

Ascension Health

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read with Ascension Health's June 30, 2009 audited consolidated financial statements and related notes to the consolidated financial statements.

Organizational Changes

The fiscal year ended June 30, 2009, represented a period of unprecedented turbulence in the financial markets as well as a period of economic downturn. Ascension Health was well positioned to manage through this period of turbulence and successfully complete a number of strategic organizational changes.

Effective August 1, 2008, Ascension Health entered into an agreement whereby it relinquished its membership interest in an acute care facility in Pottsville, Pennsylvania. In September 2008, Ascension Health opened a new acute care facility in Novi, Michigan. In February 2009, the Seton Medical Center Tower Expansion project was completed in Austin, Texas. Then in June 2009, Ascension Health assumed the operations of an acute care hospital and nursing home in Amsterdam, New York.

Volume Trends and Net Patient Service Revenue

For the year ended June 30, 2009, Ascension Health experienced a 2.5% increase in equivalent discharges as compared to the year ended June 30, 2008. Acute care admissions grew 0.4% from prior year. Outpatient revenue as a percentage of total patient service revenue increased from 43.5% to 44.7%. This increase was primarily due to the growth in volume from new entities along with stable volumes from existing Health Ministries.

	Year Ended June 30,	
	2009	2008
Acute Care Discharges	644,732	642,287
Total Discharges	696,206	693,609
Case Mix Index	1.46	1.44
Equivalent Discharges	1,261,176	1,229,911
Acute Average Length of Stay (days)	4.58	4.60
Emergency Room Visits	2,317,004	2,300,458
Surgical Visits (IP & OP)	544,400	530,736

Net patient service revenue grew 7.7% for the year ended June 30, 2009 as compared with the year ended June 30, 2008. Net patient service revenue per equivalent discharge increased 5.0%. Charity care measured at cost increased by approximately \$39 million or 14% for the year ended June 30, 2009 as compared to the year ended June 30, 2008.

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Income from Operations before Impairment, Restructuring, Self-Insurance Trust Fund Investment Return, and Nonrecurring Expenses

For the year ended June 30, 2009, income from operations before impairment, restructuring, self-insurance trust fund investment return, and nonrecurring expenses was \$471 million, a decrease of \$29 million or 5.7% compared to the year ended June 30, 2008. The decrease from fiscal year 2008 to 2009 was due to the following:

- \$130 million or 14.4% increase in bad debt expense as a result of the growing volumes of uninsured or underinsured as well as increases in charges
- \$58 million or approximately 200% decrease in income from Ascension Health's interest in Via Christi Health System, Inc., an unconsolidated entity, primarily a result of the turbulent financial markets
- \$35 million or 24.4% decrease in interest expense as a result of historically low market interest rates in the short term variable rate debt market enhanced by Ascension Health's ability to issue weekly variable rate debt on the basis of its "self liquidity" as well as refinancing activities which enabled interest rates on various bond series to be fixed for annual and multi-annual periods at attractive interest rates.

Operating expenses per equivalent discharge for the year ended June 30, 2009 increased 4.3% as compared to the year ended June 30, 2008. Bad debt expense per equivalent discharge increased 11.5%. Excluding bad debts, operating expenses per equivalent discharge increased 3.8%.

Income from Operations

For the year ended June 30, 2009, income from operations was \$371 million, a decrease of \$111 million from the year ended June 30, 2008. Self-insurance trust fund investment losses of \$64 million are included in income from operations and represent a \$76 million decrease from the \$12 million investment income from the prior year.

Deficit/Excess of Revenues and Gains over Expenses and Losses

The deficit of revenues and gains over expenses and losses for the year ended June 30, 2009 totaled \$710 million compared to the excess of \$356 million for the year ended June 30, 2008, primarily due to nonoperating investment losses of \$980 million.

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Balance Sheet Ratios

Ascension Health had 158 days of cash and investments on hand at June 30, 2009. The decrease was driven primarily by investment losses previously discussed and capital expenditures of \$768 million during the year.

Cash-to-Senior debt and cash-to-debt were 161.8% and 133.8%, respectively, at June 30, 2009 as indicated in the following table, representing only a modest decline compared to that at June 30, 2008. Ascension Health continues to focus significant efforts on maintaining a strong balance sheet.

Balance Sheet Ratios		
	June 30,	
	2009	2008
Days Cash on Hand	158	186
Net Days in Accounts Receivable	47	52
Cash-to-Senior Debt	161.8%	174.6%
Cash-to-Debt (Senior and Subordinated)	133.8%	145.2%
Senior Debt to Capitalization	30.9%	27.9%
Debt to Capitalization	35.1%	31.7%

Other Information

In February 2009, Ascension Health converted \$570 million 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 million of VRDOs guaranteed by Ascension Health were converted to an annual mode and \$82 million of VRDOs were converted to a variable rate "Remarketing Windows" mode. In May 2009, Ascension Health converted \$154 million of indexed put bonds to a fixed rate of interest through November 2016.