Consolidated Financial Statements

Sacred Heart Health System, Inc. and Subsidiaries –
Member of Ascension Health
Years Ended June 30, 2010 and 2009
With Report of Independent Certified Public Accountants

Ernst & Young LLP

Ernst & Young

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Consolidated Financial Statements

Years Ended June 30, 2010 and 2009

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Report of Independent Certified Public Accountants

The Board of Directors
Sacred Heart Health System, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Sacred Heart Health System, Inc. and subsidiaries (the Health System) as of June 30, 2010 and 2009, 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 the Health System'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 the Health System'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 the Health System'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 Sacred Heart Health System, Inc. and subsidiaries at June 30, 2010 and 2009, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

September 17, 2010

Sacred Heart Health System, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	Year Ended June 30 2010	Year Ended June 30 2009
Assets		
Current assets:		
Cash and cash equivalents	$ **36,922**	$ 40,406
Short-term investments	**1**	4
Accounts receivable, less allowances for uncollectible accounts ($39,693 and $34,343 in 2010 and 2009, respectively)	**75,574**	73,592
Estimated third-party payor settlements, net	**529**	–
Inventories	**14,351**	16,697
Other	**10,847**	14,202
Total current assets	**138,224**	144,901
Board-designated investments	**152,333**	114,245
Assets limited as to use – temporarily restricted	**7,052**	7,429
Property and equipment:		
Land and improvements	**49,819**	49,793
Buildings and equipment	**547,820**	519,785
Construction in progress	**3,551**	37,453
Less accumulated depreciation	**(301,291)**	(307,000)
Total property and equipment, net	**299,899**	300,031
Other assets:		
Land held for expansion	**4,702**	4,702
Investment in unconsolidated entities	**7,872**	6,311
Other	**28,733**	22,235
Total other assets	**41,307**	33,248
Total assets	$ **638,815**	$ 599,854

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	Year Ended June 30	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 1,225**	$ 1,755
Accounts payable and accrued liabilities	**55,688**	52,854
Estimated third-party payor settlements, net	**–**	926
Current portion of self-insurance liabilities	**2,101**	2,354
Total current liabilities	**59,014**	57,889
Noncurrent liabilities:		
Long-term debt	**127,997**	128,821
Self-insurance liabilities	**2,620**	2,892
Pension liabilities	**36,395**	34,483
Other	**28,670**	29,858
Total noncurrent liabilities	**195,682**	196,054
Total liabilities	**254,696**	253,943
Net assets:		
Unrestricted	**374,314**	338,482
Temporarily restricted	**9,805**	7,429
Total net assets	**384,119**	345,911
Total liabilities and net assets	**$ 638,815**	$ 599,854

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

Sacred Heart Health System, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended June 30 2010	2009
Operating revenue:		
Net patient service revenue	$ **667,839**	$ 641,270
Other revenue	**12,723**	12,802
Net assets released from restrictions for operations	**2,651**	2,427
Total operating revenue	**683,213**	656,499
Operating expenses:		
Salaries and wages	**232,342**	221,478
Employee benefits	**60,301**	56,997
Purchased services	**28,853**	24,094
Professional fees	**25,257**	24,446
Supplies	**125,319**	115,735
Insurance	**9,774**	9,875
Bad debts	**70,036**	80,403
Interest	**3,951**	4,897
Depreciation and amortization	**31,295**	29,611
Other	**72,805**	63,627
Total operating expenses	**659,933**	631,163
Income from operations	**23,280**	25,336
Nonoperating gains (losses):		
Investment return	**18,768**	(27,490)
Other	**(1,615)**	(2,920)
Total nonoperating gains (losses), net	**17,153**	(30,410)
Excess (deficit) of revenue and gains over expenses and losses	**40,433**	(5,074)

Continued on next page.

Sacred Heart Health System, Inc. and Subsidiaries

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

(Dollars in Thousands)

	Year Ended June 30	
	2010	**2009**
Unrestricted net assets:		
Excess (deficit) of revenue and gains over expenses and losses	**$ 40,433**	$ (5,074)
Transfers to sponsor and other affiliates, net	**(8,928)**	(26,478)
Net assets released from restrictions for property acquisitions	**2,684**	5,763
Other	**1,643**	(1,941)
Increase (decrease) in unrestricted net assets, before gain from discontinued operations	**35,832**	(27,730)
Gain from discontinued operations	**–**	285
Increase (decrease) in unrestricted net assets	**35,832**	(27,445)
Temporarily restricted net assets:		
Contributions	**7,707**	5,266
Net assets released from restrictions	**(5,335)**	(8,190)
Other	**4**	4
Increase (decrease) in temporarily restricted net assets	**2,376**	(2,920)
Increase (decrease) in net assets	**38,208**	(30,365)
Net assets, beginning of the year	**345,911**	376,276
Net assets, end of the year	**$ 384,119**	$ 345,911

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

Sacred Heart Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30	
	2010	**2009**
Cash flows from operating activities		
Increase (decrease) in net assets	$ **38,208**	$ (30,365)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**31,295**	29,611
Provision for bad debts	**70,036**	80,403
Net realized and change in unrealized gains on investments	**(9,063)**	10,218
Transfers to sponsor and other affiliates, net	**8,928**	26,478
Restricted contributions and other restricted activity	**(2,684)**	(5,270)
(Increase) decrease in:		
Short-term investments	**3**	–
Accounts receivable	**(72,018)**	(76,356)
Estimated third-party payor settlements, net	**(1,456)**	4,024
Inventories and other current assets	**5,704**	(3,499)
Investments classified as trading	**(29,025)**	13,754
Other assets	**(8,060)**	(970)
Assets of discontinued operations	**–**	291
Increase (decrease) in:		
Accounts payable and accrued liabilities	**2,879**	8,432
Liabilities of discontinued operations	**–**	(281)
Other noncurrent liabilities	**154**	598
Net cash provided by operating activities	**34,901**	57,068
Cash flows from investing activities		
Property and equipment additions, net	**(31,165)**	(46,816)
Increase in assets limited as to use – temporarily restricted	**377**	2,920
Net cash used in investing activities	**(30,788)**	(43,896)

Continued on next page.

Sacred Heart Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	Year Ended June 30	
	2010	**2009**
Cash flows from financing activities		
Repayment of long-term debt	**$ (1,353)**	$ (2,010)
Transfers to sponsor and other affiliates, net	**(8,928)**	(4,755)
Restricted contributions, investment income, and other restricted activity	**2,684**	5,270
Net cash used in financing activities	**(7,597)**	(1,495)
Net (decrease) increase in cash and cash equivalents	**(3,484)**	11,677
Cash and cash equivalents at beginning of year	**40,406**	28,729
Cash and cash equivalents at end of year	**$ 36,922**	$ 40,406

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

1. Organization and Mission

Organizational Structure

Sacred Heart Health System, Inc. and subsidiaries (the Health Ministry) is a member of Ascension Health. 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 Congregation of the Sisters of St. Joseph of Carondelet.

The Health System's principal operations consist of three nonprofit acute care hospitals: Sacred Heart Hospital located in Pensacola, Florida, Sacred Heart Hospital on the Emerald Coast, located in Destin, Florida, and Sacred Heart Hospital on the Gulf, located in Port St. Joe, Florida. The Health System also owns and operates other health care related entities, including a nursing facility and physicians' medical group. The Health System provides inpatient, outpatient, and emergency care services for residents of northwest Florida. Admitting physicians are primarily practitioners in the local area. The Health System is related to Ascension Health's other sponsored organizations 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.

1. Organization and Mission (continued)

- 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.

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 of persons who are poor and community benefit programs is estimated using 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 amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately $14,555 and $10,404 for the years ended June 30, 2010 and 2009, 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.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the Health Ministry or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where the Health Ministry does not have operating control are recorded under the equity or cost method of

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

accounting. For entities recorded under the equity method of accounting, the following reflects the Health Ministry's interest in unconsolidated entities in the consolidated balance sheets, as well as income or loss for such entities included in the consolidated excess (deficit) of revenues and gains over expenses and losses in the consolidated statements of operations and changes in net assets:

	Investment Recorded in Consolidated Balance Sheets as of June 30,		Effect on Consolidated Excess (Deficit) of Revenues and Gains Over Expenses and Losses for the Years Ended June 30,	
	2010	2009	2010	2009
Pace Ambulatory Surgery Center, LLC	$ (425)	$ (229)	$ (222)	$ (358)
Destin Ambulatory Surgery Center, LLC	375	308	183	243
Escambia Clinics Holding, Inc.	478	484	(6)	(218)
Gulf Region Radiation Oncology MSO, LLC	7,019	6,928	(81)	1,218
	$ 7,447	$ 7,491	$ (126)	$ 885

The Health Ministry's equity in the net income (loss) of unconsolidated entities is recorded in other operating revenue if the investment relates to providing health care services and is recorded in other nonoperating gains (losses) if the investment relates to activities not related to providing health care services. The Health Ministry recorded $120 in operating losses for the year ended June 30, 2010, and $1,104 in other operating revenue for the year ended June 30, 2009. The Health System recorded $6 and $218 in other nonoperating losses for the years ended June 30, 2010 and 2009, respectively.

The Health Ministry's equity investment in Gulf Region Radiation Oncology MSO, LLC (GRROC) does not equate to the Health Ministry's 51% ownership of GRROC's equity balance due to a difference in the cost basis and the fair market value of assets contributed. In accordance with ASC Topic 323 *Investments – Equity Method and Joint Ventures,* (formally Accounting Principles Board (APB) statement 18), this basis difference is being amortized over the weighted average life of the assets contributed, net of the Health Ministry's earnings in the investment.

2. Significant Accounting Policies (continued)

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 value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of financial instruments classified other than current assets and current liabilities are disclosed in the Fair Value Measurements note.

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 that 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

The Health Ministry holds investments through the Health System Depository (HSD), an investment pool of funds in which a limited number of nonprofit health care providers participate for purposes of establishing investment goals and monitoring performance under agreed-upon socially responsible investment guidelines. The investments are managed by external investment managers within established investment guidelines. The value of the Health Ministry's investment in the HSD represents the Health Ministry's pro rata share of the HSD's investments held for participants. At June 30, 2010 and 2009, the Health Ministry's investment in the HSD was $162,230 and $132,169, respectively.

The Health Ministry also invests in other investments, which are locally managed. Most of these funds are held in locally managed foundations where the Health Ministry has control over foundation assets. The Health Ministry reports both its investment in the HSD and in locally managed investments in the accompanying consolidated balance sheets based upon the long or short term nature of its investment and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of Ascension Health.

2. Significant Accounting Policies (continued)

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 recorded under the equity method of accounting. 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. All of the Health Ministry's investments, including its investment in the HSD, are designated as trading investments. Accordingly, all investment returns, including unrealized gains and losses, are reported as nonoperating gains or losses in the consolidated statements of operations and changes in net assets, except for returns 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.

(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 the gift is received. A summary of property and equipment at June 30, 2010 and 2009, is as follows:

	June 30 2010	June 30 2009
Land and improvements	$ 49,819	$ 49,793
Building and equipment	547,820	519,785
Construction in progress	3,551	37,453
	601,190	607,031
Less accumulated depreciation	(301,291)	(307,000)
Total property and equipment, net	$ 299,899	$ 300,031

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2010 and 2009 was $31,294 and $29,591, respectively.

Estimated useful lives by asset category are as follows: land improvements – five to 15 years; buildings – five to 30 years; and equipment – five to 15 years. Interest costs incurred as part of related construction are capitalized during the period of construction. Net interest capitalized in 2010 and 2009 was $1,056 and $638, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Health Ministry has been limited by donors to a specific time period or purpose. Temporarily restricted net assets 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.

2. Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is the excess or deficit of revenues and gains over expenses and losses, which includes all changes in unrestricted net assets other than transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions and contributions of property and equipment.

Operating and Nonoperating Activities

The Health Ministry's primary mission is to meet the health care needs in its market area 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 the Health Ministry's primary mission are considered to be nonoperating, consisting primarily of investment income and minority interest income (loss).

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 $2,935 and $753 for the years ended June 30, 2010 and 2009, respectively.

2. Significant Accounting Policies (continued)

During 2010 and 2009, approximately 32% and 31%, respectively, of net patient service revenue was received under the Medicare program and 9% and 11%, respectively, under various state Medicaid programs. The Health Ministry grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable at June 30, 2010 and 2009, include Medicare (18% and 12%, respectively) and various states' Medicaid (15% and 17%, 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, the Health Ministry 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 the Health Ministry's policies.

Adoption of New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 establishes the FASB's Accounting Standards Codification™ (the Codification, or ASC) as the single authoritative source of GAAP for interim and annual periods ending after September 15, 2009. SFAS 168 also replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 168 was subsequently included in the Codification as ASC Topic 105, *Generally Accepted Accounting Principles*. In conjunction with its effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards. The Health Ministry adopted SFAS 168 and the Codification on July 1, 2009. The adoption of the Codification did not impact the Health Ministry's consolidated financial statements for the year ended June 30, 2010.

2. Significant Accounting Policies (continued)

In January 2010, the FASB issued ASC Accounting Standards Update (ASU) No. 2010-06 (ASU 2010-06), which guidance clarifies certain existing fair value measurement disclosure requirements of ASC Topic 820 (formerly SFAS 157) and also requires additional fair value measurement disclosures. Specifically, ASU 2010-06 clarifies that assets and liabilities must be leveled by major class of asset or liability, and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques, for those assets or liabilities designated as level 2 or level 3 instruments. Disclosures regarding transfers between level 1 and level 2 assets and liabilities are required, as well as a deeper level of disaggregation of activity within existing rollforwards of the fair value of level 3 assets and liabilities. See the Fair Value Measurements note for these additional fair value measurement disclosure requirements for the year ended June 30, 2010, excluding the additional requirements related to level 3 rollforward activity, which are not required to be adopted until the Health Ministry's fiscal year ending June 30, 2012. The adoption of this guidance did not have a significant impact on the Health Ministry's consolidated financial statements for the year ended June 30, 2010.

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in ASC Topic 715 (formerly FSP FAS 132(R)-1). This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See the Retirement Plans note for these additional disclosures for the year ended June 30, 2010. The adoption of this guidance did not have a significant impact on the Health Ministry's consolidated financial statements for the year ended June 30, 2010.

In September 2006, the FASB issued authoritative guidance on fair value measurements, currently included in ASC Topic 820 (formerly SFAS 157), which was adopted by Ascension Health for the year ended June 30, 2009. This guidance provides a definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements impacting certain assets and liabilities. See the Fair Value Measurements note for fair value measurement disclosures for the years ended June 30, 2010 and 2009.

2. Significant Accounting Policies (continued)

Income Taxes

The member health care entities of the Health Ministry are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and their related income is exempt from federal income tax under Section 501(a). The Health Ministry accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Reclassifications

Certain reclassifications were made to the 2009 consolidated financial statements to conform to the 2010 presentation. These reclassifications had no impact on the change in net assets previously reported.

Subsequent Events

The Health Ministry evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or disclosure in the notes to the consolidated financial statements. The Health Ministry evaluated events occurring subsequent to June 30, 2010 through September 17, 2010, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Additionally, there were no nonrecognized subsequent events that required disclosure.

(Dollars in Thousands)

3. Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use

The Health Ministry's investments are comprised of the Health Ministry'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 primarily include investments restricted by donors. The Health Ministry's investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	June 30	
	2010	**2009**
Cash and cash equivalents	**$ 36,922**	$ 40,406
Short-term investments	**1**	4
Board-designated investments	**152,333**	114,245
Other investments	**9,547**	6,877
Assets limited as to use		
Temporarily restricted	**9,805**	7,429
Total	**$ 208,608**	$ 168,961

(Dollars in Thousands)

3. Cash and Cash Equivalents, Investments and Other Assets Limited as to Use (continued)

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

	June 30	
	2010	**2009**
Cash, cash equivalents, and short-term investments	**$ 36,923**	$ 40,410
Other investments	**12,620**	9,681
Subtotal, included in cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments	**49,543**	50,091
Pro rata share of HSD funds held for participants	**159,065**	118,870
Cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments	**$ 208,608**	$ 168,961

As of June 30, 2010 and 2009, the composition of total HSD investments is as follows:

	June 30	
	2010	**2009**
Cash, cash equivalents, and short-term investments	**5.8%**	10.6%
U.S. government obligations	**26.0%**	16.5%
Asset-backed securities	**11.3%**	20.8%
Corporate and foreign fixed income investments	**17.5%**	18.0%
Equity securities	**39.4%**	34.1%
Total	**100.0%**	100.0%

(Dollars in Thousands)

3. Cash and Cash Equivalents, Investments and Other Assets Limited as to Use (continued)

Investment return recognized by the Health Ministry is summarized as follows:

	Year Ended June 30 2010	Year Ended June 30 2009
Investment return (loss) in HSD	$ 9,705	$ (17,273)
Net gains (losses) on investments reported at fair value	9,063	(10,217)
Total investment return	$ 18,768	$ (27,490)
Investment return (loss) included in nonoperating gains (losses)	$ 18,768	$ (27,490)

4. Fair Value Measurements

The Health Ministry adopted the FASB's authoritative accounting guidance on fair value measurements for the fiscal year ended June 30, 2009, as well as updated fair value measurement guidance for the fiscal year ended June 30, 2010. In accordance with this guidance, 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. The Health Ministry follows the three-level fair value hierarchy to categorize these assets and liabilities, which prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs are defined 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.

4. Fair Value Measurements (continued)

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. Sacred Heart Health System uses techniques consistent with market approach and income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

As of June 30, 2010 and 2009, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

Cash and Cash Equivalents and Short-term Investments

Short-term investments designated as Level 2 investments are primarily comprised of commercial paper, whose fair value is based on amortized cost. Significant observable inputs include security cost, maturity, and credit rating. Cash and cash equivalents and additional short-term investments are primarily comprised of certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

U.S. Government Obligations

The fair value of investments in U.S. government, state, and municipal obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Asset-Backed Securities

The fair value of U.S. agency and corporate asset-backed securities is primarily determined using techniques consistent with the income approach, such as discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

4. Fair Value Measurements (continued)

Corporate and Foreign Fixed Income Investments

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

Equity Securities

The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals.

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use notes, the Health Ministry has an investment in the HSD and certain other investments, such as those investments held and managed by foundations. As of June 30, 2010, 25%, 67%, and 8% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively, while 2%, 45%, and 53% of total HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2, and Level 3 inputs, respectively. As of June 30, 2009, 27%, 68%, and 5% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively, while 6%, 45%, and 49% of total HSD liabilities that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2010, for all other financial assets and liabilities, which are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2010				
Short-term investments	$ 567	$ –	$ –	$ 567
Corporate and foreign fixed income investments	–	235	–	235
Equity securities	3,873	–	–	3,873
Total investments	$ 4,440	$ 235	$ –	$ 4,675
Deferred compensation assets, included in other noncurrent	$ 6,983	$ –	$ 2,740	$ 9,723

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 Health Ministry's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2009				
Cash and cash equivalents	$ 4	$ –	$ –	$ 4
Short-term investments	163	–	–	163
U.S. government obligations	–	55	–	55
Corporate and foreign fixed income investments	–	388	–	388
Asset-backed securities	–	77	–	77
Equity securities	2,294		–	2,294
Total investments	$ 2,461	$ 520	$ –	$ 2,981
Deferred compensation assets, included in other noncurrent	$ 6,072	$ –	$ 2,514	$ 8,586

(Dollars in Thousands)

4. Fair Value Measurements (continued)

During the years ended June 30, 2010 and 2009, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) were comprised of the following. Transfers in or out of Level 3 are recognized as of the beginning of the reporting period.

		Deferred Comp
June 30, 2010		
Beginning balance	**$**	**2,514**
Purchases, issuances, and settlements		**140**
Transfers in (out) of Level 3		**86**
Ending balance	**$**	**2,740**
June 30, 2009		
Beginning balance	$	2,080
Purchases, issuances, and settlements		42
Transfers in (out) of Level 3		392
Ending balance	$	2,514

(Dollars in Thousands)

5. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2010	**2009**
Intercompany debt with Ascension Health, payable in installments through November 2047; interest (3.9% and 3.5% at June 30, 2010 and 2009, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	**$ 127,823**	$ 129,121
Other	**1,399**	1,455
	129,222	130,576
Less current portion	**(1,225)**	(1,755)
Long-term debt, less current portion	**$ 127,997**	$ 128,821

Scheduled principal repayments of long-term debt are as follows:

Year ending June 30:	
2011	$ 1,225
2012	988
2013	1,008
2014	2,044
2015	2,619
Thereafter	121,338
Total	$ 129,222

5. Long-Term Debt (continued)

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. In addition, Ascension Health may cause each senior designated affiliate to transfer such amounts as are necessary to enable the senior obligated group members to comply with the terms of the Senior MTI, including payment of the outstanding obligations. The Health Ministry is a senior obligated group member under the terms of the Senior MTI.

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.

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 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. The Health Ministry is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper and other obligations, the proceeds of which are in turn loaned to the Senior and Subordinate Credit Group members subject to a long-term amortization schedule of 1 to 37 years.

5. Long-Term Debt (continued)

Certain portions of Senior and Subordinate Credit Group borrowings may be periodically subject to interest rate swap arrangements to effectively convert borrowing rates on such obligations from a floating to a fixed interest rate or vice versa based on market conditions. Additionally, Senior and Subordinate Credit Group borrowings may, from time to time, be refinanced or restructured in order to take advantage of favorable market interest rates or other financial opportunities. Any gain or loss on refinancing, as well as any bond premiums or discounts, are allocated to the Senior and Subordinate Credit Group members based on their pro rata share of the Senior and Subordinate Credit Group's obligations. Senior and Subordinate Credit Group refinancing transactions rarely have a significant impact on the outstanding borrowings or intercompany debt amortization schedule of any individual Senior and Subordinate Credit Group member. Members of Ascension Health may also periodically draw from the invested funds of other members of Ascension Health on a relatively short-term basis and subject to certain conditions.

During the year ended June 30, 2010, Ascension Health completed multiple debt transactions, which ultimately resulted in an increase of $15,744 to the total debt of Ascension Health. As a result of these transactions, the Health Ministry's pro rata portion of intercompany debt to Ascension Health increased approximately $360, reflected as a transfer from sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2010.

The Senior and Subordinate Credit Group financing documents contain certain restrictive covenants, including a debt service coverage ratio.

As of June 30, 2010, 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 18, 2010. As of June 30, 2010 and 2009, there were no borrowings under the line of credit.

As of June 30, 2010, 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, 2012. As of June 30, 2010, there were no borrowings under the line of credit.

5. Long-Term Debt (continued)

As of June 30, 2010, the Subordinate Credit Group has a $50,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $50,000 extends to December 29, 2010. As of June 30, 2010, $37,033 of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

The outstanding principal amount of all hospital revenue bonds is $4,130,280, which represents 48% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at June 30, 2010.

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt, which can be as short as 30 days or as long as 29 years. 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, 2010, is approximately $125,000.

During the years ended June 30, 2010 and 2009, interest paid was approximately $5,267 and $5,497, respectively. Capitalized interest was approximately $1,056 and $638 for the years ended June 30, 2010 and 2009, respectively.

6. Pension Plans

The Health Ministry participates in the Ascension Health Pension Plan and the Ascension Health Defined Contribution Plan. Details of these plans are as follows.

Ascension Health Pension Plan

The Health Ministry participates in the Ascension Health Pension Plan (the Ascension Plan), a noncontributory defined benefit pension plan sponsored by Ascension Health, which covers all eligible employees of certain Ascension Health entities. Benefits are based on each participant's years of service and compensation. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust (the Trust), a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of

6. Pension Plans (continued)

the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Net periodic pension cost of $8,274 in 2010 and $6,589 in 2009 was charged to the Health Ministry. The service cost component of net periodic pension cost charged to the Health Ministry is actuarially determined while all other components are allocated based on the Health Ministry's pro rata share of Ascension Health's overall projected benefit obligation.

The assets of the Ascension Plan are available to pay the benefits of eligible employees of all participating entities. In the event participating entities are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so. As of June 30, 2010, the Ascension Plan had a net unfunded liability of $649,818. The Health Ministry's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at June 30, 2010 and 2009, was $36,395 and $34,483, respectively.

Ascension Health adopted the measurement date provision of existing authoritative guidance on employers' accounting for defined-benefit pension and other postretirement plans as of June 30, 2009. As a result, Ascension Health transferred an additional pension liability of $21,396 to the Health Ministry, which is included in transfers from (to) sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2009.

As of June 30, 2010 and 2009, the fair value of the Ascension Plan's assets available for benefits was $3,089,076 and $2,525,941, respectively. As discussed in the Fair Value Measurements note, the Health Ministry, as well as Ascension Health, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of June 30, 2010, 29%, 42%, and 29% of the Ascension Plan's assets, which are measured at fair value on a recurring basis, were categorized as Level 1, Level 2, and Level 3 investments, respectively. With respect to the Ascension Plan's liabilities measured at fair value on a recurring basis, 0%, 13%, and 87% were categorized as Level 1, Level 2, and Level 3, respectively, as of June 30, 2010.

6. Pension Plans (continued)

Ascension Health Defined Contribution Plan

The Health Ministry participates in the Ascension Health Defined Contribution Plan (the Defined Contribution Plan), a noncontributory, defined contribution plan sponsored by Ascension Health and which covers all eligible associates. There are two primary types of contributions to the Defined Contribution Plan: employer automatic contributions and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and 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. Defined contribution expense, representing both employer automatic contributions and employer matching contributions, was $4,164 and $3,852 for the years ended June 30, 2010 and 2009, respectively.

7. Self-Insurance Programs

The Health Ministry participates in self-insurance programs for 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. 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 2010 and 2009. In the event that sufficient funds are not available from the self-insurance programs, each participating entity may be assessed its pro rata share of the deficiency. If contributions exceed the losses paid, the excess may be returned to participating entities.

General/Professional Liability Programs

The Health Ministry participates in Ascension Health's professional and general liability self-insured program, which provides claims-made coverage through a wholly owned on-shore trust and offshore captive insurance company. The Health Ministry has a deductible of $100 per claim and the program has a self-insured retention of $10,000 per occurrence with no aggregate.

7. Self-Insurance Programs (continued)

Excess coverage is provided through Ascension Health Insurance Limited (AHIL), a wholly owned captive insurance company 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.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is general and professional liability expense of $8,764 and $8,882 for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, the general and professional liability reserves included in self-insurance liabilities (current and long-term) in the accompanying consolidated balance sheets were approximately $4,721 and $5,246, respectively.

Workers' Compensation

The Health Ministry participates in Ascension Health's workers' compensation self-insurance program, which provides occurrence coverage through a grantor trust. The self-insured retention of the 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 reflect both 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 $1,407 and $1,486 for the years ended June 30, 2010 and 2009, respectively.

(Dollars in Thousands)

8. Lease Commitments

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

Year ending June 30:	
2011	$ 5,329
2012	5,264
2013	5,111
2014	4,266
2015	2,908
Thereafter	6,905
Total	$ 29,783

The Health Ministry has subleased certain of its space under the operating leases reported above. Total future minimum rents to be received under noncancellable subleases with terms of one year or more are $6,675.

The Health System entered into agreements to lease four parcels of land to an unrelated third party to construct and operate medical office buildings on the premises. Under the first lease, annual payments of $51 are due from the lessee, beginning on February 1, 1999, and continuing for a 51½-year period. Beginning with the second lease year through the term of the lease, rental payments increase by an amount equal to 2.00% of the rent of the previous year. The lessee has the option to extend the term of the lease for an additional ten-year period. Under the second lease, quarterly payments of $14 are due from the lessee, beginning on July 26, 2004, and continuing for a 76½-year period. Beginning with the 2007 lease year through and including the 2016 lease year, rental payments increase by an amount equal to 2.75% of the rent of the previous year. After the 2016 lease year, rent will increase by the lesser of 2.75% of the immediately preceding lease year or the Consumer Price Index as defined by the lease agreement. The lessee has the option to extend the term of the lease for an additional ten-year period. Under the third lease, quarterly payments of $15 are due from the lessee, beginning on May 1, 2002, and continuing for a 76½-year period. Beginning with the 2005 lease year through and including the 2014 lease year, rental payments increase by an amount equal to 2.75% of the rent of the previous year. After the 2015 lease year, rent will increase by the lesser of 2.75% of the immediately preceding lease year or the Consumer Price Index as defined by the lease agreement. The lessee has the option to extend the term of the lease for an additional ten-year period. Under the fourth lease, quarterly payments of $46 are due from the lessee, beginning on

(Dollars in Thousands)

8. Lease Commitments (continued)

October 1, 2003, and continuing for a 76½-year period. Beginning with the 2005 lease year through and including the 2014 lease year, rental payments increase by an amount equal to 2.75% of the rent of the previous year. After the 2015 lease year, rent will increase by the lesser of 2.75% of the immediately preceding lease year or the Consumer Price Index as defined by the lease agreement. The lessee has the option to extend the term of the lease for an additional ten-year period.

The lessees are responsible for all assessments, fees, levies, or other charges which are, or may be, imposed on or against the medical office buildings.

Future minimum rentals on the leases for each of the next five years and thereafter are as follows:

Year ending June 30:		
2011	$	323
2012		331
2013		339
2014		347
2015		356
Thereafter		50,754
Total	$	52,450

Additionally, the Health System has leased certain of its owned properties to unrelated third-party vendors. Total future minimum rents to be received under noncancellable leases with terms of one year or more are $9,785.

Rental expense under operating leases amounted to $12,917 and $10,223 in 2010 and 2009, respectively.

8. Lease Commitments (continued)

At June 30, 2010 and 2009, the Health System has financing obligations relating to medical office buildings (MOBs) of $12,351 and $12,462, respectively, that result from two agreements entered into by the Health System to lease portions of MOBs constructed by an external development company on land leased from the Health System. Under ASC Topic 840, *Leases* (formally EITF No. 97-10, *The Effect of Lessee Involvement in Asset Construction*), the Health System was considered the owner of the MOBs during their construction. In addition, because the transactions did not qualify for sale-leaseback treatment under ASC Topic 840-40, *Leases* (formally FASB Statement No. 98, *Accounting for Leases*), they were treated as financing transactions. Therefore, the cost of the MOBs and the related financing obligations are included in the accompanying consolidated balance sheets in property and equipment, net, and other noncurrent liabilities, respectively. All future cash obligations related to these transactions are reflected as future minimum lease payments in the amounts presented in the schedule above.

9. Related-Party Transactions

The Health Ministry utilized various centralized programs and overhead services of Ascension Health or its other sponsored organizations including risk management, retirement services, treasury, debt management, executive management support, administrative services, and information technology services. The charges allocated to the Health Ministry for these services represent both allocations of common costs and specifically identified expenses that are incurred by Ascension Health on behalf of the Health Ministry. Allocations are based on relevant metrics such as the Health Ministry's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of Ascension Health. The amounts charged to the Health Ministry for these services may not necessarily result in the net costs that would be incurred by the Health Ministry on a stand-alone basis. The charges allocated to the Health Ministry were approximately $18,306 and $19,128 for the years ended June 30, 2010 and 2009, respectively.

During the year ended June 30, 2010, the Health Ministry transferred cash and investments of $8,568 in support of Ascension Health's strategic initiatives.

Other Financial Information

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Report of Independent Certified Public Accountants

The Board of Directors
Sacred Heart Health System, Inc. and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

September 17, 2010

Sacred Heart Health System, Inc. and Subsidiaries

Details of Consolidation – Balance Sheet
June 30, 2010
(Dollars in Thousands)

	Consolidated	Eliminations	Sacred Heart Hospital – Pensacola	Sacred Heart Hospital – Emerald Coast	Sacred Heart Hospital – Gulf	Other
Assets						
Current assets:						
Cash and cash equivalents	$ 36,922	$ –	$ 8,681	$ 11,203	$ 407	$ 16,631
Short-term investments	1	–	–	–	–	1
Accounts receivable, less allowances for uncollectible accounts	75,574	–	47,877	11,347	1,264	15,086
Estimated third-party payor settlements, net	529	–	(1,494)	1,731	361	(69)
Intercompany accounts receivable	–	(10,827)	855	95	1,208	8,669
Inventories	14,351	(2,456)	11,086	2,259	353	3,109
Other	10,847	–	4,522	2,692	966	2,667
Total current assets	138,224	(13,283)	71,527	29,327	4,559	46,094
Board-designated investments	152,333	–	114,669	10,742	–	26,922
Assets limited as to use – temporarily restricted	7,052	1,499	1,365	2,171	706	1,311
Property and equipment:						
Land and improvements	49,819	–	29,583	3,298	2,301	14,637
Buildings and equipment	547,820	–	310,430	71,665	38,103	127,622
Construction in progress	3,551	–	2,639	7	–	905
Less accumulated depreciation	(301,291)	–	(210,994)	(30,152)	(889)	(59,256)
Total property and equipment, net	299,899	–	131,658	44,818	39,515	83,908
Other assets:						
Land held for expansion	4,702	–	4,702	–	–	–
Investment in unconsolidated entities	7,872	–	478	–	–	7,394
Other	28,733	(160)	10,690	535	–	17,668
Total other assets	41,307	(160)	15,870	535	–	25,062
Total assets	$ 638,815	$ (11,944)	$ 335,089	$ 87,593	$ 44,780	$ 183,297
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	$ 1,225	$ –	$ 573	$ 285	$ –	$ 367
Accounts payable and accrued liabilities	55,688	(905)	29,038	4,969	991	21,595
Current portion of self-insurance liabilities	2,101	–	2,101	–	–	–
Intercompany accounts payable	–	(10,827)	2,410	1,751	2,544	4,122
Total current liabilities	59,014	(11,732)	34,122	7,005	3,535	26,084
Noncurrent liabilities:						
Long-term debt	127,997	(160)	70,445	35,126	–	22,586
Self-insurance liabilities	2,620	–	2,346	233	6	35
Pension liabilities	36,395	–	19,270	3,650	–	13,475
Other	28,670	(52)	751	527	1,654	25,790
Total noncurrent liabilities	195,682	(212)	92,812	39,536	1,660	61,886
Total liabilities	254,696	(11,944)	126,934	46,541	5,195	87,970
Net assets:						
Unrestricted	374,314	–	206,685	36,661	38,528	92,440
Temporarily restricted	9,805	–	1,470	4,391	1,057	2,887
Total net assets	384,119	–	208,155	41,052	39,585	95,327
Total liabilities and net assets	$ 638,815	$ (11,944)	$ 335,089	$ 87,593	$ 44,780	$ 183,297

Sacred Heart Health System, Inc. and Subsidiaries

Details of Consolidation – Statement of Operations
Year Ended June 30, 2010
(Dollars in Thousands)

	Consolidated	Eliminations	Sacred Heart Hospital – Pensacola	Sacred Heart Hospital – Emerald Coast	Sacred Heart Hospital – Gulf	Other
Operating revenue:						
Net patient service revenue	$ 667,839	$ –	$ 431,451	$ 87,269	$ 2,585	$ 146,534
Other revenue	12,723	(110,698)	3,189	391	114	119,727
Net assets released from restrictions for operations	2,651	–	791	263	1,369	228
Total operating revenue	683,213	(110,698)	435,431	87,923	4,068	266,489
Operating expenses:						
Salaries and wages	232,342	(924)	116,634	21,675	1,978	92,979
Employee benefits	60,301	–	34,305	5,134	218	20,644
Purchased services	28,853	–	8,286	2,047	115	18,405
Professional fees	25,257	(86,248)	65,996	12,128	1,018	32,363
Supplies	125,319	(111)	92,252	11,889	512	20,777
Insurance	9,774	–	6,041	248	32	3,453
Bad debts	70,036	(5)	46,034	14,611	607	8,789
Interest	3,951	–	1,112	1,085	–	1,754
Depreciation and amortization	31,295	–	18,082	5,246	889	7,078
Other	72,805	(18,069)	27,747	5,230	583	57,314
Total operating expenses	659,933	(105,357)	416,489	79,293	5,952	263,556
Income from operations	23,280	(5,341)	18,942	8,630	(1,884)	2,933
Nonoperating gains (losses):						
Investment return	18,768	–	14,101	1,285	–	3,382
Other	(1,615)	–	391	38	(1)	(2,043)
Total nonoperating gains (losses), net	17,153	–	14,492	1,323	(1)	1,339
Excess (deficit) of revenue and gains over expenses and losses	$ 40,433	$ (5,341)	$ 33,434	$ 9,953	$ (1,885)	$ 4,272

Sacred Heart Health System, Inc. and Subsidiaries

Schedule of Net Cost of Providing Care of Persons Who are Poor and Community Benefit Programs

(Dollars in Thousands)

The net cost excluding the provision for bad debt expense of providing care of persons who are poor and community benefit programs is as follows:

	Year Ended June 30	
	2010	**2009**
Traditional charity care provided	$ **14,555**	$ 10,404
Unpaid cost of public programs for the poor	**37,900**	12,809
Other programs for the poor	**786**	652
Community benefit programs	**3,163**	3,296
Care of persons who are poor and community benefit programs	$ **56,404**	$ 27,161

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