

Ascension Health

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

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

Volume Trends and Net Patient Service Revenue

For the nine months ended March 31, 2010, Ascension Health experienced a 1.4% increase in equivalent discharges as compared with the nine months ended March 31, 2009. Acute care admissions grew 0.2% from prior year. Outpatient revenue as a percentage of total gross patient service revenue increased from 44.4% for the nine months ended March 31, 2009 to 45.0% for the nine months ended March 31, 2010.

Volume Trends		
	Nine Months Ended March 31,	
	2010	2009
Acute Care Discharges	478,536	477,784
Total Discharges	516,570	515,190
Case Mix Index	1.48	1.48
Equivalent Discharges	940,912	928,320
Acute Average Length of Stay (days)	4.50	4.61
Emergency Room Visits	1,745,041	1,685,768
Surgical Visits (IP & OP)	400,781	402,621

Net patient service revenue grew 3.8% for the nine months ended March 31, 2010 as compared with the nine months ended March 31, 2009. Net patient service revenue per equivalent discharge increased 2.4%. Charity care measured at cost increased by approximately \$42 million or 19% for the nine months ended March 31, 2010 as compared to the nine months ended March 31, 2009.

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

For the nine months ended March 31, 2010, income from operations before impairment, restructuring, self-insurance trust fund investment return, and nonrecurring expenses was \$397 million, a \$68 million or 21% increase over the same period in the prior fiscal year, which is primarily attributable to favorable returns included in Ascension Health's interest in Via Christi Health, an unconsolidated entity. In addition, the unpaid cost of providing care of persons who are poor and community benefit programs was \$766 million, a \$167 million or 28% increase over the same period in the prior fiscal year. This increase is primarily attributable to a \$101 million or 52% increase in the unpaid cost of public programs for the poor.

Operating expense per equivalent discharge for the nine months ended March 31, 2010 increased 3.1% as compared to the nine months ended March 31, 2009. Bad debt expense per equivalent discharge decreased 3.9%, while the cost of charity care increased as previously mentioned. Operating expenses per equivalent discharge, excluding bad debt expense, increased 3.7% for the nine months ended March 31, 2010 as compared to the nine months ended March 31, 2009.

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Income from Operations

For the nine months ended March 31, 2010, income from operations was \$471 million, an increase of \$277 million from the same period ended March 31, 2009. Self-insurance trust fund investment return of \$82 million is included in income from operations and represents a \$190 million increase from the same period ended in the prior fiscal year.

Excess (Deficit) of Revenues and Gains over Expenses and Losses

The excess of revenues and gains over expenses and losses for the nine months ended March 31, 2010 was \$1.3 billion, an increase compared to the (deficit) of (\$1.3) billion for the nine months ended March 31, 2009. This increase is primarily due to a nonoperating investment return of \$805 million, an increase of \$2.2 billion as compared to the losses experienced in the same period ended in the prior fiscal year.

Balance Sheet Ratios

Ascension Health had 185 days of cash and investments on hand at March 31, 2010, which represents an increase of 27 days from June 30, 2009. The increase was driven by favorable investment returns, improved operating performance and reduction in accounts receivable, partially offset by capital expenditures of \$415 million for the nine months ended March 31, 2010.

Cash-to-senior debt and cash-to-debt were 187.2% and 160.3%, respectively, at March 31, 2010 as indicated in the following table, representing increases compared to those at June 30, 2009. Ascension Health continues to focus significant efforts on maintaining a strong balance sheet.

Balance Sheet Ratios		
	March 31, 2010	June 30, 2009
Days Cash on Hand	185	158
Net Days in Accounts Receivable	46	47
Cash-to-Senior Debt	187.2%	161.3%
Cash-to-Debt (Senior and Subordinated)	160.3%	133.4%
Senior Debt to Capitalization	28.7%	30.9%
Debt to Capitalization	31.9%	35.1%

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Other Information

In January 2010, Ascension Health issued \$157 million of commercial paper to reimburse itself for previous capital expenditures. In February and March 2010, Ascension Health used cash to defease or redeem \$559 million of bonds and commercial paper. In a separate transaction which also occurred in March 2010, Ascension Health issued \$1.3 billion of Series 2010 bonds through five different issuing authorities in five states. The proceeds of the bonds were used to reimburse Ascension Health for previous capital expenditures, refinance all outstanding commercial paper and refund \$743 million of bonds. The Series 2010 issuance included both fixed and variable rate bonds.