

CONSOLIDATED FINANCIAL STATEMENTS

Ascension Health  
Years Ended June 30, 2009 and 2008  
With Report of Independent Auditors

Ascension Health  
Consolidated Financial Statements  
Years Ended June 30, 2009 and 2008

**Contents**

|   |    |
|---|----|
| Report of Independent Auditors.....                                   | 1  |
| Consolidated Financial Statements                                     |    |
| Consolidated Balance Sheets .....                                     | 2  |
| Consolidated Statements of Operations and Changes in Net Assets ..... | 4  |
| Consolidated Statements of Cash Flows.....                            | 6  |
| Notes to Consolidated Financial Statements.....                       | 8  |
| Other Financial Information   |    |
| Report of Independent Auditors on Other Financial Information .....   | 45 |
| Schedule of Net Cost of Providing Care of Persons                     |    |
| Who are Poor and Community Benefit Programs .....                     | 46 |

## Report of Independent Auditors

The Board of Trustees  
Ascension Health

We have audited the accompanying consolidated balance sheets of Ascension Health (as identified in Note 1) 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 Ascension Health's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ascension Health at June 30, 2009 and 2008, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

September 11, 2009

# Ascension Health

## Consolidated Balance Sheets (Dollars in Thousands)

|   | June 30,      |               |
|---|---------------|---------------|
|   | 2009          | 2008          |
| <b>Assets</b>   |               |               |
| Current assets:   |               |               |
| Cash and cash equivalents   | \$ 986,538    | \$ 803,123    |
| Short-term investments  | 73,364        | 78,285        |
| Accounts receivable, less allowances for uncollectible accounts<br>(\$949,236 and \$671,406 in 2009 and 2008, respectively) | 1,679,409     | 1,728,283     |
| Current portion of assets limited as to use   | 136,686       | 127,007       |
| Inventories   | 223,479       | 227,215       |
| Other receivables   | -             | 101,749       |
| Assets held for sale  | 3,338         | 34,093        |
| Other   | 285,155       | 290,902       |
| Total current assets  | 3,387,969     | 3,390,657     |
| Board-designated investments  | 2,994,884     | 3,680,274     |
| Other investments   | 1,633,295     | 1,697,426     |
| Assets limited as to use  | 827,570       | 927,420       |
| Property and equipment, net   | 6,548,574     | 6,426,941     |
| Other assets:   |               |               |
| Investment in unconsolidated entities   | 699,127       | 750,442       |
| Other   | 419,105       | 453,383       |
| Total other assets  | 1,118,232     | 1,203,825     |
| Total assets  | \$ 16,510,524 | \$ 17,326,543 |

|  | <b>June 30,</b>      |                      |
|--|----------------------|----------------------|
|  | <b>2009</b>          | <b>2008</b>          |
| <b>Liabilities and net assets</b>                              |                      |                      |
| Current liabilities:   |                      |                      |
| Current portion of long-term debt                              | \$ 59,622            | \$ 58,890            |
| Long-term debt subject to short-term remarketing arrangements* | 1,791,330            | 1,854,120            |
| Accounts payable and accrued liabilities                       | 1,525,460            | 1,466,772            |
| Estimated third-party payor settlements, net                   | 164,626              | 116,658              |
| Current portion of self-insurance liabilities                  | 189,148              | 173,899              |
| Liabilities related to assets held for sale                    | 15,757               | 24,670               |
| Other  | 51,433               | 132,488              |
| Total current liabilities                                      | <u>3,797,376</u>     | <u>3,827,497</u>     |
| Noncurrent liabilities:  |                      |                      |
| Long-term debt (senior and subordinated)                       | 2,399,850            | 2,397,945            |
| Self-insurance liabilities                                     | 453,208              | 517,867              |
| Pension and other postretirement liabilities                   | 980,253              | 264,566              |
| Other  | 605,095              | 612,727              |
| Total noncurrent liabilities                                   | <u>4,438,406</u>     | <u>3,793,105</u>     |
| Total liabilities  | <u>8,235,782</u>     | <u>7,620,602</u>     |
| Net assets:  |                      |                      |
| Unrestricted   | 7,866,092            | 9,283,351            |
| Temporarily restricted   | 318,758              | 320,650              |
| Permanently restricted   | 89,892               | 101,940              |
| Total net assets   | <u>8,274,742</u>     | <u>9,705,941</u>     |
| Total liabilities and net assets                               | <u>\$ 16,510,524</u> | <u>\$ 17,326,543</u> |

\*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2039, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to June 30, 2010. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include liquidating investments, drawing upon the \$500 million line of credit, and issuing commercial paper. The commercial paper program is supported by lines of credit totaling \$250,000, as discussed in Note 6.

*The accompanying notes are an integral part of the consolidated financial statements.*

## Ascension Health

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

|   | Year Ended June 30, |               |
|---|---------------------|---------------|
|   | 2009                | 2008          |
| Operating revenue:  |                     |               |
| Net patient service revenue   | \$ 13,627,932       | \$ 12,654,224 |
| Other revenue   | 648,737             | 754,049       |
| Total operating revenue   | 14,276,669          | 13,408,273    |
| Operating expenses:   |                     |               |
| Salaries and wages  | 5,631,586           | 5,320,521     |
| Employee benefits   | 1,225,315           | 1,232,389     |
| Purchased services  | 827,857             | 769,967       |
| Professional fees   | 681,672             | 555,489       |
| Supplies  | 2,222,252           | 2,055,000     |
| Insurance   | 100,674             | 87,592        |
| Bad debts   | 1,027,217           | 897,567       |
| Interest  | 109,371             | 144,590       |
| Depreciation and amortization   | 652,148             | 599,128       |
| Other   | 1,327,228           | 1,246,010     |
| Total operating expenses before impairment, restructuring, self-insurance trust fund investment return, and nonrecurring expenses | 13,805,320          | 12,908,253    |
| Income from operations before impairment, restructuring, self-insurance trust fund investment return, and nonrecurring expenses   | 471,349             | 500,020       |
| Self-insurance trust fund investment return   | (63,960)            | 12,361        |
| Income from operations before impairment, restructuring, and nonrecurring expenses  | 407,389             | 512,381       |
| Impairment, restructuring, and nonrecurring expenses  | 36,214              | 29,789        |
| Income from operations  | 371,175             | 482,592       |
| Nonoperating (losses) gains:  |                     |               |
| Investment return   | (979,802)           | 18,639        |
| Loss on extinguishment of debt  | (3,916)             | (23,339)      |
| Change in market value of interest rate swaps   | (29,548)            | (37,339)      |
| Income from unconsolidated entities   | 5,037               | 6,438         |
| Donations and fundraising activities  | (29,069)            | (33,410)      |
| Minority interest in consolidated entities  | (25,315)            | (21,876)      |
| Other   | (18,653)            | (35,705)      |
| Total nonoperating losses, net  | (1,081,266)         | (126,592)     |
| (Deficit) excess of revenues and gains over expenses and losses   | (710,091)           | 356,000       |

*Continued on next page.*

## Ascension Health

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

|   | <b>Year Ended June 30,</b> |              |
|---|----------------------------|--------------|
|   | <b>2009</b>                | <b>2008</b>  |
| Unrestricted net assets:  |                            |              |
| (Deficit) excess of revenues and gains over expenses and losses                             | \$ (710,091)               | \$ 356,000   |
| Net change in unrealized gains/losses on investments  | –                          | (30,487)     |
| Contributed net assets  | 436                        | 543,969      |
| Transfer to sponsors and other affiliates, net  | (13,059)                   | (12,874)     |
| Net assets released from restrictions for property acquisitions                             | 104,309                    | 54,773       |
| Pension and other postretirement liability adjustments                                      | (665,072)                  | 422,587      |
| Adjustment to adopt measurement date provision of FASB<br>Statement No. 158                 | (38,453)                   | –            |
| Change in unconsolidated entities' net assets   | (23,905)                   | (21,770)     |
| Other   | (18,858)                   | (9,407)      |
| (Decrease) increase in unrestricted net assets, before loss from<br>discontinued operations | (1,364,693)                | 1,302,791    |
| Loss from discontinued operations   | (52,566)                   | (18,302)     |
| (Decrease) increase in unrestricted net assets  | (1,417,259)                | 1,284,489    |
| Temporarily restricted net assets:  |                            |              |
| Contributions   | 126,789                    | 106,006      |
| Net change in unrealized gains/losses on investments  | (10,264)                   | (11,637)     |
| Investment return   | (8,046)                    | 10,653       |
| Net assets released from restrictions   | (139,149)                  | (102,014)    |
| Other   | 28,778                     | 1,065        |
| (Decrease) increase in temporarily restricted net assets                                    | (1,892)                    | 4,073        |
| Permanently restricted net assets:  |                            |              |
| Contributions   | 6,900                      | 3,282        |
| Net change in unrealized gains/losses on investments  | 419                        | (2,021)      |
| Investment return   | (1,489)                    | 1,480        |
| Other   | (17,878)                   | 1,785        |
| (Decrease) increase in permanently restricted net assets                                    | (12,048)                   | 4,526        |
| (Decrease) increase in net assets   | (1,431,199)                | 1,293,088    |
| Net assets, beginning of year   | 9,705,941                  | 8,412,853    |
| Net assets, end of year   | \$ 8,274,742               | \$ 9,705,941 |

*The accompanying notes are an integral part of the consolidated financial statements.*

# Ascension Health

## Consolidated Statements of Cash Flows (Dollars in Thousands)

|   | <b>Year Ended June 30,</b> |              |
|---|----------------------------|--------------|
|   | <b>2009</b>                | <b>2008</b>  |
| <b>Operating activities</b>   |                            |              |
| (Decrease) increase in net assets   | \$ (1,431,199)             | \$ 1,293,088 |
| Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities: |                            |              |
| Depreciation and amortization   | 652,148                    | 599,128      |
| Amortization of bond premiums   | (9,377)                    | (4,204)      |
| Loss on extinguishment of debt  | 3,916                      | 23,339       |
| Provision for bad debts   | 1,027,217                  | 897,567      |
| Pension and other postretirement liability adjustment   | 665,072                    | (422,587)    |
| Contributed net assets  | (436)                      | (543,969)    |
| Interest, dividends, and net losses on investments  | 1,053,607                  | 13,145       |
| Change in market value of interest rate swaps   | 29,548                     | 37,339       |
| Gain on sale of assets, net   | (12,422)                   | (22,629)     |
| Impairment and restructuring expenses   | 7,298                      | 2,494        |
| Adjustment to adopt measurement date provision of FASB Statement No. 158                          | 38,453                     | -            |
| Transfer to sponsor and other affiliates, net   | 13,059                     | 12,874       |
| Restricted contributions and investment income  | (124,154)                  | (121,421)    |
| Other   | -                          | 4,518        |
| (Increase) decrease in:   |                            |              |
| Short-term investments  | 4,921                      | 2,044        |
| Accounts receivable   | (977,911)                  | (1,072,161)  |
| Inventories and other current assets  | (3,536)                    | (10,184)     |
| Investments classified as trading   | (244,438)                  | 525,064      |
| Other assets  | 59,660                     | (38,298)     |
| Increase (decrease) in:   |                            |              |
| Accounts payable and accrued liabilities  | 58,120                     | 124,703      |
| Estimated third-party payor settlements payable, net  | 47,980                     | (7,229)      |
| Other current liabilities   | 25,679                     | 2,560        |
| Self-insurance liabilities  | (48,973)                   | (32,561)     |
| Other noncurrent liabilities  | 31,800                     | 140,824      |
| Net cash from continuing operating activities   | 866,032                    | 1,403,444    |
| Net cash from discontinued operations   | 40,825                     | 16,804       |
| Net cash from operating activities  | 906,857                    | 1,420,248    |

*Continued on next page.*

## Ascension Health

### Consolidated Statements of Cash Flows (continued)

*(Dollars in Thousands)*

|  | <b>Year Ended June 30,</b> |                |
|--|----------------------------|----------------|
|  | <b>2009</b>                | <b>2008</b>    |
| <b>Investing activities</b>  |                            |                |
| Property and equipment additions, net                                      | \$ (768,001)               | \$ (1,057,344) |
| Proceeds from sale of property and equipment                               | 20,701                     | 72,089         |
| Purchase of alternative investments, net                                   | (17,240)                   | (297,843)      |
| Net cash used in investing activities                                      | (764,540)                  | (1,283,098)    |
| <b>Financing activities</b>  |                            |                |
| Issuance of long-term debt   | 1,205,693                  | 1,438,598      |
| Repayment of long-term debt  | (1,261,773)                | (1,599,916)    |
| (Decrease) increase in assets under bond indenture agreements              | (37)                       | 47,541         |
| Transfer to sponsors and other affiliates, net                             | (13,059)                   | (12,874)       |
| Restricted contributions, investment income, and other restricted activity | 110,274                    | 99,164         |
| Net cash provided by (used in) financing activities                        | 41,098                     | (27,487)       |
| Net increase in cash and cash equivalents                                  | 183,415                    | 109,663        |
| Cash and cash equivalents at beginning of year                             | 803,123                    | 693,460        |
| Cash and cash equivalents at end of year                                   | \$ 986,538                 | \$ 803,123     |

*The accompanying notes are an integral part of the consolidated financial statements.*

# Ascension Health

## Notes to Consolidated Financial Statements (Dollars in Thousands)

June 30, 2009 and 2008

### 1. Organization and Mission

#### Organizational Structure

Ascension Health is a Catholic, national health system consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 20 of the United States and the District of Columbia. Ascension Health is sponsored by the Northeast, Southeast, East Central, and West Central Provinces of the Daughters of Charity of St. Vincent de Paul, the Congregation of St. Joseph, and the Sisters of St. Joseph of Carondelet. All of the Health Ministries are related through common control. Substantially all expenses of Ascension Health are related to providing health care services.

#### Mission

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

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.
- Unpaid cost of public programs represents the unpaid cost of services provided to persons covered by public programs for the poor.
- Cost of other programs for the poor includes unreimbursed costs of programs intentionally designed to serve the poor and vulnerable of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the poor, including health promotion and education, health clinics and screenings, and medical research.

# Ascension Health

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### 1. Organization and Mission (continued)

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

During the year ended June 30, 2009, both CHA and the IRS revised prior guidance clearly indicating that the cost of providing care of persons who are poor and community benefit programs was to exclude the provision for bad debt expense from total costs. Accordingly, the previously reported June 2008 amount has been revised to exclude the provision for bad debt expense from total costs of the cost-to-charge ratio in order to be consistent with the methodology used for the year ended June 30, 2009. The amount of traditional charity care provided, determined on the basis of cost, was \$325,734 and \$286,891 for the years ended June 30, 2009 and 2008, respectively. The amount of unpaid cost of public programs, cost of other programs for the poor, and community benefit cost are reported in the accompanying other financial information.

### Principles of Consolidation

All corporations for which operating control is exercised by Ascension Health or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where Ascension Health does not have operating control are recorded under the equity or cost method of accounting. Income from unconsolidated entities is included in consolidated (deficit) excess of revenues and gains over expenses and losses in the consolidated statements of operations and changes in net assets as follows:

|                         | <b>Year Ended June 30,</b> |             |
|-------------------------|----------------------------|-------------|
|                         | <b>2009</b>                | <b>2008</b> |
| Income from operations  | \$ 11,457                  | \$ 94,032   |
| Nonoperating gains, net | 5,037                      | 6,438       |

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies**

##### **Use of Estimates**

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

##### **Fair Value of Financial Instruments**

Carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments are disclosed in Note 5.

##### **Cash and Cash Equivalents**

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

##### **Investments and Investment Return**

Ascension Health holds investments through the Health System Depository (HSD), an investment pool of funds in which a limited number of nonprofit healthcare providers participate for purposes of establishing investment goals and monitoring performance under agreed-upon socially responsible investment guidelines. Investments are managed by external investment managers within established investment guidelines. Ascension Health does not consolidate the entire investment pool of funds as a minority portion of the investment pool represents the interests of other entities. Accordingly, as related to the HSD, Ascension Health's investments recorded in the accompanying consolidated financial statements consist only of Ascension Health's pro rata share of the HSD's investments held for participants.

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

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Significant Accounting Policies (continued)

Investment returns are comprised of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. Investment return on self-insurance trust funds is reported as a separate component of income from operations in the consolidated statements of operations and changes in net assets. Investment return from all other investments is reported as nonoperating (losses) gains in the consolidated statements of operations and changes in net assets unless the return is restricted by donor or law.

#### Inventories

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

#### Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. A summary of property and equipment at June 30, 2009 and 2008, is as follows:

|                                   | <b>June 30,</b>            |                            |
|-----------------------------------|----------------------------|----------------------------|
|                                   | <b>2009</b>                | <b>2008</b>                |
| Land and improvements             | <b>\$ 602,858</b>          | \$ 557,878                 |
| Building and equipment            | <b>12,159,740</b>          | 11,458,399                 |
| Construction in progress          | <b>782,679</b>             | 939,292                    |
|                                   | <b>13,545,277</b>          | 12,955,569                 |
| Less accumulated depreciation     | <b>6,996,703</b>           | 6,528,628                  |
| Total property and equipment, net | <b><u>\$ 6,548,574</u></b> | <b><u>\$ 6,426,941</u></b> |

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2009 and 2008 was \$638,050 and \$593,153, respectively.

Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. Amounts capitalized are amortized over the useful life of the developed asset following project completion.

Several capital projects have remaining construction commitments of approximately \$291,462.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

##### **Temporarily and Permanently Restricted Net Assets**

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

##### **Performance Indicator**

The performance indicator is (deficit) excess of revenues and gains over expenses and losses, which includes all changes in unrestricted net assets other than pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, 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**

Ascension Health'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, 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 Ascension Health's primary mission are considered to be nonoperating. Several primary care clinics that are not associated with an acute care hospital and that rely significantly on contributions from foundations are also considered nonoperating.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

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

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by approximately \$80,557 and \$99,536 for the years ended June 30, 2009 and 2008, respectively.

During 2009 and 2008, approximately 37% and 36%, respectively, of net patient service revenue was received under the Medicare program and 10% and 9%, respectively, under various state Medicaid programs. Ascension Health grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable at June 30, 2009 and 2008, include Medicare (21% and 23%, respectively) and various states' Medicaid (11% and 10%, respectively) programs.

The provision for bad debts is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, Ascension Health follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with Ascension Health's policies.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

##### **Impairment, Restructuring, and Nonrecurring Expenses**

During the years ended June 30, 2009 and 2008, Ascension Health recorded nonrecurring expenses of \$28,916 and \$27,295, respectively, relating to changes in business operations, including reorganization and severance costs, as well as long-lived asset impairment charges of \$7,298 and \$2,494, respectively.

##### **Amortization**

Bond issuance costs, bond discounts, and bond premiums are amortized over the term of the bonds using a method approximating the effective interest method. Other intangible assets are amortized using the straight-line method over their estimated useful lives.

##### **Income Taxes**

The member health care entities of Ascension Health are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a).

##### **Regulatory Compliance**

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

##### **Reclassifications**

Certain reclassifications were made to the 2008 accompanying financial statements to conform to the 2009 presentation. These reclassifications had no impact on the change in net assets previously reported.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Significant Accounting Policies (continued)

##### Adoption of New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides a new definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements impacting certain assets and liabilities. Ascension Health adopted the provisions of SFAS 157 as of July 1, 2008. The adoption of SFAS 157 did not have a material effect on Ascension Health's consolidated balance sheets 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 5 for related fair value disclosures. In February 2009, the FASB issued FASB Staff Position FAS 157-2 (FSP FAS 157-2), which delayed the effective date of SFAS 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, Ascension Health will apply the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities beginning with the fiscal year ending June 30, 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 161). SFAS 161 builds upon the existing disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 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 SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Ascension Health adopted the provisions of SFAS 161 as of January 1, 2009. The adoption of SFAS 161 did not have a material effect on Ascension Health's consolidated balance sheet as of 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 7 for related derivative disclosures.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

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 not-for-profit organizations subject to a state-enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Several, but not all, states in which Ascension Health operates have enacted a version of UPMIFA. Accordingly, endowments of Ascension Health's Health Ministries within such states have applied the relevant state-enacted version of such rules based on the effective dates of such rules within those states. Based on the effective date of state versions of UPMIFA in relation to the effective date of FSP FAS 117-1, Ascension Health adopted FSP FAS 117-1 on July 1, 2008. The adoption of FSP FAS 117-1 did not have a material effect on Ascension Health's consolidated balance sheet at June 30, 2009, or on the consolidated statement of operations and changes in net assets for the year ended June 30, 2009, reflected in other changes within unrestricted, temporarily restricted, and permanently restricted changes in net assets for the year then ended.

For its fiscal year ending June 30, 2009, Ascension Health adopted the measurement date provisions of SFAS No. 158, *Employers' Accounting for Defined-Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No 87, 88, 106, and 132(R)* (SFAS 158). SFAS 158 requires the fair value of plan assets and benefit obligations to be measured as of the date of the employer's fiscal year-end in the balance sheet. See Note 8 for the impact of adopting these provisions.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date based on the requirements of SFAS 165. Ascension Health adopted the provisions of SFAS 165 as of June 30, 2009, and evaluated the impact of subsequent events through September 11, 2009, representing the date at which the consolidated financial statements were issued. See Note 12 for a discussion of Ascension Health's material subsequent event related to the June 30, 2009, consolidated financial statements.

## Ascension Health

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **3. Organizational Changes**

Effective July 2, 2007, an affiliation agreement was entered into between St. Vincent's Hospital (St. Vincent's) of Seton Health Corporation of North Alabama (Seton) and Eastern Health System, Inc. (EHS). Per the agreement, Seton became the sole member of EHS and, as a subsidiary of Seton, EHS became part of Ascension Health. Accordingly, Ascension Health began consolidating this entity in its financial statements as of the effective date of the transaction. This transaction was accounted for as a partial purchase, represented by the fair value of the debt obligations Seton assumed and which it subsequently extinguished, of \$100,600, and a partial contribution of unrestricted net assets, represented by the fair value of all remaining EHS net assets and liabilities donated to Seton, of \$81,625. The fair value of assets and liabilities, excluding the debt obligations discussed above, recognized on July 2, 2007, was \$232,227 and \$50,002, respectively.

Effective July 1, 2007, an affiliation agreement was entered into between Via Christi Health System, Inc. (VCHS), Sisters of St. Joseph of Wichita (the Wichita Congregation), Marian Health System (Marian), and Ascension Health. Upon execution of this agreement, the Wichita Congregation transferred its membership interest in VCHS to Ascension Health and transferred its sponsorship of VCHS to the sponsors of Ascension Health. Beginning in July 2007, VCHS is included in Ascension Health's consolidated financial statements using the equity method of accounting. At July 1, 2007, Ascension Health's interest in the fair value of VCHS's net assets was \$462,344. The transfer of the sponsorship interest to Ascension Health was accounted for as a contribution and is included in contributed net assets in the accompanying consolidated statements of operations and changes in net assets.

At June 30, 2009 and 2008, the difference between the amount at which Ascension Health's investment in VCHS is carried in the accompanying consolidated balance sheets and its interest in the underlying net assets of VCHS is \$33,709 and \$36,268, respectively. This difference relates primarily to the excess of the fair value of VCHS' property and equipment and long-term debt over their carrying values at July 1, 2007, which is being amortized over the remaining life of the property and equipment and term of the long-term debt. Ascension Health's investment in VCHS is \$423,332 and \$470,744 at June 30, 2009 and 2008, respectively, and is reported in the consolidated balance sheets in investment in unconsolidated entities.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 3. Organizational Changes (continued)

Ascension Health's investment in VCHS reflects the financial performance of VCHS one month in arrears. Condensed financial information of VCHS reflected in Ascension Health's investment in VCHS as of and for the years ended June 30, 2009 and 2008, is summarized below:

|  | <b>June 30,</b>                |                         |
|--|--------------------------------|-------------------------|
|  | <b>2009</b>                    | <b>2008</b>             |
| Current assets                                 | <b>\$ 574,459</b>              | \$ 648,045              |
| Noncurrent assets                              | <b>807,348</b>                 | 815,668                 |
| <br>Total assets                               | <br><b><u>\$ 1,381,807</u></b> | <br><u>\$ 1,463,713</u> |
| Current liabilities                            | <b>\$ 132,686</b>              | \$ 124,004              |
| Noncurrent liabilities                         | <b>469,875</b>                 | 470,756                 |
| Total liabilities                              | <b><u>602,561</u></b>          | <u>594,760</u>          |
| Net assets                                     | <b><u>779,246</u></b>          | <u>868,953</u>          |
| <br>Total liabilities and net assets           | <br><b><u>\$ 1,381,807</u></b> | <br><u>\$ 1,463,713</u> |
| <br>Total revenues                             | <br><b>\$ 1,303,274</b>        | <br>\$ 1,146,092        |
| Total expenses                                 | <b>(1,275,559)</b>             | (1,093,723)             |
| Total investment return                        | <b><u>(80,603)</u></b>         | <u>10,642</u>           |
| <br>(Deficit) excess of revenues over expenses | <br><b><u>\$ (52,888)</u></b>  | <br><u>\$ 63,011</u>    |

Effective June 1, 2009, Ascension Health assumed the operations of an acute care hospital and nursing home in Amsterdam, New York, and, accordingly, began consolidating these entities in the consolidated financial statements as of that date. This transaction resulted in an increase in the fair value of assets acquired, primarily property and equipment, of approximately \$19,500, and an offsetting increase in unrestricted net assets of \$17,975, net of assumed asset retirement obligations of \$1,500.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **3. Organizational Changes (continued)**

##### **Discontinued Operations**

Effective August 1, 2008, an agreement was entered into whereby Ascension Health relinquished its membership in Good Samaritan Regional Medical Center (GSRMC) and a new nonprofit organization was formed which became the sole member of GSRMC and another local healthcare provider which also operated in Pottsville, Pennsylvania. The operating results of GSRMC are classified in Ascension Health's accompanying consolidated financial statements as discontinued operations.

Ascension Health reported a decrease in net assets from discontinued operations of \$52,566 for the year ended June 30, 2009. This decrease represents the deficit of revenues over expenses of the operations that were discontinued, which included lines of business in Florida, Tennessee, Michigan, and Pennsylvania. These entities had recorded operating revenues totaling \$6,775 during the period that they were operational during the year ended June 30, 2009.

Ascension Health reported a decrease in net assets from discontinued operations of \$18,302 for the year ended June 30, 2008. This decrease represents the deficit of revenues over expenses of the operations that were discontinued, which included a hospital and a retail center both in Michigan as well as lines of business in Florida and Pennsylvania. These entities had recorded operating revenues totaling \$87,293 during the period that they were operational during the year ended June 30, 2008.

The accompanying consolidated balance sheets include assets held for sale and liabilities related to assets held for sale associated with the above transactions. At June 30, 2009 and 2008, assets held for sale consist primarily of accounts receivable and property and equipment while liabilities related to assets held for sale consist primarily of accounts payable, other liabilities, and self-insurance liabilities.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Cash, Cash Equivalents, and Investments

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

|  | <b>June 30,</b>     |              |
|--|---------------------|--------------|
|  | <b>2009</b>         | <b>2008</b>  |
| Cash and cash equivalents                        | <b>\$ 986,538</b>   | \$ 803,123   |
| Short-term investments                           | <b>73,364</b>       | 78,285       |
| Current portion of assets limited as to use      | <b>136,686</b>      | 127,007      |
| Board-designated investments                     | <b>2,994,884</b>    | 3,680,274    |
| Other investments                                | <b>1,633,295</b>    | 1,697,426    |
| Assets limited as to use                         |                     |              |
| Under bond indenture agreement                   | <b>2,103</b>        | 2,066        |
| Self-insurance trust funds, less current portion | <b>416,817</b>      | 502,764      |
| Temporarily or permanently restricted            | <b>408,650</b>      | 422,590      |
| Total assets limited as to use                   | <b>827,570</b>      | 927,420      |
| Total  | <b>\$ 6,652,337</b> | \$ 7,313,535 |

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Cash, Cash Equivalents, and Investments (continued)

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

|  | <b>June 30,</b>     |              |
|--|---------------------|--------------|
|  | <b>2009</b>         | <b>2008</b>  |
| Cash, cash equivalents, and short-term investments   | <b>\$ 564,626</b>   | \$ 396,242   |
| U.S. government obligations  | <b>104,410</b>      | 148,202      |
| Asset-backed securities  | <b>75,044</b>       | 74,599       |
| Equity securities  | <b>169,983</b>      | 214,090      |
| Alternative investments  | <b>5,748</b>        | 11,504       |
| Other  | <b>235,183</b>      | 315,297      |
| Cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments | <b>1,154,994</b>    | 1,159,934    |
| Ascension Health's pro rata share of HSD funds held for participants   | <b>5,497,343</b>    | 6,153,601    |
| Total  | <b>\$ 6,652,337</b> | \$ 7,313,535 |

Ascension Health's pro rata share of the HSD's funds held for participants was \$5,497,343 and \$6,153,601 at June 30, 2009 and 2008, respectively, representing 74.6% and 74.3% of the funds held for participants in the HSD at those respective dates.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Cash, Cash Equivalents, and Investments (continued)

As disclosed in Note 2, Ascension Health holds investments through the HSD. The following is a condensed balance sheet of the entire HSD, including the interests of Ascension Health and all other participating entities, at June 30, 2009 and 2008:

|   | <b>June 30,</b> |              |
|---|-----------------|--------------|
|   | <b>2009</b>     | <b>2008</b>  |
| <b>Assets</b>   |                 |              |
| Cash  | \$ 42,592       | \$ 11,375    |
| Loans, interest, and other receivables                    | 94,060          | 113,327      |
| Due from brokers  | 614,500         | 2,260,378    |
| Securities lending collateral                             | 1,398,314       | 1,061,942    |
| Derivative asset  | 19,014          | 52,193       |
| Investments, at fair value:                               |                 |              |
| Short-term investments                                    | 786,180         | 722,428      |
| U.S. government, state, municipal, and agency obligations | 1,292,892       | 1,071,743    |
| Other fixed income securities                             | 3,036,299       | 4,009,596    |
| Equity, private equity, and other investments             | 1,579,013       | 2,348,322    |
| Equity method investments                                 | 1,095,014       | 1,067,203    |
| Total assets  | \$ 9,957,878    | \$12,718,507 |
| <b>Liabilities and funds held for participants</b>        |                 |              |
| Due to brokers  | \$ 1,092,586    | \$ 1,588,292 |
| Derivative liability                                      | 31,826          | 74,209       |
| Investments sold, not yet settled and other payables      | 30,344          | 1,708,651    |
| Payable under securities lending program                  | 1,429,602       | 1,061,942    |
| Total liabilities   | 2,584,358       | 4,433,094    |
| Funds held for participants                               | 7,373,520       | 8,285,413    |
| Total liabilities and funds held for participants         | \$ 9,957,878    | \$12,718,507 |

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Cash, Cash Equivalents, and Investments (continued)

Investment return recognized by Ascension Health is summarized as follows:

|   | <b>Year Ended June 30,</b> |                |
|---|----------------------------|----------------|
|   | <b>2009</b>                | <b>2008</b>    |
| Investment return in HSD                          | \$ (993,218)               | \$ 152         |
| Interest and dividends                            | 15,039                     | 28,925         |
| Net losses on investments reported at fair value  | (84,963)                   | (30,089)       |
| <br>Total investment return                       | <br>\$(1,063,142)          | <br>\$ (1,012) |
| <br>Self-insurance trust fund operating return    | <br>\$ (63,960)            | <br>\$ 12,361  |
| Investment return included in nonoperating losses | (979,802)                  | 18,639         |
| Decrease in unrestricted net assets               | –                          | (30,487)       |
| Decrease in restricted net assets                 | (19,380)                   | (1,525)        |
| <br>Total investment return                       | <br>\$(1,063,142)          | <br>\$ (1,012) |

#### 5. Fair Value Measurements

As discussed in Note 2, Ascension Health adopted SFAS 157, subject to the deferral provisions of FSP FAS 157-2, on July 1, 2008. In accordance with SFAS 157, assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable. SFAS 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs, as defined by SFAS 157, are as follows:

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

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

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

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 5. Fair Value Measurements (continued)

The fair values of Level 1 assets and liabilities were determined through quoted market prices, while fair values of Level 2 assets and liabilities were determined primarily through prices obtained from third-party pricing sources, where quoted market prices for such assets and liabilities are not available. The fair values of Level 3 assets and liabilities were based largely upon unobservable inputs, where there may be little, if any, market activity for the asset or liability. The determination of fair value for these instruments requires management judgment and estimation, considering factors specific to the asset or liability.

As discussed in Notes 2 and 4, Ascension Health holds investments through the HSD representing 74.6% of the net asset value of the HSD as of June 30, 2009. The HSD's investments include equities, various fixed income securities, and alternative investments. The following table summarizes fair value measurements, by level, at June 30, 2009, for all the HSD financial assets and liabilities measured at fair value on a recurring basis in the HSD's financial statements:

|   | Level 1   | Level 2      | Level 3 | Total        |
|---|-----------|--------------|---------|--------------|
| Assets included in:   |           |              |         |              |
| Securities lending collateral                                   | \$ —      | \$ 1,398,314 | \$ —    | \$ 1,398,314 |
| Derivative asset  | 119       | 15,058       | 3,837   | 19,014       |
| Short-term investments  | 676,113   | 110,067      | —       | 786,180      |
| U.S. government, state,<br>municipal, and agency<br>obligations | —         | 1,267,146    | 25,746  | 1,292,892    |
| Other fixed income securities                                   | —         | 2,705,077    | 331,222 | 3,036,299    |
| Equity, private equity, and other<br>investments                | 1,498,385 | 191          | 80,437  | 1,579,013    |
| Liabilities included in:  |           |              |         |              |
| Derivative liability  | 3,519     | 1,312        | 26,995  | 31,826       |
| Investments sold, not yet settled<br>and other payables         | 17        | 23,610       | —       | 23,627       |

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 5. Fair Value Measurements (continued)

For the year ended June 30, 2009, the changes in the fair value of the HSD assets measured using significant unobservable inputs (Level 3) were comprised of the following:

|  | U.S.<br>government,<br>state, municipal<br>and agency<br>obligations | Other fixed<br>income<br>securities | Marketable and<br>private equity<br>securities and<br>other<br>investments | Net derivatives    |
|--|--|-------------------------------------|--|--------------------|
| Beginning balance  | \$ 22,944  | \$ 1,119,340                        | \$ 77,481  | \$ (6,906)         |
| Total realized and unrealized gains<br>(losses) included in nonoperating<br>gains (losses)   | 1,056  | (91,017)                            | (1,504)  | (19,742)           |
| Purchases, issuances and<br>settlements  | 1,746  | (630,082)                           | 4,305  | 3,388              |
| Transfers in (out) of Level 3  | -  | (67,019)                            | 155  | 102                |
| Ending balance   | <u>\$ 25,746</u>   | <u>\$ 331,222</u>                   | <u>\$ 80,437</u>   | <u>\$ (23,158)</u> |
| The amount of total gains or losses<br>for the period included in<br>nonoperating gains (losses)<br>attributable to the change in<br>unrealized gains or losses<br>relating to assets still held at June<br>30, 2009 | <u>\$ 1,045</u>  | <u>\$ (45,446)</u>                  | <u>\$ 2,051</u>  | <u>\$ (13,675)</u> |

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

|                              | Level 1   | Level 2   | Level 3 | Total     |
|------------------------------|-----------|-----------|---------|-----------|
| Assets included in:          |           |           |         |           |
| Cash and cash equivalents    | \$ 21,826 | \$ 17,183 | \$ -    | \$ 39,009 |
| Short-term investments       | 22,926    | 42,534    | -       | 65,460    |
| Board-designated investments | 63,018    | 28,957    | 1,124   | 93,099    |
| Other investments            | 14,007    | 4,627     | 32,376  | 51,010    |
| Assets limited as to use     | 248,258   | 136,758   | 14,275  | 399,291   |
| Other noncurrent assets      | 87,143    | 39,256    | 25,961  | 152,360   |
| Liabilities included in:     |           |           |         |           |
| Other noncurrent liabilities | -         | 122,347   | -       | 122,347   |

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 5. Fair Value Measurements (continued)

During the year ended June 30, 2009, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) were comprised of the following:

|  | Board-<br>designated<br>investments | Other<br>investments | Assets<br>limited as<br>to use | Other<br>noncurrent<br>assets |
|--|-------------------------------------|----------------------|--------------------------------|-------------------------------|
| Beginning balance                                | \$ 5,973                            | \$ 21,982            | \$ 69,671                      | \$ 23,648                     |
| Total realized and unrealized gains<br>(losses): |                                     |                      |                                |                               |
| Included in income from operations               | –                                   | –                    | (7,034)                        | –                             |
| Included in nonoperating gains (losses)          | (1,935)                             | (236)                | –                              | –                             |
| Included in changes in net assets                | –                                   | –                    | (1,871)                        | –                             |
| Purchases, issuances and settlements             | (1,799)                             | –                    | (47,594)                       | (1,379)                       |
| Transfers in (out) of Level 3                    | (1,115)                             | 10,630               | 1,103                          | 3,692                         |
| Ending balance                                   | <u>\$ 1,124</u>                     | <u>\$ 32,376</u>     | <u>\$ 14,275</u>               | <u>\$ 25,961</u>              |

#### 6. Long-Term Debt

Long-term debt consists of the following:

|   | June 30,  |         |
|---|-----------|---------|
|   | 2009      | 2008    |
| <b>Tax-exempt hospital revenue bonds – secured:</b>   |           |         |
| Variable rate demand bonds, subject to a put provision which provides for a cumulative 7-month notice and remarketing period, payable through November 2031; interest (0.50% at June 30, 2009) tied to a market index plus a spread         | \$ 81,500 | \$ –    |
| Variable rate demand bonds, subject to a seven-day put provision, payable through November 2039; interest set at prevailing market rates  | –         | 657,990 |
| Variable rate demand bonds, subject to a seven-day put provision, payable through November 2036; interest (0.17% at June 30, 2009) set at prevailing market rates, swapped to fixed rates of 3.903% to 3.998% over the life of the bonds    | 727,250   | 727,250 |
| Indexed put bonds subject to weekly rate resets based on a taxable index, payable through November 2046, interest (3.90% at June 30, 2009) swapped to a variable rate tied to a tax-exempt market index plus a spread through November 2016 | 153,800   | 155,520 |

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 6. Long-Term Debt (continued)

|  | June 30,   |            |
|--|------------|------------|
|  | 2009       | 2008       |
| Fixed rate put bonds (converted from an indexed put bond mode based on a taxable index in May 2009) payable through November 2046, interest (4.10% at June 30, 2009) swapped to a variable rate tied to a market index plus a spread through November 2016   | \$ 153,690 | \$ 155,630 |
| Fixed rate serial and term bonds payable in installments through November 2032; interest at 3.00% to 6.00%   | 475,240    | 516,315    |
| Fixed rate serial and term bonds payable in installments through November 2039; interest at 5.00% swapped to variable rates over the life of the bonds   | 601,175    | 601,175    |
| Fixed rate serial mode bonds payable through 2032 with purchase dates ranging from March 2010 through May 2010 (previously ranging from April 2009 through May 2009 as of June 30, 2008); interest at 0.58% to 0.60% through the purchase dates  | 86,600     | 88,900     |
| Fixed rate serial mode bonds payable through 2033 with purchase dates ranging from January 2010 through March 2012; interest at 0.70% to 3.75% through the purchase dates  | 570,230    | –          |
| Fixed rate serial mode bonds payable through 2039 with purchase dates ranging from November 2009 through May 2010 (previously ranging from April 2009 through December 2009 as of June 30, 2008); interest at 0.56% to 3.50%, swapped to fixed rates of 3.05% to 5.544% through the purchase dates | 583,830    | 591,675    |
| Taxable hospital revenue bonds – secured:  |            |            |
| Variable uninsured taxable auction rate bonds, subject to 35-day auction periods, payable through January 2023, interest (1.82% at June 30, 2009) set at prevailing market rates   | 48,685     | 50,950     |
| Tax-exempt hospital revenue bonds – unsecured:   |            |            |
| Variable rate demand bonds issued under the Subordinate Master Trust Indenture, subject to a seven-day put provision, payable through November 2027; interest (0.17% at June 30, 2009) set at prevailing market rates  | 65,025     | 65,025     |
| Fixed rate serial mode bonds issued under the Subordinate Master Trust Indenture with purchase dates through November 2012; interest at 5.00%, swapped to variable mode  | 364,005    | 430,340    |
| Fixed rate serial mode bonds issued under the Subordinate Master Trust Indenture with purchase dates through August 2013; interest at 5.00%  | 168,280    | 104,660    |

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 6. Long-Term Debt (continued)

|   | June 30,     |              |
|---|--------------|--------------|
|   | 2009         | 2008         |
| Other debt:   |              |              |
| Obligations under capital leases  | \$ 43,061    | \$ 42,755    |
| Commercial paper  | 55,458       | 38,793       |
| Other   | 21,582       | 25,909       |
|   | 4,199,411    | 4,252,887    |
| Unamortized premium, net  | 51,391       | 58,068       |
| Less current portion  | (59,622)     | (58,890)     |
| Less long-term debt subject to short-term remarketing arrangements                                      | (1,791,330)  | (1,854,120)  |
| Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements  | \$ 2,399,850 | \$ 2,397,945 |
| Senior Master Trust Indenture long-term debt obligations, including unamortized premium, net            | \$ 1,729,384 | \$ 1,682,309 |
| Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium, net       | 616,212      | 619,089      |
| Other   | 54,254       | 96,547       |
| Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements | \$ 2,399,850 | \$ 2,397,945 |

Scheduled principal repayments of long-term debt, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of June 30, 2009, are as follows:

|                      |              |
|----------------------|--------------|
| Year ending June 30: |              |
| 2010                 | \$ 59,622    |
| 2011                 | 64,860       |
| 2012                 | 62,150       |
| 2013                 | 63,774       |
| 2014                 | 97,235       |
| Thereafter           | 3,851,770    |
| Total                | \$ 4,199,411 |

## Ascension Health

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **6. Long-Term Debt (continued)**

The carrying amounts of variable rate bonds and other notes payable approximate fair value. The fair values of the unsecured fixed rate serial and term bonds are estimated based on discounted cash flow analyses that consider current incremental borrowing rates for similar types of borrowing arrangements. The fair value of fixed rate serial and term bonds, including the component of variable rate demand bonds subject to long-term fixed interest rates, approximates carrying value at June 30, 2009 and 2008. During the years ended June 30, 2009 and 2008, interest paid was approximately \$132,300 and \$173,500, respectively. Capitalized interest was approximately \$13,600 and \$24,700 for the years ended June 30, 2009 and 2008, respectively.

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

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

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **6. Long-Term Debt (continued)**

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

The unsecured variable rate demand bonds of both the Senior and Subordinate Credit Groups, while subject to long-term amortization periods, may be put to Ascension Health at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2009, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. Management believes the likelihood of a material amount of bonds being put to Ascension Health to be remote. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including entering into certain bond repurchase agreements, assessing alternate sources of financing, including the line of credit and commercial paper program, and maintaining unrestricted assets as a source of self-liquidity.

In November 2008, Ascension Health issued \$16,655 taxable commercial paper to redeem or defease certain tax-exempt bonds in conjunction with discontinuing GSRMC operations. In February 2009, Ascension Health converted \$570,230 of its Variable Rate Demand Obligations (VRDOs) to annual and multi-annual modes with fixed interest periods ranging from one to three years in duration. In March 2009, \$28,000 of VRDOs guaranteed by Ascension Health were converted to an annual mode and \$81,500 of VRDOs were converted to a variable rate "Remarketing Windows" mode. In May 2009, \$153,690 of bonds issued in an indexed put mode through 2016 were converted to a fixed rate of interest. The aforementioned activities, as well as the scheduled remarketing of certain serial mode bonds with unamortized issuance costs, resulted in a loss on extinguishment of debt of \$3,916 which is included in nonoperating (losses) gains in the accompanying consolidated statement of operations and changes in net assets.

## Ascension Health

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **6. Long-Term Debt (continued)**

In April and May 2008, Ascension Health issued or reissued \$1,407,825 Revenue Bonds Series 2002, 2003, and 2008 using a combination of weekly variable rate demand obligations and serial mode bonds, through four different issuing authorities in four states. The proceeds from the Series 2002 and 2003 Bonds were used to tender for and remarket prior tax-exempt auction rate bonds, and the proceeds from the Series 2008 bonds were used to refund prior tax-exempt auction rate bonds (2008 financing activities). The remarketing and refunding were accounted for as an extinguishment of debt and resulted in a loss of \$23,339, which is included in nonoperating gains (losses), net, in the accompanying consolidated statements of operations and changes in net assets. While the serial mode bonds were initially fixed rate instruments that carry long-term amortization through 2039, the Credit Group has an obligation to repurchase these bonds at certain dates through which interest rates on the bonds have been fixed, or alternately, it may remarket the bonds with either a new interest rate mode or a continuing fixed serial mode. Additionally, in April 2008, Ascension Health issued \$38,792 taxable commercial paper, using the proceeds to refinance the Taxable Auction Rate Notes, Series 2006 (Series 2006 Taxable Bonds) issued by Tucson Heart Hospital – Carondelet, LLC, a fully consolidated member of Ascension Health. The Series 2006 Taxable Bonds bore interest at variable auction-based interest rates until their redemption in April 2008.

Ascension Health is a party to multiple interest rate swap agreements that convert the variable or fixed rates of certain debt issues to fixed or variable rates, respectively. See Note 7 for a discussion of these derivatives.

As of June 30, 2009, the Subordinate Credit Group has a \$100,000 revolving line of credit related to its letters of credit program toward which a bank commitment of \$100,000 extends to December 31, 2009. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. Of this \$100,000 revolving line of credit, letters of credit totaling \$57,000 have been issued as of June 30, 2009, which could be used to satisfy \$57,000 of guarantees disclosed in Note 11. No borrowings were outstanding under the letters of credit as of June 30, 2009.

As of June 30, 2009, the Senior Credit Group has a line of credit of \$250,000 related to its commercial paper program toward which bank commitments totaling \$250,000 extend to November 21, 2009. As of June 30, 2009 and 2008, there were no borrowings under the line of credit.

As of June 30, 2009, the Senior Credit Group has a line of credit of \$500,000 for general corporate purposes toward which bank commitments totaling \$500,000 extend to April 2, 2010. As of June 30, 2009, there were no borrowings under the line of credit.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 7. Derivative Instruments

Ascension Health uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At June 30, 2009 and 2008, the notional values of outstanding interest rate swaps were \$2,812,342 and \$2,884,843, respectively.

Ascension Health accounts for its interest rate swaps under the provisions of SFAS 133, and recognizes the fair value of its swaps in the consolidated balance sheet which, beginning July 1, 2008, has been in accordance with the provisions of SFAS 157. The adoption of SFAS 157 did not have a material effect on the calculation of the fair value of Ascension Health's interest rate swaps as of July 1, 2008.

Interest rate swaps that are in an asset position are recorded in other noncurrent assets, while interest rate swaps in a liability position are reported in other noncurrent liabilities in the accompanying consolidated balance sheets. At June 30, 2009, the fair value of interest rate swaps in an asset position were \$38,823, while the fair value of interest rate swaps in a liability position were \$122,300.

Prior to July 1, 2006, Ascension Health designated certain of its interest rate swaps as cash flow hedges, for accounting purposes, and accordingly deferred gains or losses associated with those swaps in net assets. Beginning July 1, 2006, previously designated cash flow hedging relationships were de-designated for accounting purposes. Accordingly, all changes in the fair value of interest rate swaps since that date have been recognized in nonoperating (losses) gains in the accompanying consolidated statements of operations and changes in net assets. Accordingly, a net nonoperating loss of \$30,154 was recognized for the year ended June 30, 2009. Additionally, a net gain of \$1,662 was recognized in other nonoperating (losses) gains for the year ended June 30, 2009, representing the recognition of interest rate swap gains deferred prior to July 1, 2006, when these swaps were designated and accounted for as cash flow hedges. The remaining amount of deferred gain at June 30, 2009, that will be reclassified into nonoperating (losses) gains over the next 12 months is immaterial.

## Ascension Health

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **7. Derivative Instruments (continued)**

Ascension Health's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria. Ascension Health's collateral requirements are based upon Ascension Health's Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies, as well as the net liability position of total interest rate swap agreements outstanding with each counterparty. At June 30, 2009, based upon Ascension Health's net liability positions and Senior Debt Credit Ratings, no collateral on interest rate swap agreements was required to be posted. The aggregate net fair value of interest rate swap agreements with credit-risk-related contingent features on June 30, 2009, is a liability of \$83,477.

#### **8. Retirement Plans**

##### **Defined-Benefit Plans**

Certain Ascension Health entities participate in the Ascension Health Pension Plan (the Ascension Plan), which is a noncontributory, defined-benefit pension plan covering all eligible employees of certain Ascension Health entities. Benefits are based on each participant's years of service and compensation. Ascension Plan assets are invested in a master trust (the Trust) consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

The assets of the Ascension Plan are available to pay the benefits of eligible employees and retirees of all participating entities. In the event entities participating in the Ascension Plan are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so.

Certain other Ascension Health entities participate in separate noncontributory, defined-benefit plans (the Other Ascension Health Plans) in which substantially all employees are eligible to participate. The Other Ascension Health Plans' benefits are based on each participant's years of service and compensation. The Other Ascension Health Plans' assets are invested in the Trust.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 8. Retirement Plans (continued)

As discussed in Note 2, Ascension Health adopted the measurement date provision of SFAS 158 as of June 30, 2009. As a result, the increase to the benefit obligation and deferred pension cost for the effect of moving the measurement date from March 31 to June 30 was \$38,453 for the defined benefit pension and other postretirement benefit plans. The effect on Ascension Health's consolidated balance sheet has been recognized as an adjustment to unrestricted net assets in the accompanying consolidated statements of operations and changes in net assets, representing the net periodic benefit cost attributable to the period April 1 through June 30, 2008. Adopting SFAS 158's measurement date provision did not have an effect on Ascension Health's consolidated balance sheet at June 30, 2008.

The following table sets forth the combined benefit obligations, the assets of the Ascension Plan, and the Other Ascension Health Plans (collectively, the Ascension Health Pension Plans) at June 30, 2009 and 2008 (using measurement dates primarily of June 30, 2009, and March 31, 2008, respectively), and components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements:

|  | <b>Year Ended June 30,</b> |              |
|--|----------------------------|--------------|
|  | <b>2009</b>                | <b>2008</b>  |
| Change in benefit obligation                   |                            |              |
| Benefit obligation at beginning of year        | <b>\$ 4,272,642</b>        | \$ 4,237,616 |
| Effect of eliminating early measurement date   | <b>63,548</b>              | -            |
| Service cost                                   | <b>170,061</b>             | 177,920      |
| Interest cost                                  | <b>280,964</b>             | 257,922      |
| Amendments                                     | <b>(442)</b>               | 14,265       |
| Assumption change                              | <b>94,367</b>              | (219,048)    |
| Actuarial loss (gain)                          | <b>68,772</b>              | (3,256)      |
| Benefits paid                                  | <b>(193,990)</b>           | (192,777)    |
| Benefit obligation at end of year              | <b>4,755,922</b>           | 4,272,642    |
| <br>   |                            |              |
| Accumulated benefit obligation at end of year  | <b>4,181,272</b>           | 3,751,723    |
| <br>   |                            |              |
| Change in plan assets                          |                            |              |
| Fair value of plan assets at beginning of year | <b>4,062,584</b>           | 3,676,242    |
| Effect of eliminating early measurement date   | <b>34,871</b>              | -            |
| Actual return on plan assets                   | <b>(224,851)</b>           | 427,131      |
| Employer contributions                         | <b>129,926</b>             | 151,988      |
| Benefits paid                                  | <b>(193,990)</b>           | (192,777)    |
| Fair value of plan assets at end of year       | <b>3,808,540</b>           | 4,062,584    |

Ascension Health

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**8. Retirement Plans (continued)**

|   | <b>Year Ended June 30,</b> |                     |
|---|----------------------------|---------------------|
|   | <b>2009</b>                | <b>2008</b>         |
| Funded status                             | \$ (947,382)               | \$ (210,058)        |
| Contributions made after measurement date | –                          | 2,197               |
| Long-term pension liability               | <u>\$ (947,382)</u>        | <u>\$ (207,861)</u> |

Included in unrestricted net assets at June 30, 2009 and 2008, respectively, are the following amounts that have not yet been recognized in net periodic pension cost:

|                                   | <b>Year Ended June 30,</b> |                    |
|-----------------------------------|----------------------------|--------------------|
|                                   | <b>2009</b>                | <b>2008</b>        |
| Unrecognized prior service credit | \$ 91,490                  | \$ 103,787         |
| Unrecognized actuarial loss       | (842,222)                  | (179,482)          |
|                                   | <u>\$ (750,732)</u>        | <u>\$ (75,695)</u> |

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2009 and 2008, respectively, include:

|   | <b>Year Ended June 30,</b> |                   |
|---|----------------------------|-------------------|
|   | <b>2009</b>                | <b>2008</b>       |
| Current year actuarial (loss)/gain                        | \$ (706,011)               | \$ 352,254        |
| Amortization of actuarial loss                            | 34,885                     | 87,862            |
| Current year prior service credit/(cost)                  | 442                        | (14,592)          |
| Amortization of prior service credit                      | (10,496)                   | (9,024)           |
| Eliminating early measurement date – actuarial loss       | 8,713                      | –                 |
| Eliminating early measurement date – prior service credit | (2,570)                    | –                 |
|   | <u>\$ (675,037)</u>        | <u>\$ 416,500</u> |

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 8. Retirement Plans (continued)

|   | <b>Year Ended June 30,</b> |             |
|---|----------------------------|-------------|
|   | <b>2009</b>                | <b>2008</b> |
| Components of net periodic benefit cost |                            |             |
| Service cost                            | <b>\$ 170,061</b>          | \$ 177,920  |
| Interest cost                           | <b>280,964</b>             | 257,922     |
| Expected return on plan assets          | <b>(317,425)</b>           | (294,486)   |
| Amortization of prior service credit    | <b>(10,496)</b>            | (9,024)     |
| Amortization of actuarial loss          | <b>34,885</b>              | 87,862      |
| Other adjustments                       | <b>-</b>                   | (1,849)     |
|   |                            |             |
| Net periodic benefit cost               | <b>\$ 157,989</b>          | \$ 218,345  |

The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending June 30, 2010, are \$10,500 and \$73,200, respectively.

The assumptions used to determine the benefit obligation and net periodic benefit cost for the Ascension Health Pension Plans are set forth below:

|  | <b>June 30,</b> |             |
|--|-----------------|-------------|
|  | <b>2009</b>     | <b>2008</b> |
| Weighted-average discount rate                                       | <b>6.45%</b>    | 6.65%       |
| Weighted-average rate of compensation increase                       | <b>4.0%</b>     | 4.0%        |
| Weighted-average expected long-term rate of return<br>on plan assets | <b>8.5%</b>     | 8.5%        |

The Ascension Health Pension Plans' asset allocation and investment strategies are designed to earn superior returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. Derivatives may be used to bridge specific exposure, reduce transaction costs, or modify the portfolio's duration or yield. Ascension Health uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. Ascension Health regularly monitors manager performance and compliance with investment guidelines.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 8. Retirement Plans (continued)

The weighted-average asset allocation for the Ascension Health Pension Plans at the end of fiscal 2009 and 2008 and the target allocation for fiscal 2010, by asset category, are as follows:

| <u>Asset Category</u>   | <b>Target<br/>Allocation</b> | <b>Percentage of Plan Assets<br/>at Year-End</b> |             |
|-------------------------|------------------------------|--|-------------|
|                         | <b>2010</b>                  | <b>2009</b>                                      | <b>2008</b> |
| Equity securities       | 40%                          | <b>37%</b>                                       | 33%         |
| Fixed income            | 30%                          | <b>44%</b>                                       | 45%         |
| Alternative investments | 30%                          | <b>19%</b>                                       | 22%         |
| Total                   | <u>100%</u>                  | <u><b>100%</b></u>                               | <u>100%</u> |

The Trust has entered into a series of interest rate swap agreements with a net notional amount of approximately \$1,386,000. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 50% of the dollar duration of the liability is subject to this economic hedge. The purpose of this strategy is to economically hedge the change in the net funded status for a significant portion of the liability that can occur due to changes in interest rates.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the Ascension Health Pension Plans' investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 8. Retirement Plans (continued)

Information about the expected cash flows for the Ascension Health Pension Plans follows:

|                                      |            |
|--------------------------------------|------------|
| Expected employer contributions 2010 | \$ 178,100 |
| Expected benefit payments:           |            |
| 2010                                 | 251,890    |
| 2011                                 | 268,800    |
| 2012                                 | 302,200    |
| 2013                                 | 322,700    |
| 2014                                 | 350,400    |
| 2015 – 2019                          | 2,157,300  |

The contribution amount above includes amounts paid to the Trust. The benefit payment amounts above reflect the total benefits expected to be paid from the Trust.

#### Other Postretirement Benefit Plans

In addition to the retirement plan described above, several Health Ministries sponsor postretirement benefit plans that provide health care benefits to qualified retirees who meet certain eligibility requirements. The total benefit obligation of these plans at June 30, 2009 and 2008, is approximately \$57,226 and \$68,524, respectively. The net obligation included in pension and other postretirement liabilities in the accompanying consolidated balance sheets at June 30, 2009 and 2008, is \$31,357 and \$37,314, respectively. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2009, was \$1,544.

#### Defined-Contribution Plan

Ascension Health entities participate in a noncontributory, defined-contribution plan covering all eligible associates. There are two primary types of contributions to this plan: employer automatic contributions and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary, and for certain entities, increases over specified periods of employee service. These benefits are funded annually. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period. Participants become fully vested in all employer contributions immediately. Expense for the defined-contribution plan was \$85,353 and \$71,404 during 2009 and 2008, respectively.

## Ascension Health

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **9. Self-Insurance Programs**

Certain Ascension Health hospitals and other entities participate in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Trust funds and a captive insurance company have been established for the self-insurance programs, and actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2009 and 2008. Those entities not participating in the self-insured programs are insured under separate policies.

#### **General/Professional Liability Programs**

Professional and general liability coverage is provided on a claims-made basis through a wholly owned onshore trust and offshore captive insurance company, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of \$10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to \$185,000. AHIL retains \$5,000 per occurrence and \$5,000 annual aggregate for professional liability. AHIL also retains a 20% quota share of the first \$25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers. Self-insured hospitals in the states of Indiana and Wisconsin are provided professional liability coverage on an occurrence basis with limits in compliance with participation in the Patient Compensation Funds. The Patient Compensation Funds apply to claims in excess of the primary self-insured limit.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense of \$79,045 and \$66,456 for the years ended June 30, 2009 and 2008, respectively. Included in current and long-term self-insurance liabilities on the accompanying consolidated balance sheets are general and professional liability loss reserves of approximately \$531,362 and \$581,301 at June 30, 2009 and 2008, respectively.

AHIL also offers physician professional liability coverage to nonemployed physicians practicing at Ascension Health's various facilities, primarily in Michigan. Coverage is offered to physicians with limits ranging from \$100 per claim to \$1,000 per claim with various aggregate limits. The coverage is offered on both a straight claims-made basis as well as on a modified claims-made basis.

## Ascension Health

### Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

#### 9. Self-Insurance Programs (continued)

##### Workers' Compensation

Workers' compensation coverage is provided on an occurrence basis through a grantor trust. The self-insured trust provides coverage up to \$1,000 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members through self-insurance and excess insurance against catastrophic loss. Premium payments made to the trust are expensed and represent claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of \$38,069 and \$35,757 for the years ended June 30, 2009 and 2008, respectively. Included in current and long-term self-insurance liabilities on the accompanying consolidated balance sheets are workers' compensation loss reserves of \$90,722 and \$88,965 at June 30, 2009 and 2008, respectively.

#### 10. Lease Commitments

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

|                      |                     |
|----------------------|---------------------|
| Year ending June 30: |                     |
| 2010                 | \$ 241,209          |
| 2011                 | 174,883             |
| 2012                 | 142,293             |
| 2013                 | 110,019             |
| 2014                 | 88,359              |
| Thereafter           | <u>354,817</u>      |
| Total                | <u>\$ 1,111,580</u> |

Ascension Health and several of its Health Ministries are lessees under operating lease agreements for the use of space in buildings owned by third parties, including medical office buildings (MOBs) and medical and information technology equipment. In addition, certain Health Ministries have subleased space within buildings where the Health Ministry has a current operating lease commitment. Certain Health Ministries also are lessors under operating lease agreements, primarily ground leases related to third-party-owned MOBs on land owned by the Health Ministries.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 10. Lease Commitments (continued)

Ascension Health's future minimum noncancelable payments associated with operating leases where Ascension Health is the lessee, as well as future minimum noncancelable receipts associated with operating leases where Ascension Health is the sublessor or lessor, are presented in the table below. Future minimum payments and receipts relate to noncancelable leases with terms of one year or more.

| Year ending June 30: | <b>Future Payments<br/>Where Ascension<br/>Health is Lessee</b> | <b>Future Receipts<br/>Where Ascension<br/>Health is<br/>Sublessor/Lessor</b> | <b>Net Future<br/>Payments<br/>(Receipts)</b> |
|----------------------|---|---|---|
| 2010                 | \$ 241,209  | \$ 34,536   | \$ 206,673                                    |
| 2011                 | 174,883   | 27,406  | 147,477                                       |
| 2012                 | 142,293   | 21,257  | 121,036                                       |
| 2013                 | 110,019   | 17,565  | 92,454  |
| 2014                 | 88,359  | 14,272  | 74,087  |
| Thereafter           | 354,817   | 373,738   | (18,921)                                      |
| <b>Total</b>         | <b>\$ 1,111,580</b>   | <b>\$ 488,774</b>   | <b>\$ 622,806</b>                             |

Rental expense under operating leases amounted to \$268,988 and \$248,868 in 2009 and 2008, respectively.

In previous years as well as the current fiscal year, certain Health Ministries sold MOB's to third parties and contemporaneously leased back certain space in those buildings to support ongoing ministry operations for periods of three to 11 years. These space leases are being accounted for as operating leases based on their terms, and future minimum lease payments under these leases are included in the future minimum payment amounts reported above. The building sales were accounted for under FASB's SFAS No. 98, *Accounting for Leases*, and as such, certain gains on the sales were deferred. As of June 30, 2009 and 2008, net deferred gains of \$13,604 and \$19,278, respectively, were included in other noncurrent liabilities in the accompanying consolidated balance sheets. These gains are being recognized as operating income over the related leaseback terms.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 10. Lease Commitments (continued)

Also in previous fiscal years, certain Health Ministries entered into agreements to lease space in MOB's under construction by external development companies. Based on the provisions of Emerging Issues Task Force Issue No. 97-10, *The Effect of Lessee Involvement in Asset Construction*, the Health Ministries were considered the owner of the MOB's during construction. In addition, because these transactions and the sales of other existing MOB's did not qualify for sale-leaseback accounting under SFAS No. 98, they were treated as financing transactions. Accordingly, the associated financing obligations, along with their related construction in progress or building assets, of \$155,594 and \$181,681 at June 30, 2009 and 2008, respectively, are included in other noncurrent liabilities and construction in progress or building and equipment in the accompanying consolidated balance sheets. The financing obligations associated with these transactions will not result in cash payments in excess of amounts paid under the related operating lease payments. All future cash obligations related to leased space within these MOB's are included as future minimum lease payments in the amounts reported above.

#### 11. Contingencies and Commitments

Ascension Health is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on Ascension Health's consolidated balance sheets.

Ascension Health's investment strategy includes investing in alternative investments, such as private equity and real estate funds. Decisions regarding the selection of investment managers and investment activity within the portfolios are made by the Ascension Health Investment Sub-Committee, with the recommendation of Ascension Health staff and an outside investment consulting company. Ascension Health's investment in these alternative investment funds include contractual commitments to portfolio venture funds and other funds to provide capital contributions over periods of time, typically ranging from three to 10 years. During these contractual periods, investment managers may require Ascension Health to invest in accordance with the terms of the agreement. Commitments not funded during the contractual time period will expire and remain unfunded. As of June 30, 2009, contractual agreements expire between December 2009 and June 2019. The remaining unfunded capital commitments for all HSD participants and a joint venture consolidated for financial reporting purposes total approximately \$436,000 for 29 individual contracts as of June 30, 2009.

## Ascension Health

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 11. Contingencies and Commitments (continued)

Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts have not been reduced by the anticipated cash inflows from liquidating previous investments in alternative investment funds.

Ascension Health enters into agreements with nonemployed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for Ascension Health's obligation under these guarantees were \$11,172 and \$18,324 at June 30, 2009 and 2008, respectively, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets and in physician revenue guarantees below. The maximum amount of future payments that Ascension Health could be required to make under these guarantees is approximately \$21,800.

Guarantees, letters of credit, and other commitments represent contingent commitments issued by Ascension Health Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as short as 30 days or as long as 31 years. The following summary represents the maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under its guarantees, letters of credit, and other commitments at June 30, 2009:

|   |                   |
|---|-------------------|
| SunTrust Equity Funding, LLC guarantee                    | \$ 35,016         |
| Hospital de la Concepción 2000 Series A debt guarantee    | 33,450            |
| St. Vincent de Paul Series 2000A debt guarantee           | 28,300            |
| State of Michigan letter of credit                        | 12,090            |
| Seton Manor Series 1999A debt guarantee                   | 11,540            |
| Rehab Hospital of Indiana, Inc. guarantee                 | 7,200             |
| McKay Consulting letter of credit                         | 6,700             |
| New York workers' compensation letter of credit           | 4,714             |
| Physician revenue guarantees                              | 25,977            |
| Other   | <u>70,110</u>     |
| Total guarantees, letters of credit and other commitments | <u>\$ 235,097</u> |

As discussed in Note 6, letters of credit totaling \$57,000 have been issued as of June 30, 2009, which could be used to satisfy \$57,000 of letters of credit included in the table above. No borrowings were outstanding under the letters of credit as of June 30, 2009.

## Ascension Health

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **12. Subsequent Events**

Effective July 1, 2009, Catholic Health Partners (CHP) and Saint Anthony Hospital (SAH) separated from Ascension Health and Missionary Sisters of the Sacred Heart of Jesus-Provincial Council of the Stella Maris Province (MS-SMP) as agreed upon in the Separation Agreement dated May 28, 2009, to allow SAH to operate as a freestanding, community-based, Catholic hospital serving its community in Chicago, Illinois. In accordance with FASB Statement No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, the operations of CHP and SAH will be reflected in the consolidated financial statements as a discontinued operation on the effective date of July 1, 2009. This transaction will result in a reduction of net assets of approximately \$54,000.

# Other Financial Information

## Report of Independent Auditors on Other Financial Information

The Board of Trustees  
Ascension Health

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

*Ernst & Young LLP*

September 11, 2009

## Ascension Health

### Schedule of Net Cost of Providing Care of Persons Who are Poor and Community Benefit Programs *(Dollars in Thousands)*

Years Ended June 30, 2009 and 2008

The cost of providing care to persons who are poor and community benefit programs is estimated using each facility's internal cost data and is calculated in compliance with guidelines established by both The Catholic Health Association (CHA) and the Internal Revenue Service (IRS). During the year ended June 30, 2009, both CHA and the IRS revised previous guidance clearly indicating that the cost of providing care of persons who are poor and community benefit programs was to exclude the provision for bad debt expense from total costs. Accordingly, the previously reported amount for the year ended June 30, 2008, has been revised to exclude the provision for bad debt expense from total costs of the cost-to-charge ratio in order to be consistent with the methodology used for the year ended June 30, 2009. The net cost excluding the provision of bad debt expense of providing care of persons who are poor and community benefit programs is as follows:

|   | <b>2009</b>       | <b>2008</b> |
|---|-------------------|-------------|
| Traditional charity care provided                           | \$ <b>325,734</b> | \$ 286,891  |
| Unpaid cost of public programs for the poor                 | <b>271,194</b>    | 239,244     |
| Other programs for the poor                                 | <b>52,774</b>     | 52,214      |
| Community benefit programs                                  | <b>218,375</b>    | 204,849     |
| Care of persons who are poor and community benefit programs | <b>\$ 868,077</b> | \$ 783,198  |