	147	419	1,068	478	–
Other	82	67	556	71	4	200
Total current assets	9,056	5,133	6,721	1,139	12,984	5,023
Board-designated investments	16,653	1,570	–	–	35,981	11,919
Other investments	–	–	–	–	–	1,508
						–
Assets limited as to use:						
Temporarily or permanently restricted	356	136	25	–	40	34,261
Total assets limited as to use	356	136	25	–	40	34,261
Property and equipment:						
Land and improvements	280	529	–	100	851	–
Building and equipment	11,102	17,607	218	7,982	22,802	–
Construction in progress	–	–	–	–	–	–
Less accumulated depreciation	6,396	7,851	5	–	6,453	–
Total property and equipment, net	4,986	10,285	213	8,082	17,200	–
Other assets:						
Goodwill and intangible assets	–	–	2,092	–	–	–
Investment in unconsolidated entities	–	–	–	–	–	–
Notes and other receivables	–	–	316	–	–	–
Investments in land	252	–	–	–	–	–
Other	2	–	1,332	–	–	–
Total other assets	254	–	3,740	–	–	–
Total assets	$ 31,305	$ 17,124	$ 10,699	$ 9,221	$ 66,205	$ 52,711

St. Vincent Health, Inc.
Consolidating Balance Sheet
June 30, 2010
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC
Liabilities and net assets								
Current liabilities:								
Current portion of long-term debt	$ 2,768	$ (3,561)	$ 374	$ –	$ 139	$ 132	$ –	$ 3,594
Accounts payable and accrued liabilities	204,613	–	17,554	–	9,921	18,154	54	10,653
Estimated third-party payor settlements, net	21,433	–	–	–	598	2,199	–	1,563
Current portion of self-insurance liabilities	3,026	–	–	–	–	101	–	–
Other	6,032	(40,508)	211	–	3,026	2,303	761	538
Total current liabilities	237,872	(44,069)	18,139	–	13,684	22,889	815	16,348
Noncurrent liabilities:								
Long-term debt	336,296	(42,734)	45,921	–	17,054	16,207	–	42,734
Self-insurance liabilities	233	–	–	–	17	–	–	–
Pension and other postretirement liabilities	121,334	–	9,984	–	6,526	7,855	–	–
Minority interest liability	11,473	–	–	–	–	39	8,387	–
Other	35,436	–	8,190	–	1,702	1,231	15,020	–
Total noncurrent liabilities	504,772	(42,734)	64,095	–	25,299	25,332	23,407	42,734
Total liabilities	742,644	(86,803)	82,234	–	38,983	48,221	24,222	59,082
Net assets:								
Unrestricted	1,792,823	–	91,665	535	111,555	78,939	71,633	27,908
Temporarily restricted	31,626	–	50	–	1,262	3,983	–	6
Permanently restricted	15,955	–	–	–	391	503	–	–
Total net assets	1,840,404	–	91,715	535	113,208	83,425	71,633	27,914
Total liabilities and net assets	$ 2,583,048	$ (86,803)	$ 173,949	$ 535	$ 152,191	$ 131,646	$ 95,855	$ 86,996

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St. Vincent Health, Inc.
Consolidating Balance Sheet
June 30, 2010
(Dollars in Thousands)

	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.
Liabilities and net assets								
Current liabilities:								
Current portion of long-term debt	$ 1,485	$ 2	$ 96	$ 176	$ 120	$ 66	$ 14	$ 4
Accounts payable and accrued liabilities	101,680	8,189	1,986	16,885	2,113	2,220	1,665	3,780
Estimated third-party payor settlements, net	11,455	–	207	892	698	1,174	–	1,480
Current portion of self-insurance liabilities	2,682	–	–	206	11	24	–	2
Other	5,292	10,979	550	4,874	601	546	760	1,040
Total current liabilities	122,594	19,170	2,839	23,033	3,543	4,030	2,439	6,306
Noncurrent liabilities:								
Long-term debt	182,589	295	11,858	21,666	14,738	8,119	1,756	507
Self-insurance liabilities	–	210	–	–	–	–	6	–
Pension and other postretirement liabilities	73,012	5,201	1,040	9,192	902	542	1,770	1,067
Minority interest liability	–	–	–	210	2,387	–	–	–
Other	8,386	6	37	627	83	–	–	–
Total noncurrent liabilities	263,987	5,712	12,935	31,695	18,110	8,661	3,532	1,574
Total liabilities	386,581	24,882	15,774	54,728	21,653	12,691	5,971	7,880
Net assets:								
Unrestricted	851,062	(8,985)	9,090	402,066	9,012	20,354	3,286	20,544
Temporarily restricted	2,475	–	99	241	358	1,197	277	134
Permanently restricted	10	–	–	–	34	–	–	–
Total net assets	853,547	(8,985)	9,189	402,307	9,404	21,551	3,563	20,678
Total liabilities and net assets	$ 1,240,128	$ 15,897	$ 24,963	$ 457,035	$ 31,057	$ 34,242	$ 9,534	$ 28,558

St. Vincent Health, Inc.
Consolidating Balance Sheet
June 30, 2010
(Dollars in Thousands)

	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	$ 34	$ 89	$ –	$ –	$ 4	$ –
Accounts payable and accrued liabilities	1,705	1,206	1,272	1,101	4,471	4
Estimated third-party payor settlements, net	349	759	(500)	–	559	–
Current portion of self-insurance liabilities	–	–	–	–	–	–
Other	1,312	327	3,622	8,120	1,659	19
Total current liabilities	3,400	2,381	4,394	9,221	6,693	23
Noncurrent liabilities:						
Long-term debt	4,216	10,931	–	–	439	–
Self-insurance liabilities	–	–	–	–	–	–
Pension and other postretirement liabilities	824	696	–	–	2,723	–
Minority interest liability	–	450	–	–	–	–
Other	2	–	–	–	–	152
Total noncurrent liabilities	5,042	12,077	–	–	3,162	152
Total liabilities	8,442	14,458	4,394	9,221	9,855	175
Net assets:						
Unrestricted	22,507	2,530	6,280	–	56,310	16,532
Temporarily restricted	356	136	25	–	40	20,987
Permanently restricted	–	–	–	–	–	15,017
Total net assets	22,863	2,666	6,305	–	56,350	52,536
Total liabilities and net assets	$ 31,305	$ 17,124	$ 10,699	$ 9,221	$ 66,205	$ 52,711

St. Vincent Health, Inc.
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2010
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC	St. Vincent Hospital and Health Care Center, Inc.
Operating revenue:								
Net patient service revenue	$ 1,803,052	$ –	$ –	$ 120,351	$ 179,832	$ –	$ 133,592	$ 914,720
Other revenue	67,814	(531)	3,272	1,346	11,505	160	504	45,843
Income (loss) from unconsolidated entities	12,867	–	(609)	–	(9)	(728)	–	8,457
Net assets released from restrictions for operations	5,405	–	338	176	238	–	18	3,756
Total operating revenue	1,889,138	(531)	3,001	121,873	191,566	(568)	134,114	972,776
Operating expenses:								
Salaries and wages	668,928	–	2,514	45,537	70,495	1,404	28,668	332,162
Employee benefits	184,356	(243)	1,289	12,517	20,783	363	7,523	90,168
Purchased services	164,427	–	79,444	5,272	3,247	–	12,324	44,688
Professional fees	91,905	(12)	15,110	4,859	15,459	12	9,462	35,012
Supplies	268,102	–	1,071	15,298	30,010	–	29,059	143,746
Insurance	10,201	–	–	687	998	–	229	5,439
Bad debts	79,524	–	3	8,812	10,993	–	7,554	25,089
Interest	11,365	–	(179)	526	500	343	1,757	6,115
Depreciation and amortization	84,957	–	15,833	4,701	5,853	4,429	5,403	35,773
Other	167,708	(276)	(95,514)	14,402	23,091	4,412	9,757	159,196
Total operating expenses	1,731,473	(531)	19,571	112,611	181,429	10,963	111,736	877,388
Income (loss) from operations	157,665	–	(16,570)	9,262	10,137	(11,531)	22,378	95,388
Nonoperating gains (losses):								
Investment return	169,205	–	285	10,707	5,410	3,425	410	92,889
Income (loss) from unconsolidated entities	1,424	–	1,485	35	–	–	–	266
Minority interest in consolidated entities	(8,825)	–	–	–	(299)	(8,056)	–	–
Other	(5,269)	–	(2,947)	(45)	33	–	–	(959)
Total nonoperating gains (losses), net	156,535	–	(1,177)	10,697	5,144	(4,631)	410	92,196
Excess (deficit) of revenues and gains over expenses and losses	$ 314,200	$ –	$ (17,747)	$ 19,959	$ 15,281	$ (16,162)	$ 22,788	$ 187,584

St. Vincent Health, Inc.
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2010
(Dollars in Thousands)

	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.	St. Vincent Williamsport Hospital, Inc.
Operating revenue:								
Net patient service revenue	$ 52,450	$ 26,143	$ 162,679	$ 26,027	$ 23,721	$ 20,955	$ 28,723	$ 24,757
Other revenue	431	340	1,896	279	232	12	492	410
Income (loss) from unconsolidated entities	–	–	5,756	–	–	–	–	–
Net assets released from restrictions for operations	130	57	99	142	21	49	25	17
Total operating revenue	53,011	26,540	170,430	26,448	23,974	21,016	29,240	25,184
Operating expenses:								
Salaries and wages	44,960	11,278	45,947	10,714	6,953	13,131	8,740	9,887
Employee benefits	10,520	3,368	13,305	3,058	2,184	4,998	2,696	2,745
Purchased services	534	996	5,155	1,139	1,559	455	2,802	1,129
Professional fees	929	1,003	3,170	2,044	831	250	961	431
Supplies	4,873	2,422	23,120	2,645	2,511	407	2,346	1,374
Insurance	1,044	160	526	140	93	84	180	213
Bad debts	3,439	2,836	4,130	2,442	2,758	–	3,740	3,522
Interest	9	365	672	455	250	54	16	130
Depreciation and amortization	872	832	5,487	1,206	601	381	645	340
Other	11,533	3,099	14,486	3,025	2,946	1,958	3,882	2,477
Total operating expenses	78,713	26,359	115,998	26,868	20,686	21,718	26,008	22,248
Income (loss) from operations	(25,702)	181	54,432	(420)	3,288	(702)	3,232	2,936
Nonoperating gains (losses):								
Investment return	224	449	42,010	641	1,726	128	2,135	1,767
Income (loss) from unconsolidated entities	–	–	(362)	–	–	–	–	–
Minority interest in consolidated entities	–	–	(470)	–	–	–	–	–
Other	1	(107)	(58)	30	2	4	1	9
Total nonoperating gains (losses), net	225	342	41,120	671	1,728	132	2,136	1,776
Excess (deficit) of revenues and gains over expenses and losses	$ (25,477)	$ 523	$ 95,552	$ 251	$ 5,016	$ (570)	$ 5,368	$ 4,712

St. Vincent Health, Inc.
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2010
(Dollars in Thousands)

	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Operating revenue:				
Net patient service revenue	$ 20,477	$ 7,722	$ 60,903	$ –
Other revenue	108	103	147	1,265
Income (loss) from unconsolidated entities	–	–	–	–
Net assets released from restrictions for operations	174	–	31	134
Total operating revenue	20,759	7,825	61,081	1,399
Operating expenses:				
Salaries and wages	6,910	3,130	26,498	–
Employee benefits	2,264	712	6,106	–
Purchased services	1,636	395	3,652	–
Professional fees	1,473	219	692	–
Supplies	1,476	981	6,766	(3)
Insurance	162	88	158	–
Bad debts	3,683	1,111	(588)	–
Interest	338	–	14	–
Depreciation and amortization	641	195	1,765	–
Other	2,681	851	6,897	(1,195)
Total operating expenses	21,264	7,682	51,960	(1,198)
Income (loss) from operations	(505)	143	9,121	2,597
Nonoperating gains (losses):				
Investment return	181	9	3,468	3,341
Income (loss) from unconsolidated entities	–	–	–	–
Minority interest in consolidated entities	–	–	–	–
Other	22	–	1	(1,256)
Total nonoperating gains (losses), net	203	9	3,469	2,085
Excess (deficit) of revenues and gains over expenses and losses	$ (302)	$ 152	$ 12,590	$ 4,682

St. Vincent Health, Inc.
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2010
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC
Unrestricted net assets:								
Excess (deficit) of revenues and gains over expenses and losses	$ 314,200	$ –	$ (17,747)	$ –	$ 19,959	$ 15,281	$ (16,162)	$ 22,788
Pension and other postretirement liability adjustments	(1,867)	–	(174)	–	(365)	(1,047)	–	–
Adjustment to adopt measurement date provision for pension	(194)	–	–	–	–	–	–	–
Transfer (to) from sponsor and other affiliates, net	(40,127)	–	37,146	–	(1,548)	(4,647)	15,600	(15,594)
Net assets released from restrictions for property acquisitions	4,710	–	–	–	195	657	–	16
Other	978	–	(6)	–	(2)	–	8,400	(8,405)
Increase (decrease) in unrestricted net assets	277,700	–	19,219	–	18,239	10,244	7,838	(1,195)
Temporarily restricted net assets:								
Contributions and grants	7,952	–	–	–	147	845	–	–
Net change in unrealized gains/losses on investments	1,406	–	–	–	–	184	–	–
Investment return	1,009	–	–	–	46	134	–	–
Net assets released from restrictions	(10,115)	–	(338)	–	(371)	(895)	–	(34)
Other	1,090	–	386	–	177	–	–	40
Increase (decrease) in temporarily restricted net assets	1,342	–	48	–	(1)	268	–	6
Permanently restricted net assets:								
Contributions	523	–	–	–	2	–	–	–
Net change in unrealized gains/losses on investments	24	–	–	–	–	–	–	–
Investment return	111	–	–	–	–	–	–	–
Other	(20)	–	–	–	–	–	–	–
Increase (decrease) in permanently restricted net assets	638	–	–	–	2	–	–	–
Increase (decrease) in net assets	279,680	–	19,267	–	18,240	10,512	7,838	(1,189)
Net assets, beginning of the year	1,560,724	–	72,446	535	94,968	72,913	63,795	29,103
Net assets, end of the year	$ 1,840,404	$ –	$ 91,713	$ 535	$ 113,208	$ 83,425	$ 71,633	$ 27,914

St. Vincent Health, Inc.
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2010
(Dollars in Thousands)

	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.
Unrestricted net assets:								
Excess (deficit) of revenues and gains over expenses and losses	$ 187,584	$ (25,477)	$ 523	$ 95,552	$ 251	$ 5,016	$ (570)	$ 5,368
Pension and other postretirement liability adjustments	78	325	(240)	169	12	(39)	(163)	(285)
Adjustment to adopt measurement date provision for pension	(194)	–	–	–	–	–	–	–
Transfer (to) from sponsor and other affiliates, net	(80,549)	15,715	(34)	(7,859)	(42)	(23)	12	(1)
Net assets released from restrictions for property acquisitions	2,771	–	283	363	309	67	35	14
Other	(5,290)	–	–	(386)	148	–	(17)	(22)
Increase (decrease) in unrestricted net assets	104,400	(9,437)	532	87,839	678	5,021	(703)	5,074
Temporarily restricted net assets:								
Contributions and grants	946	–	115	–	311	59	28	3
Net change in unrealized gains/losses on investments	167	–	–	14	–	74	7	–
Investment return	152	–	–	15	1	48	5	–
Net assets released from restrictions	(6,527)	(130)	(340)	(462)	(451)	(88)	(84)	(39)
Other	5,641	130	236	471	82	44	41	70
Increase (decrease) in temporarily restricted net assets	379	–	11	38	(57)	137	(3)	34
Permanently restricted net assets:								
Contributions	–	–	–	–	1	–	–	–
Net change in unrealized gains/losses on investments	–	–	–	–	–	–	–	–
Investment return	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Increase (decrease) in permanently restricted net assets	–	–	–	–	1	–	–	–
Increase (decrease) in net assets	104,779	(9,437)	543	87,877	622	5,158	(706)	5,108
Net assets, beginning of the year	748,768	452	8,646	314,430	8,782	16,393	4,269	15,570
Net assets, end of the year	$ 853,547	$ (8,985)	$ 9,189	$ 402,307	$ 9,404	$ 21,551	$ 3,563	$ 20,678

St. Vincent Health, Inc.
Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2010
(Dollars in Thousands)

	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Unrestricted net assets:					
Excess (deficit) of revenues and gains over expenses and losses	$ 4,712	$ (302)	$ 152	$ 12,590	$ 4,682
Pension and other postretirement liability adjustments	8	182	–	(328)	–
Adjustment to adopt measurement date provision for pension	–	–	–	–	–
Transfer (to) from sponsor and other affiliates, net	(12)	(31)	6,128	12	(4,400)
Net assets released from restrictions for property acquisitions	–	–	–	–	–
Other	–	–	–	(14)	6,572
Increase (decrease) in unrestricted net assets	4,708	(151)	6,280	12,260	6,854
Temporarily restricted net assets:					
Contributions and grants	10	40	–	–	5,448
Net change in unrealized gains/losses on investments	–	–	–	–	960
Investment return	–	–	–	–	608
Net assets released from restrictions	(17)	(174)	–	(31)	(134)
Other	39	194	25	59	(6,545)
Increase (decrease) in temporarily restricted net assets	32	60	25	28	337
Permanently restricted net assets:					
Contributions	–	–	–	–	520
Net change in unrealized gains/losses on investments	–	–	–	–	24
Investment return	–	–	–	–	111
Other	–	–	–	–	(20)
Increase (decrease) in permanently restricted net assets	–	–	–	–	635
Increase (decrease) in net assets	4,740	(91)	6,305	12,288	7,826
Net assets, beginning of the year	18,123	2,758	–	44,063	44,710
Net assets, end of the year	$ 22,863	$ 2,667	$ 6,305	$ 56,351	$ 52,536

St. Vincent Health, Inc.

Schedule of Net Cost of Providing Care of Persons Who are Poor and Community Benefit Programs

(Dollars in Thousands)

The net cost excluding the provision for bad debt expense of providing care of persons who are poor and community benefit programs is as follows:

	June 30	
	2010	**2009**
Traditional charity care provided	**$ 50,719**	$ 29,623
Unpaid cost of public programs for the poor	**94,798**	84,081
Other programs for the poor	**4,087**	3,459
Community benefit programs	**29,624**	27,004
Care of persons who are poor and community benefit programs	**$ 179,228**	$ 144,167

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