Attachment 15

CHI Consolidated Financial Statements and Other Financial Information for the Fiscal Years Ended June 30, 2011 and 2010 with Report of Independent Auditors.

Catholic Health Initiatives

Consolidated Financial Statements
and Other Financial Information
Years Ended June 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Catholic Health Initiatives
Consolidated Financial Statements
and Other Financial Information

Years Ended June 30, 2011 and 2010

Contents

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Report of Independent Auditors

Board of Stewardship Trustees
Catholic Health Initiatives

We have audited the accompanying consolidated balance sheets of Catholic Health Initiatives (CHI) as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CHI's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Alegent Health-Bergan Mercy Health System, a wholly sponsored direct affiliate of CHI, which statements reflect total assets of $708 million and $634 million as of June 30, 2011 and 2010, respectively, and total revenues of $466 million and $454 million, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Alegent Health-Bergan Mercy Health System, is based solely on the report of the other auditors.

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 CHI'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 CHI'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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Health Initiatives at June 30, 2011 and 2010, and the consolidated results of its operations 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 consolidated financial statements taken as a whole. The unaudited community benefit information in Note 2 to the consolidated financial statements is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, accordingly, we express no opinion on such information.

Ernst + Young LLP

September 13, 2011

Catholic Health Initiatives
Consolidated Balance Sheets

	June 30 2011	June 30 2010
	(In Thousands)	
Assets		
Current assets:		
Cash and equivalents	**$ 449,674**	$ 494,487
Net patient accounts receivable, less allowances of $650,617 and $593,749 in 2011 and 2010, respectively	**1,133,819**	1,118,487
Other accounts receivable	**108,848**	119,697
Current portion of investments and assets limited as to use	**19,554**	3,463
Inventories	**173,316**	170,003
Assets held for sale	**23,987**	17,900
Prepaid and other	**70,805**	52,828
Total current assets	**1,980,003**	1,976,865
Investments and assets limited as to use:		
Internally designated for capital and other funds	**4,617,181**	3,981,359
Mission and Ministry Fund	**117,832**	98,726
Capital Resource Pool	**268,690**	246,943
Held by trustees	**5,488**	43,411
Held for insurance purposes	**739,071**	681,001
Restricted by donors	**154,567**	140,635
Total investments and assets limited as to use	**5,902,829**	5,192,075
Property and equipment, net	**4,935,519**	4,705,909
Deferred financing costs	**11,821**	11,494
Investments in unconsolidated organizations	**353,449**	241,604
Intangible assets and goodwill, net	**57,486**	35,403
Notes receivable and other	**640,027**	629,216
Total assets	**$ 13,881,134**	$ 12,792,566

Continued on following page

Catholic Health Initiatives
Consolidated Balance Sheets (continued)

	June 30 2011	June 30 2010
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 408,375**	$ 366,685
Third-party liabilities	**66,283**	66,091
Accounts payable and accrued expenses	**607,400**	662,748
Variable-rate debt with self liquidity	**163,400**	283,660
Current portion of long-term debt	**836,201**	736,052
Total current liabilities	**2,081,659**	2,115,236
Pension liability	**315,523**	731,196
Self-insured reserves and claims	**448,940**	436,787
Other liabilities	**269,662**	279,186
Long-term debt	**3,123,001**	3,180,965
Total liabilities	**6,238,785**	6,743,370
Net assets:		
Net assets attributable to CHI	**7,448,161**	5,875,377
Net assets attributable to noncontrolling interests	**8,967**	8,204
Unrestricted	**7,457,128**	5,883,581
Temporarily restricted	**122,795**	112,207
Permanently restricted	**62,426**	53,408
Total net assets	**7,642,349**	6,049,196
Total liabilities and net assets	**$ 13,881,134**	$ 12,792,566

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Operations

	Year Ended June 30 2011	2010
	(In Thousands)	
Revenues:		
Net patient services	$ 9,004,978	$ 8,504,180
Nonpatient:		
Donations	24,639	29,421
Changes in equity of unconsolidated organizations	38,059	15,772
Investment income from self-insured trust funds	97,907	75,981
Other	466,185	466,167
Total nonpatient revenues	626,790	587,341
Total operating revenues	9,631,768	9,091,521
Expenses:		
Salaries and wages	3,632,761	3,394,929
Employee benefits	773,040	749,049
Purchased services, medical professional fees, consulting and legal	867,149	821,367
Supplies	1,549,694	1,519,479
Bad debts	718,577	653,250
Utilities	122,195	117,593
Rentals, leases, maintenance and insurance	489,791	399,453
Depreciation and amortization	470,669	462,262
Interest	133,423	111,188
Other	493,488	444,133
Total operating expenses before restructuring, impairment and other losses	9,250,787	8,672,703
Income from operations before restructuring, impairment and other losses	380,981	418,818
Restructuring, impairment and other losses	25,655	61,638
Income from operations	355,326	357,180
Nonoperating gains (losses):		
Investment income, net	753,764	387,674
Gain on escrow restructuring and defeasance of bonds, net	–	2,896
Realized and unrealized losses on interest rate swaps	(4,870)	(78,467)
Other nonoperating gains	16,462	13,665
Total nonoperating gains	765,356	325,768
Excess of revenues over expenses	$ 1,120,682	$ 682,948
Excess of revenues over expenses attributable to noncontrolling interest	$ 3,298	$ 966
Excess of revenues over expenses attributable to CHI	$ 1,117,384	$ 681,982

Community benefit provided to the poor and broader community and the unpaid cost of Medicare (unaudited) was $1.1 billion in each of 2011 and 2010 (see Note 2 of the accompanying notes).

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Changes in Net Assets
(In Thousands)

	Unrestricted Net Assets					
	Attributable to CHI	Attributable to Noncontrolling Interests	Total	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances, June 30, 2009	$ 5,336,668	$ 8,382	$ 5,345,050	$ 114,694	$ 53,728	$ 5,513,472
Excess of revenues over expenses	681,982	966	682,948	–	–	682,948
Increase in pension liability	(131,360)	–	(131,360)	–	–	(131,360)
Temporarily and permanently restricted contributions	–	–	–	37,772	420	38,192
Net assets released from restriction for capital	23,598	–	23,598	(23,598)	–	–
Net assets released from restriction for operations	–	–	–	(21,237)	–	(21,237)
Investment income	–	–	–	4,275	(175)	4,100
Other changes in net assets	3,137	(1,144)	1,993	301	(565)	1,729
Net loss from discontinued operations	(38,648)	–	(38,648)	–	–	(38,648)
Net increase in net assets	538,709	(178)	538,531	(2,487)	(320)	535,724
Balances, June 30, 2010	5,875,377	8,204	5,883,581	112,207	53,408	6,049,196
Excess of revenues over expenses	**1,117,384**	**3,298**	**1,120,682**	–	–	**1,120,682**
Decrease in pension liability	**404,768**	–	**404,768**	–	–	**404,768**
Temporarily and permanently restricted contributions	–	–	–	**44,502**	**3,803**	**48,305**
Net assets released from restriction for capital	**26,270**	–	**26,270**	**(26,270)**	–	–
Net assets released from restriction for operations	–	–	–	**(13,868)**	–	**(13,868)**
Investment income	–	–	–	**7,718**	**1,737**	**9,455**
Other changes in net assets	**24,362**	**(2,535)**	**21,827**	**(1,494)**	**3,478**	**23,811**
Net increase in net assets	**1,572,784**	**763**	**1,573,547**	**10,588**	**9,018**	**1,593,153**
Balances, June 30, 2011	**$ 7,448,161**	**$ 8,967**	**$ 7,457,128**	**$ 122,795**	**$ 62,426**	**$ 7,642,349**

See accompanying notes.

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Catholic Health Initiatives
Consolidated Statements of Cash Flows

	Year Ended June 30 2011	2010
	(In Thousands)	
Operating activities		
Increase in net assets	$ 1,593,153	$ 535,724
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	470,669	469,998
Provision for bad debts	718,577	688,547
Changes in equity of unconsolidated organizations	(38,059)	(16,830)
Net gains on sales of facilities and investments in unconsolidated organizations	(3,540)	(9,735)
Loss on sale of Idaho and Eastern Oregon operations	–	50,773
Noncash operating expenses related to restructuring, impairment and other losses	9,644	35,833
Loss on defeasance of bonds	–	151
(Increase) decrease in fair value of interest rate swaps	(26,876)	46,396
(Decrease) increase in unfunded pension liability	(404,768)	131,360
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	(710,994)	(626,755)
Other current assets	(20,318)	(8,301)
Current liabilities	(40,549)	134,138
Other changes	(37,700)	(27,910)
Net cash provided by operating activities, before net change in investments and assets limited as to use	1,509,239	1,403,389
Net increase in investments and assets limited as to use	(729,424)	(1,384,929)
Net cash provided by operating activities	779,815	18,460
Investing activities		
Purchases of property, equipment and other capital assets	(761,713)	(821,354)
Purchase of CHS, net of cash acquired	(35,533)	–
Net cash proceeds from asset sales	4,992	21,617
Net cash proceeds from sale of Idaho and Eastern Oregon operations	–	61,937
Distributions from investments in unconsolidated organizations	44,748	27,450
Notes receivable issued to unconsolidated affiliates	(32,026)	(135,728)
Payment received on notes receivable from unconsolidated affiliates	27,391	14,606
Other changes	6,889	(911)
Net cash used in investing activities	(745,252)	(832,383)
Financing activities		
Proceeds from bank loan and issuance of long-term debt	276,598	1,174,753
Net costs associated with issuance of long-term debt	–	(10,837)
Repayment of long-term debt	(355,974)	(568,195)
Net cash (used in) provided by financing activities	(79,376)	595,721
Decrease in cash and equivalents	(44,813)	(218,202)
Cash and equivalents at beginning of year	494,487	712,689
Cash and equivalents at end of year	$ 449,674	$ 494,487
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, including amounts capitalized	$ 149,822	$ 118,053

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBOs) and other facilities in 19 states, including 72 acute-care hospitals, of which 21 are designated as critical access hospitals by the Medicare program, 40 long-term care, assisted living and residential facilities, two community health service organizations (CHSOs), home health agencies and two accredited nursing colleges. CHI also has an offshore captive insurance company, First Initiatives Insurance, Limited (FIIL).

The mission of CHI is to nurture the healing ministry of the Church, bringing it new life, energy and viability in the 21st century. CHI is committed to fidelity to the Gospel, with emphasis on human dignity and social justice in the creation of healthier communities. CHI is sponsored by a lay-religious partnership, calling on other Catholic sponsors and systems to unite to ensure the future of Catholic health care.

Principles of Consolidation

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership (Direct Affiliates) and all entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and equivalents, patient accounts receivable, investments and assets limited as to use, notes receivable, accounts payable and long-term debt. The carrying amounts reported in the consolidated balance sheets for these items approximate fair value.

Cash and Equivalents

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. In addition, cash and equivalents include deposits in short-term funds held by professional managers. The funds generally invest in high-quality, short-term debt securities, including U.S. government securities,

1. Summary of Significant Accounting Policies (continued)

securities issued by domestic and foreign banks, such as certificates of deposit and bankers' acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper and corporate short-term obligations.

Net Patient Accounts Receivable and Net Patient Services Revenues

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in health care coverage and other collection indicators. Management routinely assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, CHI follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility.

CHI records net patient services revenues in the period in which services are performed. CHI has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement and negotiated discounts from established rates and per diem payments.

Net patient services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations, and excluding estimated amounts considered uncollectible. The differences between the estimated and actual adjustments are recorded as part of net patient services revenues in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews and investigations.

1. Summary of Significant Accounting Policies (continued)

Investments and Assets Limited as to Use

Investments and assets limited as to use include assets set aside by CHI for future long-term purposes, including capital improvements and self-insurance. In addition, assets limited as to use include amounts held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions and amounts held for Mission and Ministry programs.

CHI has designated its investment portfolio as trading. Accordingly, unrealized gains and losses on marketable securities are included within excess of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in partnerships and limited liability companies are recorded using the equity method of accounting (which approximates fair value) with the related changes in value in earnings reported as investment income in the accompanying consolidated financial statements.

Inventories

Inventories, primarily consisting of pharmacy drugs and medical and surgical supplies, are stated at lower of cost (first-in, first-out method) or market.

Assets and Liabilities Held for Sale

A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon discounted cash flows and incremental direct costs to transact a sale.

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment. Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. Capitalized interest of $15 million and $22 million was recorded in 2011 and 2010, respectively.

Costs incurred in the development and installation of internal-use software are typically expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Amounts capitalized are amortized over the useful life of the developed asset following project completion.

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership or degree of influence over that organization. The equity income or loss on these investments is recorded in the consolidated statements of operations as changes in equity of unconsolidated organizations.

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, deposits and other long-term assets. Notes receivable include balances from the following related entities: Alegent Health and Alegent Health Immanuel Medical Center (collectively, Alegent), the Nebraska joint operating company (JOC) and non-CHI joint operating agreement (JOA) partner, respectively; Bethesda Hospital, Inc. (Bethesda), the non-CHI JOA partner in the Cincinnati, Ohio JOA; and Jewish Hospital Healthcare Services, Inc. (JHHS), an unconsolidated investee organization. The notes bear interest at rates commensurate with the CHI blended interest cost and require monthly debt service payments.

1. Summary of Significant Accounting Policies (continued)

A summary of notes receivable and other assets is as follows as of June 30 (in thousands):

	2011	2010
Notes receivable from related entities:		
Alegent	$ 273,535	$ 254,444
Bethesda	212,090	223,155
JHHS	25,466	29,887
Total notes receivable from related entities	511,091	507,486
Other long-term assets	128,936	121,730
Total notes receivable and other	$ 640,027	$ 629,216

Alegent and Bethesda are Designated Affiliates in the CHI credit group under the Capital Obligation Document (COD). As conditions of joining the CHI credit group, the Designated Affiliates have agreed to certain covenants related to corporate existence, insurance coverage, exempt use of bond-financed facilities, maintenance of certain financial ratios and compliance with limitations on the incurrence of additional debt. Based upon management's review of the creditworthiness of the Designated Affiliates and their compliance with the covenants and limitations, no allowances for uncollectible notes receivable were recorded at June 30, 2011 and 2010.

Net Assets

Temporarily restricted net assets are those whose use 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, including 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, to provide charity care and to provide other health and educational programs and services.

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as donation revenues. Other gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is,

1. Summary of Significant Accounting Policies (continued)

when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

Performance Indicator

The performance indicator is the excess (deficiency) of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the pension liability funded status, net assets released from restrictions for property acquisitions, cumulative effect of changes in accounting principles, discontinued operations and contributions of property and equipment and other changes not required to be excluded within the performance indicator and generally accepted accounting principles.

Operating and Nonoperating Activities

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician 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 CHI's primary mission are considered to be nonoperating. Nonoperating activities include: investment earnings, excluding the earnings from the investments held by FIIL; gains (losses) from bond refinancing; net interest cost and changes in fair value of interest rate swaps; and the nonoperating component of JOA income share adjustments.

Charity Care

As an integral part of its mission, CHI accepts and treats all patients without regard to the ability to pay. Services to patients are classified as charity care in accordance with standards established across all MBOs. Charity care represents services rendered for which partial or no payment is expected and, as such, is not included in net patient services revenues in the accompanying consolidated statements of operations and changes in net assets. The amount of charity care provided, determined on the basis of charges, was 4.0% and 3.7% of gross patient services revenues for 2011 and 2010, respectively.

1. Summary of Significant Accounting Policies (continued)

Other Nonpatient Revenues

Other nonpatient revenues include gains and losses on the sales of assets, the operating portion of revenue-sharing income or expense associated with Direct Affiliates that are part of JOAs, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues and revenues from other miscellaneous sources.

Derivative and Hedging Instruments

CHI uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the consolidated balance sheets. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges. The net interest cost and change in the fair value of such interest rate swaps is recognized as a component of nonoperating gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

Functional Expenses

CHI provides inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services and other functions that are supported centrally for all of CHI. Support services expenses as a percent of total operating expenses were approximately 4.2% and 4.4% in 2011 and 2010, respectively.

Restructuring, Impairment and Other Losses

CHI periodically evaluates property, equipment and certain other intangible assets to determine whether assets may have been impaired. Management determined there were certain property and equipment impairments in both 2011 and 2010 to the extent that the discounted cash flows estimated to be generated by those assets were less than the underlying carrying value.

During the years ended June 30, 2011 and 2010, CHI recorded nonrecurring expenses of \$26 million and \$62 million, respectively, relating to asset impairments and changes in business operations, including reorganization and severance costs. During 2010, CHI recorded an additional \$48 million of nonrecurring expenses, which were included as discontinued operations in the statements of changes in net assets.

1. Summary of Significant Accounting Policies (continued)

Income Taxes

CHI is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and therefore subject to income tax. As of June 30, 2011, CHI has current net deferred tax assets of $2.1 million and a noncurrent net deferred tax liability of $5.4 million related to these taxable activities.

Management reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates.

New Accounting Pronouncements and Adoption of New Accounting Standards

Effective July 2010, CHI adopted the provision of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 958-810, *Not-for-Profit-Entities: Consolidation*, which made the provision of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, applicable to not-for-profit entities. The purpose of the ASC and FASB were to reflect the noncontrolling interest in the equity or net assets of a consolidated subsidiary as a component of net assets rather than as minority interest expense and minority interest liability. The adoption of ASC 958-810 did not have a material impact on CHI's consolidated results of financial position, operations or cash flows. The prior year's presentation has been adjusted to reflect the application of the new accounting guidance.

In January 2010, the FASB released Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions*, which amends FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions.* The objective of ASU 2010-07 is to improve the relevance, representational faithfulness and comparability of the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses or nonprofit activities. ASU 2010-07 also

1. Summary of Significant Accounting Policies (continued)

provides relevant and comparable information that a not-for-profit entity provides for goodwill and other intangible assets after an acquisition by amending existing guidance to make it fully applicable to not-for-profit entities. ASU 2010-07 is effective for mergers for which the merger date is on or after the beginning of an *initial* reporting period beginning on or after December 15, 2009, and acquisitions for which the acquisition date is on or after the beginning of the first *annual* reporting period beginning on or after December 15, 2009. CHI adopted the provisions of ASU 2010-07 effective July 2010, and adoption did not have a material impact on its overall consolidated results of financial position, operations or cash flows.

In January 2010, the FASB released ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 was issued to improve disclosure requirements related to fair value measurements and disclosures (overall Subtopic 820-10) of the FASB. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. CHI adopted the provisions of ASU 2010-06 during 2010 and 2011.

In September 2009, the FASB released ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value*. ASU 2009-12 amends ASC 820, *Fair Value Measurements and Disclosures*, and allows a reporting entity, as a practical expedient, to estimate fair value of certain alternative investments at the net asset value as reported by the investee entity in instances where the net asset value has been calculated in a manner consistent with ASC 946, *Financial Services – Investment Companies*. Adoption of the provisions of ASU 2009-12 during 2010 did not have a material impact on the valuation of CHI's investments.

In August 2010, the FASB released ASU No. 2010-23, *Measuring Charity Care for Disclosure*. ASU 2010-23 requires the disclosure of charity care amounts and provides specific guidance on how to measure charity care. The accounting provisions specifically require that charity care not be reduced by reimbursement for charity care, and that the amount of reimbursements for charity care be disclosed. The disclosures are effective for fiscal years beginning after December 15, 2010, with retrospective application required. CHI does not believe the adoption of ASU 2010-23 will have a material effect on its overall consolidated results of financial position, operations or cash flows.

1. Summary of Significant Accounting Policies (continued)

In August 2010, the FASB released ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. ASU 2010-24 applies to malpractice claims and similar contingent liabilities and requires that such liabilities disregard the effect of any anticipated insurance recoveries in determining the liability amounts. The accounting provisions also provide accounting guidance for recording any insurance recovery receivables. ASU 2010-24 is effective for fiscal years beginning after December 15, 2010. CHI is evaluating the effect of adopting ASU 2010-24 but does not believe its adoption will have a material effect on its overall consolidated results of financial position, operations or cash flows.

In July 2011, the FASB released ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Entities*. ASU 2011-07 requires health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient services revenues from an operating expense to a deduction from patient services revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures will be required surrounding the entity's policies for recognizing revenue and assessing bad debts. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011. CHI is evaluating the effect of adopting ASU 2011-07.

Reclassifications

Certain reclassifications were made to the 2010 consolidated financial statement presentation to conform to the 2011 presentation.

2. Community Benefit (Unaudited)

In accordance with its mission and philosophy, CHI commits substantial resources to sponsor a broad range of services to both the poor and the broader community. Community benefit provided to the poor includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. This type of community benefit includes the costs of: traditional charity care; unpaid costs of care provided to beneficiaries of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community.

2. Community Benefit (Unaudited) (continued)

Community benefit provided to the broader community includes the costs of providing services to other populations who may not qualify as poor but may need special services and support. This type of community benefit includes the costs of: services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid portions of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid portions of testing medical equipment and controlled studies of therapeutic protocols.

A summary of the cost of community benefit provided to both the poor and the broader community is as follows (in thousands):

	2011	2010
Cost of community benefit:		
Cost of charity care provided	**$ 244,949**	$ 221,140
Unpaid cost of public programs, Medicaid and other indigent care programs	**242,163**	235,161
Nonbilled services	**25,379**	25,576
Cash and in-kind donations	**2,975**	2,861
Education and research	**33,397**	24,908
Other benefit	**63,283**	65,198
Total cost of community benefit from continuing operations	**612,146**	574,844
Total cost of community benefit from discontinued operations	**–**	13,779
Total cost of community benefit	**612,146**	588,623
Unpaid cost of Medicare from continuing operations	**461,358**	456,729
Unpaid cost of Medicare from discontinued operations	**–**	9,867
Total unpaid cost of Medicare	**461,358**	466,596
Total cost of community benefit and the unpaid cost of Medicare	**$ 1,073,504**	$ 1,055,219

The summary above has been prepared in accordance with the policy document of the Catholic Health Association of the United States (CHA), *Community Benefit Program – A Revised Resource for Social Accountability*. Community benefit is measured on the basis of total cost, net of any offsetting revenues, donations or other funds used to defray cost.

2. Community Benefit (Unaudited) (continued)

The total cost of community benefit from continuing and discontinued operations was 6.6% of total expenses before operating expenses related to restructuring, impairment and other losses in 2011 and 2010. The total cost of community benefit and the unpaid cost of Medicare from continuing and discontinued operations was 11.6% and 11.8% of total expenses before operating expenses related to restructuring, impairment and other losses in 2011 and 2010, respectively.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations

Joint Operating Agreements

CHI participates in JOAs with hospital-based organizations in five separate market areas. The agreements generally provide for, among other things, joint management through JOCs of the combined operations of the local facilities included in the JOAs. CHI retains ownership of the assets, liabilities, equity, revenues and expenses of the CHI facilities that participate in the JOAs. The financial statements of the CHI facilities managed under all JOAs are included in the CHI consolidated financial statements. Transfers of assets from facilities owned by the JOA participants generally are restricted under the terms of the agreements.

CHI has a 70% interest in a JOC based in Colorado and has interests of 50% in three other JOCs associated with other JOAs. These interests are included in investments in unconsolidated organizations and totaled $125 million and $65 million at June 30, 2011 and 2010, respectively. CHI recognizes its investment in all JOCs under the equity method of accounting. The JOCs provide varying levels of services to the related JOA sponsors, and operating expenses of the JOCs are allocated to each sponsoring organization. The unconsolidated JOCs had total assets of $721 million and $671 million at June 30, 2011 and 2010, respectively, and net assets of $109 million and $95 million, respectively.

Investments in Unconsolidated Organizations

CHI Kentucky – On November 1, 2005, CHI entered into a joint venture agreement with JHHS. CHI contributed substantially all of the net assets of the former MBO in Louisville, Kentucky, of $7 million, along with $20 million, paid in quarterly installments through August 2008, in return for a 25% interest in the joint venture. The investment in the joint venture, which is accounted for under the equity method of accounting and is included in investments in unconsolidated organizations, had a book value of $30 million and $18 million at June 30, 2011 and 2010, respectively. The joint venture had annual operating revenues of approximately $1.0 billion for both 2011 and 2010, total assets of $920 million and $914 million, and net assets of $335 million

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

and $291 million as of June 30, 2011 and 2010, respectively. As part of the agreement, the joint venture executed a note to CHI with monthly payments of principal and interest. The note is included in other assets and had a balance of $25 million and $30 million at June 30, 2011 and 2010, respectively.

Preferred Professional Insurance Corporation (PPIC) – PPIC is an unconsolidated affiliate of CHI. PPIC provides professional liability insurance and other related services to preferred physician and other health care providers that are associated with its owners. CHI owns a 27% interest in PPIC and accounts for its investment under the equity method of accounting. The book value of the investment was $49 million and $43 million at June 30, 2011 and 2010, respectively. PPIC had net assets of $183 million and $161 million at December 31, 2010 and 2009, respectively.

Pathology Associates Medical Laboratories (PAML) – On October 21, 2009, CHI entered into an agreement with Seattle-based Providence Health and Services to acquire up to a 25% interest in PAML. PAML is an unconsolidated affiliate of CHI and is a full-service medical reference lab, providing CHI hospitals with the opportunity to expand laboratory testing volumes and develop new relationships through outreach laboratory joint ventures. As of June 30, 2011, CHI had met its commitment to invest a total of $37.3 million in PAML, which represents a 25% ownership and is accounted for under the equity method. The book value of the investment was $37.6 million and $14.9 million at June 30, 2011 and 2010, respectively. CHI has an option to increase its investment in PAML by an additional $7.5 million before January 2013.

3. Joint Operating Agreements and Investments in Unconsolidated Organizations (continued)

Other Entities – The summarized financial positions and results of operations for the other entities accounted for under the equity method as of and for the periods ended June 30, excluding the investments described above, are as follows (in thousands):

	2011					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Practices	Other Investees	Total
Total assets	$ 28,439	$ 129,620	$ 63,130	$ 21,028	$ 160,767	$ 402,984
Total debt	26,315	42,133	13,023	10,664	20,013	112,148
Net assets	1,263	86,316	46,024	8,054	95,720	237,377
Net patient services revenues	–	125,066	116,927	33,991	150,974	426,958
Total revenues, net	5,834	139,594	117,020	37,452	330,668	630,568
Excess of revenues over expenses	679	16,236	31,659	6,142	86,269	140,985

	2010					
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Practices	Other Investees	Total
Total assets	$ 27,714	$ 126,291	$ 64,359	$ 18,220	$ 207,524	$ 444,108
Total debt	25,893	28,121	13,127	7,318	15,700	90,159
Net assets	1,517	88,676	45,294	6,938	92,231	234,656
Net patient services revenues	–	121,602	110,206	30,985	65,194	327,987
Total revenues, net	5,658	125,876	111,563	34,261	237,908	515,266
Excess of revenues over expenses	600	14,514	28,740	6,335	75,598	125,787

4. Acquisitions and Divestitures

Continuing Operations

Consolidated Health Services (CHS) – Effective on October 1, 2010, CHI acquired CHS, headquartered near Cincinnati, Ohio, from Bethesda, Inc., an Ohio nonprofit corporation. CHS is a home health care service provider operating in 30 locations in Indiana, Kentucky and Ohio. The gross purchase price of the acquisition was $43.3 million ($35.5 million, net of cash acquired), which was allocated as follows (in thousands):

Cash	$ 7,814
Patient receivables	6,534
Current deferred tax asset	2,077
Property and equipment	3,260
Investment in unconsolidated organizations	17,900
Intangibles	12,064
Deferred tax asset	1,503
Goodwill	6,479
Other assets	5,960
Other liabilities	(13,210)
Deferred tax liability	(7,034)
Purchase price	$ 43,347

Dayton Heart and Vascular Hospital – In May 2009, the decision was made to sell the Dayton Heart and Vascular Hospital building, as all operations had been moved to the primary hospital. The property is classified as an asset held for sale on the consolidated balance sheets and had a value of $16.0 million and $17.9 million as of June 30, 2011 and 2010, respectively. Impairment charges of $1.9 million and $24.6 million were recorded in 2011 and 2010, respectively, to reduce the carrying amount of the property to its fair value. Such impairment charges are reflected as a component of restructuring, impairment and other losses in the accompanying consolidated statements of operations. Effective on July 28, 2011, the property was sold for its stated value.

Discontinued Operations

Idaho and Eastern Oregon Operations – In April 2010, CHI sold three of its facilities to an unrelated third party. The operations associated with these facilities have been reported as discontinued operations and are included in the consolidated statements of operations and changes in net assets. At June 30, 2010, assets held for sale consisted primarily of cash and

4. Acquisitions and Divestitures (continued)

investments, net patient accounts receivable, net property and equipment, investments in unconsolidated organizations and other long-term assets. Liabilities held for sale consisted of accounts payable and accrued compensation and benefits. CHI recorded a deficiency of revenues over expenses of $45.3 million in 2010, which is reported as discontinued operations in the accompanying consolidated statements of changes in net assets.

Missouri Operations – In November 2009, CHI's management transferred sponsorship and related operations of its Missouri facilities to an unrelated third party. The operations associated with these lines of business have been reported as discontinued operations and are included in the consolidated statement of changes in net assets. At June 30, 2010, assets held for sale consisted primarily of inventories, property and equipment, donor-restricted assets and investments in unconsolidated organizations. Liabilities held for sale consisted of certain compensation and benefits expenses. CHI recorded excess of revenues over expenses of $6.7 million in 2010, which is reported as discontinued operations in the accompanying consolidated statements of changes in net assets.

Total operating revenues and deficiency of revenues over expenses included in the results of discontinued operations are summarized below (in thousands):

	2010
Total operating revenues	$ 250,093
Total operating expenses	(248,554)
Restructuring and other losses	(48,137)
Impairment losses	(275)
Nonoperating gains	8,225
Deficiency of revenues over expenses	$ (38,648)

The consolidated statements of cash flows include $40.5 million of operating, investing and financing activities related to discontinued operations for the year ended June 30, 2010.

5. Net Patient Services Revenues

Net patient services revenues are derived from services provided to patients who are either directly responsible for payment or are covered by various insurance or managed care programs. CHI receives payments from the federal government on behalf of patients covered by the

5. Net Patient Services Revenues (continued)

Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs and from patients themselves. A summary of payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic and other factors. Certain CHI facilities have been designated as critical access hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules or discounts from established charges.

Other – CHI has also entered into payment agreements with certain managed care and commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to CHI under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

CHI's Medicare, Medicaid and other payor utilization percentages, based upon net patient services revenues, are summarized as follows:

	2011	**2010**
Medicare	**30%**	30%
Medicaid	**8**	7
Managed care	**39**	38
Self-pay	**8**	8
Commercial and other	**15**	17
	100%	100%

5. Net Patient Services Revenues (continued)

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of $44 million and $48 million at June 30, 2011 and 2010, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $33 million in 2011 and $18 million in 2010 due to favorable changes in estimates related to prior-year settlements. Changes in estimates related to prior-year settlements from discontinued operations were not significant in 2010.

6. Investments and Assets Limited as to Use

CHI's investments and assets limited to use as of June 30 are reported in the accompanying consolidated balance sheets as presented in the following table (in thousands):

	2011	2010
Cash and equivalents	**$ 151,808**	$ 178,699
CHI Investment Program (the Program)	**4,890,752**	4,217,594
Marketable fixed-income securities	**419,333**	391,939
Marketable equity securities	**309,117**	303,827
Hedge funds and other investments	**151,373**	103,479
	5,922,383	5,195,538
Less current portion	**(19,554)**	(3,463)
	$ 5,902,829	$ 5,192,075

Net unrealized gains (losses) at June 30, 2011 and 2010 were $460 million and $(159) million, respectively.

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, fixed-income securities, marketable equity securities and alternative investments. Most of the U.S. Treasury and corporate debt obligations as well as exchange-traded marketable securities held by CHI and the Program have an actively traded market. However, CHI also invests in money market funds, commercial paper, mortgage-backed or other asset-backed securities, alternative investments (such as hedge funds, private equity investments, funds of funds, etc.), collateralized debt obligations, municipal securities and other investments that have potential complexities in valuation based upon the current conditions in the credit markets. For

6. Investments and Assets Limited as to Use (continued)

some of these instruments, evidence supporting the determination of fair value may not come from trading in active primary or secondary markets. Because these investments may not be readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had an active market for such investments existed. Such differences could be material. However, management reviews the CHI investment portfolio on a regular basis and seeks guidance from its professional portfolio managers related to U.S. and global market conditions to determine the fair value of its investments. CHI believes the carrying amount of these financial instruments in the consolidated financial statements is a reasonable estimate of fair value. Additionally, CHI assesses the risk of impairment related to securities held in its investment portfolio on a regular basis and noted no impairment during the years ended June 30, 2011 and 2010.

Substantially all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty upon demand. The Limited Partnership Agreement permits a majority vote of the noncontrolled limited partners to terminate the partnership. Accordingly, CHI recognizes only the portion of Program assets attributable to CHI and its sponsored affiliates. Program assets attributable to CHI and its direct affiliates represented 84% of total Program assets at June 30, 2011 and 2010.

The Program asset allocation at June 30 is as follows:

	2011	2010
Marketable fixed-income securities	**34%**	38%
Marketable equity securities	**45**	41
Alternative investments	**19**	19
Cash and equivalents	**2**	2
	100%	100%

Direct expenses of the Program are less than 0.4% of total assets. Fees paid to the alternative investment managers are not included in the total expense calculation as they are not a direct expense of the Program.

6. Investments and Assets Limited as to Use (continued)

The CHI Investment Committee of the Board of Stewardship Trustees is responsible for determining asset allocations among fixed-income, equity and alternative investments. At least annually, the Investment Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the Program invests, management does not believe there is a significant concentration of credit risk.

Investment income is comprised of the following for the years ended June 30 (in thousands):

	2011	2010
Dividend and interest income	**$ 122,713**	$ 127,582
Net realized gains	**272,538**	133,129
Net unrealized gains	**456,420**	202,944
Total investment income from continuing operations	**$ 851,671**	$ 463,655
Included in other nonpatient revenue	**$ 97,907**	$ 75,981
Included in nonoperating gains	**753,764**	387,674
Total investment income from continuing operations	**$ 851,671**	$ 463,655
Total investment income from discontinued operations	**$ –**	$ 8,225
Total investment income	**$ 851,671**	$ 471,880

7. Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.

7. Fair Value of Assets and Liabilities (continued)

Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.

Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Certain of CHI's alternative investments are made through limited liability companies (LLCs) and limited liability partnerships (LLPs). These LLCs and LLPs provide CHI with a proportionate share of the investment gains (losses). CHI accounts for its ownership in the LLCs and LLPs under the equity method. CHI also accounts for its ownership in the Partnership under the equity method. As such, these investments are excluded from the scope of ASC 820.

Financial assets and liabilities measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

	2011 Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 151,808	$ 151,808	$ –	$ –
Marketable equity securities	309,117	309,117	–	–
Marketable fixed-income securities	419,333	–	419,333	–
Other investments	2,257	–	–	2,257
Deferred compensation assets:				
Cash and short-term investments	12,761	12,761		
	$ 895,276	$ 473,686	$ 419,333	$ 2,257
Liabilities				
Interest rate swaps	$ 116,601	$ –	$ 116,601	$ –
Deferred compensation liability	12,761	12,761	–	–
	$ 129,362	$ 12,761	$ 116,601	$ –

7. Fair Value of Assets and Liabilities (continued)

	2010 Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 178,699	$ 178,699	$ –	$ –
Marketable equity securities	303,827	303,827	–	–
Marketable fixed-income securities	391,939	–	391,939	–
Deferred compensation assets:				
Cash and short-term investments	10,850	10,850	–	–
	$ 885,315	$ 493,376	$ 391,939	$ –
Liabilities				
Interest rate swaps	$ 143,477	$ –	$ 143,477	$ –
Deferred compensation liability	10,850	10,850	–	–
	$ 154,327	$ 10,850	$ 143,477	$ –

The fair values of the securities included in Level 1 were determined through quoted market prices. Level 1 securities include money market funds, mutual funds and marketable debt and equity securities. The fair values of Level 2 securities were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 investments include corporate fixed–income securities, government bonds, mortgage and asset-backed securities. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such investments. Information on which these securities' fair values are based is generally not readily available in the market.

8. Property and Equipment

A summary of property and equipment is as follows as of June 30 (in thousands):

	2011	2010
Land and improvements	**$ 341,256**	$ 330,327
Buildings and improvements	**5,028,785**	4,438,362
Equipment	**3,822,370**	3,572,304
	9,192,411	8,340,993
Less accumulated depreciation	**(4,635,108)**	(4,351,433)
	4,557,303	3,989,560
Construction in progress	**378,216**	716,349
	$ 4,935,519	$ 4,705,909

CHI evaluates whether events and circumstances have occurred that indicate the remaining useful life of property, equipment and certain other intangible assets may not be recoverable. Management determined there were impairment issues in both 2011 and 2010, to the extent that the undiscounted cash flows estimated to be generated by certain assets were less than the underlying carrying value. CHI recorded $7.9 million and $36.8 million in impairment losses in 2011 and 2010, respectively, resulting from charges related to projected discounted cash flow deficits at various MBOs. In addition, impairment charges of $0.3 million related to the assets held for sale have been included in discontinued operations in the consolidated statement of changes in net assets in 2010.

9. Debt Obligations

The following is a summary of debt obligations as of June 30 (in thousands):

Long-Term Debt	Interest Rate	2011	2010
CHI bond issues under the COD:			
Series 1997B Variable-rate Bonds	0.11%*	$ 24,400	$ 27,100
Series 2000B Variable-rate Bonds	0.10%*	81,800	87,400
Series 2002B Variable-rate Bonds	0.08%*	106,100	108,800
Series 2004B Variable-rate Bonds	0.10%*	290,900	298,200
Series 2008A Variable-rate Bonds	0.13%*	120,260	120,260
Series 2004C Variable-rate Bonds with self-liquidity	0.05%*	163,400	163,400
Series 1989A Fixed-rate Bonds	7.00%	3,390	4,100
Series 1995C Fixed-rate Bonds	4.80–5.50%	10,145	12,360
Series 1997A Fixed-rate Bonds	4.40–5.25%	12,950	14,330
Series 2000A Fixed-rate Bonds	4.25–6.00%	39,600	45,740
Series 2002A Fixed-rate Bonds	4.00–5.50%	4,845	5,520
Series 2004A Fixed-rate Bonds	4.75–5.00%	146,605	146,605
Series 2004D Fixed-rate Bonds	3.50%	–	56,775
Series 2006A Fixed-rate Bonds	4.00–5.00%	384,135	384,135
Series 2006C Fixed-rate Bonds	3.85–5.10%	250,000	250,000
Series 2008C Fixed-rate Bonds	4.00–5.00%	215,000	275,000
Series 2008D Fixed-rate Bonds	5.00–6.25%	473,950	473,950
Series 2009A Fixed-rate Bonds	2.00–5.00%	794,345	817,565
Series 2009B Fixed-rate Bonds	5.00%	260,995	260,995
		3,382,820	3,552,235
Commercial paper		617,400	550,625
Other long-term debt and capital leases		122,382	97,817
		4,122,602	4,200,677
Variable-rate debt with self-liquidity and current portion of long-term debt		(999,601)	(1,019,712)
Long-term debt		$ 3,123,001	$ 3,180,965

*Represents average rate of interest from July 1, 2010 to June 30, 2011.

The fair value of debt obligations was approximately $4.2 billion at June 30, 2011. Management has determined the carrying value of the variable-rate bonds are representative of fair values as of June 30, 2011, as the interest rates are set by the market participants. The fair value of the fixed-rate tax-exempt bond obligations as of June 30, 2011 is determined by applying credit spreads for similar tax-exempt obligations in the marketplace, which are then used to calculate a price/yield for the outstanding obligations.

9. Debt Obligations (continued)

A summary of scheduled principal payments on long-term debt for the next five years is as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2012	$ 836,201
2013	165,772
2014	168,572
2015	163,383
2016	181,132

CHI issues the majority of its debt under the COD and is the sole obligor. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of its Direct and Designated Affiliates. Covenants include a minimum CHI debt service coverage ratio and certain limitations on secured debt. The Direct Affiliates of CHI, defined as Participants under the COD, have agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities.

In July 2010, CHI converted the interest rate mode on $120.3 million of variable-rate demand bonds to Index Notes. These bonds were previously recorded on the balance sheet as variable-rate demand bonds supported by CHI's self-liquidity. The conversion was accomplished through a direct purchase by Wells Fargo Bank. Wells Fargo Bank will hold the bonds through the initial three-year index rate term. This transaction was accounted for as an extinguishment of debt.

In November 2010, CHI issued $116.8 million of Taxable Commercial Paper Notes, the proceeds of which were used to redeem $60.0 million of the outstanding Colorado Health Facilities Authority Variable Rate Revenue Bonds (Catholic Health Initiatives) Series 2008C-6 and $56.8 million of the outstanding Kentucky Economic Development Finance Authority Variable Rate Revenue Bonds (Catholic Health Initiatives) Series 2004D, all of which bore interest at long-term interest rates and were subject to mandatory tender on November 10, 2010 (the end of the then-current long-term interest rate period). CHI intends to refinance this interim taxable borrowing on a long-term basis through the issuance of additional bonds in 2011.

In November 2009, CHI issued $1.14 billion of fixed-rate and put bonds in the states of Colorado, Kentucky and Ohio for the benefit of CHI and Alegent. Proceeds were used to redeem $379 million of existing debt, including $241.6 million in variable-rate debt with self-liquidity, as well as to reimburse CHI and participants of the COD for capital expenditures in the amount of $579.3 million. Concurrent with the issuance of these bonds, CHI converted the interest rate

9. Debt Obligations (continued)

mode on $55 million of Series 2008 bonds, which were subject to mandatory tender on November 10, 2009, to a long-term interest period extending through November 12, 2015, and redeemed the remaining $25 million of Series 2008 bonds subject to mandatory redemption on November 10, 2009. These bonds had been used to finance facilities of the divested Missouri operations. This refinancing resulted in a loss on defeasance of $1.0 million.

In January 2010, CHI legally defeased bonds in the amount of $33.4 million related to divested Missouri operations. In June 2010, CHI legally defeased bonds in the amount of $24.1 million related to the divestiture of certain facilities in Oregon. This resulted in net losses on defeasance of $1.5 million.

In June 2010, CHI recognized gains of $5.4 million from the restructuring of escrowed securities held by trustees. These escrowed securities, which are not recorded for financial reporting purposes, totaled $393.7 million and $410.9 million at June 30, 2011 and 2010, respectively. Gains (losses) on escrow restructuring and defeasance of debt are recorded as a component of nonoperating gains (losses) in the consolidated statements of operations and changes in net assets. CHI reported a net gain on escrow restructuring and defeasance of debt of $2.9 million for the year ended June 30, 2010.

CHI has two types of external liquidity facilities: those that are dedicated to specific series of variable-rate demand bonds (VRDBs) and those that are not dedicated to a particular series of VRDBs but may be used to support CHI's obligations to fund tenders of VRDBs and pay the maturing principal of commercial paper. Liquidity facilities that are dedicated to specific series of bonds were $623.5 million and $521.5 million at June 30, 2011 and 2010, respectively. The dedicated liquidity facilities and repayment terms on any associated drawings extend beyond the subsequent fiscal year but due to the terms of the specific agreements, $604.7 million and $503.2 million at June 30, 2011 and 2010, respectively, are reported as long-term debt, and $18.8 million and $18.3 million at June 30, 2011 and 2010, respectively, of the dedicated facilities are required to be classified as current.

Liquidity facilities not dedicated for specific series of VRDBs but used to support CHI's obligations to fund tenders and to pay maturing principal of commercial paper were $565 million and $690 million at June 30, 2011 and 2010, respectively. At June 30, 2011, $617.4 million of commercial paper was classified as current due to maturities of less than one year, and $163.4 million of VRDBs were classified as current due to the holder's ability to put such VRDBs back to CHI without liquidity facilities dedicated to these bonds.

9. Debt Obligations (continued)

At June 30, 2011, CHI had a $65 million credit facility with Wells Fargo Bank. Letters of credit totaling $41.3 million have been issued for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. At June 30, 2011 and 2010, no amounts were outstanding under this credit facility.

CHI is a party to seven floating-to-fixed interest rate swap agreements with notional amounts totaling $942.8 million and $953.7 million at June 30, 2011 and 2010, respectively. Generally, it is CHI policy that all counterparties have an AA rating or better. These fixed-payor swap agreements convert CHI's variable-rate debt to fixed-rate. The seven swaps have varying maturity dates ranging from May 2025 to December 2036. The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. At June 30, 2011 and 2010, the fair value was $116.6 million and $143.5 million, respectively. The fair value was reported net of cash collateral balances of $47.0 million and $51.1 million at June 30, 2011 and 2010, respectively, and is recorded in other liabilities. The change in the fair value of these agreements was a net gain of $26.9 million and a net loss of $(46.4) million in 2011 and 2010, respectively.

10. Retirement Plans

CHI and its direct affiliates maintain noncontributory, defined benefit retirement plans (Plans) covering substantially all employees. Benefits in the Plans are based on compensation, retirement age and years of service. Vesting occurs over a five-year period. Substantially all of the Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of net assets.

10. Retirement Plans (continued)

A summary of the changes in the benefit obligation, fair value of plan assets and funded status of the Plans at the June 30 measurement dates is as follows (in thousands):

	2011	2010
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 2,648,696**	$ 2,250,025
Service cost	**167,444**	150,082
Interest cost	**143,536**	145,840
Actuarial (gain) loss	**(80,030)**	210,728
Net impact of transfers among plans	**–**	(4,071)
Benefits paid	**(111,340)**	(103,666)
Expenses paid	**(318)**	(242)
Benefit obligation, end of year	**2,767,988**	2,648,696
Change in the Plans' assets:		
Fair value of the Plans' assets, beginning of year	**1,917,500**	1,628,370
Actual return on the Plans' assets, net of expenses	**454,343**	234,715
Employer contributions	**192,280**	162,451
Net impact of transfers among plans	**–**	(4,128)
Benefits paid	**(111,340)**	(103,666)
Expenses paid	**(318)**	(242)
Fair value of the Plans' assets, end of year	**2,452,465**	1,917,500
Funded status of the Plans	**$ (315,523)**	$ (731,196)
End-of-year values:		
Projected benefit obligation	**$ 2,767,988**	$ 2,648,696
Accumulated benefit obligation	**2,598,491**	2,471,389

Included in net assets at June 30, 2011 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost of $1.1 million and unrecognized actuarial losses of $650.1 million. The prior service cost and actuarial loss included in net assets and expected to be recognized in net periodic pension cost during the fiscal year ending June 30, 2012 is $0.2 million and $38.4 million, respectively.

10. Retirement Plans (continued)

The components of net periodic pension expense are as follows (in thousands):

	2011	2010
Components of net periodic pension expense:		
Service cost	**$ 167,444**	$ 150,082
Interest cost	**143,536**	145,840
Expected return on the Plans' assets	**(183,365)**	(174,141)
Amortization of prior service benefit	**893**	1,609
Actuarial losses	**47,550**	18,726
	$ 176,058	$ 142,116
Weighted-average assumptions:		
Discount rate, beginning of year	**5.24%**	6.44%
Discount rate, end of year	**5.39**	5.24
Expected return on the Plans' assets	**8.00**	8.00
Rate of compensation increase	**4.25**	4.50

The assumption for the expected return on the Plans' assets is based on historical returns and adherence to the asset allocations set forth in the Plans' investment policies. The expected return on the Plans' assets for determining pension cost was 8.0% in 2011 and 2010. The increase in the discount rate to 5.39% at June 30, 2011 decreased the pension benefit obligation by approximately $41 million.

A summary of the Plans' asset allocation targets, ranges by asset class and allocations by asset class at the measurement dates of June 30 is as follows:

	2011	2010	Target	Range
Fixed-income securities	26.1%	24.6%	27.5%	22.5% to 32.5%
Equity securities	53.7	53.6	52.5	47.5 to 57.5
Alternative investments	20.2	21.8	20.0	20.0 to 25.0

The Plans' assets are invested in a portfolio designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles and by retaining multiple investment managers with complementary philosophies, styles and approaches. Although the objective of the Plans is to maintain asset allocations close to target, temporary periods may exist

10. Retirement Plans (continued)

where allocations are outside of the expected range due to market conditions. The use of leverage is prohibited except as specifically directed in the alternative investment allocation. The portfolio is managed on a basis consistent with the CHI social responsibility guidelines.

The Plans' assets measured at fair value on a recurring basis were determined using the following inputs at June 30 (in thousands):

2011

	Fair Value as of June 30	Fair Value Measurements at Reporting Date Using (Level 1) Quoted Prices in Active Markets	(Level 2) Other Observable Inputs	(Level 3) Unobservable Inputs
Cash and short-term investments	$ 133,920	$ 80,363	$ 53,557	$ –
Marketable equity securities	1,276,810	1,276,810	–	–
Marketable fixed-income securities	547,052	122,806	424,246	–
Alternative investments	494,683	–	–	494,683
	$ 2,452,465	$ 1,479,979	$ 477,803	$ 494,683

2010

	Fair Value as of June 30	Fair Value Measurements at Reporting Date Using (Level 1) Quoted Prices in Active Markets	(Level 2) Other Observable Inputs	(Level 3) Unobservable Inputs
Cash and short-term investments	$ 89,957	$ 46,485	$ 43,472	$ –
Marketable equity securities	1,008,042	1,008,042	–	–
Marketable fixed-income securities	404,422	69,044	335,378	–
Alternative investments	415,079	–	–	415,079
	$ 1,917,500	$ 1,123,571	$ 378,850	$ 415,079

10. Retirement Plans (continued)

For the year ended June 30, 2011, the changes in the fair value of the Plans' investments, for which Level 3 inputs were used, are as follows (in thousands):

Beginning investments at fair value	$ 415,079
Purchases of investments	41,499
Proceeds from sale of investments	(23,322)
Net change in unrealized appreciation on investments and effect of foreign currency translation	43,066
Net realized gains on investments	18,369
Net transfers out of Level 3	(8)
Ending investments at fair value	$ 494,683

CHI expects to contribute $180 million to the Plans in fiscal year 2012. A summary of expected benefits to be paid to the Plans' participants and beneficiaries is as follows (in thousands):

	Estimated Payments
Year Ending June 30:	
2012	$ 153,730
2013	146,298
2014	160,203
2015	179,347
2016	212,555
2017–2020	1,377,113

11. Concentrations of Credit Risk

CHI grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. CHI's exposure to credit risk on patient accounts receivable is limited by the geographical diversity of its MBOs. The mix of receivables from patients and third-party payors at June 30 approximated the following:

	2011	2010
Medicare	**23%**	24%
Medicaid	**7**	8
Managed care	**36**	34
Self-pay	**10**	9
Commercial and other	**24**	25
	100%	100%

CHI maintains long-term investments with various financial institutions and investment management firms through its investment program, and its policy is designed to limit exposure to any one institution or investment. Management does not believe there are significant concentrations of credit risk at June 30, 2011 and 2010.

12. Commitments and Contingencies

Litigation

During the normal course of business, CHI may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of CHI.

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Management believes CHI is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to

12. Commitments and Contingencies (continued)

future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CHI entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CHI's consolidated financial position.

In June 2008, one of CHI's MBOs was notified by the Office of Inspector General of the U.S. Department of Health and Human Services of its investigation into certain activities including, but not limited to, the relationship with a physician group at the MBO. In July 2009, an agreement in principle was reached with the Office of the Attorney General to resolve the matter, and CHI recorded a liability of $22 million at June 30, 2010. This agreement in principle received government approval in November 2010 and the liability was paid by the MBO.

Operating Leases

Future minimum lease payments required for the next five years and thereafter for all operating leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2011, are as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2012	$ 129,905
2013	117,175
2014	73,564
2015	57,637
2016	50,475
Thereafter	154,642
	$ 583,398

Lease expense under operating leases for continuing operations for the years ended June 30, 2011 and 2010 totaled approximately $157 million and $145 million, respectively. Lease expense under operating leases for discontinued operations was not significant in 2010.

13. Insurance Programs

FIIL, a wholly owned captive insurance company of CHI, provides hospital professional liability, employment practices liability and commercial general liability coverage, primarily to MBOs related to CHI either on a directly written basis or through reinsurance fronting relationships with commercial carriers such as PPIC. Policies written provide coverage with primary limits in the amount of $8 million for each and every claim. At June 30, 2011 and 2010, investments and assets limited as to use held for insurance purposes included $58 million and $69 million, respectively, as collateral for the reinsurance fronting arrangement with PPIC. In addition, CHI purchases excess insurance of $150 million per claim and in the aggregate for professional and general liability risks from commercial carriers.

FIIL provides workers' compensation coverage, either on a directly written basis or through reinsurance fronting relationships with commercial carriers for amounts above $1 million per claim. Coverage of $500,000 in excess of $500,000 per claim is reinsured with an unrelated commercial carrier. FIIL also underwrites the property and casualty risks of CHI for up to $1 million per claim. Unrelated commercial insurance carriers reinsure losses in excess of the per-claim limits.

The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-based valuations, statistical analyses and the expertise of an independent actuary.

The estimates for loss reserves are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically, with consultation from independent actuaries, and any adjustments to the loss reserves are reflected in current operations. As a result of these reviews of claims experience, estimated reserves were reduced by $19 million and $77 million in 2011 and 2010, respectively, due to favorable loss development. The reserves for unpaid losses and loss adjustment expenses relating to the workers' compensation program were discounted, assuming a 4% annual return at June 30, 2011 and 2010, to a present value of $148.8 million and $139.2 million at June 30, 2011 and 2010, respectively, and represented a discount of $32.2 million and $32.5 million in 2011 and 2010, respectively. Reserves related to professional liability, employment practices and general liability are not discounted.

13. Insurance Programs (continued)

FIIL holds $715.7 million and $658.4 million of investments held for insurance purposes as of June 30, 2011 and 2010, respectively. Distribution of amounts from FIIL to CHI are subject to the approval of the Cayman Island Monetary Authority. CHI established a captive management operation (Captive Management Initiatives, Ltd.) based in the Cayman Islands, which currently manages FIIL as well as operations of other unrelated parties.

CHI, through its Welfare Benefit Administration and Development Trust, provides comprehensive health and dental coverage to certain employees and dependents through a self-insured medical plan. Accounts payable and accrued expenses include $45 million and $50 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2011 and 2010, respectively. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for unpaid losses and loss adjustment expenses are adequate. The estimates are reviewed periodically and, as adjustments to the liability become necessary, such adjustments are reflected in current operations. CHI has stop-loss insurance to cover unusually high costs of care beyond a predetermined annual amount per enrolled participant.

14. Subsequent Events

CHI's management has evaluated events subsequent to June 30, 2011 through September 13, 2011, which is the issuance date of this report. There have been no material events noted during this period that would either impact the results reflected in this report or CHI's results going forward, except as disclosed below.

Statewide Health Care Network in Kentucky

Effective in June 2011, CHI entered into a formal agreement with two other parties, Jewish Hospital and St. Mary's HealthCare/Jewish Hospital HealthCare Services, and the University of Louisville Hospital/James Graham Brown Cancer Center, to create a new statewide health care network in Kentucky. The new network would serve more than two million patients annually at more than 91 locations, ranging from critical access hospitals to major quaternary facilities capable of transplant procedures. The agreement provides CHI with a 70% controlling interest in the new network and calls for CHI to make a $320 million capital investment. The new network is pending regulatory and Church approvals.

14. Subsequent Events (continued)

Nebraska Heart Institute and Nebraska Heart Hospital

Effective in August 2011, CHI acquired Nebraska Heart Institute and Nebraska Heart Hospital for cash proceeds of $131 million. CHI is currently in the process of finalizing the purchase price allocation.

Other Financial Information

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Report of Independent Auditors on Other Financial Information

Board of Stewardship Trustees
Catholic Health Initiatives

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Catholic Health Initiatives as a whole. The following consolidating financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, based on our audits and the report of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

September 13, 2011

Catholic Health Initiatives
Consolidating Balance Sheet

June 30, 2011
(In Thousands)

	MBOs	Corporate	FHL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Assets							
Current assets:							
Cash and equivalents	$ 432,606	$ (54,915)	$ 102	$ 28,377	$ 3,504	$ 40,000	$ 449,674
Net patient accounts receivable, less allowance of $650,617	1,133,819	–	–	–	–	–	1,133,819
Other accounts receivable	92,252	106,004	(2,319)	469	11,624	(99,182)	108,848
Current portion of investments and assets limited as to use	58,146	1,408	–	–	–	(40,000)	19,554
Inventories	173,316	–	–	–	–	–	173,316
Assets held for sale	23,987	–	–	–	–	–	23,987
Prepaid and other	47,838	22,760	17	157	33	–	70,805
Total current assets	1,961,964	75,257	(2,200)	29,003	15,161	(99,182)	1,980,003
Investments and assets limited as to use:							
Internally designated for capital and other funds	2,904,604	1,625,262	–	87,315	–	–	4,617,181
Mission and Ministry Fund	–	117,832	–	–	–	–	117,832
Capital Resource Pool	–	268,690	–	–	–	–	268,690
Held by trustees	5,488	–	–	–	–	–	5,488
Held for insurance purposes	23,363	–	715,708	–	–	–	739,071
Restricted by donors	152,122	2,445	–	–	–	–	154,567
Total investments and assets limited as to use	3,085,577	2,014,229	715,708	87,315	–	–	5,902,829
Property and equipment, net	4,704,801	229,312	–	–	1,406	–	4,935,519
Deferred financing costs	568	11,253	–	–	–	–	11,821
Investments in unconsolidated organizations	262,629	135,664	–	–	11,127	(55,971)	353,449
Intangible assets	57,486	–	–	–	–	–	57,486
Notes receivable and other	65,750	2,586,254	21,620	–	–	(2,033,597)	640,027
Total assets	$ 10,138,775	$ 5,051,969	$ 735,128	$ 116,318	$ 27,694	$ (2,188,750)	$ 13,881,134

Continued on following page

Catholic Health Initiatives
Consolidating Balance Sheet (continued)

June 30, 2011
(In Thousands)

	MBOs	Corporate	FIIL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Liabilities and net assets							
Current liabilities:							
Compensation and benefits	$ 344,238	$ 62,037	$ –	$ 964	$ 1,136	$ –	$ 408,375
Third-party liabilities	66,283	–	–	–	–	–	66,283
Accounts payable and accrued expenses	521,312	133,604	3,893	45,378	2,395	(99,182)	607,400
Variable-rate debt with self liquidity	–	163,400	–	–	–	–	163,400
Current portion of long-term debt	179,244	780,190	–	–	–	(123,233)	836,201
Total current liabilities	1,111,077	1,139,231	3,893	46,342	3,531	(222,415)	2,081,659
Pension liability	5,619	309,904	–	–	–	–	315,523
Self-insured reserves and claims	13,467	17,446	418,027	–	–	–	448,940
Other liabilities	163,729	105,934	–	–	(1)	–	269,662
Long-term debt	1,976,735	3,056,630	–	–		(1,910,364)	3,123,001
Total liabilities	3,270,627	4,629,145	421,920	46,342	3,530	(2,132,779)	6,238,785
Net assets:							
Net assets attributable to CHI	6,676,445	420,339	313,208	69,976	24,164	(55,971)	7,448,161
Net assets attributable to noncontrolling interests	8,967	–	–	–	–	–	8,967
Unrestricted	6,685,412	420,339	313,208	69,976	24,164	(55,971)	7,457,128
Temporarily restricted	120,310	2,485	–	–	–	–	122,795
Permanently restricted	62,426	–	–	–	–	–	62,426
Total net assets	6,868,148	422,824	313,208	69,976	24,164	(55,971)	7,642,349
Total liabilities and net assets	$ 10,138,775	$ 5,051,969	$ 735,128	$ 116,318	$ 27,694	$ (2,188,750)	$ 13,881,134

Catholic Health Initiatives
Consolidating Statement of Operations

Year Ended June 30, 2011
(In Thousands)

	MBOs	Corporate	FHL	CHI Welfare Benefits Trust	Other	Eliminations and Adjustments	Consolidated
Revenues:							
Net patient services	$ 9,109,778	$ –	$ –	$ –	$ –	$ (104,800)	$ 9,004,978
Nonpatient:							
Donations	24,620	19	–	–	–	–	24,639
Changes in equity of unconsolidated organizations	28,989	10,864	–	–	(678)	(1,116)	38,059
Investment income from self-insured trust funds	–	–	97,907	–	–	–	97,907
Other	313,824	779,020	98,556	368,939	4,350	(1,098,504)	466,185
Total nonpatient revenues	367,433	789,903	196,463	368,939	3,672	(1,099,620)	626,790
Total operating revenues	9,477,211	789,903	196,463	368,939	3,672	(1,204,420)	9,631,768
Expenses:							
Salaries and wages	3,408,645	213,891	–	–	10,270	(45)	3,632,761
Employee benefits	845,812	41,378	–	349,333	1,428	(464,911)	773,040
Purchased services, medical professional fees, consulting and legal	1,056,960	93,578	475	1,502	993	(286,359)	867,149
Supplies	1,541,454	7,974	–	–	266	–	1,549,694
Bad debts	718,577	–	–	–	–	–	718,577
Utilities	112,116	10,052	–	–	27	–	122,195
Rentals, leases, maintenance and insurance	307,774	267,164	110,019	–	873	(196,039)	489,791
Depreciation and amortization	443,554	26,772	–	–	343	–	470,669
Interest	93,066	136,833	–	–	–	(96,476)	133,423
Other	617,706	33,503	453	569	731	(159,474)	493,488
Total operating expenses before restructuring, impairment and other losses	9,145,664	831,145	110,947	351,404	14,931	(1,203,304)	9,250,787
Income (loss) from operations before restructuring, impairment and other losses	331,547	(41,242)	85,516	17,535	(11,259)	(1,116)	380,981
Restructuring, impairment and other losses	25,085	570	–	–	–	–	25,655
Income (loss) from operations	306,462	(41,812)	85,516	17,535	(11,259)	(1,116)	355,326
Nonoperating gains (losses):							
Investment income, net	449,528	294,195	–	9,945	96	–	753,764
Gain on escrow restructuring and defeasance of bonds, net	–	–	–	–	–	–	–
Realized and unrealized losses on interest rate swaps	–	(4,870)	–	–	–	–	(4,870)
Other nonoperating gains	16,462	–	–	–	–	–	16,462
Total nonoperating gains	465,990	289,325	–	9,945	96	–	765,356
Excess (deficiency) of revenues over expenses	$ 772,452	$ 247,513	$ 85,516	$ 27,480	$ (11,163)	$ (1,116)	$ 1,120,682
Excess of revenues over expenses attributable to noncontrolling interest	$ 3,298	$ –	$ –	$ –	$ –	$ –	$ 3,298
Excess (deficiency) of revenues over expenses attributable to CHI	$ 769,154	$ 247,513	$ 85,516	$ 27,480	$ (11,163)	$ (1,116)	$ 1,117,384