Attachment 16

CHI Consolidated Financial Statements and Other Financial Information for the Fiscal Years Ended June 30, 2009 and 2008 with Report of Independent Auditors.

CATHOLIC HEALTH INITIATIVES

Consolidated Financial Statements
and Other Financial Information
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Catholic Health Initiatives
Consolidated Financial Statements
and Other Financial Information

Years Ended June 30, 2009 and 2008

Contents

Ernst & Young

Ernst & Young LLP
Suite 3300
370 17th Street
Denver, Colorado 80202-5663

Tel: +1 720 931 4000
Fax: +1 720 931 4444
www.ey.com

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, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of 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 $541 million and $540 million as of June 30, 2009 and 2008, respectively, and total revenues of $492 million and $481 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, 2009 and 2008, and the consolidated results of its operations and 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.

As discussed in Note 8 to the consolidated financial statements, in fiscal year 2008 CHI changed its method of accounting for defined benefit pension plans.

Ernst + Young LLP

September 15, 2009

Catholic Health Initiatives
Consolidated Balance Sheets

	June 30 2009	June 30 2008
	(In Thousands)	
Assets		
Current assets:		
Cash and equivalents	**$ 722,674**	$ 232,201
Net patient accounts receivable, less allowances of $572 million in 2009 and $520 million in 2008	**1,188,618**	1,179,145
Other accounts receivable	**132,980**	126,114
Current portion of investments and assets limited as to use	**64,224**	74,134
Inventories	**166,998**	159,390
Assets held for sale	**4,120**	63,527
Prepaid and other	**43,849**	54,445
Total current assets	**2,323,463**	1,888,956
Investments and assets limited as to use:		
Internally designated for capital and other funds	**2,680,200**	3,532,876
Mission and Ministry Fund	**89,469**	117,157
Capital Resource Pool	**209,539**	279,249
Held by trustees	**13,026**	216,506
Held for insurance purposes	**624,351**	680,754
Restricted by donors	**130,813**	177,359
Total investments and assets limited as to use	**3,747,398**	5,003,901
Property and equipment, net	**4,514,000**	4,251,313
Deferred financing costs	**26,628**	18,832
Investments in unconsolidated organizations	**235,419**	274,484
Intangible assets	**26,887**	23,981
Notes receivable and other	**523,683**	518,879
Total assets	**$ 11,397,478**	$ 11,980,346

Continued on following page

Catholic Health Initiatives
Consolidated Balance Sheets (continued)

	June 30 2009	June 30 2008
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 333,278**	$ 309,094
Third-party liabilities	**77,406**	66,055
Accounts payable and accrued expenses	**555,739**	625,700
Liabilities held for sale	**4,513**	5,040
Bank loans	**631**	150,000
Variable-rate debt with self liquidity	**525,260**	696,985
Current portion of long-term debt	**691,700**	557,480
Total current liabilities	**2,188,527**	2,410,354
Other liabilities	**873,983**	221,423
Self-insured reserves and claims	**432,671**	413,425
Long-term debt	**2,397,207**	2,234,441
Total liabilities	**5,892,388**	5,279,643
Net assets:		
Unrestricted	**5,336,668**	6,500,575
Temporarily restricted	**114,694**	135,566
Permanently restricted	**53,728**	64,562
Total net assets	**5,505,090**	6,700,703
Total liabilities and net assets	**$ 11,397,478**	$ 11,980,346

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30 2009	2008
	(In Thousands)	
Revenues:		
Net patient services	$ **8,257,483**	$ 7,515,884
Nonpatient:		
Donations	**35,060**	30,985
Changes in equity of unconsolidated organizations	**7,914**	37,075
Investment loss from self-insured trust funds	**(88,093)**	(4,937)
Other	**395,929**	370,499
Total nonpatient revenues	**350,810**	433,622
Total operating revenues	**8,608,293**	7,949,506
Expenses:		
Salaries and wages	**3,329,608**	3,073,843
Employee benefits	**673,694**	636,178
Medical professional fees	**212,529**	173,824
Purchased services	**533,616**	450,384
Consulting and legal	**74,714**	107,642
Supplies	**1,503,588**	1,396,461
Bad debts	**619,279**	566,336
Utilities	**124,475**	111,981
Insurance	**72,464**	29,124
Rentals, leases and maintenance	**321,613**	284,515
Depreciation and amortization	**470,014**	412,111
Interest	**100,344**	126,795
Other	**385,203**	387,600
Total operating expenses before restructuring, impairment and other losses	**8,421,141**	7,756,794
Income from operations before restructuring, impairment and other losses	**187,152**	192,712
Restructuring, impairment and other losses	**34,690**	12,650
Income from operations	**152,462**	180,062
Nonoperating (losses) gains:		
Investment losses	**(534,950)**	(8,948)
Gain (loss) on escrow restructuring and defeasance of bonds	**10,845**	(15,491)
Realized and unrealized losses on interest rate swaps	**(88,350)**	(64,694)
Other nonoperating losses	**(9,470)**	(14,349)
Total nonoperating losses	**(621,925)**	(103,482)
(Deficiency) excess of revenues over expenses	$ **(469,463)**	$ 76,580

Community benefit provided to the poor and broader community and the unpaid cost of Medicare (unaudited) was $991 million and $927 million in 2009 and 2008, respectively (see Note 2 of the accompanying notes).

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

	Year Ended June 30 2009	2008
	(In Thousands)	
(Deficiency) excess of revenues over expenses	**$ (469,463)**	$ 76,580
Increase in unfunded pension liability	**(633,956)**	(128,384)
Increase related to adoption of pension accounting principle	**–**	65,293
Contribution of Saint Clare's Health System net assets	**–**	94,879
Other changes in net assets	**(20,538)**	34,244
Net loss from discontinued operations	**(71,656)**	(44,539)
(Decrease) increase in net assets	**(1,195,613)**	98,073
Net assets at beginning of year	**6,700,703**	6,602,630
Net assets at end of year	**$ 5,505,090**	$ 6,700,703

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Cash Flows

	Year Ended June 30 2009	2008
	(In Thousands)	
Operating activities		
(Decrease) increase in net assets	**(1,195,613)** $	98,073
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**483,874**	426,450
Provision for bad debts	**653,442**	605,858
Changes in equity of unconsolidated organizations	**(8,059)**	(37,387)
Net gains on sales of facilities and investments in unconsolidated organizations	**(11,836)**	(12,904)
Noncash operating expenses related to restructuring, impairment and other losses	**58,827**	23,000
Loss on defeasance of bonds	**2,853**	15,491
Decrease in fair value of interest rate swaps	**61,882**	64,694
Increase in unfunded pension liability	**633,956**	128,384
Adoption of pension accounting principle	**–**	(65,293)
Contribution of Saint Clare's Health System net assets	**–**	(94,879)
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(678,458)**	(740,047)
Other current assets	**3,077**	(12,363)
Current liabilities	**(33,653)**	79,260
Other changes	**(38,030)**	(75,185)
Net cash (used in) provided by operating activities, before net change in investments and assets limited as to use	**(67,738)**	403,152
Net decrease in investments and assets limited as to use	**1,266,240**	107,473
Net cash provided by operating activities	**1,198,502**	510,625
Investing activities		
Purchases of property, equipment and other capital assets	**(744,107)**	(873,128)
Net cash proceeds from asset sales and contribution of Saint Clare's Health System	**39,445**	150,241
Distributions from investments in unconsolidated organizations	**25,865**	24,794
Loans to unconsolidated affiliates	**(12,536)**	(39,869)
Repayment of notes receivable, net	**20,506**	15,990
Other changes	**5,733**	(809)
Net cash used in investing activities	**(665,094)**	(722,781)
Financing activities		
Proceeds from bank loan and issuance of long-term debt	**480,972**	1,335,950
Net costs associated with issuance of long-term debt	**(14,755)**	(8,976)
Repayment of long-term debt	**(509,152)**	(1,269,342)
Net cash (used in) provided by financing activities	**(42,935)**	57,632
Increase (decrease) in cash and equivalents	**490,473**	(154,524)
Cash and equivalents at beginning of year	**232,201**	386,725
Cash and equivalents at end of year	**$ 722,674**	$ 232,201

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

The mission of Catholic Health Initiatives (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.

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) in 20 states, including 78 acute-care hospitals, of which 24 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) and two accredited nursing colleges. CHI also has an offshore captive insurance company, First Initiatives Insurance, Limited (FIIL).

Effective April 1, 2008, CHI became the sponsor of Saint Clare's Health System (Saint Clare's), a New Jersey-based community health system, through a corporate member substitution with Marian Health System. Saint Clare's consists of four hospital campuses and other facilities in northwestern New Jersey. The transaction has been accounted for as a contribution with the assets and liabilities of Saint Clare's recorded at fair value as of April 1, 2008, and is described in more detail in Note 3 to the consolidated financial statements.

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, bank loans and long-term debt. The carrying amounts reported in the consolidated balance sheets for these items approximate fair value.

1. Summary of Significant Accounting Policies (continued)

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 invest in high-quality, short-term debt securities including U.S. government securities, 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. The carrying value of cash and equivalents approximates fair value.

Net Patient Accounts Receivable

Net patient accounts receivable and net patient services revenues have 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 considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Management periodically 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.

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 includes 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" in accordance with the AICPA Audit and Accounting Guide: *Health Care Organizations* (the Guide). Unrealized gains and losses on marketable securities that have been designated as trading securities are included within excess of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities designated as trading are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

1. Summary of Significant Accounting Policies (continued)

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 based upon quoted market prices. 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.

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair market 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 $19 million and $22 million was recorded in 2009 and 2008, respectively.

CHI accounts for the costs of computer software developed or obtained for internal use in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). 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.

1. Summary of Significant Accounting Policies (continued)

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable 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. CHI had notes receivable from Alegent, Bethesda and JHHS of $117 million, $234 million and $34 million, respectively, at June 30, 2009, and $122 million, $228 million and $39 million, respectively, at June 30, 2008. The notes bear interest at rates commensurate with the CHI blended interest cost and require monthly debt service payments. 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, 2009 and 2008.

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, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment, 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, 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.

1. Summary of Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is (deficiency) excess 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.

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 refinancings; net interest cost and changes in fair value of interest rate swaps; and the nonoperating component of JOA income share adjustments.

Net Patient Services Revenues

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. 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.

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 3.4% and 3.3% of gross patient services revenues for 2009 and 2008, 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 in its investment portfolio to moderate changes in value due to fluctuations in the financial markets. CHI has not designated its derivatives related to marketable securities as hedges, in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). Accordingly, the change in the fair value of such derivatives is recognized as a component of investment losses.

CHI also uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the balance sheet. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges, in accordance with SFAS No. 133. 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 balance sheet.

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 3.2% and 4.0% in 2009 and 2008 respectively.

Restructuring, Impairment and Other Losses

CHI periodically evaluates property, equipment and certain other intangible assets to determine whether assets may have been impaired in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Management determined there were certain property and equipment impairments in both 2009 and 2008, to the extent that the discounted cash flows estimated to be generated by those assets were less than the underlying carrying value.

1. Summary of Significant Accounting Policies (continued)

During the years ended June 30, 2009 and 2008, CHI recorded nonrecurring expenses of $35 million and $13 million, respectively, relating to asset impairments and changes in business operations, including reorganization and severance costs. CHI recorded an additional $50.0 million and $23.0 million of nonrecurring expenses during 2009 and 2008, respectively, which were included as discontinued operations in the statements of operations and changes in net assets.

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 follows Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which prescribes criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the consolidated financial statements.

Discontinued Operations

In April 2009, CHI's management signed a letter of intent to transfer 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 statements of operations and changes in net assets. Assets and liabilities related to the transaction are reported as assets held for sale in the accompanying consolidated balance sheets. At June 30, 2009 and 2008, assets held for sale consist primarily of inventories, property and equipment, donor-restricted assets and investments in unconsolidated organizations. Liabilities held for sale consist of certain compensation and benefits expenses. The consolidated statements of cash flows includes $(9.8) million and $(25.6) million of operating, investing and financing activities related to the Missouri facilities for the years ended June 30, 2009 and 2008, respectively.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements and Adoption of New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 provides a new definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. CHI adopted the provisions of SFAS No. 157 as of July 1, 2008. The adoption did not have a material effect on CHI's consolidated financial position as of July 1, 2008 or June 30, 2009 or on the consolidated statements of operations and changes in net assets or cash flows for the year ended June 30, 2009. See Note 10 for related fair value disclosures.

In February 2009, the FASB issued FASB Staff Position FAS 157-2 (FSP FAS 157-2), which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, CHI will apply the provisions of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities beginning in fiscal year 2010.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 builds upon the existing disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. CHI adopted the provisions of SFAS No. 161 as of July 1, 2008. In connection with the adoption of SFAS No. 161, CHI classified the net interest cost on its interest rate swaps for the year ended June 30, 2009 of $26.5 million, previously reported in interest expense, into realized and unrealized losses on interest rate swaps in the accompanying consolidated statements of operations and changes in net assets. The net interest cost for the year ended June 30, 2008 was $5.8 million and was included in interest expense. See Notes 1 and 7 for related derivative disclosures.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and also requires enhanced disclosures for all endowment funds, including funds designated as endowments by the Board of Stewardship Trustees. CHI adopted FSP FAS 117-1 on July 1,

1. Summary of Significant Accounting Policies (continued)

2008. The adoption of FSP FAS 117-1 did not have a material effect on the CHI's financial position as of June 30, 2009, or on the statement of operations and changes in net assets or cash flows for the year then ended.

Reclassifications

Certain reclassifications were made to the 2008 financial statement presentation to conform to the 2009 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.

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.

2. Community Benefit (Unaudited) (continued)

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

	2009	2008
Cost of community benefit provided to the poor:		
Cost of charity care provided	**$ 199,148**	$ 188,428
Unpaid cost of public programs, Medicaid and other indigent care programs	**233,158**	219,783
Nonbilled services for the poor	**7,783**	9,416
Cash and in-kind donations for the poor	**3,308**	3,041
Other benefit provided to the poor	**25,482**	23,475
	468,879	444,143
Cost of community benefit provided to the broader community:		
Nonbilled services for the community	**17,282**	20,317
Education and research provided for the community	**23,585**	21,817
Other benefit provided to the community	**43,587**	49,849
	84,454	91,983
Total cost of community benefit	**553,333**	536,126
Unpaid cost of Medicare	**437,234**	390,794
Total cost of community benefit and the unpaid cost of Medicare	**$ 990,567**	$ 926,920

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.

The total cost of community benefit was 6.6% and 6.9% of total expenses before operating expenses related to restructuring, impairment and other losses in 2009 and 2008, respectively. The total cost of community benefit and the unpaid cost of Medicare was 11.8% and 11.9% of total expenses before operating expenses related to restructuring, impairment and other losses in 2009 and 2008, respectively.

3. Joint Operating Agreements, Investments in Unconsolidated Organizations, Business Acquisitions, Divestitures and Discontinued Operations

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 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 participants generally are restricted under the terms of the agreements. In all cases, the participants are tax-exempt corporations under Section 501(c)(3) of the Internal Revenue Code.

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 $85 million and $86 million at June 30, 2009 and 2008, 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 $625 million and $507 million at June 30, 2009 and 2008, respectively, and net assets of $138 million and $148 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 $7 million and $32 million at June 30, 2009 and 2008, respectively. The joint venture had annual operating revenues of approximately $962 million and $938 million for 2009 and 2008, had total assets of $898 million and $924 million and net assets of $253 million and $360 million as of June 30, 2009 and 2008, 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 $34 million at June 30, 2009 and $39 million at June 30, 2008.

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

3. Joint Operating Agreements, Investments in Unconsolidated Organizations, Business Acquisitions, Divestitures and Discontinued Operations (continued)

value of the investment was $36 million at June 30, 2009 and 2008. PPIC had net assets of $137 million and $134 million at December 31, 2008 and 2007, respectively.

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):

	2009					
	Medical Office Buildings	**Outpatient and Diagnostic Services**	**Ambulatory Surgery Centers**	**Physician Practices**	**Other Investees**	**Total**
Total assets	**$ 28,180**	**$ 177,166**	**$ 68,945**	**$ 31,763**	**$ 208,380**	**$ 514,434**
Total debt	**26,517**	**37,966**	**10,037**	**16,360**	**61,363**	**152,243**
Net assets	**1,413**	**121,656**	**45,765**	**3,957**	**99,783**	**272,574**
Net patient services revenues	**–**	**167,441**	**105,128**	**44,021**	**58,544**	**375,134**
Total revenues, net	**5,705**	**170,584**	**105,311**	**44,547**	**239,871**	**566,018**
Excess of revenues over expenses	**548**	**19,621**	**25,624**	**9,486**	**62,109**	**117,388**

	2008					
	Medical Office Buildings	**Outpatient and Diagnostic Services**	**Ambulatory Surgery Centers**	**Physician Practices**	**Other Investees**	**Total**
Total assets	$ 34,574	$ 167,498	$ 58,445	$ 25,482	$ 214,745	$ 500,744
Total debt	29,745	38,389	10,882	14,494	66,084	159,594
Net assets	4,796	116,894	45,563	3,590	100,692	271,535
Net patient services revenues	–	147,972	80,450	24,720	53,766	306,908
Total revenues, net	5,129	159,301	92,571	27,362	244,443	528,806
Excess of revenues over expenses	634	36,169	24,878	3,399	72,683	137,763

3. Joint Operating Agreements, Investments in Unconsolidated Organizations, Business Acquisitions, Divestitures and Discontinued Operations (continued)

Business Acquisitions

Saint Clare's Health System, Denville, New Jersey – Effective April 1, 2008, Marian Health System contributed its interest in Saint Clare's to CHI through a corporate member substitution. Saint Clare's is a New Jersey-based health system consisting of four hospital campuses and numerous other facilities in northwestern New Jersey. The transaction was accounted for as a contribution, with the fair value of assets acquired and liabilities assumed at April 1, 2008 reported as an increase in net assets.

Summary Saint Clare's Financial Information
at April 1, 2008 (in thousands)

Cash and equivalents	$	36,362	Current liabilities	$	77,755
Other current assets		55,495	Long-term debt		144,514
Property and equipment		214,231	Other liabilities		71,537
Other assets		82,597	Net assets		94,879

Saint Clare's reported a loss from operations of $2.4 million for the three-month period from April 1, 2008 through June 30, 2008 and a deficit of revenues over expenses of $9.2 million. The $9.2 million deficit included a $6.5 million loss on defeasance of bonds. These amounts were included in the accompanying 2008 consolidated statement of operations for the year ended June 30, 2008.

Divestitures and Discontinued Operations

Upper Chesapeake Health System, Inc./St. Joseph Medical Center Venture, LLC and Subsidiaries – In June 2009, CHI sold its investment in a Maryland limited liability corporation (LLC) with Upper Chesapeake Health System. The LLC had been formed in 1998 to own and operate an acute care facility and ambulatory care center. The investment had been accounted for under the cost method and was included in investments in unconsolidated organizations at a book value of $25 million. Under the terms of the agreement, CHI had a preferred equity interest in the LLC, which included liquidation preferences and a preferred investment return of 7%. Proceeds from the sale included payment of cumulative preferred dividends of approximately $6.4 million.

Missouri Operations - During the year ended June 30, 2009, CHI's management signed a letter of intent with another party to transfer sponsorship and related operations of its Missouri facilities. As of June 30, 2009, negotiations related to the transfer of the Missouri facilities were still ongoing. The operations associated with these lines of business have been reported as discontinued operations and are included in the consolidated statements of operations and changes in net assets in the accompanying financial statements.

3. Joint Operating Agreements, Investments in Unconsolidated Organizations, Business Acquisitions, Divestitures and Discontinued Operations (continued)

Total operating revenues and excess of expenses over revenues included in the results of discontinued operations are summarized below:

Summary of Discontinued Operations (in thousands)

	2009	2008
Total operating revenues	$ **313,013**	$ 309,442
Deficiency of revenues over expenses	**(71,656)**	(44,539)
Restructuring and other losses included in deficiency of revenues over expenses	**8,188**	–
Impairment losses included in deficiency of revenues over expenses	**41,845**	23,000

4. Net Patient Services Revenues

Net patient services revenues are derived from services provided to patients who are 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 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, and are paid 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 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.

4. Net Patient Services Revenues (continued)

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

	2009	2008
Medicare	**30%**	30%
Medicaid	**7%**	6%
Managed care	**37%**	38%
Self-pay	**8%**	9%
Commercial and other	**18%**	17%
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretations. 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 $37 million and $46 million at June 30, 2009 and 2008, respectively, are included in third-party liabilities. Net patient services revenues increased by $30 million in 2009 and $26 million in 2008 due to favorable changes in estimates related to prior-year settlements.

5. Investments and Assets Limited as to Use

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

	2009	2008
Cash and equivalents	**$ 114,714**	$ 342,325
CHI Investment Program (the Program)	**2,961,089**	3,905,578
Marketable fixed-income securities	**323,589**	316,379
Marketable equity securities	**308,418**	372,006
Hedge funds and other investments	**103,812**	141,747
	3,811,622	5,078,035
Less current portion	**(64,224)**	(74,134)
	$ 3,747,398	$ 5,003,901

Net unrealized (losses) and gains at June 30, 2009 and 2008 were $(396) million and $140 million, respectively.

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

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, fixed income, 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 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 investments' fair value. 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, 2009 and 2008.

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 safeguarding invested assets. 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. 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 81% of total Program assets at June 30, 2009 and 2008.

The Program asset allocation at June 30 is as follows:

	2009	**2008**
Marketable fixed-income securities	**38%**	40%
Marketable equity securities	**34%**	37%
Alternative investments	**22%**	22%
Cash and equivalents	**6%**	1%
	100%	100%

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

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.

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

	2009	2008
Dividend and interest income	$ 123,811	$ 164,467
Net realized (losses) gains	(225,724)	177,359
Net unrealized losses	(521,130)	(355,711)
Total investment losses	$ (623,043)	$ (13,885)
Included in other nonpatient revenue	$ (88,093)	$ (4,937)
Included in nonoperating losses	(534,950)	(8,948)
Total investment losses	$ (623,043)	$ (13,885)

6. Property and Equipment

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

	2009	2008
Land and improvements	$ 322,787	$ 304,514
Buildings and improvements	4,425,598	3,735,424
Equipment	3,601,788	3,267,756
	8,350,173	7,307,694
Less accumulated depreciation	(4,398,748)	(3,804,804)
	3,951,425	3,502,890
Construction in progress	562,575	748,423
	$ 4,514,000	$ 4,251,313

6. Property and Equipment (continued)

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 in accordance with SFAS No. 144. Management determined there were impairment issues in both 2009 and 2008, to the extent that the undiscounted cash flows estimated to be generated by certain assets were less than the underlying carrying value. CHI recorded $10.4 million in impairment losses in 2009, resulting from charges related to projected discounted cash flow deficits at various MBOs. Impairment charges of $41.8 million and $23.0 million related to the Missouri assets held for sale have been included in discontinued operations in the consolidated statements of operations and changes in net assets in 2009 and 2008, respectively.

7. Bank Loans and Debt Obligations

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

	2009	2008
CHI bond issues under the COD:		
Variable-rate debt, interest rates of 0.18% to 4.25%, due through 2044	**$ 681,000**	$ 727,700
Variable-rate debt with self-liquidity, interest rates of 0.14% to 0.25%, due through 2044	**525,260**	696,985
	1,206,260	1,424,685
Fixed-rate debt, interest rates of 3.5% to 7.0%, due through 2041	**1,760,625**	1,298,685
	2,966,885	2,723,370
Other long-term debt, bank loans, commercial paper and capital leases	**647,913**	915,536
	3,614,798	3,638,906
Bank loans, variable-rate debt with self-liquidity and current portion of long-term debt	**(1,217,591)**	(1,404,465)
Long-term debt	**$ 2,397,207**	$ 2,234,441

7. Bank Loans and Debt Obligations (continued)

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

	Amounts Due
Year Ending June 30:	
2010	$ 691,700
2011	63,419
2012	57,040
2013	54,423
2014	55,604

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. The fair value of bank loans and debt obligations was approximately $3.6 billion at June 30, 2009.

Proceeds of the various debt issues are used to finance and reimburse costs of acquisitions, construction and renovations, and to equip various health facilities as well as pay the costs of issuances, or to refinance existing bonds to improve rates or CHI's capital structure.

In November 2008, CHI issued $477.1 million of fixed rate and put bonds in the states of Colorado, Ohio, Tennessee and Washington. Proceeds were used to refinance $177.1 million of Series 2007 variable-rate bonds and to reimburse CHI $300 million for capital expenditures. This refinancing resulted in a loss on defeasance of $2.9 million.

In April and May 2008, CHI converted the interest rate modes on approximately $896 million of auction-rate securities to variable-rate and fixed-rate securities. CHI accounted for the majority of the conversions as extinguishments. In addition, in June 2008, CHI defeased revenue bonds of a direct affiliate that were issued outside of the COD of $93.2 million using proceeds from its $150 million term loan with Wachovia Bank. These transactions resulted in a loss on defeasance of $9.0 million primarily related to unamortized issuance and bond insurance costs.

In February 2009, CHI recognized a gain of $13.7 million from the restructuring of escrowed securities held by trustees. These escrowed securities, which are not recognized for financial reporting purposes, totaled $469.0 million and $496.1 million at June 30, 2009 and 2008, respectively.

7. Bank Loans and Debt Obligations (continued)

Gains (losses) on defeasance of debt are recorded as a component of nonoperating gains (losses) in the consolidated statements of operations. CHI reported a net gain on defeasance of debt of $10.8 million for the year ended June 30, 2009 and a loss on defeasance of debt of $15.5 million for the year ended June 30, 2008.

At June 30, 2009, CHI also has a $65 million credit facility with Wachovia Bank. Letters of credit totaling $53.7 million have been issued for the benefit of third parties principally in support of the self-insurance programs. At June 30, 2009 and 2008, no amounts were outstanding under this credit facility. As noted above, CHI obtained a $150 million term loan from Wachovia Bank in the spring of 2008, primarily for the purpose of defeasing a portion of outstanding bonds by June 30, 2008. CHI repaid the $150 million loan during fiscal year 2009.

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 which 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 $506.1 million and $622.4 million at June 30, 2009 and 2008, respectively. The dedicated liquidity facilities, and repayment terms on any associated drawings, extend beyond the subsequent fiscal year. Accordingly, the scheduled maturities of bonds beyond one year are reported as long-term debt.

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 $365 million and $1.2 billion at June 30, 2009 and 2008, respectively. At June 30, 2009, $550.6 million of commercial paper was classified as current due to terms of less than one year, and $525.3 million of VRDBs were classified as current due to the holder's ability to put such VRDBs without liquidity facilities dedicated to these bonds.

CHI is a party to six floating-to-fixed interest rate swap agreements with notional amounts totaling $964.2 million. CHI policy mandates that all counterparties have an AA rating or better. All fixed-payor swap agreements effectively convert a portion of CHI's variable-rate debt to fixed-rate. The six swaps have varying maturity dates ranging from May 2025 to December 2036. The fair value of the swaps is estimated based on internal discounted cash flow valuation models. At June 30, 2009 and 2008, the fair value was $(97.1) million, net of $5.0 million in cash collateral, and $(35.2) million, respectively. The change in the fair value of these agreements was a net loss of $(61.9) million and $(64.7) million in 2009 and 2008, respectively.

8. 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.

Adoption of SFAS No. 158

CHI accounts for its Plans in accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). SFAS No. 158 requires CHI to recognize 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 sheet, 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 will be recognized as a component of net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in net assets at the adoption of SFAS No. 158.

On July 1, 2007, CHI adopted the provisions of SFAS No. 158 regarding elimination of an early measurement date for plan assets and obligations, such that plan assets were re-measured as of CHI's year-end. The change in measurement date also permitted a change in the discount rate used by CHI to value plan obligations from 6.0% to 6.25%. These changes resulted in a reduction in the pension liability and an adjustment to net assets of $65.3 million.

8. 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, 2009 and 2008 measurement dates is as follows (in thousands):

	2009	2008
Change in benefit obligation:		
Benefit obligation, beginning of year	**$ 1,960,162**	$ 1,942,799
Impact from change of measurement date	**–**	(53,241)
Service cost	**131,595**	129,822
Interest cost	**132,873**	120,549
Actuarial losses (gains)	**105,762**	(95,106)
Net impact of transfers among plans	**202**	–
Benefits paid	**(80,569)**	(84,661)
Benefit obligation, end of year	**2,250,025**	1,960,162
Change in the Plans' assets:		
Fair value of the Plans' assets, beginning of year	**1,935,102**	1,921,139
Impact from change of measurement date	**–**	33,911
Actual return on the Plans' assets, net of expenses	**(390,417)**	(81,144)
Employer contributions	**164,255**	145,857
Benefits paid	**(80,570)**	(84,661)
Fair value of the Plans' assets, end of year	**1,628,370**	1,935,102
Funded status of the Plans	**$ (621,655)**	$ (25,060)
End of year values:		
Projected benefit obligation	**$ 2,250,025**	$ 1,960,162
Accumulated benefit obligation	**2,117,946**	1,839,914
Fair value of Plan assets	**1,628,370**	1,935,102

8. Retirement Plans (continued)

Included in net assets at June 30, 2009 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost of $3.0 million and unrecognized actuarial losses of $912 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, 2010 is $1.0 million and $18.7 million, respectively.

	2009	2008
	(In Thousands)	
Components of net periodic pension expense:		
Service cost	**$ 131,595**	$ 129,823
Interest cost	**132,873**	120,549
Expected return on the Plans' assets	**(164,794)**	(149,525)
Amortization of prior service benefit	**(2,829)**	(3,606)
Actuarial losses	**226**	9,904
	$ 97,071	$ 107,145
Weighted-average assumptions:		
Discount rate, beginning of year	**6.75%**	6.00%
Discount rate, end of year	**6.44%**	6.75%
Expected return on the Plans' assets	**8.25%**	8.25%
Rate of compensation increase	**4.50%**	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 8.25% in 2009 and 2008. The decrease in the discount rate at June 30, 2009 increased the pension benefit obligation by approximately $62 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, 2009 and 2008 is as follows:

	2009	2008	Target	Range
Fixed-income securities	**26.0%**	20.9%	20%	15% to 25%
Equity securities	**50.6%**	57.2%	60%	55% to 65%
Alternative investments	**23.4%**	21.9%	20%	15% to 25%

8. Retirement Plans (continued)

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 where allocations are outside of the expected range depending on 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.

CHI expects to contribute $164.5 million to the Plans in fiscal year 2010. 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:	
2010	$ 97,418
2011	114,209
2012	162,146
2013	151,476
2014	176,254
2015–2019	1,321,253

9. 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, 2009 and 2008 approximated the following:

	2009	2008
Medicare	**24%**	23%
Medicaid	**7%**	7%
Managed care	**33%**	34%
Self-pay	**10%**	11%
Commercial and other	**26%**	25%
	100%	100%

9. Concentrations of Credit Risk (continued)

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, 2009 and 2008.

10. Fair Value of Assets and Liabilities

SFAS No. 157 established a three-level hierarchy for fair value measurements. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

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

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.

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement.

10. Fair Value of Assets and Liabilities (continued)

Financial assets and liabilities measured at fair value on a recurring basis was determined using the following inputs at June 30, 2009 (in thousands):

	Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30, 2009	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 117,076	$ 117,076	$ –	$ –
Marketable equity securities	286,912	286,912	–	–
Marketable fixed-income securities	338,469	–	338,469	–
Other investments	3,563	–	3,563	–
Deferred compensation assets:				
Cash and short-term investments	10,228	10,228	–	–
Total	$ 756,248	$ 414,216	$ 342,032	$ –
Liabilities				
Interest rate swaps	$ 97,080	$ –	$ 97,080	$ –
Deferred compensation liability	10,228	10,228	–	–
Total	$ 107,308	$ 10,228	$ 97,080	$ –

The fair values of the securities included in Level 1 were determined through quoted market prices and 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, and 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, 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. Consistent with SFAS No. 157's Level 3 designation criteria, information on which these securities' fair values are based is generally not readily available in the market. CHI did not have Level 3 securities as of June 30, 2009.

11. 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 consistent with SFAS No. 5, *Accounting for Contingencies*. 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.

Healthcare Regulatory Environment

The healthcare 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 healthcare 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 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 (OIG) of its investigation into certain activities including, but not limited to, the relationship with a physician group at the MBO. CHI has cooperated with this government investigation and in July 2009 reached an agreement in principle with the Office of the Attorney General to resolve the matter. In this regard, CHI has recorded a liability of $22 million at June 30, 2009. This agreement remains subject to government approval.

11. Commitments and Contingencies (continued)

Operating Leases

Future minimum lease payments required for the next five years for all operating leases that have initial or remaining non-cancelable lease terms in excess of one year at June 30, 2009, are as follows (in thousands):

	Amounts Due
Year Ending June 30:	
2010	$ 97,623
2011	81,136
2012	64,016
2013	49,222
2014	35,540
Thereafter	96,624
	$ 424,161

Lease expense under operating leases for the years ended June 30, 2009 and 2008 totaled approximately $126 million and $116 million, respectively.

12. 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, 2009 and 2008, investments and assets limited as to use held for insurance purposes included $71 million and $75 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 with limits in the amount of $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 up to $1 million per claim. Unrelated commercial insurance carriers reinsure losses in excess of the per-claim limits.

12. Insurance Programs (continued)

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 $61 million and $62 million in 2009 and 2008, 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 5% annual return, to a present value of $135 million and $114 million at June 30, 2009 and 2008, respectively, and represented a discount of $36 million and $31 million in 2009 and 2008, respectively. Reserves related to professional, employment practices and general liability are not discounted.

During 2008, CHI established a captive management operation (Captive Management Initiatives, Ltd.) based in the Cayman Islands, which currently manages FIIL.

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 $48 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2009 and 2008. 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.

13. Subsequent Events

In May 2009, the FASB issued SFAS No. 165 *Subsequent Events* (SFAS No. 165), which defines further disclosure requirements for events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 is effective for CHI beginning on April 1, 2009. In accordance with SFAS No. 165, CHI's management has evaluated events subsequent from June 30, 2009 through September 15, 2009, which is the issuance date of this report. There has been no material event noted during this period that would either impact the results reflected in this report or CHI's results going forward, except as disclosed below.

13. Subsequent Events (continued)

In early September 2009, CHI entered into a non-binding agreement with Trinity Health to consolidate several of their hospitals into a new regional health system based in Boise, Idaho and owned by Trinity Health. Under this arrangement, CHI would sell three of its MBOs to Trinity Health, the terms of which have not yet been finalized. The three MBOs represent approximately 1.6% of CHI's total assets, 2.2% of total operating revenues and 0.5% of the deficiency of revenues over expenses as of June 30, 2009. The transaction is expected to close in early calendar year 2010.

Other Financial Information

Ernst & Young LLP
Suite 3300
370 17th Street
Denver, Colorado 80202-5663
Tel: +1 720 931 4000
Fax: +1 720 931 4444
www.ey.com

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 taken 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 15, 2009

Catholic Health Initiatives
Consolidating Balance Sheet

June 30, 2009
(In Thousands)

	MBOs	Corporate	FHL	CHI Welfare Benefits Trust	Other	Eliminations & Adjustments	Consolidated
Assets							
Current assets:							
Cash and equivalents	$ 442,995	$ 262,006	$ 26	$ 16,337	$ 1,310	$ –	$ 722,674
Net patient accounts receivable, less allowance of $572 million	1,188,618	–	–	–	–	–	1,188,618
Other accounts receivable	125,376	66,066	2,149	1,202	149	(61,962)	132,980
Current portion of investments and assets limited as to use	–	2,266	–	61,958	–	–	64,224
Inventories	166,998	–	–	–	–	–	166,998
Assets held for sale	4,120	–	–	–	–	–	4,120
Prepaid and other	27,895	15,740	29	157	28	–	43,849
Total current assets	1,956,002	346,078	2,204	79,654	1,487	(61,962)	2,323,463
Investments and assets limited as to use							
Internally designated for capital and other funds	1,905,355	773,696	–	–	1,149	–	2,680,200
Mission and Ministry Fund	–	89,469	–	–	–	–	89,469
Capital Resource Pool	–	209,539	–	–	–	–	209,539
Held by trustees	5,596	7,430	–	–	–	–	13,026
Held for insurance purposes	17,335	–	607,016	–	–	–	624,351
Restricted by donors	128,360	2,453	–	–	–	–	130,813
Total investments and assets limited as to use	2,056,646	1,082,587	607,016	–	1,149	–	3,747,398
Property and equipment, net	4,374,193	139,792	–	–	15	–	4,514,000
Deferred financing costs	961	25,667	–	–	–	–	26,628
Investments in unconsolidated organizations	188,447	47,022	–	–	6,655	(6,705)	235,419
Intangible assets	26,887	–	–	–	–	–	26,887
Notes receivable and other	85,037	2,329,434	29,156	–	1	(1,919,945)	523,683
Total assets	$ 8,688,173	$ 3,970,580	$ 638,376	$ 79,654	$ 9,307	$ (1,988,612)	$ 11,397,478

Continued on following page

Catholic Health Initiatives
Consolidating Balance Sheet (continued)

June 30, 2009
(In Thousands)

	MBOs	Corporate	FHL	CHI Welfare Benefits Trust	Other	Eliminations & Adjustments	Consolidated
Liabilities and net assets							
Current liabilities:							
Compensation and benefits	$ 288,998	$ 43,673	$ –	$ 597	$ 10	$ –	$ 333,278
Third-party liabilities	77,406	–	–	–	–	–	77,406
Accounts payable and accrued expenses	496,987	68,052	4,096	47,753	813	(61,962)	555,739
Liabilities held for sale	4,513	–	–	–	–	–	4,513
Bank loans	631	–	–	–	–	–	631
Variable-rate debt with self liquidity	–	525,260	–	–	–	–	525,260
Current portion of long-term debt	145,404	679,555	–	–	50	(133,309)	691,700
Total current liabilities	1,013,939	1,316,540	4,096	48,350	873	(195,271)	2,188,527
Other liabilities	182,256	694,003	–	–	–	(2,276)	873,983
Self-insured reserves and claims	13,584	150	418,937	–	–	–	432,671
Long-term debt	1,867,772	2,312,695	–	–	1,100	(1,784,360)	2,397,207
Total liabilities	3,077,551	4,323,388	423,033	48,350	1,973	(1,981,907)	5,892,388
Net assets:							
Unrestricted	5,444,643	(355,251)	215,343	31,304	7,334	(6,705)	5,336,668
Temporarily restricted	112,251	2,443	–	–	–	–	114,694
Permanently restricted	53,728	–	–	–	–	–	53,728
Total net assets	5,610,622	(352,808)	215,343	31,304	7,334	(6,705)	5,505,090
Total liabilities and net assets	$ 8,688,173	$ 3,970,580	$ 638,376	$ 79,654	$ 9,307	$ (1,988,612)	$ 11,397,478

Catholic Health Initiatives
Consolidating Statement of Operations

Year Ended June 30, 2009
(In Thousands)

	MBOs	Corporate	FHL	CHI Welfare Benefits Trust	Other	Eliminations & Adjustments	Consolidated
Revenues:							
Net patient services	$ 8,372,537	$ –	$ –	$ –	$ –	$ (115,054)	$ 8,257,483
Nonpatient:							
Donations	29,006	6,044	–	–	10	–	35,060
Changes in equity of unconsolidated organizations	6,194	1,720	–	–	–	–	7,914
Investment loss from self-insured trust funds	–	–	(88,093)	–	–	–	(88,093)
Other	300,228	664,605	103,336	346,998	134	(1,019,372)	395,929
Total nonpatient revenues	335,428	672,369	15,243	346,998	144	(1,019,372)	350,810
Total operating revenues	8,707,965	672,369	15,243	346,998	144	(1,134,426)	8,608,293
Expenses:							
Salaries and wages	3,168,464	161,096	–	–	148	(100)	3,329,608
Employee benefits	801,060	(21,280)	–	348,649	42	(454,777)	673,694
Medical professional fees	212,529	–	–	–	–	–	212,529
Purchased services	739,850	2,007	66	–	–	(208,307)	533,616
Consulting and legal	36,634	37,335	373	363	9	–	74,714
Supplies	1,500,472	3,112	–	–	4	–	1,503,588
Bad debts	619,279	–	–	–	–	–	619,279
Utilities	114,839	9,629	–	–	7	–	124,475
Insurance	90,992	121,830	85,140	–	43	(225,541)	72,464
Rentals, leases and maintenance	194,823	126,770	–	–	20	–	321,613
Depreciation and amortization	438,641	31,369	–	–	4	–	470,014
Interest	85,101	116,315	–	–	1	(101,073)	100,344
Other	497,521	30,279	306	1,460	265	(144,628)	385,203
Total operating expenses before restructuring, impairment and other losses	8,500,205	618,462	85,885	350,472	543	(1,134,426)	8,421,141
Income (loss) from operations before restructuring, impairment and other losses	207,760	53,907	(70,642)	(3,474)	(399)	–	187,152
Restructuring, impairment and other losses	28,638	6,052	–	–	–	–	34,690
Income (loss) from operations	**179,122**	**47,855**	**(70,642)**	**(3,474)**	**(399)**	**–**	**152,462**
Nonoperating (losses) gains:							
Investment losses	(373,225)	(153,484)	–	(8,040)	(201)	–	(534,950)
Gain on escrow restructuring and defeasance of bonds	–	10,845	–	–	–	–	10,845
Realized and unrealized losses on interest rate swaps	–	(88,350)	–	–	–	–	(88,350)
Other nonoperating losses	(9,470)	–	–	–	–	–	(9,470)
Total nonoperating losses	(382,695)	(230,989)	–	(8,040)	(201)	–	(621,925)
Deficiency of revenues over expenses	**$ (203,573)**	**$ (183,134)**	**$ (70,642)**	**$ (11,514)**	**$ (600)**	**$ –**	**$ (469,463)**

Catholic Health Initiatives
Consolidated Operating Statistics (Unaudited)

	Year Ended June 30 2009	2008
	(Dollars in Thousands)	
Financial performance:		
Excess of revenues over expenses	**$(469,463)**	$76,580
Margin	**-5.9%**	1.0%
Income from operations	**$152,462**	$180,062
Margin	**1.8%**	2.3%
Excess of revenues over expenses before interest, depreciation and amortization (EBIDA)	**$100,895**	$615,486
Margin	**1.3%**	7.8%
Operating EBIDA	**$722,820**	$718,968
Margin	**8.4%**	9.0%
Liquidity:		
Days of total cash	**163.6**	198.9
Days of net patient services revenues in net patient accounts receivable	**50.7**	55.2
Leverage:		
Debt-to-capitalization ratio	**40.4%**	35.9%
Cash-to-debt ratio	**102.4%**	114.4%
Mission:		
Charity care as a percentage of gross patient revenues	**3.4%**	3.3%
Productivity:		
Total employee compensation and benefits as a percentage of net patient services revenue	**48.5%**	49.4%
Employee benefits as a percentage of salaries and wages	**21.1%**	21.6%
Supplies as a percentage of net patient services revenue	**18.2%**	18.6%
Operations:		
Acute inpatient days	**1,929,216**	1,874,854
Acute admissions	**435,512**	422,561
Acute average length of stay, in days	**4.4**	4.4
Residential days	**727,572**	658,662
Long-term care days	**512,650**	620,042
Full-time equivalent employees	**57,899**	57,859
Number of employees	**69,737**	70,760
Acute inpatient revenues as a percentage of total net patient services revenues	**51.0%**	51.2%

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