Holy Cross Hospital and Affiliate

Consolidated Financial Report
June 30, 2009

TABLE OF CONTENTS

HOLY CROSS HOSPITAL AND AFFILIATE

	Page
INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets	2-3
Consolidated statements of operations and changes in net assets	4-5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7-23
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	24
Consolidating information:	
Consolidating balance sheets	25-28
Consolidating schedules of operations	29-30

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report
on the Consolidated Financial Statements

To the Board of Trustees
Holy Cross Hospital
Chicago, Illinois

We have audited the accompanying consolidated balance sheets of Holy Cross Hospital and Affiliate (the "Hospital") as of June 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Hospital'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Holy Cross Hospital and affiliate as of June 30, 2009 and 2008, and the results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
October 16 2009

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATED BALANCE SHEETS
June 30, 2009 and 2008

ASSETS	2009	2008
Current Assets		
Cash and cash equivalents	$ 20,773,632	$ 7,781,783
Assets whose use is limited - externally designated under bond agreements	510,156	413,876
Patient accounts receivable, less allowances for uncollectible accounts of $11,356,000 in 2009 and $11,247,000 in 2008	15,938,870	14,371,609
Contribution receivable	948,387	-
Inventory	1,461,829	1,452,130
Prepaid expenses and other current assets	1,485,689	2,446,068
Total current assets	41,118,563	26,465,466
Assets Whose Use is Limited, net of amounts required to meet current obligations		
Internally designated for capital improvements	32,033	1,206,432
Externally designated under grant agreements	-	4,180,299
	32,033	5,386,731
Other Investments	1,226,022	1,223,507
Property and Equipment, net	42,813,005	39,319,081
Other Assets	4,491	7,058
Deferred Bond Issuance Costs, net of amortization of $234,419 in 2009 and $86,049 in 2008	213,981	362,351
Total assets	$ 85,408,095	$ 72,764,194

See Notes to Consolidated Financial Statements.

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATED BALANCE SHEETS
June 30, 2009 and 2008

LIABILITIES AND NET ASSETS	2009	2008
Current Liabilities		
Notes payable	$ 682,496	$ 1,032,496
Current portion of long-term debt	3,129,881	2,102,462
Accounts payable	7,371,217	9,273,345
Accrued salaries and expenses	7,617,114	7,112,673
Accrued interest	12,225	35,015
Current portion of accrued pension and postretirement benefits	236,000	303,000
Due to third-party payors	5,049,687	3,545,595
Total current liabilities	24,098,620	23,404,586
Noncurrent Liabilities		
Long-term debt, less current portion	13,331,614	16,045,220
Accrued pension and postretirement benefits, net of current portion	24,020,963	6,850,597
Professional liability	3,037,000	3,050,000
Total noncurrent liabilities	40,389,577	25,945,817
Total liabilities	64,488,197	49,350,403
Commitments and Contingencies (Notes 9, 11 and 12)		
Net Assets		
Unrestricted	19,776,686	18,963,667
Temporarily restricted	1,143,212	4,450,124
Total net assets	20,919,898	23,413,791
Total liabilities and net assets	$ 85,408,095	$ 72,764,194

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

	2009	2008
Revenue:		
Net patient service revenue	**$ 101,697,666**	$ 111,142,732
Capitation revenue	**5,158,873**	5,433,083
Investment income	**7,306**	70,955
Other revenue	**1,717,922**	4,570,129
House Bill 5151 revenue	**9,775,000**	-
Medicaid hospital assessment revenue	**12,889,822**	7,748,665
Net assets released from restrictions - used for operations	**155,440**	381,320
	131,402,029	129,346,884
Expenses:		
Salaries and employee benefits	**48,874,823**	57,631,310
Professional fees	**10,207,592**	11,027,215
Food, drugs and medical supplies	**12,710,067**	13,299,009
Supplies, utilities and other	**20,801,836**	19,346,299
Medicaid hospital assessment tax	**5,509,296**	4,666,348
Provision for uncollectible accounts	**13,919,860**	14,453,325
Depreciation and amortization	**5,504,109**	4,104,863
Interest	**678,053**	1,252,816
	118,205,636	125,781,185
Income from operations	**13,196,393**	3,565,699
Nonoperating income:		
Investment income	**124,012**	350,706
Loss on extinguishment of debt	**-**	(525,664)
Total nonoperating income, net	**124,012**	(174,958)
Excess of revenue over expenses	**$ 13,320,405**	$ 3,390,741

(Continued)

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
Years Ended June 30, 2009 and 2008

	2009	2008
Unrestricted Net Assets		
Excess of revenue over expenses	**$ 13,320,405**	$ 3,390,741
Net assets released from restrictions - used for property and equipment	**4,990,215**	2,378,659
Pension-related changes other than net periodic pension cost	**(17,497,601)**	(4,707,305)
Contribution of equipment	**-**	1,804,372
Increase in unrestricted net assets	**813,019**	2,866,467
Temporarily Restricted Net Assets		
Contributions	**1,838,743**	579,698
Net assets released from restrictions	**(5,145,655)**	(2,759,979)
Decrease in temporarily restricted net assets	**(3,306,912)**	(2,180,281)
(Decrease) increase in net assets	**(2,493,893)**	686,186
Net assets, beginning of the year	**23,413,791**	22,727,605
Net assets, end of the year	**$ 20,919,898**	$ 23,413,791

See Notes to Consolidated Financial Statements.

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
(Decrease) Increase in net assets	**$ (2,493,893)**	$ 686,186
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	**13,919,860**	14,453,325
Loss on early extinguishment of Series 1994 bonds	**-**	525,664
Depreciation	**5,353,172**	3,999,815
Amortization	**150,937**	105,048
Forgiveness of note payable and related accrued interest	**-**	(2,730,342)
Contribution of equipment	**-**	(1,804,372)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(15,487,121)**	(13,765,664)
Contribution receivable	**(948,387)**	-
Inventory, prepaid expenses and other current assets	**950,680**	(1,474,562)
Due to/from third-party payors, net	**1,504,092**	2,971,013
Accounts payable and other liabilities	**(729,339)**	801,685
Accrued pension and postretirement benefits	**17,103,366**	4,204,650
Net cash provided by operating activities	**19,323,367**	7,972,446
Cash Flows from Investing Activities		
Purchases of property and equipment	**(7,541,176)**	(7,276,756)
Purchase of investments whose use is limited and other investments	**(868,452)**	(6,456,589)
Proceeds from sales of investments whose use is limited and other investments	**5,354,355**	6,830,265
Net cash used in investing activities	**(3,055,273)**	(6,903,080)
Cash Flows from Financing Activities		
Payments of bond issuance costs	**-**	(449,853)
Payments on notes payable	**(350,000)**	(550,000)
Proceeds from contributions used for the purchase of capital assets	**770,000**	3,625,333
Retirement of long-term debt - Series 1994 bonds	**-**	(19,800,000)
Proceeds from long-term debt - Series 2007 bonds	**-**	16,000,000
Payments on long-term debt	**(2,253,187)**	(335,122)
Proceeds from long-term debt	**-**	815,463
Payment of accounts payable for property and equipment	**(1,443,058)**	(346,288)
Net cash used in financing activities	**(3,276,245)**	(1,040,467)
Net increase in cash and cash equivalents	**12,991,849**	28,899
Cash and cash equivalents, beginning of year	**7,781,783**	7,752,884
Cash and cash equivalents, end of year	**$ 20,773,632**	$ 7,781,783
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	**$ 662,061**	$ 1,704,793
Supplemental Schedule of Noncash Investing and Financing Activities		
Purchases of equipment in accounts payable	**$ 738,920**	$ 1,443,058
Equipment financed through capital lease	**$ 567,000**	$ -

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: The accompanying consolidated financial statements represent the accounts of Holy Cross Hospital (Hospital) and its wholly owned affiliate, Holy Cross Health Partners, Inc. (HCHP). The Hospital is a Illinois not-for-profit corporation. The Hospital provides inpatient, outpatient and emergency care services to residents of the Chicago Metropolitan area. The Hospital is the sole shareholder of HCHP, an Illinois for-profit corporation that was incorporated in 1998. HCHP's purpose is to administer and negotiate contracts on behalf of participating health care providers.

A summary of significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the Hospital and HCHP. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying financial statements is primarily related to the determination of the net patient receivables and settlements with third-party payors and the accruals for pension and professional and general liability. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the financial statements.

Basis of presentation: The Hospital may classify its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Hospital and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Hospital and/or the passage of time. The Hospital has temporarily restricted net assets which are available for operations or improvements to the physical facility. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as assets released from restriction. Temporarily restricted net assets are primarily available for construction and purchases of equipment at June 30, 2009 and 2008.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Hospital. The Hospital had no permanently restricted net assets at June 30, 2009 and 2008.

Donor-restricted gifts: Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indication of intentions to give are reported at fair value at the date the gift is received. The 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 accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Cash and cash equivalents: All investments that are not limited as to use with an original maturity of three months or less when purchased are reflected as cash and cash equivalents. The carrying value of cash equivalents approximates fair value.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Throughout the year, the Hospital may have amounts on deposit with financial institutions in excess of those insured by the FDIC. Management does not believe that this presents a significant risk to the Hospital.

Patient accounts receivable, provision for uncollectible accounts and due from/to third party-payors: The collection of receivables from third-party payors and patients is the Hospital's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors, discounts for patients that are uninsured and an estimated allowance for doubtful receivables. Management estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each payor type. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

The past due status of receivables is determined on a case-by-case basis depending on the payor responsible. Interest is generally not charged on past due accounts.

Receivables or payables related to estimated settlements on various payor contracts, primarily Medicare, are reported as amounts due from or to third-party payors. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the Hospital's collection of accounts receivable, cash flows and results of operations.

Receivables and payables related to the Medicaid Hospital Assessment Program are reported as amounts due from/to third-party payors.

Inventory: Inventory is stated at cost, determined by the first-in, first-out method.

Deferred bond issuance costs: Bond issuance costs are deferred and amortized over the life of the related debt on a method that approximates the effective yield method.

Assets whose use is limited and other investments: Investments in money market accounts are measured at fair value which approximates cost. Investments in equity securities with readily determinable fair values and all investments in debt securities are carried at fair value. Fair value is based on quoted market prices for those or similar investments. Investments in certificates of deposit are carried at cost, which approximates fair value.

Assets whose use is limited consist of investments set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Additionally, assets whose use is limited include investments held by trustees under debt agreements and investments maintained under the grant agreement with the State of Illinois for the expansion of emergency services and life safety improvements to the physical facility.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Investments are regularly evaluated for impairment. The Hospital considers factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity market trends. The Hospital considers the length of time an investment's fair value has been below carrying value, the near-term prospects for recovery to carrying value, and the intent and ability to hold the investment until maturity or market recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value and included as a realized loss in excess of revenues over expenses.

Property and equipment: Property and equipment are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Leased equipment under capital leases is amortized over the shorter of the lease term or estimated useful life unless it contains a bargain purchase option which the Hospital expects to exercise. Amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Accrued professional liability: The provision for accrued professional liability includes estimates of the ultimate costs for claims incurred but not reported. The provision is actuarially determined.

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

Capitation revenue: The Hospital has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Hospital. In addition, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

Results of operations: The statement of operations and changes in net assets includes excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include net assets released from restrictions used for property and equipment, contributions of equipment, as well as pension-related changes other than the net periodic pension cost.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Charity care and uninsured allowance: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Beginning April 1, 2009, the Hospital provided a 64 percent discount from customary charges for uninsured patients. Prior to April 1, 2009, the Hospital provided a 30 percent discount. Charity care includes foregone charges for uninsured patients denied coverage by Public Aid.

Income taxes: The Hospital is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HCHP is subject to federal and state income taxes, which are not significant to the consolidated operations.

Recent accounting pronouncements: In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. The Hospital presently discloses or recognizes income tax positions based on management’s estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, Accounting for Contingencies. The Hospital has elected to defer the application of FIN 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises, such as the Hospital, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Hospital will be required to adopt FIN 48 in its 2010 annual financial statements. Management is currently assessing the impact of FIN 48 on its consolidated financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157.* FSP FAS 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning on or after November 15, 2008, and interim periods within those fiscal years, for nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Hospital has not fully evaluated the impact, if any, of adoption of this pronouncement on its financial statements.

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. 16*. Effective for financial statements issued for interim and annual periods ending after September 15, 2009, SFAS No. 168 will become the single source of authoritative U.S. accounting and reporting standards to be applied by nongovernmental entities, except for rules and interpretive releases of the SEC and grandfathered guidance. Grandfathered guidance consists of instances where an entity has followed and continues to follow an accounting treatment that was previously in category (c) or category (d), as described in Statement No. 162, if the effective date of that guidance was before March 15, 1992. Superseded accounting standards that have allowed for the continued application of that guidance for transactions that have an ongoing effect on the entity’s financial statements are also considered grandfather guidance. The Hospital does not expect the adoption of this pronouncement to have a significant impact on its financial statements.

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1). FSP FAS 132(R)-1 requires more detailed disclosures about employers' plan assets in a defined benefit pension or other postretirement plan, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and inputs and valuation techniques used to measure the fair value of plan assets. FSP FAS 132(R)-1 also requires, for fair value measurements using significant unobservable inputs (Level 3), disclosure of the effect of the measurements on changes in plan assets for the period. The disclosures about plan assets required by FSP FAS 132(R)-1 must be provided for fiscal years ending after December 15, 2009. As this pronouncement is only disclosure-related, it will not have an impact on the financial position and results of operations.

Reclassifications: Certain amounts in the 2008 financial statements have been reclassified to conform with the 2009 presentation with no effect on the net assets.

Subsequent events: Management has evaluated subsequent events for potential recognition and/or disclosure through October 16, 2009, the date the financial statements were available to be issued.

Note 2. Contractual Arrangements With Third-Party Payors

The Hospital has agreements with third-party payors which provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at list price and the amounts reimbursed by Medicare, Medicaid, Blue Cross, and certain other third-party payors; and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. Contractual adjustments under third-party reimbursement programs are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: The Hospital is paid for inpatient acute care and outpatient care services rendered to Medicare program beneficiaries under prospectively determined rates per discharge (Prospective Payment System). These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital's classification of patients under the Prospective Payment System and the appropriateness of the patient's admissions are subject to validation reviews. The Hospital is reimbursed at tentative rates with final settlement determined after submission of annual reimbursement reports by the Hospital and audits by the Medicare fiscal intermediary.

Medicaid: The Hospital is reimbursed at prospectively determined rates for each Medicaid inpatient discharge. Outpatient services are reimbursed based on established fee screens. For inpatient acute care services, payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital also receives incremental Medicaid reimbursement for specific programs and services at the discretion of the State of Illinois Medicaid Program. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program.

Note 2. Contractual Arrangements With Third-Party Payors (Continued)

Blue Cross: The Hospital also participates as a provider of health care services under a reimbursement agreement with Blue Cross. The provisions of this agreement stipulate that services will be reimbursed at a tentative reimbursement rate and that final reimbursement for these services is determined after the submission of an annual cost report by the Hospital and a review by Blue Cross.

Managed Care Organizations: The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per diem rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. Net patient service revenue was increased by approximately $501,200 and $1,669,000 for the years ended June 30, 2009 and 2008, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of accrual adjustments and final settlements.

Due to the Hospital's relatively high Medicaid patient volume, the Hospital receives additional reimbursement (approximately $4,513,000 in both 2009 and 2008) in the form of Safety Net Adjustment Payments (SNAP), the majority of which is provided by the Illinois Medicaid program. The Hospital also received approximately $900,000 in 2009 and $3,780,000 in 2008 of additional reimbursement in the form of Critical Hospital Adjustment Payments (CHAP). The Hospital will continue to receive $900,000 in CHAP payments from the Illinois Medicaid program through 2013. Whether the program will be extended beyond 2013 is uncertain at this time. The Hospital also received additional payments from the Illinois Medicaid Disproportionate Share Hospital program (DSH) of approximately $2,000,000 and $1,794,000 at June 30, 2009 and 2008, respectively, to provide services that are vital to Medicaid patients. However, subsequent to June 30, 2009, the Illinois DSH status of the Hospital has been contested by the Illinois Department of Health and Family Services (HFS) for fiscal year 2009. Accordingly, the Hospital has established a liability of approximately $2,000,000, which is included in due to third-party payors, and is working with HFS to resolve the issue. For the year ended June 30, 2009, the Hospital received a one-time payment of $9,775,000 related to House Bill 5151 which funded a catastrophic relief fund for certain hospitals with significant Medicaid utilization.

In December 2008, the Federal Centers for Medicare & Medicaid Services (CMS) approved State of Illinois (State) legislation for a Medicaid Hospital Assessment Program (Program) relating to the period July 1, 2008 to June 30, 2013. CMS had previously approved a similar program in December 2006 covering the period August 15, 2005 to June 30, 2008. Under these Programs, the Hospital received additional Medicaid reimbursement from the State and paid the related assessment taxes. Total reimbursement revenue recognized by the Hospital for fiscal years 2009 and 2008 was $12,889,822 and $7,748,665, respectively. Total assessment tax incurred by the Hospital for fiscal years 2009 and 2008 related to this program was $5,509,296 and $4,666,348, respectively. The Hospital will continue to receive a net reimbursement of approximately $7,381,000 from this Program through 2013. Whether the Program will be extended beyond 2013 is uncertain at this time.

Note 3. Community Commitment

Community commitment includes charity care for patient care services rendered to the community at a reduced or no fee due to the inability of the patient to pay for services. Community commitment also includes the difference between the estimated cost of services provided to Medicaid patients and the reimbursement from this governmental program. The estimated amount of community commitment provided for the years ended June 30, 2009 and 2008 is as follows:

	2009	2008
Charity care (foregone charges)	$ 10,435,701	$ 9,939,000
Uninsured discount	5,932,433	4,652,000
Unreimbursed cost (estimated cost, less reimbursement)	10,060,748	8,663,849

In addition, the Hospital is involved in many community benefit activities. These activities are conducted free of charge or below the cost of providing them.

Note 4. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2009 and 2008 is as follows:

	2009	2008
Concentration of Risk		
Medicare	21 %	18 %
Medicaid	27	27
Managed care	15	17
Self pay	26	28
Other	11	10
	100 %	100 %

Gross revenue from the Medicare program accounted for approximately 45 percent and 44 percent, respectively, for the years ended June 30, 2009 and 2008. Revenue from the Medicaid program accounted for approximately 25 percent and 26 percent of the Hospital's gross patient revenue for the years ended June 30, 2009 and 2008, respectively.

Note 5. Assets Whose Use is Limited and Other Investments

Assets whose use is limited and other investments consist primarily of certificates of deposit and money market funds.

Total investment return for the years ended June 30, 2009 and 2008 is summarized as follows:

	2009	2008
Dividend and interest income	$ 131,318	$ 421,661
Reported as:		
Investment income--operations	$ 7,306	$ 70,955
Investment income--nonoperating	124,012	350,706
	$ 131,318	$ 421,661

Note 6. Property and Equipment

Property and equipment consist of the following at June 30, 2009 and 2008:

	2009	2008
Land and improvements	$ 2,932,247	$ 2,838,932
Buildings	52,843,038	44,892,233
Equipment	83,039,051	76,485,322
Construction in progress	321,381	6,085,975
	139,135,717	130,302,462
Less accumulated depreciation and amortization	(96,322,712)	(90,983,381)
	$ 42,813,005	$ 39,319,081

The amounts above include assets under capital leases that are capitalized using interest rates appropriate at the inception of each lease. Equipment under capital leases is as follows at June 30, 2009 and 2008:

	2009	2008
Equipment	$ 8,517,411	$ 7,950,411
Less accumulated amortization	(6,100,851)	(5,510,661)
	$ 2,416,560	$ 2,439,750

The Hospital received a contribution of equipment during the fiscal year ended June 30, 2008 of $1,804,372. This amount was recorded as an increase in equipment and unrestricted net assets.

Note 7. Pledged Assets, Notes Payable and Long-Term Debt

The Hospital has a note payable with a bank with a balance of $682,496 and $1,032,496 at June 30, 2009 and 2008, respectively. The note payable requires monthly payments of $50,000, plus interest at 4.40 percent, and is due September 2009. This note payable was subsequently renewed to May 2010 at a rate of 1.9 percent. The loan is guaranteed by another organization.

At June 30, 2007 the Hospital had a Secured Revolving Demand Note with the Sisters of St. Casimir in the amount of $5,000,000 with an interest rate of 3.00% on balances outstanding. There was $2,500,000 outstanding on this note at June 30, 2007. In December 2007, the Sisters of St. Casimir forgave the remaining outstanding note with a balance of $2,500,000 and the related accrued interest in the amount of $230,342. The Hospital recognized a gain from this forgiveness in the amount of $2,730,342 at June 30, 2008, which was included in Other revenue in the Consolidated Statements of Operations and Changes in Net Assets.

Long-term debt is comprised of the following at June 30, 2009 and 2008:

	2009	2008
Illinois Finance Authority Adjustable Rate Demand Revenue Refunding Bonds, Series 2007, interest payable monthly at the daily, weekly, adjustable or fixed rate as defined by the remarketing agent, 0.38% at June 30, 2009, due July 2024, $375,000 in principal payment due quarterly, collateralized by a letter of credit agreement and substantially all assets of the Hospital	$ 14,125,000	$ 16,000,000
Bank note, monthly payments of $8,233 including interest at 6%, due October 1, 2009, secured by certain real estate, subsequently renewed to January 2010 at 2.35%	1,270,452	1,291,262
Capitalized leases, varying amounts, secured by related equipment	1,066,043	856,420
	16,461,495	18,147,682
Less current maturities	(3,129,881)	(2,102,462)
	$ 13,331,614	$ 16,045,220

Note 7. Pledged Assets, Notes Payable and Long-Term Debt (Continued)

The Series 2007 bonds can be called on a daily basis by the bondholder. The Hospital has a remarketing agreement with underwriters that provides for a "best efforts" remarketing of the bonds. The Hospital anticipates that additional bonds will be issued to the extent of the maturities; however, there can be no guarantee that these bonds can or will be remarketed. The bonds are secured by a letter of credit totaling $14,260,445, which expires on December 5, 2010. If the letter of credit is drawn on to pay for bonds that were not remarketed, such amounts are due immediately or on a fully amortized basis over a five-year term, at the choice of the Hospital, commencing 366 days after the drawing, in level monthly installments of principal and interest. If payment is not made immediately, the reimbursement obligation bears interest at the prime rate or up to the prime rate plus 1.5 percent, depending on the timing of repayment.

The bonds proceeds were used to finance the construction, renovation, and equipping of certain health care facilities of the Hospital; to pay certain prior indebtedness in full; and to pay certain expenses incurred in connection with the issuance of the bonds. In accordance with the bond trust indentures, certain funds were established and are held by a trustee. At June 30, 2009 and 2008, such trustee-held funds included the following:

	2009	2008
Debt service reserve fund	$ 510,156	$ 377,852
Bond sinking fund	-	-
Interest fund	-	36,024
	$ 510,156	$ 413,876

Assuming the bonds are not called, maturities of long-term debt and future payments under capital leases are as follows:

Year ended June 30,	Revenue Bonds	Bank Note	Capital Leases	Total
2010	$ 1,500,000	$ 1,270,452	$ 416,457	$ 3,186,909
2011	1,500,000	-	422,082	1,922,082
2012	1,500,000	-	282,055	1,782,055
2013	1,500,000		48,138	1,548,138
2014	1,500,000			1,500,000
Thereafter	6,625,000	-	-	6,625,000
	14,125,000	1,270,452	1,168,732	16,564,184
Less interest payments	-	-	(102,689)	(102,689)
	$ 14,125,000	$ 1,270,452	$ 1,066,043	$ 16,461,495

Various debt agreements place capital expenditure limitations on the Hospital and require the Hospital to maintain certain amounts of unrestricted cash and investments and certain financial ratios. Among these required ratios, the Hospital must maintain a debt service coverage ratio, as defined, of 110 percent for fiscal year 2008 and 135 percent for each fiscal year thereafter.

Note 8. Employee Benefit Programs

The Hospital has a noncontributory defined benefit pension plan and a noncontributory postretirement health plan. Effective June 30, 2005, the defined benefit pension plan's credited service was frozen, and the definition of pay was changed to exclude pay after 2014 (fully freezing the accrual of benefits at that point). The measurement dates used to determine the benefit obligations and fair value of plan assets were June 30, 2009 and 2008.

Obligations and funded status were as follows at June 30:

	2009		2008	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Change in benefit obligation				
Benefit obligation, beginning of year	$ 64,226,143	$ 2,464,988	$ 66,606,253	$ 2,618,717
Service cost	-	-	-	-
Interest cost	4,237,242	156,173	4,077,288	154,809
Actuarial (gains) losses	4,354,966	(498,889)	(4,130,401)	(85,296)
Benefits paid	(2,519,532)	(111,710)	(2,326,997)	(223,242)
Benefit obligation, end of year	70,298,819	2,010,562	64,226,143	2,464,988
Change in plan assets				
Fair value of plan assets, beginning of year	59,537,534	-	66,276,023	-
Actual return on plan assets	(8,965,584)	-	(4,411,492)	-
Employer contributions	-	111,710	-	223,242
Benefits paid	(2,519,532)	(111,710)	(2,326,997)	(223,242)
Fair value of plan assets, end of year	48,052,418	-	59,537,534	-
Funded status of the plan	$ (22,246,401)	$ (2,010,562)	$ (4,688,609)	$ (2,464,988)

Note 8. Employee Benefit Programs (Continued)

Amounts recognized in the consolidated balance sheet consist of:

	2009		2008	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Liabilities				
Current liabilities	$ -	$ (236,000)	$ -	$ (303,000)
Noncurrent liabilities	(22,246,401)	(1,774,562)	(4,688,609)	(2,161,988)
Total recognized as a liability	$ (22,246,401)	$ (2,010,562)	$ (4,688,609)	$ (2,464,988)
Unrestricted net assets				
Net actuarial (gains) losses	$ 16,171,509	$ (868,436)	$ (1,806,070)	$ (384,408)
Net prior service cost (credit)	239,757	(309,766)	275,472	(349,531)
Total recognized in unrestricted net assets	$ 16,411,266	$ (1,178,202)	$ (1,530,598)	$ (733,939)

The accumulated benefit obligation was $69,408,270 and $63,458,340 at June 30, 2009 and 2008, respectively.

The components of net periodic pension (benefit) cost and other amounts recognized in unrestricted net assets for the years ended June 30, 2009 and 2008 are as follows:

	2009		2008	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Components of net periodic pension (benefit) cost:				
Service cost	$ -	$ -	$ -	$ -
Interest cost	4,237,242	156,173	4,077,288	154,808
Expected return on plan assets	(4,657,029)	-	(4,503,179)	-
Amortization of unrecognized prior service costs (credits)	35,715	(39,765)	35,715	(39,765)
Amortization of unrecognized net losses	-	(14,861)	-	(4,281)
	(384,072)	101,547	(390,176)	110,762
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:				
Net actuarial loss (gain) loss	17,977,579	(498,889)	4,784,270	(85,296)
Net prior service cost (credit)	-	-	-	-
Amortization of prior service (cost) credit	(35,715)	39,765	(35,715)	39,765
Amortization of actuarial gain	-	14,861	-	4,281
	17,941,864	(444,263)	4,748,555	(41,250)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 17,557,792	$ (342,716)	$ 4,358,379	$ 69,512

The estimated prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $35,715. The estimated net gain and prior service credit for the defined benefit post retirement plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $94,530 and $14,861, respectively.

Note 8. Employee Benefit Programs (Continued)

Information relative to the assumptions used to determine the benefit obligations and net periodic benefit cost as of and for the years ended June 30 are as follows:

	2009		2008	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Assumptions used to determine the benefit obligations at June 30:				
Discount rate	6.20%	6.20%	6.75%	6.75%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Medical inflation rate- year 1	N/A	8.00%	N/A	8.00%
Medical inflation rate- ultimate	N/A	5.00%	N/A	5.00%
Assumptions used to determine the net periodic benefit cost for the year ended June 30:				
Discount rate	6.75%	6.75%	6.25%	6.25%
Expected return on plan assets	7.50%	N/A	7.50%	N/A
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Medical inflation rate- year 1	N/A	8.00%	N/A	8.00%
Medical inflation rate- ultimate	N/A	5.00%	N/A	5.00%
Year that the rate reaches the ultimate trend rate	N/A	2014	N/A	2010

The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	$ 3,173	$ (2,878)
Effect on postretirement benefit obligation	54,412	(49,379)

The asset allocation of investment categories for the defined benefit plan at June 30, 2009 and 2008 was as follows:

	2009	2008
Equity securities	70 %	69 %
Debt securities	30	31
Total	100 %	100 %

The overall expected long-term rate of return on assets is based upon the weighted average expected long-term return of a target asset allocation of 60 percent – 70 percent equity securities and 30 percent – 40 percent debt securities. Debt securities are expected to have a long-term rate of return based on current interest levels. Equity securities are expected to have a long-term rate of return based on historical equity premiums over returns on debt securities.

Note 8. Employee Benefit Programs (Continued)

There is no required contribution for the pension plan for the year ending June 30, 2010, however the Hospital expects to contribute $458,000 to the pension plan in 2010. A contribution of $236,000 is expected for other benefits for the year ending June 30, 2010. No plan assets are expected to be returned to the Hospital over the next fiscal year.

Estimated future benefit payments for the years ending June 30 are as follows (in thousands):

	Pension Benefits	Other Benefits
Years ending June 30,		
2010	$ 3,076	$ 236
2011	3,240	216
2012	3,451	204
2013	3,663	213
2014	3,874	212
2015 - 2019	22,539	899

Effective July 1, 2005, the Hospital established a 401(k) defined contribution retirement plan which is available to all employees after one month of service who work at least 1,040 hours per year and are at least 18 years old. The Hospital currently matches 100 percent of the participant's contribution up to a maximum of 1 percent of the participant's annual compensation, subject to the annual limit as required by the Internal Revenue Code. In 2008 the Hospital matched 100 percent of the participant's contribution up to a maximum of 3 percent of the participant's annual compensation. The Hospital's expense related to this plan for the years ended June 30, 2009 and 2008 was approximately $294,000 and $1,122,000, respectively.

Note 9. Self-Insurance Program and Other Contingencies

Since June 1, 1979, the Hospital's primary professional and general liability coverage has been provided through the Chicago Hospital Risk Pooling Program (CHRPP) with 15 other participating hospitals. CHRPP is a self-insured trust that provides coverage, after a nominal deductible, through the use of a fund specific to each participating hospital and two pooled funds, which include all CHRPP participating hospitals. Excess insurance coverage is purchased from a commercial insurance company. Required reserves and contributions by participating hospitals are determined annually by an independent actuary based on claim experience, investment performance and assumed self-insured retentions. The required contributions are subject to future retrospective adjustments. Effective January 1, 2003, CHRPP changed its coverage from occurrence basis to claims-made. The Hospital has recorded a reserve for incurred but not reported claims at June 30, 2009 and 2008 of $3,037,000 and $3,050,000, respectively, related to its estimated tail liability.

Accrued professional and general liability claim losses have been discounted at 5.5 percent for the years ended June 30, 2009 and 2008, respectively. The portion of the accrual for estimated professional and general liability claims expected to be paid within one year of the balance sheet dates is not readily determinable, and therefore, the entire accrual balance is classified as a noncurrent liability.

Note 9. Self-Insurance Program and Other Contingencies (Continued)

Self-insured professional and general liability expense of approximately $5,805,214 in 2009 and $4,277,000 in 2008 has been included in professional fees in the accompanying consolidated statements of operations and changes in net assets. During the year ended June 30, 2009, the Hospital recorded an additional expense of $1,238,000 related to the shortfall in CHRPP's Fund Assets compared to the actuarially projected liabilities. In 2008 the Hospital received a premium refund from CHRPP in the amount of approximately $905,000, resulting in a decrease in the self-insurance professional and general liability expense for the year ended June 30, 2008. For the purposes of the incurred but not reported (IBNR) calculation the Hospital assumed potential losses at the level of $3,000,000 for the years ended June 30, 2009 and 2008.

Note 10. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to these services for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Health care services	$ 107,386,310	$ 114,826,400
General and administrative	10,769,929	10,890,066
Fundraising	49,397	64,719
	$ 118,205,636	$ 125,781,185

Certain costs have been allocated among health care services and general and administrative.

Note 11. Operating Leases

The Hospital leases certain facilities and equipment under operating leases that expire at various dates through July 2013. The aggregate minimum annual rental commitments under noncancellable operating leases are as follows:

Year ending June 30,	
2010	$ 127,147
2011	89,215
2012	67,980
2013	67,980
2014	5,665
Thereafter	-
	$ 357,987

Rent expenses incurred on all operating leases totaled approximately $99,000 and $1,113,000 for the years ended June 30, 2009 and 2008, respectively.

Note 12. Commitment and Contingencies

Medicaid Reimbursement: The Hospital's net patient service revenue for the years ended June 30, 2009 and 2008 includes approximately $17,188,000 and $10,087,300, respectively, of high volume adjustments and other add-on and one-time payments from the Illinois Medicaid program. However, subsequent to year end, the Illinois DSH status of the Hospital has been contested by HFS for fiscal year 2009. Accordingly, the Hospital has established a $2,000,000 liability and reduced net patient service revenue by the same amount for fiscal 2009. The Hospital is working with HFS to resolve the issue. The amount of additional reimbursement from the Illinois Medicaid program which will be made to hospitals in the future is uncertain, and future legislative changes to reimbursements provided to hospitals could have a material adverse effect on the Hospital's operating results. The Hospital's operations for the years ended June 30, 2009 and June 30, 2008, benefited from the Medicaid Hospital Assessment Program (Program) net reimbursement of approximately $7,381,000 and $3,082,000, respectively. The Program expires June 30, 2013 and there is no assurance that it will be continued after its expiration.

CMS RAC Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RAC identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006, which authorized the expansion of the RAC program to all 50 states. CMS is in the process of rolling out this program nationally. As such, the Hospital may be subject to such an audit at some time in the future. Management cannot predict the effects such audits may have on the Hospital's financial statements.

Illinois Hospital Uninsured Patient Discount Act: On May 30, 2008, the Illinois legislature passed a bill titled the "Hospital Uninsured Patient Discount Act" (Act). This Act requires hospitals to provide certain mandated discounts from charges to the uninsured in Illinois. Charges are to be discounted to 135 percent of cost. Furthermore, a hospital may not collect more than 25 percent of an uninsured family's gross income in any one year.

Litigation: The Hospital is involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's financial position or results of operations.

Regulatory Investigation: The U.S. Department of Justice, other federal agencies and the Illinois Department of Public Aid routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on the Hospital's financial position or results from operations.

Contingency: Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), clarified when an entity is required to recognize a liability for a conditional asset retirement obligation. The Hospital has a legal obligation to remove hazardous material from its facilities in the event the facilities are renovated or replaced. Such hazardous materials include asbestos. Since inception of Holy Cross Hospital and throughout its history, management has renovated, replaced, or newly constructed the majority of the physical plant facilities, resulting in only a small portion of the facilities with any remaining hazardous material. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Hospital may settle the obligation is unknown. However, management does not believe that the estimate of the liability related to these asset retirement activities is a material amount at June 30, 2009.

Note 12. Commitment and Contingencies (Continued)

Contribution from State of Illinois: The State of Illinois awarded a grant/contribution to the Hospital in August 2006 totaling $7,700,000 to be used for the expansion of emergency services and life/safety improvements to the physical facility. To date, 100 percent of the funds, $7,700,000, has been received and expended for the purpose intended. At June 30, 2008 $4,180,298 was included in temporarily restricted net assets, representing unexpended contribution funds to be used towards the construction project.

Contribution from Department of Health and Human Services: The United States Department of Health and Human Services (Health Resources and Services Administration) awarded a grant/contribution to the Hospital in September 2008 totaling $948,387 to be used for the computerization of the medical records department. As of June 30, 2009, the entire amount of this grant/contribution is recorded as a receivable and is included in temporarily restricted net assets. To date, $197,567 has been expended for the purpose intended. Reimbursement of this amount from the Department of Health and Human Services was received in August 2009. The project is expected to be fully completed during the 2010 fiscal year. At June 30, 2009 the Hospital has committed to a third party for the completion of the entire project.

Note 13. Fair Value Disclosures

Fair value of financial instruments – The following methods and assumptions were used by the Hospital to estimate the fair value of other financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued liabilities and estimated third-party payor settlements are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The fair value of assets whose use is limited and investments, which consist primarily of certificates of deposit, approximates cost, which is the amount reported on the balance sheet.

The fair value of the long-term debt is estimated based on the quoted market prices for the same or similar issues or on current rates offered to market participants for debt of the same remaining maturities. The fair value of the long-term debt approximates the carrying value.

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report
on the Supplementary Information

To the Board of Trustees
Holy Cross Hospital
Chicago, Illinois

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual organizations. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Chicago, Illinois
October 16, 2009

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATING BALANCE SHEET
June 30, 2009

ASSETS	Holy Cross Hospital	Holy Cross Health Partners	Eliminations	Consolidated
Current Assets				
Cash and cash equivalents	$ 20,050,471	$ 723,161	$ -	$ 20,773,632
Assets whose use is limited - externally designated under bond agreements	510,156	-	-	510,156
Patient accounts receivable, less allowances for uncollectible amounts	15,938,870	-	-	15,938,870
Contribution receivable	948,387	-	-	948,387
Inventory	1,461,829	-	-	1,461,829
Due from affiliate	400,000	-	(400,000)	-
Prepaid expenses and other current assets	1,384,155	101,534	-	1,485,689
Total current assets	40,693,868	824,695	(400,000)	41,118,563
Assets Whose Use is Limited, net of amounts required to meet current obligations				
Internally designated for capital improvements	32,033	-	-	32,033
	32,033	-	-	32,033
Other Investments	1,226,022	-	-	1,226,022
Property and Equipment, net	42,813,005	-	-	42,813,005
Other Assets	4,491	-	-	4,491
Deferred Bond Issuance Costs, net	213,981	-	-	213,981
Total assets	$ 84,983,400	$ 824,695	$ (400,000)	$ 85,408,095

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATING BALANCE SHEET
June 30, 2009

LIABILITIES AND NET ASSETS (DEFICIT)	Holy Cross Hospital	Holy Cross Health Partners	Eliminations	Consolidated
Current Liabilities				
Notes payable	$ 682,496	$ -	$ -	$ 682,496
Current portion of long-term debt	3,129,881	-	-	3,129,881
Accounts payable	6,559,441	811,776	-	7,371,217
Due to affiliate	-	400,000	(400,000)	-
Accrued salaries and expenses	7,183,146	433,968	-	7,617,114
Accrued interest	12,225	-	-	12,225
Current portion of accrued pension and postretirement benefits	236,000	-	-	236,000
Due to third-party payors	5,049,687	-	-	5,049,687
Total current liabilities	22,852,876	1,645,744	(400,000)	24,098,620
Noncurrent Liabilities				
Long-term debt, less current portion	13,331,614	-	-	13,331,614
Accrued pension and postretirement benefits, net of current portion	24,020,963	-	-	24,020,963
Professional liability	3,037,000	-	-	3,037,000
Total noncurrent liabilities	40,389,577	-	-	40,389,577
Total liabilities	63,242,453	1,645,744	(400,000)	64,488,197
Net Assets (Deficit)				
Unrestricted	20,597,735	(821,049)	-	19,776,686
Temporarily restricted	1,143,212	-	-	1,143,212
Total net assets (deficit)	21,740,947	(821,049)	-	20,919,898
Total liabilities and net assets (deficit)	$ 84,983,400	$ 824,695	$ (400,000)	$ 85,408,095

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATING BALANCE SHEET
June 30, 2008

ASSETS	Holy Cross Hospital	Holy Cross Health Partners	Eliminations	Consolidated
Current Assets				
Cash and cash equivalents	$ 7,055,028	$ 726,755	$ -	$ 7,781,783
Assets whose use is limited - externally designated under bond agreements	413,876	-	-	413,876
Patient accounts receivable, less allowances for uncollectible amounts	14,371,609	-	-	14,371,609
Inventory	1,452,130	-	-	1,452,130
Due from affiliate	485,056	-	(485,056)	-
Prepaid expenses and other current assets	2,054,071	391,997	-	2,446,068
Total current assets	25,831,770	1,118,752	(485,056)	26,465,466
Assets Whose Use is Limited, net of amounts required to meet current obligations				
Internally designated for capital improvements	1,206,432	-	-	1,206,432
Externally designated under grant agreements	4,180,299	-	-	4,180,299
	5,386,731	-	-	5,386,731
Other Investments	1,223,507	-	-	1,223,507
Property and Equipment, net	39,319,081	-	-	39,319,081
Other Assets	7,058	-	-	7,058
Deferred Bond Issuance Costs, net	362,351	-	-	362,351
Total assets	$ 72,130,498	$ 1,118,752	$ (485,056)	$ 72,764,194

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATING BALANCE SHEET
June 30, 2009

LIABILITIES AND NET ASSETS (DEFICIT)	Holy Cross Hospital	Holy Cross Health Partners	Eliminations	Consolidated
Current Liabilities				
Notes payable	$ 1,032,496	$ -	$ -	$ 1,032,496
Current portion of long-term debt	2,102,462	-	-	2,102,462
Accounts payable	8,335,809	937,536	-	9,273,345
Due to affiliate	-	485,056	(485,056)	-
Accrued salaries and expenses	6,595,464	517,209	-	7,112,673
Accrued interest	35,015	-	-	35,015
Current portion of accrued pension and postretirement benefits	303,000	-	-	303,000
Due to third-party payors	3,545,595	-	-	3,545,595
Total current liabilities	21,949,841	1,939,801	(485,056)	23,404,586
Noncurrent Liabilities				
Long-term debt, less current portion	16,045,220	-	-	16,045,220
Accrued pension and postretirement benefits, net of current portion	6,850,597	-	-	6,850,597
Professional liability	3,050,000	-	-	3,050,000
Total noncurrent liabilities	25,945,817	-	-	25,945,817
Total liabilities	47,895,658	1,939,801	(485,056)	49,350,403
Net Assets (Deficit)				
Unrestricted	19,784,716	(821,049)	-	18,963,667
Temporarily restricted	4,450,124	-	-	4,450,124
Total net assets (deficit)	24,234,840	(821,049)	-	23,413,791
Total liabilities and net assets (deficit)	$ 72,130,498	$ 1,118,752	$ (485,056)	$ 72,764,194

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATING SCHEDULE OF OPERATIONS
Year Ended June 30, 2009

	Holy Cross Hospital	Holy Cross Health Partners	Eliminations	Consolidated
Revenue:				
Net patient service revenue	$ 101,697,666	$ -	$ -	$ 101,697,666
Capitation revenue	682,652	4,476,221	-	5,158,873
Investment income	7,306	-	-	7,306
Other revenue	2,018,879	-	(300,957)	1,717,922
House Bill 5151 revenue	9,775,000	-	-	9,775,000
Medicaid hospital assessment revenue	12,889,822	-	-	12,889,822
Net assets released from restrictions - used for operations	155,440	-	-	155,440
	127,226,765	4,476,221	(300,957)	131,402,029
Expenses:				
Salaries and employee benefits	48,874,823	-	-	48,874,823
Professional fees	6,985,284	3,222,308	-	10,207,592
Food, drugs and medical supplies	12,710,067	-	-	12,710,067
Supplies, utilities and other	19,835,412	1,267,381	(300,957)	20,801,836
Medicaid hospital assessment tax	5,509,296	-	-	5,509,296
Provision for uncollectible accounts	13,919,860	-	-	13,919,860
Depreciation and amortization	5,504,109	-	-	5,504,109
Interest	678,053	-	-	678,053
	114,016,904	4,489,689	(300,957)	118,205,636
Income (loss) from operations	13,209,861	(13,468)	-	13,196,393
Nonoperating income:				
Investment income	110,544	13,468	-	124,012
Total nonoperating income, net	110,544	13,468	-	124,012
Excess of revenue over expenses	$ 13,320,405	$ -	$ -	$ 13,320,405

HOLY CROSS HOSPITAL AND AFFILIATE

CONSOLIDATING SCHEDULE OF OPERATIONS
Year Ended June 30, 2008

	Holy Cross Hospital	Holy Cross Health Partners	Eliminations	Consolidated
Revenue:				
Net patient service revenue	$ 111,142,732	$ -	$ -	$ 111,142,732
Capitation revenue	276,725	5,156,358	-	5,433,083
Investment income	70,955	-	-	70,955
Other revenue	5,056,193	-	(486,064)	4,570,129
Medicaid hospital assessment revenue	7,748,665	-	-	7,748,665
Net assets released from restrictions - used for operations	381,320	-	-	381,320
	124,676,590	5,156,358	(486,064)	129,346,884
Expenses:				
Salaries and employee benefits	57,631,310	-	-	57,631,310
Professional fees	7,337,902	3,689,313	-	11,027,215
Food, drugs and medical supplies	13,299,009	-	-	13,299,009
Supplies, utilities and other	18,319,900	1,512,463	(486,064)	19,346,299
Medicaid hospital assessment tax	4,666,348	-	-	4,666,348
Provision for uncollectible accounts	14,453,325	-	-	14,453,325
Depreciation and amortization	4,104,863	-	-	4,104,863
Interest	1,252,816	-	-	1,252,816
	121,065,473	5,201,776	(486,064)	125,781,185
Income (loss) from operations	3,611,117	(45,418)	-	3,565,699
Nonoperating income (loss):				
Investment income	305,288	45,418	-	350,706
Loss on extinguishment of debt	(525,664)	-	-	(525,664)
Total nonoperating income (loss), net	(220,376)	45,418	-	(174,958)
Excess of revenue over expenses	$ 3,390,741	$ -	$ -	$ 3,390,741