CONSOLIDATED FINANCIAL STATEMENTS

Sacred Heart Health System, Inc. and Subsidiaries –
Member of Ascension Health
Years Ended June 30, 2011 and 2010
With Report of Independent Certified Public Accountants

Ernst & Young LLP

ERNST & YOUNG

Sacred Heart Health System, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended June 30, 2011 and 2010

Contents

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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, 2011 and 2010, 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, 2011 and 2010, 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

August 24, 2011

Sacred Heart Health System, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30 2011	June 30 2010
	(Dollars In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ **42,038**	$ 36,922
Short-term investments	**–**	1
Accounts receivable, less allowances for uncollectible accounts ($47,074 and $39,693 in 2011 and 2010, respectively)	**88,691**	75,574
Estimated third-party payor settlements	**22,235**	13,273
Inventories	**14,939**	14,351
Current portion of assets limited as to use	**818**	2,753
Other	**8,952**	8,094
Total current assets	**177,673**	150,968
Board-designated investments	**3,457**	152,333
Assets limited as to use – temporarily restricted	**8,208**	7,052
Property and equipment, net	**282,482**	299,899
Other assets:		
Land held for expansion	**4,702**	4,702
Investment in unconsolidated entities	**7,852**	7,872
Other investments	**201,501**	9,547
Other	**21,781**	19,186
Total other assets	**235,836**	41,307
Total assets	$ **707,656**	$ 651,559

	June 30	
	2011	2010
	(Dollars In Thousands)	
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 1,087**	$ 1,225
Accounts payable and accrued liabilities	**60,562**	55,688
Estimated third-party payor settlements	**15,548**	12,744
Current portion of self-insurance liabilities	**1,526**	2,101
Total current liabilities	**78,723**	71,758
Noncurrent liabilities:		
Long-term debt	**126,908**	127,997
Self-insurance liabilities	**2,701**	2,620
Pension liabilities	**16,610**	36,395
Other	**29,184**	26,617
Total noncurrent liabilities	**175,403**	193,629
Total liabilities	**254,126**	265,387
Net assets:		
Unrestricted	**442,494**	374,314
Temporarily restricted	**9,027**	9,805
Total net assets excluding noncontrolling interests	**451,521**	384,119
Noncontrolling interests	**2,009**	2,053
Total net assets	**453,530**	386,172
Total liabilities and net assets	**$ 707,656**	$ 651,559

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

	Year Ended June 30	
	2011	**2010**
	(Dollars In Thousands)	
Operating revenue:		
Net patient service revenue	**$ 726,932**	$ 667,839
Other revenue	**13,527**	12,723
Net assets released from restrictions for operations	**1,292**	2,651
Total operating revenue	**741,751**	683,213
Operating expenses:		
Salaries and wages	**248,819**	232,342
Employee benefits	**63,690**	60,301
Purchased services	**37,773**	28,853
Professional fees	**29,091**	25,257
Supplies	**128,441**	125,319
Insurance	**5,685**	9,774
Bad debts	**78,026**	70,036
Interest	**6,201**	3,951
Depreciation and amortization	**30,255**	31,296
Other	**84,503**	72,804
Total operating expenses	**712,484**	659,933
Income from operations	**29,267**	23,280
Nonoperating gains (losses):		
Investment return	**30,773**	18,768
Other	**(346)**	310
Total nonoperating gains, net	**30,427**	19,078
Excess of revenue and gains over expenses and losses	**59,694**	42,358
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interests	**(1,968)**	(1,925)
Excess of revenue and gains over expenses and losses attributable to controlling interest	**57,726**	40,433

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Sacred Heart Health System, Inc. and Subsidiaries

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

	Year Ended June 30	
	2011	**2010**
	(Dollars In Thousands)	
Unrestricted net assets:		
Excess of revenue and gains over expenses and losses attributable to controlling interest	**$ 57,726**	$ 40,433
Excess of revenue and gains over expenses and losses attributable to noncontrolling interests	**1,968**	1,925
Transfers to sponsor and other affiliates, net	**(12,191)**	(8,928)
Net assets released from restrictions for property acquisitions	**1,703**	2,684
Pension liability adjustments	**25,505**	176
Distribution of capital	**(2,019)**	(2,036)
Other	**7**	3,631
Increase in unrestricted net assets, before cumulative effect of change in accounting principle	**72,699**	37,885
Cumulative effect of change in accounting principle	**(4,563)**	–
Increase in unrestricted net assets including noncontrolling interests	**68,136**	37,885
Temporarily restricted net assets:		
Contributions	**2,212**	7,707
Net assets released from restrictions	**(2,994)**	(5,335)
Other	**4**	4
(Decrease) increase in temporarily restricted net assets	**(778)**	2,376
Increase in net assets	**67,358**	40,261
Net assets, beginning of the year	**386,172**	345,911
Net assets, end of the year	**$ 453,530**	$ 386,172

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

Sacred Heart Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended June 30 2011	Year Ended June 30 2010
	(Dollars In Thousands)	
Cash flows from operating activities		
Increase in net assets	**$ 67,358**	$ 40,261
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**30,255**	31,295
Provision for bad debts	**78,026**	70,036
Net realized and change in unrealized gains on investments	**(14,343)**	(9,063)
Cumulative effect of change in accounting principle	**4,563**	–
Transfers to sponsor and other affiliates, net	**12,191**	8,928
Restricted contributions and other restricted activity	**(1,703)**	(2,684)
(Increase) decrease in:		
Short-term investments	**1**	3
Accounts receivable	**(91,143)**	(72,018)
Estimated third-party payor settlements, net	**(6,157)**	(1,456)
Inventories and other current assets	**490**	5,704
Investments classified as trading	**(25,267)**	(29,025)
Other assets	**(10,606)**	(8,060)
Assets of discontinued operations	**–**	–
Increase (decrease) in:		
Accounts payable and accrued liabilities	**6,400**	2,879
Liabilities of discontinued operations	**–**	–
Other noncurrent liabilities	**(19,241)**	(1,899)
Net cash provided by operating activities	**30,824**	34,901
Cash flows from investing activities		
Property and equipment additions, net	**(12,837)**	(31,165)
(Increase) decrease in assets limited as to use – temporarily restricted	**(1,156)**	377
Net cash used in investing activities	**(13,993)**	(30,788)

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Sacred Heart Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30 2011	Year Ended June 30 2010
	(Dollars In Thousands)	
Cash flows from financing activities		
Repayment of long-term debt	**$ (1,227)**	$ (1,353)
Transfers to sponsor and other affiliates, net	**(12,191)**	(8,928)
Restricted contributions, investment income, and other restricted activity	**1,703**	2,684
Net cash used in financing activities	**(11,715)**	(7,597)
Net increase (decrease) in cash and cash equivalents	**5,116**	(3,484)
Cash and cash equivalents at beginning of year	**36,922**	40,406
Cash and cash equivalents at end of year	**$ 42,038**	$ 36,922

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 System or 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 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 System also owns and operates other health care related entities, including a nursing facility and physicians' medical groups. The System provides inpatient, outpatient, and emergency care services for residents of northwest Florida. Admitting physicians are primarily practitioners in the local area. The System is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of the System 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 persons living in poverty and other vulnerable persons, 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 living in poverty 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, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.

- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons 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 persons living in poverty, 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 living in poverty and community benefit programs. The cost of providing care of persons living in poverty 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 $16,816 and $14,555 for the years ended June 30, 2011 and 2010, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, 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. Partial ownership by another entity in the net assets and results of operations of a consolidated subsidiary is reflected as noncontrolling interests in the accompanying consolidated balance sheets.

Investments in entities where the Health Ministry does not have operating control are recorded under the equity or cost method of 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 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 of Revenues and Gains over Expenses and Losses for the Years Ended June 30	
	2011	2010	2011	2010
Pace Ambulatory Surgery Center, LLC	$ –	$ –	$ 452	$ (222)
Destin Ambulatory Surgery Center, LLC	391	375	144	183
Escambia Clinics Holding, Inc.	477	478	(1)	(6)
Gulf Region Radiation Oncology MSO, LLC	6,984	7,019	405	(81)
	$ 7,852	$ 7,872	$ 1,000	$ (126)

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 $1,001 in operating revenue for the year ended June 30, 2011 and $120 in other operating loss for the year ended June 30, 2010. The Health Ministry recorded $1 and $6 in other nonoperating losses for the years ended June 30, 2011 and 2010, respectively.

2. Significant Accounting Policies (continued)

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 Accounting Standards Codification (ASC) Topic 323, *Investments – Equity Method and Joint Ventures*, which codified Accounting Principles Board (APB) Statement No. 18, this basis difference is being amortized over the weighted average life of the assets contributed.

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 which may extend longer than three months but are convertible to cash within a one-month time period under the terms of the agreement with the investment manager.

Investments and Investment Return

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 primarily 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, 2011 and 2010, the Health Ministry's investment in the HSD, which includes certain cash and cash equivalents, was $222,369 and $162,230, respectively.

2. Significant Accounting Policies (continued)

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.

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

Inventories

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

2. Significant Accounting Policies (continued)

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including software internally developed. 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. Intangible assets are included in other noncurrent assets on the consolidated balance sheets and are comprised of the following:

	June 30	
	2011	**2010**
Goodwill	$ –	$ 4,563
Capitalized computer software costs	**22,972**	22,391
Less accumulated amortization	**(18,592)**	(16,872)
Total intangible assets	**$ 4,380**	$ 10,082

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for intangibles was $2,627 and $887 for 2011 and 2010, respectively. The adoption of Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* (ASU 2010-07), resulted in goodwill impairment of $4,563 recorded as cumulative effect of change in accounting principle on the consolidated statements of operations and changes in net assets for the year ended June 30, 2011. (See Adoption of New Accounting Standards section in Note 2.)

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 June 30, 2011 and 2010 is as follows:

	June 30	
	2011	**2010**
Land and improvements	**$ 49,815**	$ 49,819
Building and equipment	**528,987**	547,820
Construction in progress	**6,714**	3,551
	585,516	601,190
Less accumulated depreciation	**(303,034)**	(301,291)
Total property and equipment, net	**$ 282,482**	$ 299,899

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2011 and 2010 was $27,628 and $31,294, 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 2011 and 2010 was $0 and $1,056, respectively.

Several capital projects have remaining construction and related equipment purchase commitments of approximately $13,098 as of June 30, 2011.

Temporarily 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 excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, contributions of property and equipment and cumulative effect of change in accounting principle.

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.

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 excluding the provision for bad debt expense 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 $6,899 and $2,935 for the years ended June 30, 2011 and 2010, respectively.

2. Significant Accounting Policies (continued)

During 2011, approximately 31% of net patient service revenue was earned under the Medicare program and 13% under various state Medicaid programs. During 2010, approximately 32% of net patient service revenue was earned under the Medicare program and 9% 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, 2011, include Medicare (15%) and various states' Medicaid programs (12%). Significant concentrations of accounts receivable at June 30, 2010, include Medicare (18%) and various states' Medicaid programs (15%).

The provision for bad debt expense 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 debt expense 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.

Income Taxes

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

Reclassifications

Certain reclassifications were made to the 2010 consolidated financial statements to conform to the 2011 presentation.

2. Significant Accounting Policies (continued)

Subsequent Events

The Health Ministry evaluates the impact of subsequent events, which are 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. For the year ended June 30, 2011, the Health Ministry evaluated subsequent events through August 24, 2011, the date on which the accompanying audited 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.

Adoption of New Accounting Standards

In January 2011, the Financial Accounting Standards Board (FASB) issued ASU 2010-07, which establishes accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to FASB's ASC Topic 350, *Intangibles – Goodwill and Other* (ASC Topic 350), and Topic 810, *Consolidation* (ASC Topic 810), to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. The adoption of ASU 2010-07 resulted in goodwill impairment of $4,563 recorded as cumulative effect of change in accounting principle on the consolidated statements of operations and changes in net assets for the year ended June 30, 2011. ASC Topic 810 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of net assets. The Health Ministry adopted the guidance relative to ASU 2010-07 as of July 1, 2010.

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 cash and cash equivalents and investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	June 30	
	2011	**2010**
Cash and cash equivalents	$ **42,038**	$ 36,922
Short-term investments	–	1
Board-designated investments	**3,457**	152,333
Other investments	**201,501**	9,547
Assets limited as to use – temporarily restricted	**9,026**	9,805
Total	$ **256,022**	$ 208,608

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

	June 30	
	2011	**2010**
Cash and cash equivalents	$ **21,169**	$ 33,757
Short-term investments	–	1
Private equity and other investments	**3,457**	2,815
Other assets limited as to use	**9,027**	9,805
Subtotal, included in cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments	**33,653**	46,378
Pro rata share of HSD funds held for participants	**222,369**	162,230
Cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments	$ **256,022**	$ 208,608

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

As of June 30, 2011 and 2010, the composition of total HSD investments is as follows:

	June 30	
	2011	**2010**
Cash, cash equivalents and short-term investments	**6.9%**	5.8%
U.S. government obligations	**27.4**	26.0
Asset backed securities	**15.8**	11.3
Corporate and foreign fixed income investments	**11.3**	17.5
Equity, private equity and other investments	**38.6**	39.4
	100.0%	100.0%

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

	Year Ended June 30	
	2011	**2010**
Investment return in HSD	**$ 16,430**	$ 9,705
Net gains on investments reported at fair value	**14,343**	9,063
Total investment return included in nonoperating gains (losses)	**$ 30,773**	$ 18,768

4. Fair Value Measurements

The Health Ministry categorizes, for disclosure purposes assets and liabilities at fair value in the financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Health Ministry's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

4. Fair Value Measurements (continued)

The Health Ministry follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments classified in this level generally include exchange traded equity securities, futures, real estate investment trusts, pooled short-term investment funds, options and exchange traded mutual funds.

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. Investments classified in this level generally include fixed income securities, including fixed income government obligations, asset-backed securities, certificates of deposit, and derivatives.

Level 3 – Inputs that are unobservable for the asset or liability. Investments classified in this level generally include alternative investments, private equity investments, limited partnerships, and certain fixed income securities, including fixed income government obligations, and derivatives.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Health Ministry uses techniques consistent with the 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, 2011 and 2010, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

4. Fair Value Measurements (continued)

Equity Securities

The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value based on a market approach. 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.

Private Equity Investments

The fair value of private equity investments is primarily determined using techniques consistent with both the market and income approaches, based on the Health Ministry's estimates and assumptions in absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

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, 2011, 31%, 67% and 2% 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 1%, 84% and 15% 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, 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 based on Level 1, Level 2 and Level 3 inputs, respectively.

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2011, 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, 2011				
Equity securities included in investments	$ 6,526	$ –	$ –	$ 6,526
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	$ 7,224	$ –	$ –	$ 7,224
Guaranteed pooled fund	$ –	$ –	$ 4,445	$ 4,445

The following table summarizes fair value measurements, by level, at June 30, 2010, 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, 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 assets, invested in:				
Equity securities	$ 6,983	$ –	$ –	$ 6,983
Guaranteed pooled fund	$ –	$ –	$ 2,740	$ 2,740

4. Fair Value Measurements (continued)

During the years ended June 30, 2011 and 2010, 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 Compensation Assets
July 1, 2009	$	2,514
Purchases, issuances and settlements		140
Transfers into Level 3		86
June 30, 2010		**2,740**
Purchases, issuances and settlements		**1,336**
Transfers into Level 3		**369**
June 30, 2011	**$**	**4,445**

5. Long-Term Debt

Long-term debt consists of the following:

	June 30			
		2011		**2010**
Intercompany debt with Ascension Health, payable in installments through November 2047; interest (3.9% and 3.9% at June 30, 2011 and 2010, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	**$**	**126,792**	$	127,823
Other		**1,203**		1,399
		127,995		129,222
Less current portion		**(1,087)**		(1,225)
Long-term debt, less current portion	**$**	**126,908**	$	127,997

5. Long-Term Debt (continued)

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

Year ending June 30:		
2012	$	1,087
2013		1,060
2014		2,097
2015		2,657
2016		1,778
Thereafter		119,316
Total	$	127,995

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 senior 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

5. Long-Term Debt (continued)

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.

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.

The carrying amounts of intercompany debt with Ascension Health and other debt approximate fair value based on a portfolio market valuation provided by a third party.

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

As of June 30, 2011, 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, 2013. As of June 30, 2011 and 2010, there were no borrowings under the line of credit.

5. Long-Term Debt (continued)

As of June 30, 2011, 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, 2011, there were no borrowings under the line of credit.

As of June 30, 2011, 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 28, 2011. As of June 30, 2011, $37,162 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 $4,100,240 which represents 38% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at June 30, 2011.

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 and other commitments at June 30, 2011 is approximately $150,000.

During the years ended June 30, 2011 and 2010, interest paid was approximately $6,383 and $5,267, respectively. Capitalized interest was approximately $0 and $1,056 for the years ended June 30, 2011 and 2010, 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

6. Pension Plans (continued)

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 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 $9,846 in 2011 and $8,274 in 2010 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, 2011, the Ascension Plan had a net unfunded liability of $226,238 which was significantly reduced from the prior year due to improved market performance and changes in various assumptions, including an increase in the discount rate. Therefore, the Health Ministry's allocated share of the Ascension Plan's net unfunded liability reflected a decrease from $36,395 at June 30, 2010 to $16,610 at June 30, 2011 in the accompanying consolidated balance sheets. These allocations are included in transfers from (to) sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets.

As of June 30, 2011 and 2010, the fair value of the Ascension Plan's assets available for benefits was $3,616,141 and $3,089,076, 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, 2011, 27%, 45% and 28% 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%, 17% and 83% were categorized as Level 1, Level 2 and Level 3, respectively, as of June 30, 2011. Additionally, 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 contributory and noncontributory, defined contribution plan sponsored by Ascension Health which covers all eligible associates. There are three primary types of contributions to the Defined Contribution Plan: employer automatic contributions, employee 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 and participants become fully vested over a period of time. 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 and participants become fully vested in all employer contributions immediately. Defined contribution expense, representing both employer automatic contributions and employer matching contributions, was $4,322 and $4,164 for the years ended June 30, 2011 and 2010, respectively.

7. Self-Insurance Programs

The Health Ministry participates in pooled risk programs through Ascension Health, as described below, to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company described below, 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 2011 and 2010. 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.

7. Self-Insurance Programs (continued)

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, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of $10,000 per occurrence with no aggregate. The Health Ministry has a deductible of $100 per claim. Excess coverage is provided through AHIL with limits up to $185,000. AHIL retains $5,000 per occurrence and $5,000 annual aggregate for professional liability. AHIL also retains a 20% quota share of the first $25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense of $4,740 and $8,764 for the years ended June 30, 2011 and 2010, respectively. Included in current and long-term self-insurance liabilities on the accompanying consolidated balance sheets are professional and general liability loss reserves of approximately $4,227 and $4,721 at June 30, 2011 and 2010, respectively.

Workers' Compensation

The Health Ministry participates in Ascension Health's workers' compensation program which provides occurrence coverage through a grantor trust. 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. Excess insurance against catastrophic loss is obtained through commercial insurers. 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 $1,507 and $1,407 for the years ended June 30, 2011 and 2010, respectively.

8. Lease Commitments

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

Year ending June 30:		
2012	$	8,617
2013		8,947
2014		8,151
2015		7,210
2016		4,571
Thereafter		13,624
Total	$	51,120

The Health Ministry has subleased certain of its space under the operating leases reported above. The total future minimum rents to be received under noncancellable subleases with terms of one year or more are $3,201.

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 October 1, 2003, and continuing for a 76½-year period. Beginning with the 2005 lease year

8. Lease Commitments (continued)

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:	
2012	$ 331
2013	339
2014	347
2015	356
2016	364
Thereafter	49,257
Total	$ 50,994

Additionally, the Health System has leased certain of its owned properties to unrelated third-party vendors. The future minimum rents to be received under noncancellable leases with terms of one year or more are $8,473.

Rental expense under operating leases amounted to $12,358 and $12,917 in 2011 and 2010, respectively.

At June 30, 2011 and 2010, the Health System has financing obligations relating to medical office buildings (MOBs) of $12,215 and $12,351, 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,* which Codified 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,

8. Lease Commitments (continued)

because the transactions did not qualify for sale-leaseback treatment under ASC Topic 840-40, *Leases*, which Codified 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 $18,571 and $18,306 for the years ended June 30, 2011 and 2010, respectively.

In addition to the charges discussed above, the Health Ministry made payments to Ascension Health of $7,564 for the year ended June 30, 2011, representing the Health Ministry's share of costs to fund an Ascension Health system-wide information technology and process standardization project that is expected to continue through December 2014. These payments are included in transfers to sponsor and other affiliates, net, in the accompanying statements of operations and changes in net assets.

During the year ended June 30, 2011, the Health Ministry transferred cash and investments of $4,624 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

Out 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

August 24, 2011

Sacred Heart Health System, Inc. and Subsidiaries

Details of Consolidation – Balance Sheets

June 30, 2011

	Consolidated	Eliminations	Sacred Heart Hospital – Pensacola	Sacred Heart Hospital – Emerald Coast	Sacred Heart Hospital – Gulf	Other
			(Dollars In Thousands)			
Assets						
Current assets:						
Cash and cash equivalents	$ 42,038	$ –	$ 8,330	$ 14,913	$ 473	$ 18,322
Short-term investments	–	–	–	–	–	–
Accounts receivable, less allowances for uncollectible						–
accounts	88,691	–	48,774	11,870	1,297	26,750
Estimated third-party payor settlements	22,235	–	18,714	3,093	385	43
Intercompany accounts receivable	–	(10,487)	2,432	164	817	7,074
Inventories	14,939	–	11,558	2,268	299	814
Current portion of assets limited as to use	818	–	122	326	162	208
Other	8,952	(855)	4,365	466	614	4,362
Total current assets	177,673	(11,342)	94,295	33,100	4,047	57,573
Board-designated investments	3,457	–	–	–	–	3,457
Assets limited as to use – temporarily restricted	8,208	–	3,736	3,577	861	34
Property and equipment:						
Land and improvements	49,815	–	30,270	3,298	2,301	13,946
Buildings and equipment	528,987	–	308,963	71,124	36,048	112,852
Construction in progress	6,714	–	5,047	146	–	1,521
Less accumulated depreciation	(303,034)	–	(217,717)	(32,539)	(2,947)	(49,831)
Total property and equipment, net	282,482	–	126,563	42,029	35,402	78,488
Other assets:						
Land held for expansion	4,702	–	4,702	–	–	–
Investment in unconsolidated entities	7,852	–	477	–	–	7,375
Other investments	201,501	–	159,939	12,811	–	28,751
Other	21,781	–	979	581	2,032	18,189
Total other assets	235,836	–	166,097	13,392	2,032	54,315
Total assets	$ 707,656	$ (11,342)	$ 390,691	$ 92,098	$ 42,342	$ 193,867

Sacred Heart Health System, Inc. and Subsidiaries

Details of Consolidation – Balance Sheets (continued)

	Consolidated	Eliminations	Sacred Heart Hospital – Pensacola	Sacred Heart Hospital – Emerald Coast	Sacred Heart Hospital – Gulf	Other
			(Dollars In Thousands)			
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	$ 1,087	$ (83)	$ 507	$ 253	$ –	$ 410
Accounts payable and accrued liabilities	60,562	(772)	31,542	5,393	738	23,661
Estimated third-party payor settlements	15,548	–	14,989	274	58	227
Current portion of self-insurance liabilities	1,526	–	1,526	–	–	–
Intercompany accounts payable	–	(10,487)	2,127	889	345	7,126
Total current liabilities	78,723	(11,342)	50,691	6,809	1,141	31,424
Noncurrent liabilities:						
Long-term debt	126,908	–	69,938	34,873	–	22,097
Self-insurance liabilities	2,701	–	2,411	227	26	37
Pension liabilities	16,610	–	7,303	1,999	–	7,308
Other	29,184	–	1,168	545	1,923	25,548
Total noncurrent liabilities	175,403	–	80,820	37,644	1,949	54,990
Total liabilities	254,126	(11,342)	131,511	44,453	3,090	86,414
Net assets:						
Unrestricted	442,494	–	255,322	43,742	38,228	105,202
Temporarily restricted	9,027	–	3,858	3,903	1,024	242
Total net assets excluding noncontrolling interest	451,521	–	259,180	47,645	39,252	105,444
Noncontrolling interest	2,009	–	–	–	–	2,009
Total net asseets	453,530	–	259,180	47,645	39,252	107,453
Total liabilities and net assets	$ 707,656	$ (11,342)	$ 390,691	$ 92,098	$ 42,342	$ 193,867

Sacred Heart Health System, Inc. and Subsidiaries

Details of Consolidation – Statement of Operations

Year Ended June 30, 2011

	Consolidated	Eliminations	Sacred Heart Hospital – Pensacola	Sacred Heart Hospital – Emerald Coast	Sacred Heart Hospital – Gulf	Other
			(Dollars In Thousands)			
Operating revenue:						
Net patient service revenue	$ 726,932	$ –	$ 449,537	$ 93,193	$ 10,207	$ 173,995
Other revenue	13,527	(115,934)	1,227	422	2,061	125,751
Net assets released from restrictions for operations	1,292	–	210	166	19	897
Total operating revenue	741,751	(115,934)	450,974	93,781	12,287	300,643
Operating expenses:						
Salaries and wages	248,819	(758)	115,575	23,271	5,312	105,419
Employee benefits	63,690	–	33,258	5,071	808	24,553
Purchased services	37,773	–	16,164	3,504	639	17,466
Professional fees	29,091	(92,126)	66,934	13,684	3,255	37,344
Supplies	128,441	(88)	90,733	13,894	918	22,984
Insurance	5,685	–	4,032	61	64	1,528
Bad debts	78,026	(45)	49,415	15,412	2,939	10,305
Interest	6,201	–	2,803	1,397	–	2,001
Depreciation and amortization	30,255	–	16,961	3,951	2,789	6,554
Other	84,503	(20,452)	31,850	5,163	1,563	66,379
Total operating expenses	712,484	(113,469)	427,725	85,408	18,287	294,533
Income from operations	29,267	(2,465)	23,249	8,373	(6,000)	6,110
Nonoperating gains (losses):						
Investment return	30,773	–	23,107	2,173	–	5,493
Other	(346)	(1,078)	470	25	(4)	241
Total nonoperating gains, net	30,427	(1,078)	23,577	2,198	(4)	5,734
Excess (deficit) of revenue and gains over expenses and losses	$ 59,694	$ (3,543)	$ 46,826	$ 10,571	$ (6,004)	$ 11,844

Sacred Heart Health System, Inc. and Subsidiaries

Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs

(Dollars in Thousands)

The net cost excluding the provision for bad debt expense of providing care of persons living in poverty and community benefit programs is as follows:

	Year Ended June 30 2011	2010
Traditional charity care provided	**$ 16,816**	$ 14,555
Unpaid cost of public programs for persons living in poverty	**12,983**	37,900
Other programs for persons living in poverty and other vulnerable persons	**771**	786
Community benefit programs	**4,821**	3,163
Care of persons living in poverty and community benefit programs	**$ 35,391**	$ 56,404

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