Attachment 17

CHI Consolidated Financial Statements and Other Financial Information for the Fiscal Years Ended June 30, 2007 and 2006

CATHOLIC HEALTH INITIATIVES

Consolidated Financial Statements
and Other Financial Information
Years Ended June 30, 2007 and 2006

Catholic Health Initiatives
Consolidated Financial Statements and Other Financial Information
Years Ended June 30, 2007 and 2006

Contents

ERNST & YOUNG

Ernst & Young LLP

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, 2007 and 2006, 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, which statements reflect total assets of $508 million and $456 million as of June 30, 2007 and 2006, respectively, and total revenues of $431 million and $408 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, 2007 and 2006, 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.

As discussed in Note 8 to the consolidated financial statements, in 2007 CHI changed its method of accounting for defined benefit pension plans.

Ernst + Young LLP

September 4, 2007

Catholic Health Initiatives
Consolidated Balance Sheets

	June 30 2007	June 30 2006
	(In Thousands)	
Assets		
Current assets:		
Cash and equivalents	**$ 386,725**	$ 346,549
Net patient accounts receivable, less allowances of $472 million in 2007 and $453 million in 2006	**1,032,038**	944,433
Other accounts receivable	**89,646**	79,887
Current portion of investments and assets limited as to use	**72,469**	74,352
Inventories	**144,070**	136,559
Prepaid and other	**56,521**	59,362
Total current assets	**1,781,469**	1,641,142
Investments and assets limited as to use:		
Internally designated for capital and other funds	**3,503,268**	2,791,991
Mission and Ministry Fund	**125,521**	108,312
Capital Resource Pool	**269,006**	202,974
Held by trustees	**424,166**	20,249
Held for insurance purposes	**636,030**	511,680
Restricted by donors	**156,533**	144,808
Total investments and assets limited as to use	**5,114,524**	3,780,014
Property and equipment	**3,676,246**	3,285,001
Deferred financing costs	**18,674**	13,072
Investments in unconsolidated organizations	**240,779**	186,175
Intangible assets	**26,865**	30,879
Prepaid pension expense	**199**	188,241
Other	**528,861**	447,846
Total assets	**$ 11,387,617**	$ 9,572,370

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Catholic Health Initiatives
Consolidated Balance Sheets (continued)

	June 30 2007	June 30 2006
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 246,941**	$ 262,123
Third-party liabilities	**64,411**	73,720
Accounts payable and accrued expenses	**534,698**	514,895
Bank loans	**–**	93,013
Variable-rate debt with self liquidity	**408,900**	163,400
Current portion of long-term debt	**270,426**	95,405
Total current liabilities	**1,525,376**	1,202,556
Other liabilities	**112,259**	118,896
Self-insured reserves and claims	**423,620**	408,806
Long-term debt	**2,723,732**	1,970,301
Total liabilities	**4,784,987**	3,700,559
Net assets:		
Unrestricted	**6,442,154**	5,722,771
Temporarily restricted	**100,844**	95,923
Permanently restricted	**59,632**	53,117
Total net assets	**6,602,630**	5,871,811
Total liabilities and net assets	**$ 11,387,617**	$ 9,572,370

See accompanying notes.

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

		Years Ended June 30		
		2007		2006
		(In Thousands)		
Revenues:				
Net patient services	$	**7,212,319**	$	6,826,332
Nonpatient:				
Donations		**32,660**		51,555
Changes in equity of unconsolidated organizations		**37,630**		26,602
Other		**448,866**		347,191
Total nonpatient revenues		**519,156**		425,348
Total operating revenues		**7,731,475**		7,251,680
Expenses:				
Salaries and wages		**2,875,757**		2,806,364
Employee benefits		**623,899**		631,689
Medical professional fees		**149,509**		133,509
Purchased services		**389,869**		377,642
Consulting and legal		**84,370**		61,325
Supplies		**1,355,012**		1,302,653
Bad debts		**555,957**		490,219
Utilities		**108,138**		103,543
Insurance		**73,701**		80,066
Rentals, leases and maintenance		**256,167**		236,701
Depreciation and amortization		**387,918**		356,171
Interest		**121,681**		86,489
Other		**367,729**		264,418
Total operating expenses before restructuring, impairment and other losses		**7,349,707**		6,930,789
Income from operations before restructuring, impairment and other losses		**381,768**		320,891
Restructuring, impairment and other losses		**22,190**		11,743
Income from operations		**359,578**		309,148
Nonoperating gains (losses):				
Investment income		**531,010**		295,160
Loss on defeasance of bonds		**(17,932)**		–
Change in fair value of interest rate swaps		**29,496**		–
Total nonoperating gains		**542,574**		295,160
Excess of revenues over expenses	**$**	**902,152**	$	604,308

Community benefit provided to the poor and broader community and the unpaid cost of Medicare (unaudited) was $842 million and $812 million in 2007 and 2006, respectively (see Note 2 of the accompanying notes).

(Continued on following page)

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

	Years Ended June 30 2007	2006
	(In Thousands)	
Excess of revenues over expenses	**$ 902,152**	$ 604,308
Decrease in unfunded pension liability	**–**	255,596
Decrease related to adoption of pension accounting principle	**(213,016)**	–
Other changes in net assets	**41,683**	39,417
Increase in net assets	**730,819**	899,321
Net assets at beginning of year	**5,871,811**	4,972,490
Net assets at end of year	**$ 6,602,630**	$ 5,871,811

See accompanying notes.

Catholic Health Initiatives
Consolidated Statements of Cash Flows

	Years Ended June 30 2007	2006
	(In Thousands)	
Operating activities		
Increase in net assets	$ **730,819**	$ 899,321
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**387,918**	356,171
Provision for bad debts	**555,957**	490,219
Changes in equity of unconsolidated organizations	**(37,630)**	(26,602)
Net gains on sales of facilities and investments in unconsolidated organizations	**(10,475)**	(3,573)
Noncash operating expenses related to restructuring, impairment and other losses	**21,457**	11,377
Loss on defeasance of bonds	**17,932**	–
Increase in fair value of interest rate swaps	**(12,636)**	(41,584)
Recognition of conditional asset retirement obligation	**–**	29,567
Decrease in unfunded pension liability	**–**	(255,596)
Adoption of pension accounting principle	**213,016**	–
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(640,961)**	(595,533)
Other current assets	**(7,333)**	(16,661)
Current liabilities	**33,476**	87,946
Other changes	**(36,772)**	5,050
Net cash provided by operating activities, before net change in investments and assets limited as to use	**1,214,768**	940,102
Net increase in investments and assets limited as to use	**(1,332,627)**	(161,802)
Net cash (used in) provided by operating activities	**(117,859)**	778,300
Investing activities		
Purchases of property, equipment and other capital assets	**(903,878)**	(764,626)
Net cash proceeds from asset sales	**24,015**	19,058
Distributions from investments in unconsolidated organizations	**21,145**	19,671
Loans and transfers to affiliates	**(54,207)**	(55,417)
Other changes	**33,658**	13,755
Net cash used in investing activities	**(879,267)**	(767,559)
Financing activities		
Proceeds from issuance of long-term debt	**2,913,274**	3,295
Net costs associated with issuance of long-term debt	**(12,223)**	–
Repayment of long-term debt	**(1,863,749)**	(109,855)
Net cash provided by (used in) financing activities	**1,037,302**	(106,560)
Increase (decrease) in cash and equivalents	**40,176**	(95,819)
Cash and equivalents at beginning of year	**346,549**	442,368
Cash and equivalents at end of year	$ **386,725**	$ 346,549

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 19 states, including 72 acute-care hospitals, of which 21 are designated as critical access hospitals by the Medicare program, 42 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.

Basis of Presentation

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership 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.

New Accounting Pronouncements

In September 2006, The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB SFAS No. 87, 88, 106 and 132(R). SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) to recognize the funded status of their postretirement benefit plans in the statement of financial position (balance sheet), measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheet, and provide additional disclosures. CHI adopted the recognition and disclosure provisions of SFAS No. 158 on June 30, 2007. The effect of adopting SFAS No. 158 on CHI's financial condition at June 30, 2007 has been included in the accompanying consolidated financial statements. SFAS No. 158 did not have an effect on CHI's consolidated excess of revenues over expenses at June 30, 2007 or 2006. In addition, CHI did not adopt the provisions regarding the change in measurement date of plan assets and obligations, as this provision is not effective until CHI's fiscal year ending June 30, 2008. See Note 8 for further discussion of the effect of adopting SFAS No. 158 on the Company's consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. Generally Accepted Accounting Principles (GAAP) and expands disclosure requirements about fair value measurements. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In June 2006, the FASB issued 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. FIN 48 is effective for fiscal years beginning after December 15, 2006.

Management is in the process of evaluating the effect, if any, these new accounting standards will have on the accompanying consolidated financial statements.

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.

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 fund invests 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.

1. Summary of Significant Accounting Policies (continued)

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 hospital and site of care.

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, contributed by donors with stipulated restrictions and amounts held for Mission and Ministry programs.

During 2007, CHI determined that its investment portfolio, previously designated as "other-than-trading", should be designated as "trading" in accordance with the AICPA Audit and Accounting Guide: Health Care Organizations (the Guide). The Guide requires that changes in unrealized gains and losses on marketable securities designated as trading be reported within excess of revenues over expenses. Therefore, in connection with this change in designation to trading, approximately $89 million in net unrealized losses on marketable securities are included within excess of revenues over expenses in the accompanying 2006 consolidated statement of operations and changes in net assets. Prior to the change in designation, such amounts were reported as a component of unrestricted net assets.

In addition, cash flows from the purchases and sales of marketable securities were previously reported within the 2006 consolidated statement of cash flows as a component of investing activities. In connection with the change in designation to trading, net cash flows from the purchases and sales of marketable securities are reported as a component of operating activities. The change in designation to trading had no impact on the previously reported amounts for investments, unrestricted net assets or the total change in unrestricted net assets.

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. 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. Unrealized gains and losses on investments that have been designated as trading securities are included in the excess of revenues over expenses.

Investments in partnerships and limited liability companies with underlying interest in equity and debt securities are recorded using the equity method of accounting 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 $14 million and $15 million was recorded in 2007 and 2006, respectively.

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)

On November 1, 2005, CHI entered into a joint venture agreement with Jewish Hospital Healthcare Services, Inc. (JHHS). CHI contributed substantially all of the net assets of the former MBO in Louisville, Kentucky of $7 million, along with $20 million to be paid in quarterly installments over the next three years, 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 $38 million and $32 million at June 30, 2007 and 2006, respectively. The joint venture had annual revenues of approximately $916 million and $631 million for 2007 and 2006, had total assets of $964 million and $927 million and net assets of $393 million and $386 million as of June 30, 2007 and 2006, 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 $43 million at June 30, 2007 and $47 million at June 30, 2006.

CHI has an investment in a Maryland limited liability corporation (LLC) with Upper Chesapeake Health System to own and operate an acute care facility and ambulatory care center. The investment, accounted for under the cost method, is included in investments in unconsolidated organizations and had a book value of $25 million as of June 30, 2007 and 2006, respectively. Under the terms of the agreement, CHI has a preferred equity interest in the LLC, which includes liquidation preferences and a preferred investment return of 7%. However, the LLC is required to maintain certain operating and capital reserves, as defined in the agreement, prior to the payment of such cumulative return. The preferred return shall terminate as designated by either the LLC or CHI when the LLC's appraised value reaches $125 million and the cumulative 7% preferred return amounts due to CHI have been paid. Subsequent to this termination date, all distributions and allocations of profits and losses shall be made to the members in accordance with their respective membership interests.

Preferred Professional Insurance Corporation (PPIC) is an unconsolidated affiliate of CHI. CHI has a reinsurance trust fund arrangement with PPIC to collateralize its obligation for reimbursement of losses arising from the reinsurance assumed. 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 $26 million and $21 million at June 30, 2007 and 2006, respectively. PPIC had total assets of $568 million and $489 million at June 30, 2007 and 2006, respectively, and net assets of $97 million and $76 million, respectively.

1. Summary of Significant Accounting Policies (continued)

Other Assets

Other assets consist primarily of notes receivable. Alegent Health and Alegent Immanuel Medical Center (collectively, Alegent), the Nebraska joint operating company (JOC) and non-CHI joint operating agreement (JOA) partner, respectively, and Bethesda Hospital, Inc. (Bethesda), the non-CHI JOA partner in the Cincinnati, Ohio JOA, 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. CHI had notes receivable from Alegent and Bethesda of $126 million and $194 million, respectively, at June 30, 2007 and $131 million and $145 million, respectively, at June 30, 2006. The notes bear interest at rates commensurate with the CHI blended interest cost and require monthly principal and interest payments. 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, 2007 and 2006.

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 have been restricted by donors to be maintained in perpetuity.

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.

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, negotiated discounts from established rates and per diem payments.

1. Summary of Significant Accounting Policies (continued)

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 2.9% of gross patient services revenues in both 2007 and 2006.

Other Nonpatient Revenues

Other nonpatient revenues include investment income from gains and losses on the sales of assets, income-shares with JOAs, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues and revenues from other miscellaneous sources. Investment income from First Initiatives Insurance, Limited (FIIL), including both net realized and unrealized gains and losses, is also a component of other nonpatient revenues.

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 SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Accordingly, the change in the fair value of derivatives is recognized as a component of investment income.

CHI also uses derivative financial instruments (interest rate swaps) in managing its capital structure. These interest rate swaps are recognized at fair value on the balance sheet. The change in the fair value of interest rate swaps is recognized as a component of nonoperating gains (losses) in the consolidated statements of operations.

1. Summary of Significant Accounting Policies (continued)

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 were approximately 2% of total operating expenses in both 2007 and 2006.

Operating Expenses Related to 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 impairment issues in both 2007 and 2006, to the extent that the discounted cash flows estimated to be generated by those assets were less than the underlying carrying value.

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.

Reclassifications

Certain reclassifications were made to the 2006 financial statement presentation to conform to the 2007 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 as well as 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

2. Community Benefit (Unaudited) (continued)

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.

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

	2007	2006
Cost of community benefit provided to the poor:		
Cost of charity care provided	**$ 153,670**	$ 147,645
Unpaid cost of public programs, Medicaid and other indigent care programs	**219,005**	196,463
Nonbilled services for the poor	**7,435**	9,877
Cash and in-kind donations for the poor	**3,275**	5,134
Other benefit provided to the poor	**17,273**	13,866
	400,658	372,985
Cost of community benefit provided to the broader community:		
Nonbilled services for the community	**18,075**	19,469
Education and research provided for the community	**19,136**	22,000
Other benefit provided to the community	**41,927**	48,887
	79,138	90,356
Total cost of community benefit	**479,796**	463,341
Unpaid cost of Medicare	**362,430**	348,249
Total cost of community benefit and the unpaid cost of Medicare	**$ 842,226**	$ 811,590

2. Community Benefit (Unaudited) (continued)

The above summary 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 6.5% and 6.7% of total expenses before operating expenses related to restructuring, impairment and other losses in 2007 and 2006, respectively. The total cost of community benefit and the unpaid cost of Medicare was 11.5% and 11.7% of total expenses before operating expenses related to restructuring, impairment and other losses in 2007 and 2006, respectively. Certain adjustments were made to the previously reported 2006 community benefit information to conform to the 2007 presentation.

3. 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.

3. Net Patient Services Revenues (continued)

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

	2007	2006
Medicare	31%	32%
Medicaid	7%	7%
Managed care	36%	35%
Self-pay	9%	9%
Commercial and other	17%	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 $47 million and $56 million at June 30, 2007 and 2006, respectively, are included in third-party liabilities. Net patient services revenues increased by $25 million in 2007 and $12 million in 2006 due to favorable changes in estimates related to prior-year settlements.

4. Investments and Assets Limited as to Use

A summary of the fair value of investments and assets limited as to use is as follows (in thousands):

	2007	2006
Cash and equivalents	$ 414,221	$ 123,782
CHI investment program	3,934,666	3,131,321
Marketable fixed-income securities	368,763	259,611
Marketable equity securities	344,715	278,424
Hedge funds and other investments	124,628	61,228
	5,186,993	3,854,366
Less current portion	(72,469)	(74,352)
	$ 5,114,524	$ 3,780,014

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

The underlying fair value of the investments, most of which are traded on national exchanges and in over-the-counter markets, is based on the last reported sales price on the last business day of the fiscal year. Net unrealized gains at June 30, 2007 and June 30, 2006 were $505 million and $224 million, respectively.

The underlying fair value of limited liability companies/limited partnerships and hedge/private equity funds is based on valuations provided by the managers of the specific financial instruments. CHI believes the carrying amount of these financial instruments in the consolidated financial statements is a reasonable estimate of fair value. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a market for such investments existed. Such differences could be material.

Substantially all CHI long-term investments are held in the CHI investment program (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. In June of 2006, the Limited Partnership Agreement was revised to permit a majority vote of the non-controlled 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 75% and 76% of total Program assets at June 30, 2007 and 2006, respectively.

The Program asset allocation at June 30 is as follows:

	2007	**2006**
Marketable fixed-income securities	**33%**	31%
Marketable equity securities	**48%**	52%
Alternative investments	**19%**	17%
	100%	100%

Operating expenses of the Program are less than 0.5% of invested assets.

4. 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):

	2007	2006
Dividend and interest income	**$ 202,934**	$ 186,000
Net realized gains	**119,218**	195,266
Net unrealized gains (losses)	**278,263**	(59,893)
Total investment income	**$ 600,415**	$ 321,373
Included in other nonpatient revenue	**$ 69,405**	$ 26,213
Included in nonoperating gains	**531,010**	295,160
Total investment income	**$ 600,415**	$ 321,373

5. Property and Equipment

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

	2007	2006
Land and improvements	**$ 265,537**	$ 254,252
Buildings and improvements	**3,445,798**	3,093,001
Equipment	**3,202,858**	3,062,271
	6,914,193	6,409,524
Less accumulated depreciation	**(3,805,414)**	(3,743,312)
	3,108,779	2,666,212
Construction in progress	**567,467**	618,789
	$ 3,676,246	$ 3,285,001

5. Property and Equipment (continued)

Effective June 30, 2006, CHI adopted FASB Interpretation No. (FIN) 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). This pronouncement requires the recognition of a liability for the fair value of asset retirement obligations in instances where there is a legal liability and the amount can be reasonably estimated. The cumulative effect of adopting FIN 47 was $30 million and is included as an increase in other liabilities and a decrease in unrestricted net assets.

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 2007 and 2006, to the extent that the discounted cash flows estimated to be generated by certain assets were less than the underlying carrying value. CHI recorded $21 million and $12 million in impairment losses in 2007 and 2006, respectively. Impairment losses at various MBOs in 2007 consist of a $12 million charge related to projected cash flow deficits at an MBO and $8 million related to unrealizable intangible assets from a previous acquisition of ancillary businesses. Impairment losses in 2006 primarily consisted of a $9 million charge related to office buildings.

6. Bank Loans and Long-Term Debt

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 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 bonds under the COD was approximately $3.4 billion at June 30, 2007.

6. Bank Loans and Long-Term Debt (continued)

The following is a summary of long-term debt as of June 30 (in thousands):

	2007	2006
CHI bond issues under the COD:		
Variable-rate debt, interest rates of 3.12% to 4% due through 2044	**$ 1,365,975**	$ 894,875
Variable-rate debt with self-liquidity, interest rates of 3.31% to 4%, due through 2044	**408,900**	163,400
	1,774,875	1,058,275
Fixed-rate debt, interest rates of 4% to 7%, due through 2041	**705,390**	1,133,390
	2,480,265	2,191,665
Other long-term debt, commercial paper and capital leases	**922,793**	37,441
	3,403,058	2,229,106
Less variable-rate debt with self-liquidity and current portion of long-term debt	**(679,326)**	(258,805)
	$ 2,723,732	$ 1,970,301

CHI borrowed $881 million in a variable rate taxable bank loan and used the proceeds to defease bonds of $801.8 million in October 2006 and to provide interim financing of asset purchases in the state of Washington. The transaction resulted in a loss on defeasance of $17.9 million and is recorded as a component of nonoperating gains (losses) in the consolidated statement of operations. In December 2006, CHI refinanced the $881 million taxable bank loan with commercial paper, $220.2 million of which is classified as current and is due on June 30, 2008, and the remaining $660.8 million classified as long-term debt with a final payment date of December 31, 2009.

In November 2006, CHI issued $400 million of Series 2006A, $200 million of Series 2006B and $550 million of Series 2006C bonds under the COD to finance capital acquisitions. The Series 2006A bonds bear interest at fixed rates from 4.0% to 5.0%. The Series 2006B bonds are variable rate demand bonds which are remarketed weekly and were issued with a self-liquidity feature. The Series 2006C bonds are auction-rate certificates with auctions to reset interest rates occurring every seven days. The Series 2006C bonds are insured in equal amounts by Financial Security Assurance, Inc. and Financial Guaranty Insurance Company.

6. Bank Loans and Long-Term Debt (continued)

During 2005, CHI issued $161 million of Series 2004A, $406 million of Series 2004B, $163 million of Series 2004C and $57 million of Series 2004D bonds under the COD to finance capital acquisitions. The Series A bonds bear interest at fixed rates from 4.75% to 5%. The Series B, C and D bonds bear interest at variable rates. The Series 2004B bonds are variable rate demand notes, for which the interest rates reset weekly and liquidity to bondholders is provided by agreements with financial institutions. The Series 2004C bonds are variable rate demand bonds with weekly resets of the interest rates, and were issued with a self-liquidity feature. CHI must purchase any Series 2004C bonds tendered for payment to the extent that proceeds from remarketing efforts are insufficient. As a result, for financial reporting purposes, the Series 2004C bonds are reported as a current liability. The Series D bonds are non-redeemable auction-rate certificates with auctions to reset interest rates occurring every 7 and/or 35 days.

Liquidity related to the $0.6 billion and $0.7 billion of redeemable variable rate bonds at June 30, 2007 and 2006, respectively, and the $0.7 billion of commercial paper at June 30, 2007 was provided by financial institutions and extends beyond the subsequent fiscal year. Accordingly, the bonds and commercial paper are reported as long-term debt.

At June 30, 2007, CHI was a party to six floating-to-fixed interest rate swap agreements with notional amounts totaling $981.7 million. Two of the swaps totaling $250 million have a forward delivery date of December 1, 2007. 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 market quotes and is included in other assets. At June 30, 2007 and 2006, the fair value was $29 million and $17 million, respectively.

CHI policy is to enter into swap agreements with counterparties that have an AA rating or better. The swaps initially qualified as cash flow hedges and, accordingly, changes in the value of the swaps were recorded directly to net assets. Effective October 1, 2006, and as a result of the FASB's issuance of Statement 133 Implementation Issue No. G26 regarding Cash Flow Hedges, the swaps were de-designated as cash flow hedges and changes in fair value are now recorded in the consolidated statements of operations. Amounts previously recorded in net assets (approximately $0.1 million) were reclassified to investment income in the consolidated statements of operations. The change in the fair value of these agreements was a net gain of $13 million and $42 million in 2007 and 2006, respectively.

CHI has an unsecured revolving line of credit agreement with Mellon Bank for $100 million. CHI also has a $65 million credit facility with Wachovia Bank. No amounts were outstanding under these credit facilities at June 30, 2007.

6. Bank Loans and Long-Term Debt (continued)

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

Year Ending June 30	Amounts Due
2008	$ 272,326
2009	492,835
2010	276,648
2011	57,861
2012	55,654

7. 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 consolidated 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 investments are included in investments in unconsolidated organizations and totaled $64 million and $36 million at June 30, 2007 and 2006, respectively. Effective July 2006, with the deconsolidation of the Colorado-based JOC, CHI recognized 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 $435 million and $269 million at June 30, 2007 and 2006, respectively, and net assets of $97 million and $41 million, respectively.

8. Retirement Plans

CHI and its direct affiliates maintain non-contributory, 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. The Plans are qualified as

8. Retirement Plans (continued)

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 by consultation with independent actuaries.

Adoption of SFAS No. 158

On June 30, 2007, CHI adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required 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 June 30, 2007 consolidated balance sheet, with a corresponding adjustment to net assets. The adjustment to net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service benefit which were previously netted against the Plans' funded status in CHI's consolidated balance sheet pursuant to the provisions of SFAS No. 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to CHI's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods 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.

The incremental effects of adopting the provisions of SFAS No. 158 on CHI's consolidated balance sheet at June 30, 2007 are presented in the following table. The adoption of SFAS No. 158 had no effect on CHI's consolidated statement of operations for the year ended June 30, 2007, or for any prior period presented, and it will not effect CHI's operating results in future periods.

Prior to Adopting SFAS No. 158	Effect of Adopting SFAS No. 158	As Reported at June 30, 2007
	(In Thousands)	
$ 213,215	$ (213,016)	$ 199

Included in net assets at June 30, 2007 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service benefit of ($6.0) million and unrecognized actuarial losses of $218.9 million. The prior service benefit and actuarial loss included in net assets and expected to be recognized in net periodic pension cost during the fiscal year ended June 30, 2008 is ($3.8) million and $19.2 million, respectively.

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 April 30 measurement date, and the prepaid pension expense at June 30, is as follows (in thousands):

	2007	2006
Change in benefit obligation:		
Benefit obligation at May 1, prior year	**$ 1,672,906**	$ 1,554,160
Service cost	**121,967**	125,404
Interest cost	**107,969**	89,544
Actuarial losses (gains)	**116,295**	(35,875)
Benefits paid	**(76,338)**	(60,327)
Benefit obligation at April 30	**1,942,799**	1,672,906
Change in the Plans' assets:		
Fair value of the Plans' assets at May 1, prior year	**1,643,924**	1,335,354
Actual return on the Plans' assets, net of expenses	**212,260**	236,548
Employer contributions	**141,293**	132,349
Benefits paid	**(76,338)**	(60,327)
Fair value of the Plans' assets at April 30	**1,921,139**	1,643,924
Funded status of the Plans	**(21,660)**	(28,982)
Unrecognized net actuarial losses	**–**	203,760
Unrecognized prior service benefit	**–**	(8,922)
Amount recognized at April 30	**(21,660)**	165,856
Contributions, May 1 to June 30	**21,859**	22,385
Amount recognized at June 30	**$ 199**	$ 188,241

8. Retirement Plans (continued)

	2007	2006
	(In Thousands)	
Components of net periodic pension expense:		
Service cost	**$ 121,967**	$ 125,404
Interest cost	**107,969**	89,544
Expected return on the Plans' assets	**(128,124)**	(113,795)
Amortization of prior service benefit	**(3,630)**	(3,988)
Actuarial losses	**15,204**	20,953
	$ 113,386	$ 118,118
Weighted-average assumptions:		
Discount rate, beginning of year	**6.25%**	5.50%
Discount rate, end of year	**6.00%**	6.25%
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 2007 and 2006.

A summary of the Plans' asset allocation targets, ranges by asset class and allocations by asset class at the measurement dates of April 30, 2007 and 2006 is as follows:

	2007	2006	Target	Range
Fixed-income securities	**19.7%**	19.6%	20%	15% to 25%
Equity securities	**61.5%**	63.3%	60%	55% to 65%
Alternative investments	**18.8%**	17.1%	20%	15% to 25%

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. 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.

8. Retirement Plans (continued)

CHI expects to contribute $139.5 million to the Plans in 2008. A summary of expected benefits to be paid to the Plans' participants and beneficiaries is as follows (in thousands):

Year Ending June 30	Estimated Payments
2008	$ 68,245
2009	77,223
2010	80,925
2011	92,485
2012	121,630
2013–2016	1,671,291

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, 2007 and 2006 approximated the following:

	2007	2006
Medicare	**27%**	26%
Medicaid	**9%**	11%
Managed care	**30%**	29%
Self-pay	**11%**	10%
Commercial and other	**23%**	24%
	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. Accordingly, management does not believe there are significant concentrations of credit risk at June 30, 2007 or 2006.

10. 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.

11. Insurance Program

FIIL, a wholly-owned captive insurance company of CHI, provides professional, employment practices and general liability coverage of $8 million per claim either on a directly written basis or through reinsurance fronting relationships with commercial carriers such as PPIC. At June 30, 2007 and 2006, investments and assets limited as to use held for insurance purposes included $77 million and $85 million to collateralize the obligation. 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 of $500,000 per claim, either on a directly written basis or through reinsurance relationships with commercial carriers. 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. The liability for self-insured reserves and claims represents the estimated ultimate net cost of all reported and unreported losses

11. Insurance Program (continued)

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 $38 million and $29 million in 2007 and 2006, respectively, due to changes in 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 $110 million and $106 million at June 30, 2007 and 2006, respectively, and represented a discount of $28 million and $25 million in 2007 and 2006, respectively. Reserves related to professional, employment practices and general liability are not discounted.

CHI provides comprehensive health and dental coverage to certain employees and dependents through a self-insured medical plan. Accounts payable and accrued expenses include $37 million and $32 million for unpaid claims and claims adjustment expenses for CHI's self-insured medical plan at June 30, 2007 and 2006, 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.

12. Subsequent Event

CHI has entered into an agreement to become the sole corporate member of Saint Clare's Health System (Saint Clare's), a New Jersey-based community health system consisting of four hospital campuses and numerous other facilities in northwestern New Jersey. CHI and Saint Clare's are expected to complete the transaction upon approval by various regulatory agencies.

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 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 audit 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 4, 2007

Catholic Health Initiatives
Consolidating Balance Sheets

June 30, 2007
(In Thousands)

	MBOs	Corporate	FHL	CHI Welfare Benefits Trust	Eliminations & Adjustments	Consolidated
Assets						
Current assets:						
Cash and equivalents	$ 162,076	$ 208,741	$ 107	$ 14,658	$ 1,143	$ 386,725
Net patient accounts receivable, less allowance of $472 million	1,032,038	–	–	–	–	1,032,038
Other accounts receivable	99,939	11,744	693	41	(22,771)	89,646
Current portion of investments and assets limited as to use	–	2,854	–	69,616	(1)	72,469
Inventories	144,070	–	–	–	–	144,070
Prepaid and other	46,146	10,357	17	–	1	56,521
Total current assets	1,484,269	233,696	817	84,315	(21,628)	1,781,469
Investments and assets limited as to use:						
Internally designated for capital and other funds	2,869,967	633,301	–	–	–	3,503,268
Mission and Ministry Fund	–	125,521	–	–	–	125,521
Capital Resource Pool	–	269,006	–	–	–	269,006
Held by trustees	5,035	419,131	–	–	–	424,166
Held for insurance purposes	20,871	–	615,159	–	–	636,030
Restricted by donors	156,361	172	–	–	–	156,533
Total investments and assets limited as to use	3,052,234	1,447,131	615,159	–	–	5,114,524
Property and equipment	3,547,198	129,047	–	–	1	3,676,246
Deferred financing costs	38	18,636	–	–	–	18,674
Investments in unconsolidated organizations	206,492	34,287	–	–	–	240,779
Intangible assets	26,865	–	–	–	–	26,865
Prepaid pension expense	63,952	(63,754)	–	–	1	199
Other	69,854	2,247,446	20,879	(1)	(1,809,317)	528,861
Total assets	$ 8,450,902	$ 4,046,489	$ 636,855	$ 84,314	$ (1,830,943)	$ 11,387,617

(Continued on following page)

Catholic Health Initiatives
Consolidating Balance Sheets (continued)

June 30, 2007
(In Thousands)

	MBOs	Corporate	FHL	CHI Welfare Benefits Trust	Eliminations & Adjustments	Consolidated
Liabilities and net assets						
Current liabilities:						
Compensation and benefits	$ 226,502	$ 20,371	$ –	$ 68	$ –	$ 246,941
Third-party liabilities	65,116	(705)	–	–	–	64,411
Accounts payable and accrued expenses	451,042	63,597	9,327	37,246	(26,514)	534,698
Bank loans	–	–	–	–	–	–
Variable-rate debt with self-liquidity	–	408,900	–	–	–	408,900
Current portion of long-term debt	112,940	280,430	–	–	(122,944)	270,426
Total current liabilities	855,600	772,593	9,327	37,314	(149,458)	1,525,376
Other liabilities	87,974	24,285	–	–	–	112,259
Self-insured reserves and claims	18,929	4,461	404,230	–	(4,000)	423,620
Long-term debt	1,653,856	2,752,199	–	–	(1,682,323)	2,723,732
Total liabilities	2,616,359	3,553,538	413,557	37,314	(1,835,781)	4,784,987
Net assets:						
Unrestricted	5,674,119	492,900	223,298	47,000	4,837	6,442,154
Temporarily restricted	100,792	51	–	–	1	100,844
Permanently restricted	59,632	–	–	–	–	59,632
Total net assets	5,834,543	492,951	223,298	47,000	4,838	6,602,630
Total liabilities and net assets	$ 8,450,902	$ 4,046,489	$ 636,855	$ 84,314	$ (1,830,943)	$ 11,387,617

Catholic Health Initiatives
Consolidating Statements of Operations

Year Ended June 30, 2007
(In Thousands)

	MBOs	Corporate	FHL	CHI Welfare Benefits Trust	Eliminations & Adjustments	Consolidated
Revenues:						
Net patient services	$ 7,297,269	$ –	$ –	$ –	$ (84,950)	$ 7,212,319
Nonpatient:						
Donations	32,631	29	–	–	–	32,660
Changes in equity of unconsolidated orgs.	30,491	7,139	–	–	–	37,630
Other	318,611	526,864	186,511	259,115	(842,235)	448,866
Total nonpatient revenues	381,733	534,032	186,511	259,115	(842,235)	519,156
Total operating revenues	7,679,002	534,032	186,511	259,115	(927,185)	7,731,475
Expenses:						
Salaries and wages	2,768,082	107,675	–	–	–	2,875,757
Employee benefits	698,297	6,946	–	257,423	(338,767)	623,899
Medical professional fees	149,509	–	–	–	–	149,509
Purchased services	499,210	23,152	–	–	(132,493)	389,869
Consulting and legal	39,646	44,724	–	–	–	84,370
Supplies	1,353,475	1,537	–	–	–	1,355,012
Bad debts	555,957	–	–	–	–	555,957
Utilities	99,857	8,281	–	–	–	108,138
Insurance	112,439	147,226	84,594	–	(270,558)	73,701
Rentals, leases and maintenance	177,473	78,694	–	–	–	256,167
Depreciation and amortization	358,828	29,089	–	–	1	387,918
Interest	66,693	133,878	–	–	(78,890)	121,681
Other	447,041	25,089	–	1,787	(106,188)	367,729
Total operating expenses before restructuring, impairment and other losses	7,326,507	606,291	84,594	259,210	(926,895)	7,349,707
Income from operations before restructuring, impairment and other losses	352,495	(72,259)	101,917	(95)	(290)	381,768
Restructuring, impairment and other losses	21,586	604	–	–	–	22,190
Income from operations	**330,909**	**(72,863)**	**101,917**	**(95)**	**(290)**	**359,578**
Nonoperating gains (losses):						
Investment income	396,680	126,353	–	7,935	42	531,010
Loss on defeasance of bonds	–	(17,932)	–	–	–	(17,932)
Fair value change in interest rate swaps	–	29,496	–	–	–	29,496
Total nonoperating gains	396,680	137,917	–	7,935	42	542,574
Excess of revenues over expenses	**$ 727,589**	**$ 65,054**	**$ 101,917**	**$ 7,840**	**$ (248)**	**$ 902,152**

Catholic Health Initiatives
Consolidated Operating Statistics (Unaudited)

	Year Ended June 30	
	2007	**2006**
	(Dollars in Thousands)	
Financial performance:		
Excess of revenues over expenses	**$902,152**	$604,308
Margin	**10.9%**	8.0%
Income from operations	**$359,578**	$309,148
Margin	**4.7%**	4.3%
Excess of revenues over expenses before interest, depreciation and amortization (EBIDA)	**$1,411,751**	$1,046,968
Margin	**17.1%**	13.9%
Operating EBIDA	**$869,177**	$751,808
Margin	**11.2%**	10.4%
Liquidity:		
Days of total cash	**244.1**	207
Days of net patient services revenues in net patient accounts receivable	**52.2**	50.5
Leverage:		
Debt-to-capitalization ratio	**32.2%**	27.5%
Cash-to-debt ratio	**125.9%**	148.6%
Mission:		
Charity care as a percentage of gross patient revenues	**2.9%**	2.9%
Productivity:		
Total employee compensation and benefits as a percentage of net patient services and other revenues	**46.1%**	48.1%
Employee benefits as a percentage of salaries and wages	**22.4%**	23.3%
Supplies as a percentage of net patient services and other revenues	**17.8%**	18.2%
Operations:		
Acute inpatient days	**1,795,573**	1,827,488
Acute admissions	**408,520**	412,209
Acute average length of stay, in days	**4.4**	4.4
Residential days	**634,940**	625,269
Long-term care days	**649,468**	722,668
Full-time equivalent employees	**53,485**	53,531
Number of employees	**65,296**	65,070
Acute inpatient revenues as a percentage of total net patient services revenues	**51.9%**	52.5%