

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

**Consolidated Financial Statements as of
and for the Years Ended June 30, 2009, 2008
and 2007 and Independent Auditors' Report**

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009, 2008 AND 2007:	
Consolidated Balance Sheets	2-3
Consolidated Statements of Operations and Changes in Net Assets	4-5
Consolidated Statements of Cash Flows	6-7
Notes to Consolidated Financial Statements	8-38

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Catholic Healthcare West
San Francisco, California

We have audited the accompanying consolidated balance sheets of Catholic Healthcare West and Subordinate Corporations ("Catholic Healthcare West" or "CHW") as of June 30, 2009, 2008 and 2007, 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 Catholic Healthcare West's management. Our responsibility is to express an opinion on these financial statements based on our audits.

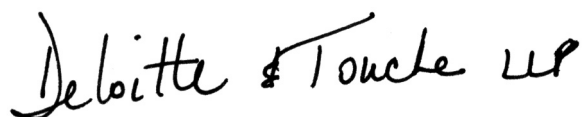
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration 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 Catholic Healthcare West'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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Catholic Healthcare West and Subordinate Corporations as of June 30, 2009, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the consolidated financial statements, Catholic Healthcare West adopted Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which changed its method of accounting for its defined benefit pension plans.

As discussed in Note 6 to the consolidated financial statements, effective June 30, 2007, Catholic Healthcare West changed its classification of investment securities from available-for-sale to trading securities.

The unsponsored community benefit expense information in Note 4, which is the responsibility of Catholic Healthcare West's management, is not a required part of the basic financial statements, and we did not audit or apply limited procedures to such information and we do not express any assurances on such information.



September 18, 2009

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS June 30, 2009, 2008 and 2007 (in thousands)

Assets	2009	2008	2007
Current assets:			
Cash and cash equivalents	\$ 868,964	\$ 611,110	\$ 496,312
Short-term investments	397,011	537,405	468,444
Collateral held under securities lending program	298,091	386,851	424,796
Assets limited as to use	1,067,718	1,364,830	528,814
Patient accounts receivable, net	1,243,837	1,197,384	1,079,495
Other current assets	433,339	321,335	340,853
Total current assets	<u>4,308,960</u>	<u>4,418,915</u>	<u>3,338,714</u>
Assets limited as to use:			
Board-designated assets (including \$299,870, \$376,464 and \$414,808 of assets loaned under securities lending program in 2009, 2008 and 2007, respectively) for:			
Capital projects	2,141,324	2,259,275	2,276,567
Workers' compensation	296,054	285,223	305,960
Hospital professional and general liability	172,426	203,482	232,570
Under bond indenture agreements for:			
Capital projects	353,940	511,094	855,357
Debt service	111,862	142,818	53,182
Bond reserves	26,539	45,093	46,256
Donor-restricted	381,580	431,899	393,707
Other	59,295	59,806	61,659
Less amount required to meet current obligations	<u>(1,067,718)</u>	<u>(1,364,830)</u>	<u>(528,814)</u>
Net assets limited as to use	<u>2,475,302</u>	<u>2,573,860</u>	<u>3,696,444</u>
Property and equipment, net	3,782,449	3,404,351	2,945,174
Ownership interests in health-related activities	311,996	324,091	308,230
Assets held for sale	-	-	24,825
Other long-term assets, net	197,349	160,857	206,890
Total assets	<u>\$ 11,076,056</u>	<u>\$ 10,882,074</u>	<u>\$ 10,520,277</u>

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS June 30, 2009, 2008 and 2007 (in thousands)

Liabilities and Net Assets	2009	2008	2007
Current liabilities:			
Current portion of long-term debt	\$ 61,581	\$ 106,591	\$ 25,745
Demand bonds subject to short-term liquidity arrangements	880,275	1,129,900	384,000
Accounts payable	370,852	329,664	323,380
Payable under securities lending program	304,781	386,851	424,796
Estimated third party payor settlements, net	18,756	24,334	23,632
Accrued salaries and benefits	454,286	403,914	363,515
Accrued workers' compensation	40,255	41,584	41,380
Accrued hospital professional and general liability	34,608	45,485	45,585
Pension and other postretirement liabilities	210,766	156,949	209,728
Other accrued liabilities	543,728	365,237	231,504
Total current liabilities	<u>2,919,888</u>	<u>2,990,509</u>	<u>2,073,265</u>
Other liabilities:			
Workers' compensation	209,321	198,311	192,465
Hospital professional and general liability	127,725	150,838	180,640
Pension and other postretirement liabilities	723,110	176,760	385,150
Other	205,029	161,828	144,406
Total other liabilities	<u>1,265,185</u>	<u>687,737</u>	<u>902,661</u>
Long-term debt, net of current portion	<u>3,359,251</u>	<u>2,872,965</u>	<u>3,665,644</u>
Total liabilities	<u>7,544,324</u>	<u>6,551,211</u>	<u>6,641,570</u>
Net assets:			
Unrestricted	3,155,600	3,905,187	3,492,519
Temporarily restricted	285,870	337,170	300,562
Permanently restricted	90,262	88,506	85,626
Total net assets	<u>3,531,732</u>	<u>4,330,863</u>	<u>3,878,707</u>
Total liabilities and net assets	<u>\$ 11,076,056</u>	<u>\$ 10,882,074</u>	<u>\$ 10,520,277</u>

(Concluded)

See notes to consolidated financial statements.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED June 30, 2009, 2008 and 2007 (in thousands)

	2009	2008	2007
Unrestricted revenues and other support:			
Net patient revenue	\$ 8,234,194	\$ 7,596,186	\$ 6,723,481
Premium revenue	485,255	505,759	418,021
Revenue from health-related activities, net	12,241	66,824	104,314
Other operating revenue	204,196	208,380	202,741
Contributions	<u>22,018</u>	<u>24,346</u>	<u>28,387</u>
Total unrestricted revenues and other support	<u>8,957,904</u>	<u>8,401,495</u>	<u>7,476,944</u>
Expenses:			
Salaries and benefits	4,511,516	4,175,946	3,739,427
Supplies	1,307,267	1,217,708	1,098,499
Provision for bad debts	680,585	649,276	551,045
Purchased services and other	1,636,322	1,582,153	1,319,204
Depreciation	386,643	345,207	298,723
Interest expense, net	171,601	181,532	153,602
Loss on early extinguishment of debt	2,844	68,213	16,779
Special charges	<u>-</u>	<u>21,424</u>	<u>-</u>
Total expenses	<u>8,696,778</u>	<u>8,241,459</u>	<u>7,177,279</u>
Operating income	261,126	160,036	299,665
Other income:			
Investment income (loss), net	<u>(387,471)</u>	<u>9,922</u>	<u>591,593</u>
Excess (deficit) of revenues over expenses	<u>\$ (126,345)</u>	<u>\$ 169,958</u>	<u>\$ 891,258</u>

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED June 30, 2009, 2008 and 2007 (in thousands)

	2009	2008	2007
Unrestricted net assets:			
Excess (deficit) of revenues over expenses	\$ (126,345)	\$ 169,958	\$ 891,258
Effect of changes in accounting principles	(37,648)	-	(381,745)
Net assets acquired in merger	-	-	154,128
Change in net unrealized gains and losses on available-for-sale investments	(3,045)	-	(194,369)
Net assets released from restrictions used for purchase of property and equipment	15,005	18,470	19,362
Change in funded status of pension and other postretirement benefit plans	(557,321)	197,072	51,739
Gain from discontinued operations	437	34,461	820
Change in accumulated unrealized derivative gains and losses	(56,871)	(42,658)	13,052
Donated property and equipment	16,712	30,016	14,372
Other	(511)	5,349	(1,556)
Increase (decrease) in unrestricted net assets	<u>(749,587)</u>	<u>412,668</u>	<u>567,061</u>
Temporarily restricted net assets:			
Contributions	39,114	99,620	40,380
Net assets acquired in merger	-	-	10,551
Net realized and unrealized gains and losses on investments	(5,173)	(2,693)	7,182
Net assets released from restrictions	(46,220)	(53,257)	(44,260)
Change in interest in net assets of unconsolidated foundations	(40,016)	(7,407)	27,998
Other	995	345	(1,875)
Increase (decrease) in temporarily restricted net assets	<u>(51,300)</u>	<u>36,608</u>	<u>39,976</u>
Permanently restricted net assets:			
Contributions	546	1,477	716
Net assets acquired in merger	-	-	3,810
Net realized and unrealized gains on investments	122	96	61
Change in interest in net assets of unconsolidated foundations	1,089	1,359	717
Other	(1)	(52)	(5,027)
Increase in permanently restricted net assets	<u>1,756</u>	<u>2,880</u>	<u>277</u>
Increase (decrease) in net assets	(799,131)	452,156	607,314
Net assets, beginning of year	<u>4,330,863</u>	<u>3,878,707</u>	<u>3,271,393</u>
Net assets, end of year	<u>\$ 3,531,732</u>	<u>\$ 4,330,863</u>	<u>\$ 3,878,707</u>

(Concluded)

See notes to consolidated financial statements.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED June 30, 2009, 2008 and 2007 (in thousands)

	2009	2008	2007
Cash flows from operating activities:			
Change in net assets	\$ (799,131)	\$ 452,156	\$ 607,314
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Loss on early extinguishment of debt	2,844	68,213	16,779
Depreciation, including discontinued operations	386,643	345,207	301,183
Amortization	4,013	10,829	10,882
Equity in earnings of health-related activities	(9,426)	(15,861)	(91,196)
Gain, net, on disposal of assets, including discontinued operations	(4,755)	(15,597)	(6,487)
Restricted contributions and investment income	(34,609)	(98,500)	(45,194)
Change in funded status of pension and other postretirement benefit plans	557,321	(197,072)	(51,739)
Undistributed portion of change in net assets of unconsolidated foundations	38,927	6,048	(28,715)
Change in net realized and unrealized gains on investments	490,146	103,676	(279,706)
Effect of changes in accounting principles	37,648	-	381,745
Change in fair value of swaps	65,535	60,587	(9,127)
Net assets associated with merger	-	-	(168,489)
Changes in certain assets and liabilities:			
Accounts receivable, net	(36,998)	(113,724)	(124,856)
Accounts payable	40,046	4,489	10,490
Workers' compensation and hospital professional and general liabilities	(24,309)	(23,852)	(31,597)
Accrued salaries and benefits	49,012	39,734	30,555
Pension and other postretirement liabilities	5,198	(64,097)	(1,538)
Other accrued liabilities	143,435	57,533	1,069
Other, net	(97,649)	(2,507)	(46,974)
Cash provided by operating activities	813,891	617,262	474,399

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED June 30, 2009, 2008 and 2007 (in thousands)

	2009	2008	2007
Cash flows from investing activities:			
Purchase of investments	(3,901,711)	(3,018,638)	(3,242,093)
Proceeds from sale of investments	3,903,489	3,168,908	2,633,677
Cash proceeds on disposal of assets	1,205	15,283	24,474
Proceeds from disposal of discontinued operations	-	60,100	-
Cash associated with merger	-	-	23,759
Additions to operating property and equipment	(703,876)	(796,084)	(546,047)
(Increase) decrease in securities lending collateral	82,070	37,945	(109,590)
Other, net	11,077	(47,989)	13,396
Cash used in investing activities	<u>(607,746)</u>	<u>(580,475)</u>	<u>(1,202,424)</u>
Cash flows from financing activities:			
Borrowings	1,145,304	1,815,976	1,276,643
Repayments	(1,034,160)	(1,784,593)	(659,769)
Increase (decrease) in payable under securities lending program	(82,070)	(37,945)	109,590
Restricted contributions and investment income	34,609	98,500	45,194
Deferred financing costs	(11,974)	(13,927)	(31,748)
Cash provided by financing activities	<u>51,709</u>	<u>78,011</u>	<u>739,910</u>
Net increase in cash and cash equivalents	257,854	114,798	11,885
Cash and cash equivalents at beginning of year	611,110	496,312	484,427
Cash and cash equivalents at end of year	<u>\$ 868,964</u>	<u>\$ 611,110</u>	<u>\$ 496,312</u>
Components of cash and cash equivalents and investments at end of year:			
Cash and cash equivalents	\$ 868,964	\$ 611,110	\$ 496,312
Short-term investments	397,011	537,405	468,444
Board-designated assets for capital projects	2,141,324	2,259,275	2,276,567
Total	<u>\$ 3,407,299</u>	<u>\$ 3,407,790</u>	<u>\$ 3,241,323</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of capitalized interest	<u>\$ 144,513</u>	<u>\$ 154,235</u>	<u>\$ 159,880</u>
Assets acquired through capital lease or note payable	<u>\$ 22,580</u>	<u>\$ 1,441</u>	<u>\$ 2,256</u>
Donated property and equipment	<u>\$ 16,712</u>	<u>\$ 30,016</u>	<u>\$ 14,372</u>

(Concluded)

See notes to consolidated financial statements.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED June 30, 2009, 2008 and 2007

1. ORGANIZATION

Catholic Healthcare West is a California nonprofit public benefit corporation exempt from federal and state income taxes. References herein to Catholic Healthcare West or CHW refer to Catholic Healthcare West and its subordinate corporations (as disclosed in Note 16). CHW is co-sponsored by six congregations that have specific governance rights and responsibilities, including the appointment of CHW's corporate members. The co-sponsors are as follows:

- Sisters of Mercy of the Americas, West Midwest Community, Omaha, Nebraska (into which the former Auburn Regional Community of the Sisters of Mercy, Auburn, California and Burlingame Regional Community of the Sisters of Mercy, Burlingame, California merged on July 1, 2008)
- Sisters of St. Dominic, Congregation of the Most Holy Rosary, Adrian, Michigan
- Sisters of the Third Order of St. Dominic, Congregation of the Most Holy Name, San Rafael, California
- Congregation of the Sisters of Charity of the Incarnate Word, Houston, Texas
- Congregation of the Dominican Sisters of St. Catherine of Siena of Kenosha, Kenosha, Wisconsin
- Sisters of St. Francis of Penance and Christian Charity, St. Francis Province, Redwood City, California

CHW owns and operates hospitals in California, Arizona and Nevada, and is the sole corporate member (parent corporation) of other primarily nonprofit healthcare corporations in California, Arizona and Nevada, which are exempt from federal and state income taxes. CHW provides a variety of healthcare, education and other benefits to the communities in which it operates. Healthcare services include inpatient, outpatient, subacute and home healthcare services, as well as physician services through CHW Medical Foundation and affiliated medical groups.

As part of a system-wide corporate financing plan, CHW established an Obligated Group to access the capital markets and make loans to its members. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Master Trust Indenture. None of the other CHW subordinate corporations have assumed any financial obligation related to payment of debt service on obligations issued under the Master Trust Indenture. A list of Obligated Group members and other subordinate corporations is included in Note 16. The Obligated Group's unrestricted net assets represent approximately 96% of the consolidated unrestricted net assets of CHW and subordinate corporations at June 30, 2009 and 2008, and 95% at June 30, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation – The accompanying consolidated financial statements include the accounts of CHW and all subordinate corporations after elimination of intercompany transactions and balances. These financial statements do not include the accounts of the six co-sponsors and their nonhealthcare activities.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the consolidated financial statements, cash and cash equivalents consist primarily of cash and highly liquid marketable securities with an original maturity of three months or less when purchased by CHW.

Securities Lending Program - CHW participates in securities lending transactions with its custodian whereby CHW lends a portion of its investments to various brokers in exchange for collateral for the securities loaned, usually on a short-term basis. CHW maintains effective control of the loaned securities through its custodian during the term of the arrangement in that they may be recalled at any time. Collateral is provided by brokers at an amount equal to at least 100% of the original value of the securities on loan, and is subsequently adjusted for market fluctuations. CHW must return to the borrower the original value of collateral received regardless of the impact of market fluctuations. The collateral is invested in a pool maintained by the custodian. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed.

The securities on loan under this program are recorded in Board-designated assets in the accompanying consolidated balance sheets. The market value of collateral held for loaned securities is reported as collateral held under securities lending program, and an obligation is recorded for repayment of collateral upon settlement of the lending transaction.

Patient Accounts Receivable – CHW has agreements with third-party payors that provide for payments at amounts different from each hospital’s established rates. Patient accounts receivable and net patient service revenue are reported at the net realizable amount from patients, third-party payors, and others for services rendered.

As part of CHW’s mission to serve the community, CHW provides care to patients even though they may lack adequate insurance or may participate in programs with negotiated or regulated amounts. CHW manages its collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances. Reserves for charity and uncollectible amounts have been established and are netted against patient accounts receivable in the consolidated balance sheet.

Inventory - Inventories are stated at the lower of cost or market value, determined using the first-in, first-out method.

Investments and Investment Income – The CHW Board of Directors Investment Committee establishes guidelines for investment decisions. Within those guidelines, CHW invests in equity and debt securities which are measured at fair value.

CHW also invests in alternative investments through limited partnerships. Alternative investments are comprised of private equity, real estate, and hedge fund-of-funds vehicles. CHW receives a proportionate share of the investment gains and losses of the partnerships. The limited partnerships generally contract with managers who have full discretionary authority over the investment decisions, within CHW guidelines. These alternative investment vehicles invest in equity securities, fixed income securities, currencies, real estate, and derivatives.

CHW accounts for its ownership interests in these alternative investments under the equity method, which approximates fair value, based on investment valuations provided by the external investment managers and fund managers or the general partners. CHW reviews and evaluates the valuations received from third parties. Fair value is the estimated net realizable value of holdings priced at quoted market value (where market quotations are available), historical cost or other estimates including appraisals.

Alternative investments generally are not marketable and many alternative investments have underlying investments which may not have quoted market values. The estimated value of such investments is subject to uncertainty and could differ had a ready market existed. Such differences could be material. CHW’s risk is limited to its capital investment in each investment and capital call commitments as discussed in Note 6.

At June 30, 2007, CHW reclassified its investment portfolio to a trading portfolio from available-for-sale. As such, cumulative unrealized holding gains and losses of \$381.5 million and \$40.1 million, respectively, from 2007 and prior years, were recorded in investment income in 2007. In periods subsequent to June 30, 2007, all unrestricted unrealized holding gains and losses are recorded in investment income in the period in which they occur (Note 6).

Investment income or loss is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Income earned on tax-exempt borrowings for specific construction projects is offset against interest expense capitalized for such projects.

CHW accounts for its investments on a trade date basis. Amounts due to/from brokers for investment activity for transactions that have been initiated prior to the consolidated balance sheet date that are formally settled subsequent to the consolidated balance sheet date (typically within two or three days) are recorded in other current assets for sales and in other current liabilities for purchases.

Derivative Instruments – It is CHW’s policy to provide sound stewardship of fiscal resources by effectively managing both the level of outstanding debt and the proportion of variable to fixed rate debt. Accordingly, CHW periodically enters into derivative arrangements to manage interest rate risk related to variable rate debt.

CHW records derivative instruments on the consolidated balance sheet as either an asset or liability measured at its fair value (Notes 7 and 13). The estimated fair value of interest rate swap instruments has been determined using available market information and valuation methodologies, primarily discounted cash flows. The estimated fair value of total return swap instruments is determined using available market information and valuation methodologies, considering both discounted cash flows and the current market value of the associated bonds.

For derivative instruments that have been designated as cash flow hedges, the effective portion of the change in fair value is included in change in accumulated unrealized derivative gains and losses in unrestricted net assets in the consolidated statements of operations and changes in net assets. Amounts recorded in unrestricted net assets are reclassified into earnings in the same period or periods during which the hedged transaction affects excess (deficit) of revenues over expenses. The portion of the change in fair value of derivative instruments deemed ineffective is recorded within interest expense, net, in the consolidated statements of operations and changes in net assets.

For derivative instruments that lose hedge accounting treatment due to a restructuring or extinguishment of the hedged bonds for which the swap instrument was designated, the cumulative amount that has been charged or credited to net assets is reclassified to interest expense, net, in the consolidated statements of operations and changes in net assets. This reclassification occurs either immediately or over the remaining life of the swap, depending on the specifics of the transaction.

For derivative instruments that have not been designated as hedges, changes in fair value are included in interest expense, net, in the consolidated statements of operations and changes in net assets.

Board-Designated Assets for Capital Projects – The Board of Directors has a policy of funding depreciation, to the extent that funds are available, to be used for replacement, expansion and improvement of operating property and equipment.

Deferred Financing Costs and Original Issue Discounts/Premiums on Bond Indebtedness – CHW amortizes deferred financing costs and original issue discounts/premiums on bond indebtedness over the estimated average period the related bonds will be outstanding. Deferred financing costs are included in other long-term assets. Original issue discounts/premiums are recorded with the related debt.

Property and Equipment – Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Depreciation of property and equipment is provided using the straight-line method for financial statement purposes. Amortization of capital leases is included in depreciation expense. Estimated useful lives by classification are as follows:

Land improvements	2 to 40 years
Buildings	3 to 65 years
Equipment	2 to 40 years

Asset Retirement Obligations – CHW recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, CHW capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of operations and changes in net assets.

Asset Impairment – CHW routinely evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted net cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No asset impairment charges were recorded in 2009, 2008 and 2007.

Fair Value of Financial Instruments – The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and estimated third party payor settlements, net, approximate fair value. The fair value of investments is disclosed in Note 7 and the fair value of debt is disclosed in Note 12.

Ownership Interests in Health-Related Activities – Generally, when the ownership interest in health-related joint ventures is more than 50% and CHW has a controlling financial interest, the joint ventures are consolidated and a minority interest is recorded in other long-term liabilities. The expense related to the liability for minority interest is recognized in purchased services and other expense. When the ownership interest is at least 20% but not more than 50% or CHW has the ability to exercise significant influence over operating and financial policies of the investee, it is accounted for under the equity method and the income or loss is reflected in revenue from health-related activities, net. Joint ventures for which CHW's ownership is less than 20% or for which CHW does not have the ability to exercise significant influence are carried at the lower of cost or estimated net realizable value. Other than the investment in Scripps Health and Mercy Care Plan (Note 10), these ownership interests are not significant to the consolidated financial statements.

Self-Insurance Plans – CHW has established self-insurance programs for workers' compensation benefits for employees and for hospital professional and general liability risks. CHW is also self-insured for certain employee medical benefits.

- **Workers' Compensation and Hospital Professional and General Liabilities** – Annual self-insurance expense under these programs is based on past claims experience and projected losses. Actuarial estimates of uninsured losses for each program, using a 70% confidence level and discounted at 4.5% at June 30, 2009, 5.0% at June 30, 2008 and 5.5% at June 30, 2007 have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported. Insurance coverage in excess of the per-occurrence self-insured retention has been secured with insurers or reinsurers for specified amounts for workers' compensation and professional and general liabilities. CHW maintains separate trusts for these programs from which claims and related expenses and costs of administering the plans are paid. CHW's policy is to fund the trusts such that over time, assets held equal liabilities for claims incurred for workers' compensation and claims made for professional liability risks.

Liabilities consist of the following as of June 30, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Liabilities, undiscounted	\$ 466,941	\$ 505,660	\$ 538,710
Less discount	<u>(55,032)</u>	<u>(69,442)</u>	<u>(78,640)</u>
Liabilities, current and noncurrent	<u>\$ 411,909</u>	<u>\$ 436,218</u>	<u>\$ 460,070</u>

An additional expense of \$7.5 million and \$7.4 million was recorded during 2009 and 2008, respectively, related to changes in the discount rate. Self-insurance expense was decreased by \$55.9 million, \$61.3 million and \$81.6 million in 2009, 2008 and 2007, respectively, related to revisions to prior years' actuarially estimated liabilities.

- *Medical Benefits* – The liability for payment of incurred and unpaid claims is included in other accrued liabilities.

Net Patient Revenue – Gross patient revenue is recorded on the basis of usual and customary charges. Gross patient revenue was \$32.5 billion, \$29.5 billion and \$26.2 billion in 2009, 2008 and 2007, respectively. The percentage of inpatient and outpatient services is as follows:

	2009	2008	2007
Inpatient services	68%	70%	71%
Outpatient services	32%	30%	29%

The following table reflects the estimated percentage of gross patient revenues by major payor groups:

	2009	2008	2007
Medicare	30%	31%	32%
Medicare capitated	1%	1%	1%
Medicaid	15%	16%	16%
Medicaid capitated	0%	1%	1%
Contracted rate payors	44%	42%	41%
Commercial capitated	2%	2%	2%
Other	8%	7%	7%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

CHW has agreements with third-party payors that provide for payments to CHW at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, per diem payments, discounted charges and reimbursed costs. Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated settlements under negotiated payment agreements with third-party payors. Settlements with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

Inpatient acute care services, outpatient services and skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost settlement methodology.

Medicaid and contracted-rate payors are paid on a per diem, per discharge, modified cost or capitated basis, or a combination of these.

In 2009, 2008 and 2007, net patient revenue included \$35.4 million, \$63.8 million and \$32.4 million, respectively, relating to prior years' settlements from Medicare, Medicaid and other programs.

Certain CHW hospitals qualified for and received Medi-Cal funding as disproportionate-share hospitals from the State of California in 2009, 2008 and 2007. The amount received was \$109.9 million, \$72.9 million and \$66.1 million, respectively, and is included in net patient revenue.

Premium Revenue – CHW has at-risk agreements with various payors to provide medical services to enrollees. Under these agreements, CHW receives monthly payments based on the number of enrollees, regardless of services actually performed by CHW. CHW accrues costs when services are rendered under these contracts, including estimates of incurred but not reported (“IBNR”) claims and amounts receivable/payable under risk-sharing arrangements. The IBNR accrual includes an estimate of the costs of services for which CHW is responsible, including out-of-network services.

Traditional Charity Care – Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet CHW’s criteria for financial assistance. The amount of services quantified at customary charges was \$627.0 million, \$569.3 million and \$460.3 million, for 2009, 2008 and 2007, respectively (Note 4).

Other Operating Revenue – Other operating revenue includes net gains and losses on the sale of assets, cafeteria revenues, rental revenues, contributions released from restrictions and other nonpatient-care revenues.

Contributions and Restricted Net Assets – Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified as unrestricted net assets and are recorded as other operating revenue in unrestricted revenues and other support. Gifts received with no restrictions are recorded as contributions in unrestricted revenues and other support. Gifts of long-lived operating assets, such as property and equipment, are reported as unrestricted net assets unless specified by the donor. Unconditional promises to give cash and other assets to CHW are recorded at fair value at the date the promise is received. Conditional promises to give are recorded when the conditions have been substantially met. Indications of intentions to give are not recorded; such gifts are recorded at fair value only upon actual receipt of the gift. Investment income on temporarily or permanently restricted net assets is classified pursuant to the intent or requirement of the donor.

Endowment assets include donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. CHW preserves the fair value of these gifts as of the date of donation unless otherwise stipulated by the donor. The portion of donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure. CHW considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of CHW.

CHW has investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Endowment assets are invested in a manner that is intended to produce results that achieve the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, CHW relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CHW targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that CHW is required to retain as a fund of perpetual duration. Deficits of this nature are reported in unrestricted net assets, unless specified otherwise by the donor.

Community Benefits – As part of its mission, CHW provides services to the poor and benefits for the broader community. The costs incurred to provide such services are included in operating expenses in the consolidated financial statements. CHW prepares a summary of unsponsored community benefit expense, in accordance with the Catholic Health Association of the United States (“CHA”) publication, *A Guide for Planning and Reporting Community Benefit* (Note 4).

Special Charges - Special charges from continuing operations of \$21.4 million during the year ended June 30, 2008, relate to the planned and implemented closure of one of CHW’s hospitals for mold remediation for 10 days in August 2007. These charges consist primarily of legal, consulting, insurance, moving, fumigation, staffing, and repair and maintenance costs. In addition, the hospital estimates approximately \$13.0 million in net patient revenues were lost resulting in the total closure related impact of approximately \$34.4 million during the year ended June 30, 2008.

Interest Expense – Interest expense on debt issued for construction projects is capitalized until the projects are placed in service.

Interest components include the following (in thousands):

	2009	2008	2007
Interest and fees on debt and swap cash settlements	\$ 202,909	\$ 208,287	\$ 170,588
Market adjustment on swaps and amortization of amounts in unrestricted net assets	<u>8,664</u>	<u>17,929</u>	<u>3,925</u>
Total interest expense	211,573	226,216	174,513
Capitalized interest expense	<u>(39,972)</u>	<u>(44,684)</u>	<u>(20,911)</u>
Interest expense, net	<u>\$ 171,601</u>	<u>\$ 181,532</u>	<u>\$ 153,602</u>

Income Taxes – CHW has established its status as an organization exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the states in which it operates. Certain subsidiaries are subject to income taxes; such amounts are not significant to the consolidated financial statements.

Performance Indicator – Management considers excess (deficit) of revenues over expenses to be CHW’s performance indicator. Excess (deficit) of revenues over expenses includes all changes in unrestricted net assets except for the effect of changes in accounting principles, gain from discontinued operations, net assets acquired in merger, changes in net unrealized gains and losses on available-for-sale investments, net assets released from restrictions used for purchase of property and equipment, change in funded status of pension and other postretirement benefit plans, change in accumulated unrealized derivative gains and losses, and donated property and equipment.

Transactions between Related Organizations – Certain Obligated Group members have a policy whereby assets are periodically transferred as charitable distributions to nonprofit corporations that are subordinate corporations of CHW but are not members of the Obligated Group. The subordinate corporations conduct charitable healthcare, educational and religious activities and support subordinate nonprofit healthcare organizations. These transfers are accounted for as direct charges to the Obligated Group members’

unrestricted net assets and direct credits to the subordinate corporations' unrestricted net assets. It is anticipated that Obligated Group members will continue to make asset transfers to the subordinate corporations.

Elder Care Alliance and its subordinate corporations (collectively "ECA") are nonprofit corporations providing assisted living, skilled nursing, rehabilitation and social services to the aged. The Sisters of Mercy of the Americas, West Midwest Community is a co-sponsor of both CHW and ECA. CHW has made certain loans to ECA and guarantees outstanding debt of certain ECA projects. Total guarantees as of June 30, 2009, 2008 and 2007 are \$20.9 million, \$21.0 million and \$21.1 million, respectively. No amount has been included in total liabilities on the accompanying consolidated balance sheets related to these guarantees. Notes receivable from ECA as of June 30, 2009, 2008 and 2007, total \$24.4 million, \$24.4 million and \$24.5 million, respectively, and are included in other long-term assets on the accompanying consolidated balance sheets. Principal and interest payments are receivable in monthly installments through 2038. Interest rates ranged from 2.5% to 6.0% in 2009, 2008 and 2007.

Recent Accounting Pronouncements – In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* ("FAS 166"). The objective of FAS 166 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. The provisions of FAS 166 are to be applied by CHW in 2011. CHW is still evaluating the effect of adoption of this statement.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* ("FAS 168"). The objective of FAS 168 is to establish the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. The provisions of FAS 168 are effective for CHW in 2010. CHW does not anticipate a material impact on its financial position or results of operations upon adoption of this statement.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("FAS 165"). The objective of this statement is to establish principles and requirements for subsequent events and in particular sets forth (a) the period after the balance sheet date during which a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (b) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and (c) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. CHW adopted FAS 165 effective June 30, 2009. The adoption of FAS 165 did not have a material impact on CHW's financial position or results of operations.

In April 2009, the FASB issued FASB Staff Position ("FSP") No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP 107-1"). FSP 107-1 amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. CHW adopted FAS 107-1 and APB 28-1 effective June 30, 2009. The adoption of FAS 107-1 and APB 28-1 did not have a material impact on CHW's financial position or results of operations.

In April 2009, the FASB issued SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142* ("FAS 164"). This statement provides guidance on accounting for a combination of not-for-profit entities and applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity. FAS 164 establishes principles and requirements for how a not-for-profit entity (a) determines whether a combination is a merger or an acquisition, (b) applies the carryover method in accounting for a merger, (c) applies the acquisition method in accounting for an acquisition, and (d) determines what information to disclose with respect to the nature

and financial effects of a merger or an acquisition. This statement also amends both FAS 142, *Goodwill and Other Intangible Assets* and FAS 160, *Noncontrolling Interests in Consolidated Financial Statements* to make their provisions fully applicable to not-for-profit entities. The provisions of FAS 164 are to be applied prospectively and are effective for CHW in 2010 for mergers and in 2011 for acquisitions. CHW does not anticipate a material impact on its financial position or results of operations upon adoption of this statement.

In April 2009, the FASB issued FASB Staff Position FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (“FSP FAS 157-4”), which provides additional guidance for estimating fair value in accordance with FAS 157, when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. CHW adopted FSP FAS 157-4 effective June 30, 2009. The adoption of FSP FAS 157-4 did not have a material impact on CHW’s financial position or results of operations.

In August 2008, the FASB issued FSP No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (“FSP FAS 117-1”), which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This FSP also improves disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. CHW adopted FSP FAS 117-1 in 2009. The adoption did not have a material impact on CHW’s financial position or results of operations.

In December 2008, the FASB issued FASB Staff Position FAS 132 (r)-1, which amends FASB Statement No. 132 (r), *Employers’ Disclosures about Pensions and Other Postretirement Benefits* (“FSP FAS 132(r)-1”). FSP FAS 132(r)-1 provides guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan expanding them to address certain disclosure requirements found in FAS 157 such as additional information about the investment allocation decisions in connection with investment policies and strategies, categories of plan assets, inputs and valuation techniques used to measure the plan assets, as well as effects of Level 3 inputs on changes in plan assets for the period. FSP FAS 132(r)-1 will be effective for CHW in 2010. CHW does not anticipate that application of the provisions of FSP FAS 132(r)-1 will have a material impact on CHW’s financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, CHW will apply the provisions of FAS 157 to nonfinancial assets and nonfinancial liabilities in 2010. CHW does not anticipate that the application of the deferred provisions of FAS 157 will have a material impact on CHW’s financial position or results of operations.

Subsequent Events - CHW has evaluated subsequent events occurring between the end of the most recent fiscal year and September 18, 2009, the date the financial statements were available for issuance.

3. MERGERS, ACQUISITIONS AND DIVESTITURES

Mergers and Acquisitions – On January 1, 2007, Saint Mary’s Regional Medical Center (“SMRMC”) merged into CHW. SMRMC operates a 380-bed hospital located in Reno, Nevada. In connection with the merger, SMRMC’s seven subsidiary corporations became subsidiaries of CHW. These subsidiaries include a licensed health maintenance organization, a licensed indemnity insurance carrier, an outpatient surgery center, several outpatient clinics and a fundraising foundation. As the transaction was structured as a merger, CHW assumed all assets and liabilities of SMRMC and accounted for the transaction similar to a pooling-of-interest with all assets and liabilities carried over at their historical cost basis. The results of operations of SMRMC have been included in CHW’s consolidated financial statements from the date of the merger. Prior periods have not been restated to include the results of operations or financial position of SMRMC.

Following is summary pro forma information showing the effects of the merger had it been consummated as of the beginning of the periods presented (in thousands):

	2007
Unrestricted revenues and other support	\$ 7,653,704
Excess of revenues over expenses	\$ 897,047

Dispositions and Discontinued Operations – In December 2007, CHW sold substantially all land, buildings and equipment of San Gabriel Valley Medical Center, a 273-bed facility located in San Gabriel, California, to an unrelated party. Aggregate proceeds were \$60.1 million. A gain on the sale of approximately \$30.0 million was recorded in discontinued operations in the statement of operations and changes in net assets at the date of the sale.

The accompanying consolidated statements of operations and changes in net assets reflect the results of the operations of facilities sold, closed or held for sale as discontinued operations for all periods presented, including operating revenues of \$1.8 million, \$97.5 million and \$120.6 million for 2009, 2008 and 2007, respectively. Property and equipment held for sale of \$0 million as of June 30, 2009 and 2008, and \$24.8 million as of June 30, 2007, related to divestitures is classified as assets held for sale on the consolidated balance sheets.

4. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

Un-sponsored community benefits are programs or activities that provide treatment and/or promote health and healing as a response to identified community needs. These benefits (a) generate a low or negative margin, (b) respond to the needs of special populations, such as persons living in poverty and other disenfranchised persons, (c) supply services or programs that would likely be discontinued, or would need to be provided by another nonprofit or government provider, if the decision was made on a purely financial basis, (d) respond to public health needs, and/or (e) involve education or research that improves overall community health.

Benefits for the Poor include services provided to persons who are economically poor or are medically indigent and cannot afford to pay for healthcare services because they have inadequate resources and/or are uninsured or underinsured.

Benefits for the Broader Community refer to persons in the general communities that CHW serves, beyond and including those in a target population. Most services for the broader community are aimed at improving the health and welfare of the overall community. Such services include the interest rate differential on below market rate loans that CHW makes to nonprofit community-based organizations that promote the total health of their communities, including the development of affordable housing for low-income persons and families, increasing opportunities for jobs and job training, and expanding access to healthcare for uninsured and underinsured persons. As of June 30, 2009, 2008 and 2007, CHW's community investment loan portfolio totaled \$35.3 million, \$29.6 million and \$28.6 million, respectively, which is included in other assets limited as to use.

Traditional Charity Care is free or discounted health services provided to persons who cannot afford to pay and who meet CHW's criteria for financial assistance. The amount of services quantified at customary charges was \$627.0 million, \$569.3 million and \$460.3 million, for 2009, 2008 and 2007, respectively. The amounts of services quantified at customary charges for 2008 and 2007 have been adjusted from amounts previously reported.

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, donations and other sources. Comparable amounts of net community benefit were \$508.4 million and \$501.4 million for 2008 and 2007, respectively. Net Community Benefit including the unpaid cost of Medicare was \$966.9 million and \$922.1 million for 2008 and 2007, respectively.

The following is a summary of CHW's community benefits for 2009, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in thousands):

	Unaudited				
	Persons Served	Total Benefit Expense	Direct Offsetting Revenue	Net Community Benefit	% of Total Expense
Benefits for the poor:					
Traditional charity care	95,716	\$ 141,022	\$ (7,629)	\$ 133,393	1.5%
Unpaid costs of Medicaid / Medi-Cal	847,550	1,505,871	(1,158,006)	347,865	4.0%
Other public programs	283,351	106,352	(57,548)	48,804	0.6%
Community services:					
Community health services	487,654	35,398	(15,912)	19,486	0.2%
Health professions education	21,718	4,439	(11)	4,428	0.0%
Subsidized health services	203,885	27,601	(4,979)	22,622	0.3%
Donations	179,573	7,352	(260)	7,092	0.1%
Community building activities	18,500	3,024	(1,426)	1,598	0.0%
Community benefit operations	700	8,080	(114)	7,966	0.1%
Total community services for the poor	<u>912,030</u>	<u>85,894</u>	<u>(22,702)</u>	<u>63,192</u>	<u>0.7%</u>
Total benefits for the poor	<u>2,138,647</u>	<u>1,839,139</u>	<u>(1,245,885)</u>	<u>593,254</u>	<u>6.8%</u>
Benefits for the broader community:					
Community services:					
Community health services	2,049,305	24,524	(8,281)	16,243	0.2%
Health professions education	88,344	53,641	(14,798)	38,843	0.4%
Subsidized health services	118,909	9,824	(87)	9,737	0.1%
Research	24,214	27,011	(20,795)	6,216	0.1%
Donations	176,475	4,698	(276)	4,422	0.1%
Community building activities	62,997	2,197	(503)	1,694	0.0%
Community benefit operations	102,689	1,718	(2)	1,716	0.0%
Total benefits for the broader community	<u>2,622,933</u>	<u>123,613</u>	<u>(44,742)</u>	<u>78,871</u>	<u>0.9%</u>
Total Community Benefits	<u>4,761,580</u>	<u>\$ 1,962,752</u>	<u>\$(1,290,627)</u>	<u>\$ 672,125</u>	<u>7.7%</u>
Unpaid costs of Medicare	<u>1,085,247</u>	<u>2,621,559</u>	<u>(2,110,492)</u>	<u>511,067</u>	<u>5.9%</u>
Total Community Benefits including unpaid costs of Medicare	<u>5,846,827</u>	<u>\$ 4,584,311</u>	<u>\$(3,401,119)</u>	<u>\$ 1,183,192</u>	<u>13.6%</u>

5. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Inventories	\$ 143,829	\$ 133,891	\$ 125,481
Receivables, other than patient accounts receivable	117,225	97,663	101,326
Other prepaid expenses	51,129	40,048	45,635
Deposits	18,937	18,947	19,125
Other	102,219	30,786	49,286
Total other current assets	<u>\$ 433,339</u>	<u>\$ 321,335</u>	<u>\$ 340,853</u>

6. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use, including assets loaned under securities lending program, consist of the following at June 30, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Cash and cash equivalents	\$ 751,588	\$ 723,674	\$ 999,855
Government and federal agency securities	820,020	684,518	741,143
Corporate debt securities	567,848	724,592	740,686
Equity securities	1,267,423	1,425,763	1,517,881
Interest in net assets of unconsolidated foundations	181,034	219,961	226,012
Alternative investments and other	352,118	697,587	468,125
Total	<u>\$ 3,940,031</u>	<u>\$ 4,476,095</u>	<u>\$ 4,693,702</u>
Assets limited as to use:			
Current	\$ 1,067,718	\$ 1,364,830	\$ 528,814
Long-term	2,475,302	2,573,860	3,696,444
Short-term investments	397,011	537,405	468,444
Total	<u>\$ 3,940,031</u>	<u>\$ 4,476,095</u>	<u>\$ 4,693,702</u>

CHW has alternative investments totaling \$269.0 million, \$357.0 million and \$154.0 million as of June 30, 2009, 2008 and 2007, respectively. CHW had a total of \$110.5 million, \$89.7 million and \$103.8 million of capital call commitments outstanding, related to alternative investments as of June 30, 2009, 2008 and 2007, respectively.

As discussed in Note 12, \$880.3 million, \$1.1 billion and \$384.0 million of variable rate demand bonds are classified as current liabilities on the consolidated balance sheets as of June 30, 2009, 2008 and 2007, respectively. A corresponding amount of assets limited as to use is classified as current assets on the consolidated balance sheets as it is available to repay the debt obligations of these variable rate demand bonds and would be used for such purposes.

At June 30, 2007, CHW reclassified its investment portfolio to a trading portfolio from available-for-sale. As a result of this reclassification, cumulative unrealized net gains from current and prior years of \$341.4 million were recorded in investment income at the date of change. In prior years, unrealized gains and losses were recorded in unrestricted net assets unless restricted by the donor. During 2007, certain securities

were determined to be other-than-temporarily impaired which resulted in an impairment charge of \$2.9 million which is included in investment income, net. In periods subsequent to June 30, 2007, all unrestricted unrealized holding gains and losses are recorded in investment income in the period in which they occur.

Investment income and losses on assets limited as to use, cash equivalents, collateral held under securities lending program, notes receivable, and investments are comprised of the following for 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Interest and dividend income	\$ 117,344	\$ 157,230	\$ 143,160
Realized gains (losses) on sales of securities	(115,606)	90,528	125,478
Net unrealized gains (losses) on securities	(369,490)	(194,204)	341,354
Other, net of capitalized investment income	<u>(19,719)</u>	<u>(43,632)</u>	<u>(18,399)</u>
Total investment income	<u>\$ (387,471)</u>	<u>\$ 9,922</u>	<u>\$ 591,593</u>

7. FAIR VALUE MEASUREMENTS

CHW adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* (“FAS 157”) on July 1, 2008, for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. FAS 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including CHW’s own credit risk.

In addition to defining fair value, FAS 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in Level 1 include U.S. Treasury securities and listed equities.

Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, and interest rate swap instruments.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management’s judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third party appraisals, discounted cash flow models, and fund manager estimates. Financial assets and liabilities in this category include CHW’s alternative investments.

The following represents assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method as of June 30, 2009 (in thousands):

	Fair Value Measurements at June 30, 2009 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at June 30, 2009
Assets				
Cash and cash equivalents	\$ 751,588	\$ -	\$ -	\$ 751,588
Government and agency securities	199,566	620,454	-	820,020
Corporate and other debt securities	31,477	536,371	-	567,848
Equity securities	1,143,698	123,725	-	1,267,423
Collateral held under securities lending program	-	298,091	-	298,091
Alternative investments and other	5,843	2,747	269,033	277,623
Total assets	\$ 2,132,172	\$ 1,581,388	\$ 269,033	\$ 3,982,593
Liabilities				
Interest rate swap instruments	\$ -	\$ 108,549	\$ -	\$ 108,549

The following table presents the change in the balance of financial assets and liabilities using significant unobservable inputs (Level 3) measured on a recurring basis and certain assets accounted for under the equity method in 2009 (in thousands):

Balance at June 30, 2008	\$ 357,269
Total gains or losses (realized/unrealized) included in excess (deficit) of revenues over expenses	(110,574)
Purchases, issuances and settlements	22,338
Balance at June 30, 2009	\$ 269,033
 Change in unrealized gains (losses) included in investment income (loss) related to assets held and included in interest expense, net, related to liabilities held as of June 30, 2009	 \$ (110,514)

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following at June 30, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Land	\$ 206,725	\$ 177,179	\$ 181,469
Land improvements	102,450	98,568	94,614
Buildings	3,703,341	3,317,881	3,044,350
Equipment	3,005,257	2,693,716	2,567,162
Construction in progress	732,161	734,437	397,278
Total	7,749,934	7,021,781	6,284,873
Less: Accumulated depreciation	(3,967,485)	(3,617,430)	(3,339,699)
Property and equipment, net	<u>\$ 3,782,449</u>	<u>\$ 3,404,351</u>	<u>\$ 2,945,174</u>

9. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net, consist of the following at June 30, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Notes receivable, primarily secured	\$ 58,072	\$ 57,246	\$ 50,278
Deferred financing costs, net	38,467	35,386	87,216
Prepaid pension expense	-	-	28,502
Goodwill	73,228	41,485	9,019
Other	27,582	26,740	31,875
Total other long-term assets, net	<u>\$ 197,349</u>	<u>\$ 160,857</u>	<u>\$ 206,890</u>

10. AFFILIATION WITH HEALTH RELATED ORGANIZATIONS

In August 1995, CHW and Scripps Health (“Scripps”) entered into an affiliation agreement to enhance their mutual ability to serve the San Diego community. Through the affiliation, CHW transferred the sole voting membership of one of its subordinate corporations, Mercy Healthcare San Diego (“MHSD”) to Scripps, along with the responsibility for its operation and governance. MHSD’s principal activity is the operation of a hospital and a network of clinics.

Pursuant to the affiliation agreement, among other things, CHW obtained the right to receive a 20% interest in the annual change in unrestricted net assets of Scripps and the right to 20% of the net proceeds, with certain restrictions, upon the liquidation of Scripps. Scripps has the right to receive from CHW an amount equal to CHW’s percentage interest in (i) the annual capital expenditures of Scripps and (ii) the annual amortization of debt principal of Scripps. CHW and Scripps may make an election annually to receive all or a portion of the accumulated but not previously paid amounts under the affiliation agreement, subject to certain conditions. No payments have ever been paid by either party under these provisions. Twenty percent of the members of the Scripps Board of Directors are elected from a slate of nominees proposed by CHW.

CHW accounts for the affiliation with Scripps under the equity method. Its investment at June 30, 2009, 2008 and 2007, is \$203.9 million, \$210.5 million and \$187.6 million, respectively, and is reflected on the accompanying consolidated balance sheets in ownership interests in health-related activities. CHW recorded a loss of \$6.7 million and income of \$22.9 million and \$57.3 million in revenue from health-related activities, net, for 2009, 2008 and 2007, respectively, related to its interest in the unrestricted net assets of Scripps.

In June 1985, CHW and Carondelet Health Network (a member of Ascension Health) entered into an affiliation agreement, by which each affiliate made an investment in Southwest Catholic Healthcare Network (“SCHN”), dba Mercy Care Plan. Mercy Care Plan operates a health plan for Arizona’s Medicaid program, Arizona Health Care Cost Containment System (“AHCCCS”), with approximately 320,000 enrollees.

CHW accounts for the affiliation with Mercy Care Plan under the equity method. Its investment at June 30, 2009, 2008 and 2007, is \$62.5 million, \$65.0 million and \$63.0 million, respectively, and is reflected on the accompanying consolidated balance sheets in ownership interests in health-related activities. Mercy Care Plan classifies its investment portfolio as available-for-sale. As such, CHW records its 50% interest in the unrealized gains and losses of Mercy Care Plan in unrestricted net assets. CHW recorded income of \$2.5 million, \$22.3 million and \$25.5 million in revenue from health-related activities, net, for 2009, 2008 and 2007, respectively, related to its interest in the excess of revenues over expenses of Mercy Care Plan.

The following table summarizes the financial position and results of operations for the health related organizations discussed above which are accounted for under the equity method, as of and for the 12 months ended June 30, 2009, 2008, and 2007 (in thousands):

	2009		2008		2007	
	Scripps Health	Mercy Care Plan	Scripps Health	Mercy Care Plan	Scripps Health	Mercy Care Plan
Total assets	\$ 2,008,588	\$ 351,153	\$ 2,199,068	\$ 395,393	\$ 1,892,979	\$ 415,628
Total liabilities	765,777	226,246	921,016	269,380	766,633	289,628
Total net assets	1,242,811	124,907	1,278,052	126,013	1,126,346	126,000
Total revenues, net	1,871,875	1,806,582	2,071,722	1,805,372	1,783,033	1,625,547
Excess (deficit) of revenue over expenses	\$ (44,101)	\$ 13,726	\$ 168,976	\$ 40,632	\$ 174,772	\$ 50,990

11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

CHW maintains defined benefit retirement plans that cover substantially all eligible employees of CHW. Benefits are generally based on age, years of service and employee compensation. CHW also offers postretirement healthcare benefits to most of its employees. For the majority of covered employees, the benefits are determined based on age, years of service and compensation up to specified amounts.

The plans are actuarially evaluated and involve various assumptions. These assumptions include the discount rate and the expected rate of return on plan assets (for pension), which are important elements of expense and liability measurement. Other assumptions involve demographic factors such as retirement, mortality, turnover and the rate of compensation increases. CHW evaluates assumptions annually and modifies them as appropriate. The model allocates pension cost and postretirement costs over the service period of the employees in the plans. The principle underlying this accounting is that employees render service ratably over the period and, therefore, the effects in the consolidated statements of operations and changes in net assets follow the same pattern.

Contributions to the defined benefit retirement plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. These plans qualify under a Church Plan Exemption, and as such are not subject to ERISA funding requirements. CHW’s funding policy requires that, at a minimum, each participating hospital makes contributions equal to its unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these plans are anticipated at \$201.3 million in 2010.

CHW adopted the recognition provisions of Statement of Financial Accounting Standards No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans* (“FAS 158”) in 2007. FAS 158 required CHW to recognize the overfunded or underfunded status of defined benefit pension and

other postretirement plans (other than a multiemployer plan) as an asset or liability in its consolidated balance sheet and to recognize changes in that funded status in changes in unrestricted net assets in the year in which the changes occur. The effect of adopting FAS 158 as of June 30, 2007, was a decrease to unrestricted net assets of \$381.7 million.

CHW adopted the measurement provisions of FAS 158 in 2009. FAS 158 required CHW to measure pension and other postretirement benefit plan assets and benefit plan obligations as of the date of the fiscal year end statement of financial position. The effect of changing the measurement date from March 31, which CHW had used previously, to June 30, resulted in a decrease to unrestricted net assets of \$37.6 million on June 30, 2009.

The following summarizes the benefit obligations and funded status for the defined benefit pension and other postretirement plans for 2009, 2008 and 2007 (in thousands):

	2009		2008		2007	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 1,801,506	\$ 78,079	\$ 1,881,203	\$ 76,522	\$ 1,608,613	\$ 20,881
Service cost	151,896	5,820	136,526	4,867	122,391	3,411
Interest cost	158,230	6,855	115,126	4,605	97,213	2,743
Plan changes/amendments	2,712	-	146	2,584	-	62,273
Actuarial (gain) loss	151,438	(4,966)	(267,572)	(5,554)	(16,238)	(1,052)
Acquisitions and other	4,500	-	-	-	113,300	-
Administrative expenses	(15,713)	-	(16,051)	-	(4,045)	-
Benefits paid	(70,807)	(4,094)	(47,872)	(4,945)	(40,031)	(11,734)
Benefit obligation at end of year	<u>\$ 2,183,762</u>	<u>\$ 81,694</u>	<u>\$ 1,801,506</u>	<u>\$ 78,079</u>	<u>\$ 1,881,203</u>	<u>\$ 76,522</u>
Accumulated benefit obligation	<u>\$ 1,847,632</u>	<u>\$ 81,694</u>	<u>\$ 1,514,726</u>	<u>\$ 78,079</u>	<u>\$ 1,541,810</u>	<u>\$ 76,522</u>
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ 1,506,973	\$ -	\$ 1,377,422	\$ -	\$ 1,085,924	\$ -
Actual return on plan assets	(276,673)	-	16,609	-	113,797	-
Employer contributions	186,634	4,094	176,865	4,945	154,545	11,734
Benefits paid	(70,807)	(4,094)	(47,872)	(4,945)	(40,031)	(11,734)
Acquisitions and other	4,105	-	-	-	67,232	-
Administrative expenses	(15,713)	-	(16,051)	-	(4,045)	-
Fair value of plan assets at end of year	<u>\$ 1,334,519</u>	<u>\$ -</u>	<u>\$ 1,506,973</u>	<u>\$ -</u>	<u>\$ 1,377,422</u>	<u>\$ -</u>
Funded status	\$ (849,243)	\$ (81,694)	\$ (294,533)	\$ (78,079)	\$ (503,781)	\$ (76,522)
Contributions after measurement date	-	-	40,944	-	15,989	-
Accrued benefit cost	<u>\$ (849,243)</u>	<u>\$ (81,694)</u>	<u>\$ (253,589)</u>	<u>\$ (78,079)</u>	<u>\$ (487,792)</u>	<u>\$ (76,522)</u>

The activity for 2009 above reflects the 15-month period from April 1, 2008 through June 30, 2009, due to the change in the measurement date from March 31 to June 30.

The following table summarizes the amounts recognized in unrestricted net assets as of June 30, 2009, 2008 and 2007 (in thousands):

	2009		2008		2007	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Net actuarial loss (gain)	\$ 765,200	\$ (12,762)	\$ 207,095	\$ (8,341)	\$ 397,991	\$ (2,963)
Prior service cost (credit)	(16,532)	54,021	(22,956)	61,501	(25,935)	64,756
Amounts in unrestricted net assets	<u>\$ 748,668</u>	<u>\$ 41,259</u>	<u>\$ 184,139</u>	<u>\$ 53,160</u>	<u>\$ 372,056</u>	<u>\$ 61,793</u>

The estimated net loss and prior service credit for the retirement plans and postretirement plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2010 are \$45.3 million and \$3.3 million, respectively.

The following table summarizes the amounts recognized in the consolidated balance sheets as of June 30, 2009, 2008 and 2007 (in thousands):

	2009		2008		2007	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Other long-term assets	\$ -	\$ -	\$ -	\$ -	\$ 28,502	\$ -
Current liabilities	(202,510)	(5,512)	(148,443)	(6,528)	(204,670)	(3,726)
Long-term liabilities	(646,733)	(76,182)	(105,146)	(71,551)	(311,624)	(72,796)
Accrued benefit cost	<u>\$ (849,243)</u>	<u>\$ (81,694)</u>	<u>\$ (253,589)</u>	<u>\$ (78,079)</u>	<u>\$ (487,792)</u>	<u>\$ (76,522)</u>

The following table summarizes, for plans with an accumulated benefit obligation in excess of plan assets, the amount of benefit obligations and the fair value of plan assets as of June 30, 2009, 2008 and 2007 (in thousands):

	2009		2008		2007	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Projected benefit obligation	\$ 2,183,762	\$ 81,694	\$ 1,801,506	\$ 78,079	\$ 1,867,851	\$ 76,522
Accumulated benefit obligation	1,847,632	81,694	1,514,726	78,079	1,528,959	76,522
Fair value of plan assets	1,334,519	-	1,506,973	-	1,335,374	-

The following table summarizes the weighted-average assumptions used to determine benefit obligations as of June 30, 2009, 2008 and 2007 (dollars in thousands):

	2009		2008		2007	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
To determine benefit obligations:						
Discount rate	6.60%	6.80%	7.15%	7.15%	6.25%	6.15%
Rate of compensation increase	5.35%	5.35%	5.10%	5.10%	6% first 3 years, 5% thereafter	5.00%
To determine net periodic benefit cost:						
Discount rate	7.15%	7.15%	6.25%	6.15%	6.00%	6.00%
Expected return on plan assets	7.50%	N/A	8.00%	N/A	8.00%	N/A
Rate of compensation increase	5.14%	5.14%	5.20%	5.20%	6% first 3 years, 5% thereafter	5.00%

The following table summarizes the components of net periodic cost recognized in unrestricted net assets for 2009, 2008 and 2007 (in thousands):

	2009		2008		2007	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Service cost	\$ 121,538	\$ 4,648	\$ 136,526	\$ 4,867	\$ 122,391	\$ 3,411
Interest cost	126,576	5,478	115,126	4,605	97,213	2,743
Expected return on plan assets	(116,476)	-	(113,206)	-	(92,748)	-
Net prior service cost (credit) amortization	(2,967)	5,976	(2,833)	5,839	(3,012)	3,302
Net loss (gain) amortization	8,699	(435)	19,031	(176)	23,205	(236)
Net periodic benefit cost	<u>\$ 137,370</u>	<u>\$ 15,667</u>	<u>\$ 154,644</u>	<u>\$ 15,135</u>	<u>\$ 147,049</u>	<u>\$ 9,220</u>

The following table summarizes the weighted-average asset allocations by asset category for the retirement plans for 2009, 2008 and 2007:

	Target Allocation 2009	Plan Assets at June 30		
		2009	2008	2007
Cash and cash equivalents	0%	5%	4%	5%
Debt securities	20%	22%	23%	22%
Equity securities	60%	57%	56%	65%
Real estate	7%	6%	8%	5%
Other	13%	10%	9%	3%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

CHW's investment strategy for the assets of the retirement plans is designed to preserve principal while earning returns relative to the overall market consistent with a prudent level of risk. The strategy balances the liquidity needs of the retirement plans with the long-term return goals necessary to satisfy future obligations. The target asset allocation is diversified across traditional and non-traditional asset classes. Diversification is also achieved through participation in US and non-US markets, investment manager style, philosophy, and capitalization. The complimentary investment styles and approaches used by both traditional and alternative investment managers is aimed at reducing volatility while capturing the equity premium from the capital markets over the long term. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. Consistent with CHW's fiduciary responsibilities, the fixed income allocation generally provides for security of principal to meet near term expenses and obligations. Periodic reviews of the market values and corresponding asset allocation percentages are performed to determine whether a rebalancing of the portfolio is necessary.

CHW's retirement plan portfolio return assumption of 7.5% for 2009 and 8.0% for 2008 and 2007, was based on the long-term weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for retirement plan expenses, and expectations about future returns.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Retirement Benefits	Other Benefits
2009	\$ 64,946	\$ 5,512
2010	74,484	5,458
2011	85,713	6,230
2012	99,161	6,853
2013	111,777	7,714
2014 - 2018	<u>823,894</u>	<u>50,086</u>
Total	<u>\$1,259,975</u>	<u>\$ 81,853</u>

CHW participates in a multi-employer retirement plan covering certain employees at three facilities, and contributes to separate union plans for certain other employees. For the multi-employer plan as a whole, the net assets available for benefits exceeded the actuarially computed value of vested benefits as of January 1, 2008, the most recent actuarial valuation. The participating CHW hospitals funded the minimum funding requirement in accordance with ERISA, which was zero for 2009, 2008 and 2007.

CHW maintains defined contribution retirement plans for most employees. Employer contributions to those plans of \$35.7 million, \$32.8 million, and \$30.2 million for 2009, 2008 and 2007, respectively, are primarily based on a percentage of a participant's contribution.

Total pension and other postretirement expense under all plans was \$195.3 million, \$202.6 million and \$187.3 million for 2009, 2008 and 2007, respectively, and is included in salaries and benefits in the consolidated statements of operations and changes in net assets.

12. DEBT

Debt consists of the following at June 30, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Under Master Trust Indenture:			
Fixed rate debt:			
Fixed rate revenue bonds payable in installments through 2042; interest at 4.0% to 6.0%	\$ 2,126,764	\$ 1,784,147	\$ 1,186,575
Put bonds payable in installments through 2039; interest at 4.5% to 5.0%	294,038	95,800	95,800
Senior secured notes payable from 2013 through 2018; interest at 5.7% to 6.5%	<u>373,958</u>	<u>428,840</u>	<u>375,000</u>
Total fixed rate debt	<u>2,794,760</u>	<u>2,308,787</u>	<u>1,657,375</u>
Variable rate debt:			
Variable rate demand bonds payable in installments through 2042; interest set at prevailing market rates (0.2% to 4.7% at June 30, 2009)	954,550	1,153,615	459,900
Variable rate demand bonds held as bank bonds, payable from 2018 through 2025; interest set at prevailing market rates (3.3% at June 30, 2009)	25	52,185	-
Variable rate revenue bonds (refinanced in March 2009)	-	175,000	175,000
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (0.5% to 1.3% at June 30, 2009)	328,300	328,700	1,716,425
Notes payable to banks under credit agreement payable in 2011; interest set at prevailing market rates (1.1% at June 30, 2009)	<u>80,685</u>	<u>29,400</u>	<u>2,925</u>
Total variable rate debt	<u>1,363,560</u>	<u>1,738,900</u>	<u>2,354,250</u>
Total debt under Master Trust Indenture	<u>4,158,320</u>	<u>4,047,687</u>	<u>4,011,625</u>
Other			
Various notes payable and other debt payable in installments through 2042; interest ranging up to 12%	92,209	12,456	12,193
Capitalized lease obligations	<u>50,578</u>	<u>49,313</u>	<u>51,571</u>
Total debt	<u>4,301,107</u>	<u>4,109,456</u>	<u>4,075,389</u>
Less current portion of long-term debt	(61,581)	(106,591)	(25,745)
Less demand bonds subject to short-term liquidity arrangements	<u>(880,275)</u>	<u>(1,129,900)</u>	<u>(384,000)</u>
Total long-term debt	<u>\$ 3,359,251</u>	<u>\$ 2,872,965</u>	<u>\$ 3,665,644</u>

Scheduled principal debt payments, net of discounts and considering obligations subject to short-term liquidity arrangements as due according to their long-term amortization schedule, for the next five years and thereafter are as follows (in thousands):

2010	\$ 61,581
2011	145,391
2012	89,020
2013	237,804
2014	95,988
Thereafter	<u>3,671,323</u>
Total	<u>\$ 4,301,107</u>

Master Trust Indenture – CHW issues debt under a Master Trust Indenture of the Obligated Group which requires, among other things, gross revenue pledged as collateral, certain limitations on additional indebtedness, liens on property, and disposition or transfers of assets, and the maintenance of certain cash balances and other financial ratios. CHW is in compliance with these requirements at June 30, 2009.

Debt Arrangements - Fixed Rate Revenue Bonds – CHW has fixed rate revenue bonds outstanding that may be redeemed in whole or in part, prior to the stated maturities. Redemption of fixed rate revenue bonds may require a premium of up to 2%.

Put Bonds - CHW has put bonds outstanding with interest rates that were fixed at issuance for 3, 5, 7 or 10-year periods, and bond maturities that extend over longer terms. The bonds are not subject to optional redemption during the fixed rate period but are subject to a mandatory purchase on the respective put redemption date. Prior to a put redemption date, CHW will appoint a remarketing agent to convert the bonds to another fixed rate put period or to a short-term interest rate mode, or CHW will repay the par amount of the mandatory purchase. Put bonds have mandatory purchase dates of July 2011, July 2012 and July 2014 in the amounts of \$45.9 million, \$169.3 million and \$78.8 million, respectively.

Variable Rate Demand Bonds – Variable rate demand bonds (“VRDBs”) are remarketed weekly and the VRDBs may be put at the option of the holders. CHW maintains bank letters of credit to support \$880.3 million of VRDBs and a bank liquidity facility to support \$74.3 million of VRDBs. Both serve as credit enhancement to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket.

The bank letters of credit expire in October 2010, unless extended by mutual agreement. In the event that the remarketing agent is unable to remarket the VRDBs, the bond trustee will make a draw on the bank letter of credit and the tendered VRDBs will become bank bonds. Bank letter of credit draws outstanding for more than 30 days are repayable quarterly over one year from the initial draw date. As these VRDBs are subject to short-term liquidity arrangements, the total principal amount outstanding has been classified as demand bonds subject to short-term liquidity arrangements within current liabilities in the consolidated balance sheets.

This bank liquidity facility is only drawn upon when VRDBs cannot be remarketed. Once a draw is made, the tendered VRDBs become bank bonds. The draws are repayable quarterly over a seven year period commencing on the expiration date of the agreement. As this facility is long-term in nature, the related VRDBs are classified as long-term debt in the consolidated balance sheets. In July 2009, this bank liquidity facility was replaced by a bank letter of credit that expires in July 2010.

The table below summarizes the failed remarketing of VRDBs and related draws on the letters of credit and bank liquidity facility as well as the successful remarketing of bank bonds for 2009 and 2008 (in thousands):

	VRDBs Supported with Bank Liquidity Facility	VRDBs Supported with Letters of Credit	Total - All VRDBs
VRDBs held as bank bonds at June 30, 2007	\$ -	\$ -	\$ -
Failed remarketings/draws on letters of credit or bank liquidity facility	52,185	-	52,185
Successful remarketing of bank bonds	<u>-</u>	<u>-</u>	<u>-</u>
VRDBs held as bank bonds at June 30, 2008	52,185	-	52,185
Failed remarketings/draws on letters of credit or bank liquidity facility	110,305	37,090	147,395
Successful remarketing of bank bonds	<u>(162,465)</u>	<u>(37,090)</u>	<u>(199,555)</u>
VRDBs held as bank bonds at June 30, 2009	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 25</u>

VRDBs that are not remarketed and are subsequently funded by amounts drawn under the bank letters of credit or the bank liquidity facility and held as bank bonds are reported as extinguishments of debt and new borrowings, respectively, in the consolidated statement of cash flows. Repayments of these draws from proceeds of remarketed VRDBs are reported as extinguishments of debt and new borrowings, respectively, in the consolidated statement of cash flows. There were no failed remarketings in 2007.

CHW has the option to convert \$954.6 million of VRDBs to fixed rate debt. CHW may redeem VRDBs in whole or in part prior to the stated maturities without a redemption premium.

Auction Rate Certificates – Holders of auction rate certificates (“ARCs”) are required to hold the certificates until the remarketing agent can find a new buyer for any tendered certificates. CHW has the option to convert \$328.3 million of ARCs to fixed rate debt. CHW may redeem ARCs in whole or in part prior to the stated maturities without a redemption premium.

Notes Payable to Bank Under Credit Agreement – CHW maintains a \$350.0 million syndicated line of credit facility for working capital, letters of credit, capital expenditures and other general corporate purposes. During 2009, 2008 and 2007, the maximum amount outstanding under the syndicated credit facility was \$235.7 million, \$29.4 million and \$89.1 million, respectively. Letters of credit issued under this facility were \$6.0 million as of June 30, 2009, 2008 and 2007, but no amounts have been drawn.

CHW has a \$20.0 million single bank line of credit facility for letters of credit. Letters of credit issued under this facility were \$10.8 million, \$11.3 million and \$11.2 million as of June 30, 2009, 2008 and 2007, respectively, but no amounts have been drawn.

Both credit facilities expire in October 2010 unless extended by mutual agreement.

2009 Financing Activity - In March 2009, CHW refinanced \$175.0 million of variable rate revenue bonds with a draw on its syndicated line of credit facility and recorded a \$0.7 million loss on early extinguishment of debt related to this transaction. As discussed in Note 13, CHW also terminated the related \$175.0 million total return swap associated with these bonds. In May 2009, CHW issued \$390.0 million of fixed rate revenue bonds and \$195.0 million of 3- and 5-year put bonds to finance capital expenditures, to refund \$249.6 million of previously outstanding VRDBs, and to partially repay \$125.0 million on its syndicated line of credit facility which had been drawn to retire \$175.0 million of variable rate revenue bonds, as described above. The proceeds used to refund previously outstanding bonds were placed with the bond trustee and the outstanding bonds were retired and cancelled. CHW recorded \$1.9 million of loss on early extinguishment of debt related to this transaction.

2008 Financing Activity - In response to the ARCs market disruption, CHW restructured \$1.4 billion of ARCs. As part of this restructuring, \$745.9 million of ARCs were exchanged for VRDBs supported by letters of credit, \$525.0 million of ARCs were exchanged for fixed rate revenue bonds, \$90.0 million of ARCs had an interest mode conversion to insured fixed rate, and \$26.5 million were retired and cancelled with proceeds from a draw on CHW's syndicated line of credit facility. The maturities on the restructured bonds remained unchanged. Since the original ARCs were retired and cancelled, this restructuring was accounted for as an extinguishment of debt. CHW recorded a loss on early extinguishment of debt of \$68.2 million which included a \$14.5 million loss related to interest rate swaps that lost hedge accounting treatment when the underlying bonds being hedged were restructured.

CHW amended its syndicated line of credit facility and increased it in order to issue letters of credit to provide credit enhancement and liquidity support for \$745.9 million of VRDBs discussed above. This facility expires in October 2010 unless extended by mutual agreement.

CHW issued \$375.0 million of senior secured notes in May 2008 to refinance senior secured notes of \$55.0 million maturing in July 2008 and \$320.0 million maturing in October 2008. The \$320.0 million senior secured notes were repaid in May 2008.

2007 Financing Activity - In 2007, CHW issued \$1.1 billion of bonds with various maturities through 2042. The bond proceeds were used to finance capital projects and to refund in advance \$389.1 million of previously outstanding bonds. The refunding proceeds were placed in escrow in an irrevocable trust with the bond trustee and the outstanding bonds were legally defeased. CHW recorded a loss on early extinguishment of debt of \$12.8 million during 2007 related to this refinancing. Additional losses of \$4.0 million were recorded on the early extinguishment of other debt refinanced, defeased or retired during 2007.

Fair Values of Debt - The fair value of CHW's debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to CHW for debt of the same remaining maturities. The estimated fair values of CHW's long-term debt instruments as of June 30, 2009, 2008 and 2007, are as follows (in thousands):

	2009	2008	2007
Debt issued under Master Trust Indenture	\$ 4,118,061	\$ 4,038,459	\$ 4,013,668
Other	<u>142,787</u>	<u>61,769</u>	<u>63,764</u>
Total	<u>\$ 4,260,848</u>	<u>\$ 4,100,228</u>	<u>\$ 4,077,432</u>

The fair value amounts do not represent the amount CHW would be required to expend to retire the indebtedness.

13. DERIVATIVE INSTRUMENTS

As of June 30, 2009, CHW has 20 floating-to-fixed interest rate swaps, 13 of which are designated in qualifying cash flow hedging relationships. CHW uses floating-to-fixed interest rate swaps to synthetically convert variable rate debt to a fixed rate. Under these swaps, CHW receives a percentage of LIBOR plus a spread ranging from 0.13% to 0.32% and pays a fixed rate. Counterparties to these swaps are JPMorgan and Citibank for \$464.5 million and \$696.6 million, respectively, of the notional amounts outstanding. During 2009, interest rate swaps with an outstanding notional amount of \$249.6 million lost hedge accounting due to the related hedged bonds being refinanced with fixed rate debt. As a result, future changes in fair value of the swaps that lost hedge accounting will be recorded in interest expense, net. CHW's derivative accounting policy is discussed in Note 2.

During 2009, CHW terminated early a \$175.0 million notional amount total return swap in connection with early retirement of the related debt, as discussed in Note 12. CHW also terminated early two total return swaps with a combined outstanding notional amount of \$32.6 million. All total return swaps were terminated at par and no gain or loss was realized in connection with the early terminations.

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in other accrued liabilities in the consolidated balance sheet as of June 30, 2009 (in thousands):

			<u>June 30, 2009</u>	
	Maturity Date of Derivatives	Fixed Rate	Notional Amount Outstanding	Fair Value
Derivatives designated as cash flow hedges				
Interest rate swaps	2023 - 2042	3.0% - 3.4%	\$ 671,450	\$ (52,371)
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.3% - 3.4%	<u>489,625</u>	<u>(56,178)</u>
Total			<u>\$ 1,161,075</u>	<u>\$ (108,549)</u>

Changes in fair value of derivative instruments have been recorded for 2009 as follows (in thousands):

Loss recognized in unrestricted net assets (effective portion of hedges):				
Interest rate swaps				<u>\$ (57,419)</u>
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:				
Interest rate swaps - net settlements				(16,335)
Interest rate swaps - amortization				<u>(548)</u>
Total				<u>\$ (16,883)</u>
Loss recognized in interest expense, net:				
Changes in fair value				
Ineffective portion of hedges - interest rate swaps				\$ (920)
Non-hedged derivatives:				
Interest rate swaps				(6,030)
Total return swaps				<u>(1,166)</u>
Total non-hedged derivatives				<u>(7,196)</u>
Total changes in fair value				(8,116)
Amortization of amounts in unrestricted net assets - interest rate swaps				<u>(548)</u>
Total				<u>\$ (8,664)</u>

Of the amounts classified in unrestricted net assets as of June 30, 2009, CHW anticipates reclassifying approximately \$17.2 million of additional losses from unrestricted net assets into interest expense, net, in 2010. Amounts in unrestricted net assets will be reclassified to earnings as the interest payments being hedged are made.

Of the \$1.2 billion of interest rate swaps held by CHW, \$240.0 million are insured and have a negative fair value of \$31.2 million at June 30, 2009. In the event the insurer is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if CHW does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and CHW is downgraded below Baa3/BBB- (Moody's Standard and Poor's), the counterparties have the right to terminate the swaps.

As part of the 2008 ARCs restructuring, CHW renegotiated \$921.1 million of interest rate swaps to reflect the cancellation of insurance. While CHW retained the right to terminate the swaps prior to maturity for any reason, the counterparties obtained the right to terminate the swaps at each five-year anniversary date commencing in 2013. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with a negative fair value of \$77.3 million at June 30, 2009, have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payments when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard and Poor's) by either party and CHW's cash on hand dropping below 85 days.

CHW, under the terms of its Master Trust Indenture, is prohibited from posting collateral on derivative instruments.

14. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2009, 2008 and 2007, consist of donor-restricted contributions and grants, which are to be used as follows (in thousands):

	2009	2008	2007
Equipment and expansion	\$ 130,279	\$ 147,015	\$ 105,473
Research and education	35,785	59,463	67,209
Charity and other	119,806	130,692	127,880
Total temporarily restricted net assets	<u>\$ 285,870</u>	<u>\$ 337,170</u>	<u>\$ 300,562</u>
Permanently restricted net assets	<u>90,262</u>	<u>88,506</u>	<u>85,626</u>
Total restricted net assets	<u>\$ 376,132</u>	<u>\$ 425,676</u>	<u>\$ 386,188</u>

The composition of endowment net assets by type of fund as of June 30, 2009, is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	\$ -	\$ 5,200	\$ 90,262	\$ 95,462
Board-designated endowment net assets	9,204	-	-	9,204
Total endowment net assets	<u>\$ 9,204</u>	<u>\$ 5,200</u>	<u>\$ 90,262</u>	<u>\$ 104,666</u>

Changes in endowment net assets during 2009 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 8,394	\$ 10,029	\$ 88,506	\$ 106,929
Investment returns	(1,960)	(3,464)	91	(5,333)
Unrealized gains/(losses)	-	(672)	31	(641)
Contributions	-	-	546	546
Change in interest in unconsolidated foundations			1,089	1,089
Appropriation of endowment assets for expenditure	(183)	(747)	-	(930)
Transfers to remove or add to board-designated endowment funds	2,953	(177)	-	2,776
Other	-	231	(1)	230
Endowment net assets, end of year	<u>\$ 9,204</u>	<u>\$ 5,200</u>	<u>\$ 90,262</u>	<u>\$ 104,666</u>

Included in donor-restricted assets limited as to use are unconditional promises to give which are recorded using a discount rate ranging from 4.0% to 6.0% and are due as follows as of June 30, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Less than one year	\$ 14,102	\$ 9,105	\$ 11,029
One to five years	7,774	13,966	9,841
More than five years	613	12,138	2,110
Less: allowance for uncollectible contributions receivable	<u>(1,573)</u>	<u>(1,994)</u>	<u>(1,779)</u>
Total contributions receivable, net	<u>\$ 20,916</u>	<u>\$ 33,215</u>	<u>\$ 21,201</u>

15. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

Regulatory and Compliance Matters - General Regulatory Compliance - The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations.

Department of Justice and OIG Investigations – Since 2001, CHW facilities have been under investigation by the Department of Justice and Office of Inspector General for false or otherwise improper claims in connection with Medicare cost reporting, as well as claims for reimbursement of hospital and administrative services. Currently, the information CHW has received from the government is largely confined to the information requests CHW has received, and as yet, the government has not made any specific charges, nor has it suggested the amount of any repayments or other penalties. Information exchange and discussions are ongoing. In addition, in January 2008, two of CHW's California facilities received notices from the Department of Justice that they are under investigation for false claims – one in connection with Medicare outlier reimbursement and the other in connection with a management services vendor. In September 2009, CHW received notice from the Department of Justice that the government is investigating certain Medicare claims for outpatient infusion, transfusions, and lithotripsy. Based on the

limited information received to date from the government, CHW does not presently have information indicating that these investigations or their resolution will have a material adverse effect on CHW. Nevertheless, investigations of this type and scope could lead to civil and/or criminal charges and material penalties or settlements. Consequently, there can be no assurance that the resolution of these matters will not adversely affect the financial condition or results of operations of CHW.

Recovery Audit Contractors – In 2005, Centers for Medicare & Medicaid Services (“CMS”) announced a new demonstration project using recovery audit contractors (“RACs”) as part of CMS’ further efforts to assure accurate payments. The project uses the RACs to search for potentially improper Medicare payments that may have been made to healthcare providers and that were not detected through existing CMS program integrity efforts. The RAC demonstration ended in 2008 but a nationwide rollout of a permanent program in phases began in March 2009.

While the RACs recouped approximately \$33.5 million on a cumulative basis through June 30, 2009, from 26 CHW facilities that were audited in the demonstration project, CHW has also successfully appealed many determinations recovering approximately \$10.1 million through June 30, 2009. In addition, CHW has dozens of appeals pending, and expects to be successful in the majority of those appeals. Additional RAC assessments against CHW hospitals are anticipated as the project is expanded to include CHW’s remaining California hospitals as well as Nevada and Arizona hospitals. While there can be no assurance that the results of the audits will not adversely affect the financial condition or operations of CHW, changes in the RAC program and in the manner in which CHW responds should mitigate some of the impact.

Wage and Hour Class Actions and Litigation – Federal law and many states, including notably California, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these “wage and hour” issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements.

In February 2008, a lawsuit was filed against CHW alleging violations of California state wage and hour laws and regulations. The lawsuit is fashioned as a class action on behalf of nurses and medical technicians employed at CHW’s California facilities during the previous four years. CHW is evaluating the lawsuit and its implications. It is too early to assess any liability exposure from the lawsuit, but lawsuits of this nature have the potential for a material adverse impact on the financial condition or results of operations of CHW.

Americans with Disabilities Act Class Action – The Americans with Disabilities Act and the California disability laws (collectively “ADA”) require, among other things, that public accommodations be accessible to the disabled. In February 2006, CHW was served with a summons and complaint filed in federal court alleging that one of its California facilities failed to comply with ADA. In July 2006, the plaintiff filed a motion, which the court subsequently granted, to certify the case as a class action on behalf of all disabled persons who use CHW facilities.

CHW evaluated the claim and determined that while the ADA rules in some areas are subject to interpretation, there are instances of non-compliance at CHW facilities. Following extensive negotiations, the plaintiffs and CHW agreed upon a plan, which was approved by the court in March 2009, whereby over the course of the next six to eight years, each of CHW’s hospital facilities will be inspected by experts in state and federal disability accommodation law. Based on those inspections, the parties will develop individual facility modification plans that must be approved by the court. Following approval of the modification plan for each facility, CHW will have three years to complete the facility modifications.

The identified plaintiffs and representatives of the class sought injunctive relief but did not seek damages. The injunctive relief granted by the court in the consent decree consisted of the required surveys and facility modifications described above together with a posted procedure for the public to communicate concerns about access for disabled persons. CHW currently estimates that the cost of conducting the inspection

process and performing the remediation of the facilities, which will be a combination of repair costs and capital expenditures, will not be material to the financial condition or operations of CHW, though no assurance can be given that developments might not lead to a material adverse impact.

IRS Examination of Certain Prior Bonds – In March 2008, the Arizona Health Facilities Authority received a letter from the IRS notifying it that the IRS had selected the \$74.7 million Arizona Health Facilities Authority Insured Health Facilities Revenue Bonds (Catholic Healthcare West), 2005 Series A Bonds for examination and requesting information in connection therewith. The notification stated that the IRS routinely examines municipal debt issuances to determine compliance with federal tax requirements. The IRS also requested documents from CHW regarding this matter, and CHW cooperated fully in the examination. In November 2008, CHW received notification from the IRS that it has closed the examination with no change to the position that interest received by owners of the bonds is excludable from taxable income.

Operating Leases – CHW leases various equipment and facilities under non-cancelable operating leases. Total rental expense for 2009, 2008 and 2007, was \$111.8 million, \$107.4 million and \$93.3 million, respectively.

Net future minimum lease payments under non-cancelable operating leases as of June 30, 2009, are as follows (in thousands):

2010	\$ 58,926
2011	49,854
2012	40,752
2013	32,146
2014	18,395
Thereafter	<u>81,592</u>
Total	<u>\$ 281,665</u>

Long-term Contracts and Agreements – Effective in July 2001, CHW entered into a ten-year agreement for information technology management services. The agreement specified the types and levels of services, which could be modified by mutual agreement, and provided for annual inflation adjustments. In October 2008, this contract was replaced by a new contract with the same party covering a narrower scope of services. The new agreement specifies the types and levels of services, which may be modified by mutual agreement, and provides for monthly usage-based adjustments to fees. The agreement contains a mechanism for price adjustments should there be new affiliations or disaffiliations. The base fee under the contract is \$48.1 million per year which increase annually by inflation through October 2015, the term of the agreement. CHW may cancel the agreement without cause subject to significant penalties during the first five years of the contract, and without penalty during the last two years of the contract. Under the terms of this agreement, CHW paid \$60.3 million, \$81.8 million and \$77.7 million in 2009, 2008 and 2007, respectively.

Effective in April 2007, CHW entered into an eight-year agreement for remote hosting and hot site hosting for certain electronic medical record technology for certain CHW facilities. The agreement specifies the types and levels of services, with additional schedules for additional services available for future consideration. Under the terms of the agreement, CHW paid \$10.1 million, \$7.3 million and \$3.0 million in 2009, 2008 and 2007, respectively, and has committed to pay \$63.6 million over the remainder of the contract term. The agreement may be terminated for material breach including significant failure of service levels but may not be cancelled without cause.

In December 2007, CHW entered into a development agreement with the Sequoia Healthcare District (“District”) whereby the District relinquished all control over Sequoia Health Services (“SHS”) and agreed to provide funding of \$75.0 million toward the modernization, upgrading and seismic retrofitting of Sequoia Hospital. In return for the funding commitment, the District is entitled to 50% of Sequoia Hospital’s annual

Operating EBIDA exceeding a 9.3% annual Operating EBIDA Margin for 40 years. Operating EBIDA is defined as operating income adjusted for certain excluded items. CHW has committed to funding \$150.0 million toward the construction project and approximately \$15.0 million in additional funding is anticipated from philanthropic gifts. This transaction is subject to certain reporting requirements to the District as well as certain oversight and enforcement rights by the District. If the construction does not conform to certain agreed-upon specifications or is not completed consistent with the terms of the development agreement related to project timing, the District has the right to require the return of its \$75.0 million contribution. The construction project broke ground in September 2007, and CHW expects to meet the required construction specifications and time requirements.

Capital and Purchase Commitments – CHW has undertaken various construction and expansion projects. At June 30, 2009, 2008 and 2007, remaining capital commitments related to these projects were approximately \$226.4 million, \$388.6 million and \$407.4 million, respectively. Excluding the capital and long-term contract commitments discussed above, at June 30, 2009, remaining purchase commitments were approximately \$21.1 million.

Guarantees – CHW has guaranteed the indebtedness of other organizations in the amount of \$34.4 million as of June 30, 2009, which includes amounts discussed under Transactions between Related Organizations in Note 2.

CHW enters into physician recruitment agreements with certain physicians who agree to relocate to its communities to fill a need in the hospitals' service areas and commit to remain in practice there. Under these agreements, CHW makes loans available to the physicians that are earned over the period the physicians fulfill their commitment to the community, which is typically four years, or are repayable by the physicians. The maximum potential amount of future undiscounted payments CHW could be required to make under these guarantees is \$21.7 million as of June 30, 2009. CHW recorded \$20.9 million, \$18.2 million, and \$19.3 million in other current liabilities as of June 30, 2009, 2008 and 2007, respectively, related to these guarantees.

Seismic Standards – The State of California issued seismic safety standards in 1994, which have been amended on several occasions since then. The regulations call for more stringent structural building standards to be in place by 2013 for buildings remaining in acute care service beyond that date, which affects 14 of CHW's facilities in California. An additional two-year extension has been granted for these facilities with the provision that remediation efforts must be actively underway. Reviews are pending for several buildings on the campuses of the 14 facilities. Favorable results related to these reviews could lead to a re-categorization of certain buildings, such that they would not be required to meet seismic standards by 2013 or 2015. All of CHW's other California facilities already meet the standards, are not subject to the standards, or will not be used for acute care services beyond 2013.

CHW currently estimates that the minimum remediation costs required to meet the standards for structural and non-structural performance in effect until 2030 will be approximately \$600 million to \$750 million, which includes an inflation component. For several facilities, more extensive projects will be undertaken in conjunction with the remediation efforts. Work has been initiated at several facilities to meet the deadlines. However, as is the case with many providers in the State of California, CHW is not positioned to meet the existing time deadlines for seismic improvements to all applicable facilities as current regulations require. Reasonable start and completion dates for future seismic projects cannot be accurately projected until the nation's economic recovery and stabilization of adequate reimbursement can generate sufficient revenue to fund the cost of hospital capital requirements. CHW has joined with other health care systems in California representing approximately one-third of the bed capacity in the state to seek legislative relief in the form of extended deadlines or reduced requirements. California law currently imposes a separate more rigorous set of seismic standards for acute care facilities effective in 2030.

16. CHW, SUBORDINATE CORPORATIONS AND SUBSIDIARIES

Following is a list of corporations and subsidiaries that are included in the accompanying consolidated financial statements for 2009. Unless otherwise indicated, such entities are nonprofit corporations. The Obligated Group Members are denoted by an asterisk (*). Unless otherwise indicated, subsidiaries are not Obligated Group Members.

Catholic Healthcare West*	CHW Foundation East Valley
Operating dba's of Catholic Healthcare West	Community Hospital of San Bernardino Foundation
Arroyo Grande Community Hospital	Dominican Hospital Foundation
California Hospital Medical Center – Los Angeles	French Hospital Medical Center Foundation
Chandler Regional Medical Center	Glendale Memorial Health Foundation
Dominican Hospital	Marian Medical Center Foundation
Mercy Hospital Medical Center	Mercy Foundation, Bakersfield
Glendale Memorial Hospital and Health Center	Mercy Medical Center Merced Foundation
Marian Medical Center	Northridge Hospital Foundation
Mercy General Hospital	Saint Mary's Foundation
Mercy Gilbert Medical Center	San Gabriel Valley Medical Center Foundation
Mercy Hospital (Bakersfield)	St. Bernardine Medical Center Foundation
Mercy Hospital of Folsom	St. Francis Foundation of Santa Barbara
Mercy Medical Center Merced	St. John's Healthcare Foundation (Oxnard and Pleasant Valley)
Mercy Medical Center Mt. Shasta	St. Joseph's Foundation (Phoenix)
Mercy Medical Center Redding	St. Joseph's Foundation of San Joaquin
Mercy San Juan Medical Center	St. Mary Medical Center Foundation
Mercy Southwest Hospital	St. Mary's Medical Center Foundation
Methodist Hospital of Sacramento	St. Rose Dominican Health Foundation
Northridge Hospital Medical Center	The Congenital Heart Foundation
Saint Mary's Regional Medical Center	CDS of Nevada, Inc. (taxable)
Sequoia Hospital	Dominican Health Services
St. Bernardine Medical Center	Dominican Oaks Corporation
St. Elizabeth Community Hospital	Glendale Memorial Services Corporation (taxable)
St. John's Pleasant Valley Hospital	Inland Health Organization of Southern California (taxable)
St. John's Regional Medical Center	Management Services Organization of Santa Maria, Inc. (taxable)
St. Joseph's Behavioral Health Center	Marian Community Clinics, Inc.
St. Joseph's Hospital and Medical Center	Marian Health Services, Inc. (taxable)
St. Joseph's Medical Center of Stockton	Mark Twain St. Joseph's Healthcare Corporation
St. Mary Medical Center	Primary Care Plus (taxable)
St. Mary's Medical Center	Saint Mary's Healthfirst (taxable)
St. Rose Dominican Hospital Rose de Lima Campus	Saint Mary's Outpatient Surgery Center at Galena
St. Rose Dominican Hospital Siena Campus	Saint Mary's Preferred Health Insurance Company, Inc. (taxable)
St. Rose Dominican Hospital San Martin Campus	Shasta Senior Nutrition Program
Woodland Memorial Hospital	Golden Umbrella
Catholic Healthcare West Hospital and Professional Liability Self-Insurance Trust (California trust)	SJH Holdings, Inc. (taxable)
Catholic Healthcare West Workers' Compensation Self-Insurance Trust (California trust)	St. Francis Hospital Support Corporation
CHW Insurance Ltd. (Cayman Island corporation)	St. Mary Catholic Housing Corporation
Bakersfield Memorial Hospital*	St. Mary Health Ventures, Inc. (taxable)
CHW Medical Foundation*	St. Mary Professional Building, Inc.
Community Hospital of San Bernardino*	Trinity Care LLC
Mercy Senior Housing, Inc.*	St. Francis Foundation LLC
Saint Francis Memorial Hospital*	St. John's Regional Imaging Center LLC
Sierra Nevada Memorial-Miners Hospital*	Trinity Care Infusion Services (taxable)
Arroyo Grande Community Hospital Foundation	
California Hospital Medical Center Foundation	

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