

Ascension Health

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

For the Quarters and Nine Months Ended March 31, 2010 and 2009

Ascension Health

Consolidated Interim Financial Statements

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Ascension Health
 Consolidated Balance Sheets
 (Dollars in Thousands)

	March 31, 2010	June 30, 2009
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,104,246	\$ 970,418
Short-term investments	82,245	73,364
Accounts receivable, less allowances for uncollectible accounts (\$1,029,845 and \$942,156 at March 31, 2010 and June 30, 2009, respectively)	1,655,294	1,665,308
Current portion of assets limited as to use	146,660	136,686
Inventories	202,174	222,685
Assets held for sale	4,770	3,338
Other	295,571	326,136
Total current assets	3,490,960	3,397,935
Board-designated investments	3,721,289	2,994,884
Other investments	1,939,253	1,633,295
Assets limited as to use	925,076	827,570
Property and equipment, net	6,466,959	6,539,010
Other assets:		
Investment in unconsolidated entities	784,259	699,117
Other	475,363	418,713
Total other assets	1,259,622	1,117,830
Total assets	\$ 17,803,159	\$ 16,510,524

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Consolidated Balance Sheets (continued) (Dollars in Thousands)

	March 31, 2010	June 30, 2009
Liabilities and net assets	(unaudited)	
Current liabilities:		
Current portion of long-term debt	\$ 30,421	\$ 59,622
Long-term debt subject to short-term remarketing arrangements	1,545,470	1,791,330
Accounts payable and accrued liabilities	1,530,525	1,516,935
Estimated third-party payor settlements, net	156,324	160,955
Current portion of self-insurance liabilities	189,304	188,152
Liabilities related to assets held for sale	11,216	15,757
Other	41,204	72,473
Total current liabilities	3,504,464	3,805,224
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	2,694,889	2,399,850
Self-insurance liabilities	465,270	449,229
Pension and other postretirement liabilities	967,465	980,253
Other	647,131	601,226
Total noncurrent liabilities	4,774,755	4,430,558
Total liabilities	8,279,219	8,235,782
Net assets:		
Unrestricted	9,100,841	7,866,092
Temporarily restricted	332,186	318,758
Permanently restricted	90,913	89,892
Total net assets	9,523,940	8,274,742
Total liabilities and net assets	\$ 17,803,159	\$ 16,510,524

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Operating revenue:				
Net patient service revenue	\$ 3,546,283	\$ 3,403,211	\$ 10,444,328	\$ 10,058,222
Other revenue	193,276	154,758	583,867	443,107
Total operating revenue	<u>3,739,559</u>	<u>3,557,969</u>	<u>11,028,195</u>	<u>10,501,329</u>
Operating expenses:				
Salaries and wages	1,446,108	1,380,844	4,297,905	4,157,705
Employee benefits	351,124	320,192	1,021,225	908,095
Purchased services	200,925	219,468	625,679	617,296
Professional fees	188,249	162,676	535,454	477,031
Supplies	562,672	576,288	1,685,245	1,746,835
Insurance	39,179	35,365	111,030	70,236
Bad debts	303,635	261,438	758,883	778,734
Interest	25,295	24,381	83,209	82,915
Depreciation and amortization	166,294	160,514	497,784	479,993
Other	351,020	290,757	1,015,106	853,483
Total operating expenses before impairment, restructuring, self-insurance trust fund investment return, and nonrecurring expenses	<u>3,634,501</u>	<u>3,431,923</u>	<u>10,631,520</u>	<u>10,172,323</u>
Income from operations before impairment, restructuring, self-insurance trust fund investment return, and nonrecurring expenses	105,058	126,046	396,675	329,006
Self-insurance trust fund investment return	18,311	(12,895)	81,646	(108,394)
Income from operations before impairment, restructuring, and nonrecurring expenses	123,369	113,151	478,321	220,612
Impairment, restructuring, and nonrecurring expenses	2,991	9,279	7,376	26,278
Income from operations	<u>120,378</u>	<u>103,872</u>	<u>470,945</u>	<u>194,334</u>
Nonoperating gains (losses):				
Investment return	140,053	(141,526)	804,676	(1,367,153)
Loss on extinguishment of debt	(6,114)	(2,827)	(6,305)	(2,827)
Gain (loss) on interest rate swaps	20,028	97,640	66,790	(72,067)
Income from unconsolidated entities	3,297	1,666	6,835	3,942
Donations and fundraising activities, net	(3,837)	922	(23,022)	(12,656)
Minority interest in consolidated entities	(6,396)	(7,243)	(16,686)	(10,436)
Other	(2,972)	(5,224)	(7,758)	(15,486)
Total nonoperating gains (losses), net	<u>144,059</u>	<u>(56,592)</u>	<u>824,530</u>	<u>(1,476,683)</u>
Excess (deficit) of revenues and gains over expenses and losses	264,437	47,280	1,295,475	(1,282,349)

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

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Unrestricted net assets:				
Excess (deficit) of revenues and gains over expenses and losses	\$ 264,437	\$ 47,280	\$ 1,295,475	\$ (1,282,349)
Transfer to sponsors and other affiliates, net	(15,393)	(3,245)	(85,173)	(9,549)
Net assets released from restrictions for property acquisitions	35,237	23,252	65,236	55,903
Pension and other postretirement liability adjustments	10,529	(9,863)	41,605	26,535
Adjustment to adopt measurement date provision for pension plans	—	—	—	(38,453)
Change in unconsolidated entities' net assets	(1,419)	(1,820)	(15,785)	(35,749)
Deferred gain on interest rate swaps	(13,251)	(416)	(14,022)	(1,247)
Other	(5,287)	19,157	(2,299)	213
Increase (decrease) in unrestricted net assets, before loss from discontinued operations	274,853	74,345	1,285,037	(1,284,696)
Loss from discontinued operations	(532)	(7,827)	(50,288)	(49,014)
Increase (decrease) in unrestricted net assets	274,321	66,518	1,234,749	(1,333,710)
Temporarily restricted net assets:				
Contributions and grants	28,616	29,543	80,887	76,196
Net change in unrealized gains/losses on investments	1,573	(3,180)	17,549	(20,205)
Investment return	1,187	(930)	4,457	(6,555)
Net assets released from restrictions	(44,247)	(32,446)	(88,811)	(80,950)
Other	283	(3,937)	(654)	(10,462)
(Decrease) increase in temporarily restricted net assets	(12,588)	(10,950)	13,428	(41,976)
Permanently restricted net assets:				
Contributions	(366)	2,210	1,327	5,279
Net change in unrealized gains/losses on investments	12	(493)	561	(1,803)
Investment return	25	(92)	(98)	(1,240)
Other	4,434	7,780	(769)	7,593
Increase in permanently restricted net assets	4,105	9,405	1,021	9,829
Increase (decrease) in net assets	265,838	64,973	1,249,198	(1,365,857)
Net assets, beginning of period	9,258,102	8,275,111	8,274,742	9,705,941
Net assets, end of period	\$ 9,523,940	\$ 8,340,084	\$ 9,523,940	\$ 8,340,084

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

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

	Nine Months Ended	
	March 31,	
	2010	2009
Operating activities		
Increase (decrease) in net assets	\$ 1,249,198	\$ (1,365,857)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	497,784	479,993
Amortization of bond premiums	(6,951)	(7,056)
Loss on extinguishment of debt	6,305	2,827
Provision for bad debts	758,883	778,734
Pension and other post retirement liability adjustments	(41,605)	(26,535)
Interest, dividends, and net (gains) losses on investments	(908,791)	1,505,350
Change in market value of interest rate swaps	(46,141)	70,432
Deferred gain on interest rate swaps	(14,022)	(1,247)
Gain on sale of assets, net	(6,496)	(12,120)
Impairment and restructuring expenses	3,106	2,412
Adjustment to adopt measurement date provision for pension plans	-	38,453
Transfer to sponsor and other affiliates, net	85,173	9,549
Restricted contributions, investment return, and other	(85,150)	(70,811)
Other restricted activity	3,980	1,014
Nonoperating depreciation expense	228	-
(Increase) decrease in:		
Short-term investments	(8,881)	2,400
Accounts receivable	(747,682)	(869,392)
Inventories and other current assets	17,430	6,733
Investments classified as trading	(239,040)	1,439
Other assets	(129,203)	120,930
Increase (decrease) in:		
Accounts payable and accrued liabilities	(17,790)	(61,689)
Estimated third-party payor settlements payable, net	(4,631)	40,446
Other current liabilities	(34,543)	5,449
Self-insurance liabilities	17,193	(7,377)
Other noncurrent liabilities	120,605	(26,782)
Net cash provided by continuing operating activities	468,959	617,295
Net cash (used in) provided by discontinued operations	(22,646)	45,582
Net cash provided by operating activities	\$ 446,313	\$ 662,877

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Consolidated Statements of Cash Flows (unaudited) (continued) (Dollars in Thousands)

	Nine Months Ended	
	March 31,	
	2010	2009
Investing activities		
Property and equipment additions, net	\$ (414,645)	\$ (602,417)
Proceeds from sale of property and equipment	1,667	19,993
Net cash used in investing activities	<u>(412,978)</u>	<u>(582,424)</u>
Financing activities		
Issuance of long-term debt	2,212,507	815,332
Repayment of long-term debt	(2,189,309)	(869,835)
Decrease in assets under bond indenture agreements	1,196	533
Transfer to sponsors and other affiliates, net	(9,051)	(9,549)
Restricted contributions, investment return, and other	85,150	70,811
Net cash provided by financing activities	<u>100,493</u>	<u>7,292</u>
Net increase in cash and cash equivalents	133,828	87,745
Cash and cash equivalents at beginning of period	<u>970,418</u>	<u>791,432</u>
Cash and cash equivalents at end of period	<u>\$ 1,104,246</u>	<u>\$ 879,177</u>

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

Ascension Health

Notes to Consolidated Financial Statements (Unaudited) *(Dollars in Thousands)*

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 (Unaudited) (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).

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 for the nine months ended March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Traditional charity care provided	\$ 265,705	\$ 223,306
Unpaid cost of public programs for the poor	297,009	195,911
Other programs for the poor	34,968	38,043
Community benefit programs	168,316	141,864
Care of persons who are poor and community benefit programs	<u>\$ 765,998</u>	<u>\$ 599,124</u>

2. Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the nine months ended March 31, 2010 are not necessarily indicative of the results to be expected for the year ending June 30, 2010. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2009.

Ascension Health

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

2. Significant Accounting Policies (continued)

Principles of Consolidation

All corporations and other entities 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 excess (deficit) of revenues and gains over expenses and losses in the consolidated statements of operations and changes in net assets as follows:

	Nine Months Ended March 31,	
	2010	2009
Income (loss) from operations	\$ 90,966	\$ (28,801)
Nonoperating gains, net	6,835	3,942

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.

Ascension Health

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

2. Significant Accounting Policies (continued)

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, which are valued using the equity method of accounting, which approximates fair value. 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.

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 gains (losses) in the consolidated statements of operations and changes in net assets unless the return is restricted by donor or law.

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

2. Significant Accounting Policies (continued)

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 March 31, 2010 and June 30, 2009, is as follows:

	<u>March 31, 2010</u>	<u>June 30, 2009</u>
Land and improvements	\$ 605,901	\$ 602,056
Building and equipment	12,370,925	12,129,755
Construction in progress	802,621	781,887
	<u>13,779,447</u>	<u>13,513,698</u>
Accumulated depreciation	(7,312,488)	(6,974,688)
	<u>\$ 6,466,959</u>	<u>\$ 6,539,010</u>

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 and equipment purchase commitments of approximately \$208,000.

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.

Ascension Health

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

2. Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is excess (deficit) 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.

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 \$40,708 and \$48,156 for the nine months ended March 31, 2010 and 2009, respectively.

