

ILLINOIS HEALTH FACILITIES PLANNING BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

ORIGINAL
RECEIVED

MAR 09 2011

HEALTH FACILITIES &
SERVICES REVIEW BOARD

1. INFORMATION FOR EXISTING FACILITY

E-006-11

Current Facility Name: Foster G. McGaw Hospital - Loyola University Medical Center
Address: 2160 South 1st Avenue
City: Maywood, Illinois Zip Code: 60153 County: Cook
Name of current licensed entity for the facility: Loyola University Medical Center
Does the current licensee: own this facility Yes OR lease this facility _____ (if leased, check if sublease)
Type of ownership of the current licensed entity (check one of the following:): _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____
Illinois State Senator for the district where the facility is located: Sen. Kimberly A. Lightford
State Senate District Number: 4 Mailing address of the State Senator: 10001 West Roosevelt Road, Suite 202,
Westchester, Illinois 60154
Illinois State Representative for the district where the facility is located: Rep. Karen A. Yarbrough
State Representative District Number: 7 Mailing address of the State Representative: 2305 West Roosevelt Road,
Broadview, Illinois 60155

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes No . If yes, refer to Section 1130.520(f), and indicate the projects by Project #: Project No. 08-098 & Project No. 09-057 are currently pending but will be completed before the effective date of the proposed ownership change contemplated by this COE. See Explanatory Note 2 for additional information.

3. **FACILITY'S BED OR DIALYSIS STATION CAPACITY BY CATEGORY OF SERVICE** (Complete "APPENDIX A" attached to this application)

4. **FACILITY'S OTHER CATEGORIES OF SERVICE AS DEFINED IN 77 IAC 1100** (Complete "APPENDIX A" attached to this application)

5. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant: Trinity Health Corporation

Address: 27870 Cabot Drive

City, State & Zip Code: Novi, Michigan 48377

Type of ownership of the current licensed entity (check one of the following:): _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

6. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**

Exact Legal Name of Entity to be Licensed: The license will continue to be held by Loyola University Medical Center as the proposed transaction involves a membership substitution.

Address: 2160 South 1st Avenue, Maywood, Illinois 60153

Type of ownership of the current licensed entity (check one of the following:): _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

7. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site: The building(s) will continue to be owned by Loyola University Medical Center as the proposed transaction involves a membership substitution.

Address: 2160 South 1st Avenue, Maywood, Illinois 60153

Type of ownership of the current licensed entity (check one of the following:): _____ Sole Proprietorship
X Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

- 8. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
1. Purchase resulting in the issuance of a license to an entity different from current licensee;
 2. Lease resulting in the issuance of a license to an entity different from current licensee;
 3. Stock transfer resulting in the issuance of a license to a different entity from current licensee;
 4. Stock transfer resulting in no change from current licensee;
 5. Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
 6. Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
 7. Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
 8. Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
 9. Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
 10. Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
 11. Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"
- 9. APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1**.
- 10. FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**.
- 11. ANTICIPATED ACQUISITION PRICE:** \$175,000,000 (See Explanatory Note 11 for additional information)
- 12. FAIR MARKET VALUE OF THE FACILITY:** \$175,000,000 (See Explanatory Note 12 for additional information) (to determine fair market value, refer to 77 IAC 1130.140)
- 13. DATE OF PROPOSED TRANSACTION:** Transaction to close on June 30, 2011, effective on July 1, 2011
- 14. NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.
- 15. BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Partnerships must provide the name and address of each partner and specify whether each is a general or limited partner. Append this information to the application as **ATTACHMENT #4**.
- 16. TRANSACTION DOCUMENTS.** Provide a copy of the document(s) which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities Planning Board. Append this document(s) to the application as **ATTACHMENT #5**.
- 17. FINANCIAL INFORMATION** (co-applicants must also provide this information). Per 77 IAC 1130.520(b)(3), an applicant must demonstrate it has sufficient funds to finance the acquisition **and** to operate the facility for 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch, Moody or Standard and Poor's rating agencies or evidence of compliance with the financial viability review criteria (as applicable) to the type of facility being acquired (as specified at 77 IAC 1120). Append as **ATTACHMENT #6**.
- 18. PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Edward J. Green, Esq., Foley & Lardner LLP
Address: 321 North Clark Street, Suite 2800
City, State & Zip Code: Chicago, Illinois 60654
Telephone: 312-832-4375

19a. ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

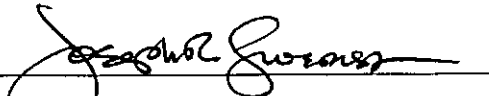
Name: J. Mark Waxman, Esq., Foley & Lardner LLP
Address: 111 Huntington Avenue, Suite 2600
City, State & Zip Code: Boston, Massachusetts 02199
Telephone: 617-342-4055

19b. ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Paul Neumann, Esq., Senior Vice President & General Counsel, Trinity Health Corporation
Address: 34605 Twelve Mile Road
City, State & Zip Code: Farmington Hills, Michigan 48331
Telephone: 248-489-6214

20. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer: 

Typed or Printed Name of Authorized Officer: Joseph Swedish

Title of Authorized Officer: President & CEO

Address: 27870 Cabot Drive

City, State & Zip Code: Novi, Michigan 48377

Telephone: (248) 489-6794

Date: 03/04/2011

NOTE: complete a separate signature page for each co-applicant and insert following this page.

**APPENDIX A
FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE**

Complete the following for the facility for which the change of ownership is requested. The facility's bed and dialysis station capacity must be consistent with the State Board's Inventory of Health Care Facilities.

FACILITY NAME: Foster G. McGaw Hospital-Loyola University Medical Center CITY: Maywood

1. Indicate (by placing an "X") the type of facility for which the change of ownership is requested:

Hospital; Long-term Care Facility; Dialysis Facility; Ambulatory Surgical Treatment Center.

2. Provide the bed capacity by category of service:

SERVICE	# of Beds	SERVICE	# of Beds
Medical/Surgical	298	Nursing Care	_____
Obstetrics	30	Shelter Care	_____
Pediatrics	34	DD Adults*	_____
Intensive Care	125	DD Children**	_____
Acute Mental Illness	0	Chronic Mental Illness	_____
Rehabilitation	32	Children's Medical Care	_____
Neonatal Intensive Care	50	Children's Respite Care	_____

*Includes ICF/DD 16 and fewer bed facilities; **Includes skilled pediatric 22 years and under

3. Chronic Renal Dialysis: Enter the number of ESRD stations: _____

4. Indicate (by placing an "X") those categories of service for which the facility is approved.

<input checked="" type="checkbox"/> Cardiac Catheterization	<input checked="" type="checkbox"/> Open Heart Surgery
<input type="checkbox"/> Subacute Care Hospital Model	<input checked="" type="checkbox"/> Kidney Transplantation
<input checked="" type="checkbox"/> Selected Organ Transplantation	<input type="checkbox"/> Postsurgical Recovery Care Center Model

5. Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers

Indicate (by placing an "X") if the facility is a limited or multi-specialty facility and indicate the surgical specialties provided.

<input type="checkbox"/> Cardiovascular	<input type="checkbox"/> Ophthalmology
<input type="checkbox"/> Dermatology	<input type="checkbox"/> Oral/Maxillofacial
<input type="checkbox"/> Gastroenterology	<input type="checkbox"/> Orthopedic
<input type="checkbox"/> General/Other (includes any procedure that is not included in the other specialties)	<input type="checkbox"/> Otolaryngology
<input type="checkbox"/> Neurological	<input type="checkbox"/> Plastic Surgery
<input type="checkbox"/> Obstetrics/Gynecology	<input type="checkbox"/> Podiatry
	<input type="checkbox"/> Thoracic
	<input type="checkbox"/> Urology

<u>Ownership, Management and General information</u>		<u>Patients by Race</u>		<u>Patients by Ethnicity</u>	
ADMINISTRATOR NAME:	Sharon O'Keefe	White	62.8%	Hispanic or Latino:	14.3%
ADMINISTRATOR PHONE:	708-216-0864	Black	23.3%	Not Hispanic or Latino:	84.5%
OWNER:	Loyola University Medical Center	American Indian	0.0%	Unknown:	1.3%
OPERATOR:	Loyola University Medical Center	Asian	1.5%	IDPH Number:	4630
MANAGEMENT:	Not For Profit Corporation	Hawaiian/ Pacific	0.1%	HPA	A-06
CERTIFICATION:	None	Unknown:	12.3%	HSA	7
FACILITY DESIGNATION:	General Hospital				
ADDRESS:	2160 South 1st Avenue	CITY:	Maywood	COUNTY:	Suburban Cook County

<u>Facility Utilization Data by Category of Service</u>										
Clinical Service	Authorized CON Beds 12/31/2009	Peak Beds Setup and Staffed	Peak Census	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy 12/31/2009	Staff Bed Occupancy Rate %
Medical/Surgical	298	288	288	22,301	64,597	4,964	3.1	190.6	64.0	66.2
0-14 Years				0	0					
15-44 Years				5,497	13,216					
45-64 Years				8,352	22,361					
65-74 Years				3,905	13,935					
75 Years +				4,547	15,085					
Pediatric	34	34	34	2,011	8,654	774	4.7	25.8	76.0	76.0
Intensive Care	125	125	125	5,888	30,098	364	5.2	83.5	66.8	66.8
Direct Admission				3,519	18,357					
Transfers				2,369	11,741					
Obstetric/Gynecology	30	25	25	1,786	8,922	1,179	5.7	27.7	92.2	110.7
Maternity				1,284	6,192					
Clean Gynecology				502	2,730					
Neonatal	50	50	50	372	12,496	0	33.6	34.2	68.5	68.5
Long Term Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Swing Beds				0	0		0.0	0.0		
Acute Mental Illness	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Rehabilitation	32	32	24	670	8,638	0	12.9	23.7	74.0	74.0
Long-Term Acute Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedicated Observation	10					279				
Facility Utilization	569			30,659	133,405	7,560	4.6	386.2	67.9	

(Includes ICU Direct Admissions Only)

<u>Inpatients and Outpatients Served by Payer Source</u>							
	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity Care	Totals
Inpatients	34.1%	18.5%	0.7%	39.7%	5.4%	1.6%	30,659
	10454	5672	229	12157	1642	505	
Outpatients	18.3%	12.9%	0.6%	61.1%	3.1%	4.0%	183,154
	33566	23664	1024	111993	5622	7285	

<u>Financial Year Reported:</u>	7/1/2008 to 6/30/2009		<u>Inpatient and Outpatient Net Revenue by Payer Source</u>					Charity Care Expense	Total Charity Care Expense 18,849,707
	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Totals			
Inpatient Revenue (\$)	37.7%	15.0%	1.6%	40.7%	5.0%	100.0%	17,484,845	Totals: Charity Care as % of Net Revenue	
	142,750,000	56,925,000	6,078,000	153,816,000	18,771,000	378,340,000			
Outpatient Revenue (\$)	25.2%	4.2%	11.0%	55.1%	4.5%	100.0%	1,364,862	2.8%	
	71,613,000	11,806,000	31,206,000	156,710,000	12,884,000	284,219,000			

<u>Birthing Data</u>		<u>Newborn Nursery Utilization</u>		<u>Organ Transplantation</u>	
Number of Total Births:	970	Level 1 Patient Days	1,050	Kidney:	68
Number of Live Births:	947	Level 2 Patient Days	155	Heart:	20
Birthing Rooms:	0	Level 2+ Patient Days	317	Lung:	43
Labor Rooms:	0	Total Nursery Patientdays	1,522	Heart/Lung:	1
Delivery Rooms:	0			Pancreas:	0
Labor-Delivery-Recovery Rooms:	7			Liver:	13
Labor-Delivery-Recovery-Postpartum Rooms:	0	<u>Laboratory Studies</u>		Total:	145
C-Section Rooms:	0	Inpatient Studies	1,266,035		
CSections Performed:	338	Outpatient Studies	1,317,710		
		Studies Performed Under Contract	82,217		

* Note: According to Board action on 4/22/09, Board reduced 9 ICU beds. On 7/1/09, Board added 8 rehab beds, total rehab count = 32. The CON count is 569 beds. Volumes for the cardiac cath and EP labs represent only cardiac procedures and do not include other procedures performed in the cath labs.

Surgery and Operating Room Utilization

Surgical Specialty	Operating Rooms				Surgical Cases		Surgical Hours			Hours per Case	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Cardiovascular	0	0	0	0	1156	0	6627	0	6627	5.7	0.0
Dermatology	0	0	0	0	0	0	0	0	0	0.0	0.0
General	27	0	0	27	3359	0	11340	0	11340	3.4	0.0
Gastroenterology	0	0	0	0	0	0	0	0	0	0.0	0.0
Neurology	0	0	0	0	943	0	4508	0	4508	4.8	0.0
OB/Gynecology	0	0	0	0	956	0	2751	0	2751	2.9	0.0
Oral/Maxillofacial	0	0	0	0	222	0	999	0	999	4.5	0.0
Ophthalmology	0	0	0	0	38	0	117	0	117	3.1	0.0
Orthopedic	0	0	0	0	1742	0	6928	0	6928	4.0	0.0
Otolaryngology	0	0	0	0	1361	0	4660	0	4660	3.4	0.0
Plastic Surgery	0	0	0	0	378	0	1380	0	1380	3.7	0.0
Podiatry	0	0	0	0	0	0	0	0	0	0.0	0.0
Thoracic	0	0	0	0	0	0	0	0	0	0.0	0.0
Urology	0	0	0	0	1174	0	4398	0	4398	3.7	0.0
Totals	27	0	0	27	11329	0	43708	0	43708	3.9	0.0

SURGICAL RECOVERY STATIONS Stage 1 Recovery Stations 40 Stage 2 Recovery Stations 0

Dedicated and Non-Dedicated Procedure Room Utilization

Procedure Type	Procedure Rooms				Surgical Cases		Surgical Hours			Hours per Case	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Gastrointestinal	0	0	6	6	1964	7854	2651	7854	10505	1.3	1.0
Laser Eye Procedures	0	0	0	0	0	0	0	0	0	0.0	0.0
Pain Management	0	0	0	0	0	0	0	0	0	0.0	0.0
Cystoscopy	0	0	0	0	0	0	0	0	0	0.0	0.0
Multipurpose Non-Dedicated Rooms											
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0

Cardiac Catheterization Labs

Total Cath Labs (Dedicated+Nondedicated labs):	8
Cath Labs used for Angiography procedures	0
Dedicated Diagnostic Catheterization Labs	0
Dedicated Interventional Catheterization Labs	0
Dedicated EP Catheterization Labs	4

Cardiac Catheterization Utilization

Total Cardiac Cath Procedures:	3,458
Diagnostic Catheterizations (0-14)	0
Diagnostic Catheterizations (15+)	2,460
Interventional Catheterizations (0-14):	0
Interventional Catheterization (15+)	522
EP Catheterizations (15+)	476

Emergency/Trauma Care

Certified Trauma Center by EMS	<input checked="" type="checkbox"/>	
Level of Trauma Service	Level 1 Adult	Level 2 ---
Operating Rooms Dedicated for Trauma Care		1
Number of Trauma Visits:		2,525
Patients Admitted from Trauma		815
Emergency Service Type:	Comprehensive	
Number of Emergency Room Stations		33
Persons Treated by Emergency Services:		52,904
Patients Admitted from Emergency:		14,276
Total ED Visits (Emergency+Trauma):		55,429

Cardiac Surgery Data

Total Cardiac Surgery Cases:	1,001
Pediatric (0 - 14 Years):	23
Adult (15 Years and Older):	978
Coronary Artery Bypass Grafts (CABGs) performed of total Cardiac Cases :	299

Outpatient Service Data

Total Outpatient Visits	946,714
Outpatient Visits at the Hospital/ Campus:	473,986
Outpatient Visits Offsite/off campus	472,728

Diagnostic/Interventional Equipment	Examinations				Radiation Equipment			Therapies/ Treatments
	Owned	Contract	Inpatient	Outpatient	Owned	Contract		
General Radiography/Fluoroscopy	22	0	63,271	69,506	Lithotripsy	1	0	17
Nuclear Medicine	15	0	2,390	11,300	Linear Accelerator	3	0	784
Mammography	6	0	16	20,874	Image Guided Rad Therapy	1	0	103
Ultrasound	12	0	4,436	13,111	Intensity Modulated Rad Therap	4	0	158
Diagnostic Angiography	0	0	0	0	High Dose Brachytherapy	1	0	26
Interventional Angiography	0	0	0	0	Proton Beam Therapy	0	0	0
Positron Emission Tomography (PET)	1	0	23	1,114	Gamma Knife	1	0	63
Computerized Axial Tomography (CAT)	6	0	14,335	22,082	Cyber knife	0	0	0
Magnetic Resonance Imaging	5	0	3,424	11,665				

Source: 2009 Annual Hospital Questionnaire, Illinois Department of Public Health, Health Systems Development.

DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION



State of Illinois 1982855 Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

DAMON T. BARNOLD, M.D.
DIRECTOR
The State of Illinois
Department of Public Health

EXPIRATION DATE	CATEGORY	ID. NUMBER
06/30/11	BGBD	0004630
FULL LICENSE		
GENERAL HOSPITAL		
EFFECTIVE: 07/01/10		

BUSINESS ADDRESS

FOSTER G. MCGAW HOSPITAL
2160 SOUTH 1ST AVENUE
MAYWOOD IL 60153 3304

The face of this license has a colored background. Printed by Authority of the State of Illinois • 4/97 •

State of Illinois 1982855 Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION
FOSTER G. MCGAW HOSPITAL

EXPIRATION DATE	CATEGORY	ID. NUMBER
06/30/11	BGBD	0004630
FULL LICENSE		
GENERAL HOSPITAL		
EFFECTIVE: 07/01/10		

05/08/10
FOSTER G. MCGAW HOSPITAL
2160 SOUTH 1ST AVENUE
MAYWOOD IL 60153 3304

FEE RECEIPT NO.

Attachment 1
Application Fee

A check in the sum of Two Thousand, Five Hundred Dollars (\$2,500) and payable to the Illinois Department of Public Health is attached at Attachment 1.



Attachment 2
Funding

The Transaction (as described and defined in Attachment 3) will be funded with cash and cash equivalents and/or through the issuance of commercial paper through Trinity Health Corporation's Four Hundred Million Dollar (\$400,000,000) authorized commercial paper facility (the "Commercial Paper Facility"). See pages 2 and 21 of Trinity Health Corporation's audited consolidated financial statements for the year ended June 30, 2010, which are attached at Attachment 6, for further information on Trinity Health Corporation's available cash and cash equivalents and the Commercial Paper Facility.

Attachment 3
Narrative

Trinity Health Corporation ("Trinity") hereby seeks a Certificate of Exemption ("COE") from the Illinois Health Facilities & Services Review Board (the "Board") to allow consummation of a proposed transaction (the "Transaction") between Trinity and Loyola University of Chicago (the "University"), whereby Trinity will replace the University as the sole member of Loyola University Health System ("LUHS").

Trinity is the fourth largest Catholic health care system in the country. Based in Novi, Michigan, Trinity operates 46 acute-care hospitals, 379 outpatient facilities, 33 long-term care facilities, and numerous home health offices and hospice programs in nine states. Employing more than 48,000 full-time staff, Trinity reported \$7.1 billion in unrestricted revenue in fiscal year 2010. As a not-for-profit health system, Trinity, through its ministry and operations, invests in its communities through programs which serve the poor and uninsured, manage chronic conditions such as diabetes, help educate residents on health care and health related issues, and provide outreach for the elderly. In fiscal year 2010, this included nearly \$456 million in such community benefits.

Based in the western suburbs of Chicago, Illinois, LUHS is a leading Catholic academic medical center with a multidisciplinary focus on delivering outstanding patient care, leading-edge research and rigorous medical, nursing and graduate education.

LUHS's 61-acre main medical center campus is located in Maywood, Illinois. Foster G. McGaw Hospital-Loyola University Medical Center ("LUMC") lies at the heart of the Maywood campus and is licensed for 569 beds. LUHS is the sole member of LUMC.

LUMC houses a Level 1 Trauma Center, a Burn Center and the Ronald McDonald® Children's Hospital of Loyola University Medical Center. The Cardinal Bernardin Cancer Center, Loyola Outpatient Center, Center for Heart & Vascular Medicine, Loyola Oral Health Center, and Loyola Center for Health & Fitness are also located on the Maywood campus.

LUMC owns and operates a provider based, 31 station end stage renal disease facility in Maywood and a provider based, 8 operating room ambulatory surgery center in Maywood. Separate COE Applications have been simultaneously filed for both of these facilities.

LUMC indirectly owns a 49.5% interest in an ambulatory surgery center in Oak Brook Terrace and indirectly owns a 50% interest in two long term acute care hospitals in Hinsdale and Chicago. Because LUMC does not own more than 50% or control these facilities, separate COE Applications have not been filed for these facilities.

LUHS owns and operates Gottlieb Memorial Hospital ("Gottlieb") on its 36-acre medical campus in Melrose Park, Illinois. LUHS is the sole corporate member of Gottlieb. Gottlieb, a community based hospital, is licensed for 264 beds. The Gottlieb Health & Fitness Center and the Marjorie G. Weinberg Cancer Care Center are also located on the Melrose Park campus. A separate COE Application has been simultaneously filed for Gottlieb.

LUHS has one of the largest networks of ambulatory practice sites in the region with a total of 28 primary and specialty care facilities in Cook, Will and DuPage counties.

Together, the University, Trinity and LUHS will strive to become one of the nation's leading providers of Catholic health care, research, and medical education and a model for physician, provider, and community collaboration. When Trinity's resources are combined with LUHS's renowned physicians and intellectual capital, the University, Trinity, and LUHS firmly believe that patient care, education, and research efforts in the greater Chicagoland area will be significantly enhanced.

The University, Trinity and LUHS also expect the Transaction to result in the implementation of new, innovative, and efficient health-care delivery models in the region and nationally. Leaders of both organizations have agreed to collaborate to better serve people in the LUHS communities, including those who are underserved and uninsured, and to strengthen and preserve both research and education missions of the organizations.

Following the Transaction, LUHS, and each of its licensed facilities, including LUMC and Gottlieb, will continue to be governed by local boards of directors. The composition of the LUHS Board of Directors will be reconstituted to include religious members, University representatives, Trinity representatives, community members and certain members of the existing LUHS Board of Directors.

Critically, as part of the Transaction, Trinity has committed to cause the expenditure of no less than \$300 million over the next seven years for capital and equipment needs to support the operational needs of LUHS and LUHS's subsidiaries and affiliates, including LUMC and Gottlieb, following the Transaction.

Because the Transaction will result in a change in the membership or sponsorship of a not-for-profit corporation that owns or controls an Illinois licensed health facility (as well as its physical plant and capital assets), the Transaction constitutes a change of ownership under Section 1130.140 of the Board's rules. The Transaction is contingent upon the approval of the Board and the granting of a COE.

The Transaction is expected to close on or about June 30, 2011, with an effective date of July 1, 2011.

Attachment 4
Background of Applicant

The following documents are attached at Attachment 4:

1. Certificate of Good Standing for Trinity Health Corporation (issued by the Indiana Secretary of State).
2. Certificate of Authorization to Conduct Business Affairs in Illinois for Trinity Health Corporation (issued by the Illinois Secretary of State).
3. Background information on Trinity Health Corporation and biographical information on Trinity Health Corporation's senior management (which was originally set forth in Appendix A to that certain Official Statement, dated October 14, 2010, for certain Trinity Health bonds that were offered on October 28, 2010). Please note that Michael Slubowski is no longer employed by Trinity.
4. Organizational charts for Loyola University Health System prior to and following the Transaction.

STATE OF INDIANA
OFFICE OF THE SECRETARY OF STATE
CERTIFICATE OF EXISTENCE

To Whom These Presents Come, Greetings:

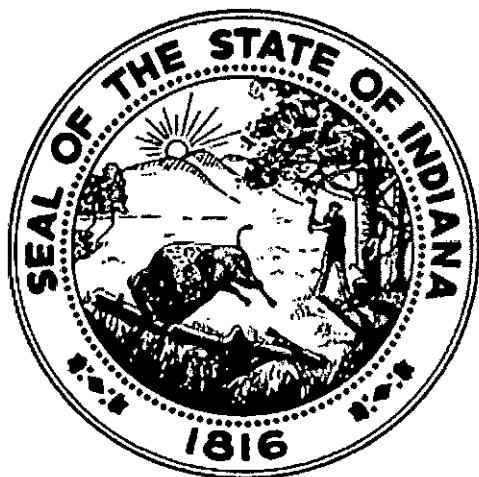
I, Charles P. White, Secretary of State of Indiana, do hereby certify that I am, by virtue of the laws of the State of Indiana, the custodian of the corporate records, and proper official to execute this certificate.

I further certify that records of this office disclose that

TRINITY HEALTH CORPORATION

duly filed the requisite documents to commence business activities under the laws of State of Indiana on November 10, 1978, and was in existence or authorized to transact business in the State of Indiana on March 01, 2011.

I further certify this Non-Profit Domestic Corporation has filed its most recent report required by Indiana law with the Secretary of State, or is not yet required to file such report, and that no notice of withdrawal, dissolution or expiration has been filed or taken place.



In Witness Whereof, I have hereunto set my hand and affixed the seal of the State of Indiana, at the city of Indianapolis, this First Day of March, 2011.

Charles P. White

Charles P. White, Secretary of State

197811-279 / 2011030175924



OFFICE OF THE SECRETARY OF STATE

JESSE WHITE • Secretary of State

MARCH 2, 2011

6775-210-4

CSC
801 ADLAI STEVENSON DR
SPRINGFIELD, IL 62703

RE TRINITY HEALTH CORPORATION

DEAR SIR OR MADAM:

ENCLOSED YOU WILL FIND THE AUTHORITY OF THE ABOVE NAMED CORPORATION TO CONDUCT AFFAIRS IN THIS STATE.

PAYMENT OF THE FILING FEE IS HEREBY ACKNOWLEDGED.

CERTAIN NOT FOR PROFIT CORPORATIONS ORGANIZED AS A CHARITABLE CORPORATION ARE REQUIRED TO REGISTER WITH THE OFFICE OF THE ATTORNEY GENERAL. UPON RECEIPT OF THE ENCLOSED AUTHORITY, YOU MUST CONTACT THE CHARITABLE TRUST DIVISION, OFFICE OF THE ATTORNEY GENERAL, 100 W. RANDOLPH, 3RD FLOOR, CHICAGO, ILLINOIS 60601, TELEPHONE (312) 814-2595.

SINCERELY,

JESSE WHITE
SECRETARY OF STATE
DEPARTMENT OF BUSINESS SERVICES
CORPORATION DIVISION
TELEPHONE (217) 782-6961

FORM NFP 113.15 (rev. Dec. 2003)
 APPLICATION FOR AUTHORITY
 TO CONDUCT AFFAIRS IN
 ILLINOIS (Foreign Corporations)
 General Not For Profit Corporation Act

FILED

MAR. 2 2011

**JESSE WHITE
 SECRETARY OF STATE**

Secretary of State
 Department of Business Services
 Springfield, IL 62756
 217-782-1834
 www.cyberdriveillinois.com

Remit payment in the form of a cashier's
 check, certified check, money order or an
 Illinois attorney's or CPA's check payable
 to Secretary of State.

File # 6775-2104 Filing Fee: \$50 Approved: eyj

----- Submit in duplicate ----- Type or Print clearly in black Ink ----- Do not write above this line -----

1. a. Corporate Name: TRINITY HEALTH CORPORATION

b. Assumed Corporate Name (Complete only if the new corporate name is not available in this state.):

By electing this assumed name, the Corporation hereby agrees NOT to use its corporate name in the transaction of
 business in Illinois. Form NFP 104.15 is attached.

2. a. State or Country of Incorporation: INDIANA

b. Date of Incorporation: NOVEMBER 10, 1978

c. Period of Duration: PERPETUAL

3. a. Address of Principal Office, wherever located: _____

27870 CABOT DRIVE, NOVI, MI 48377

b. Address of Principal Office in Illinois: NONE

4. Name and Address of Registered Agent and Registered Office in Illinois:

Registered Agent: F&L CORP.

First Name Middle Name Last Name

Registered Office: 321 N. CLARK STREET, SUITE 2800

Number	Street	Suite # (P.O. Box alone is unacceptable)
<u>CHICAGO, IL</u>	<u>60654</u>	<u>COOK</u>
City	ZIP Code	County

5. States and Countries in which Corporation is admitted or qualified to conduct affairs: IN, MI

6. Names and respective addresses of Corporation's officers and directors:

	Street Address	City	State	ZIP
President	(SEE ATTACHMENT)			
Secretary				
Director				
Director				
Director				

If there are additional officers or more than three directors, please attach list.


Printed by authority of the State of Illinois. June 2006 - SM - C 160.14

7. Purpose(s) for which the Corporation is organized and proposes to pursue in the conduct of affairs in this State:
For more space, attach additional sheets of this size.

TO FURTHER ANY AND ALL CHARITABLE, SCIENTIFIC, RELIGIOUS AND EDUCATIONAL PURPOSES WITHIN THE MEANING OF SECTION 501 (c)(3) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED FROM TIME TO TIME, OR COMPARABLE PROVISIONS OF SUBSEQUENT LEGISLATION AND TO CARRY OUT THE APOSTOLATE OF CATHOLIC HEALTH MINISTRIES ON BEHALF OF AND AS AN INTEGRAL PART OF THE ROMAN CATHOLIC CHURCH IN THE UNITED STATES.

8. This application must be accompanied by an originally certified copy of the Articles of Incorporation and any amendments or mergers, duly authenticated within the last 90 days by the proper officer of the state or country wherein the corporation is incorporated.
9. The undersigned Corporation has caused this statement to be signed by a duly authorized officer who affirms, under penalties of perjury, that the facts stated herein are true and correct. All signatures must be in **BLACK INK**.

Dated MARCH 2, 2011 TRINITY HEALTH CORPORATION
Month & Day Year Exact Name of Corporation


Any Authorized Officer's Signature

Paul Gustav Neumann, Secretary
Name and Title (type or print)

A Corporation that is to function as a club, as defined in Section 1-3.24 of the Liquor Control Act of 1934, must insert in its purpose clause a statement that It will comply with the State and local laws and ordinances relating to alcoholic liquors.

**ATTACHMENT TO
APPLICATION FOR AUTHORITY TO
CONDUCT AFFAIRS IN ILLINOIS**

TRINITY HEALTH CORPORATION

Names and respective addresses of Corporation's officers and directors:

NAME	TITLE	ADDRESS
Joseph R. Swedish	President/Director	27870 Cabot Drive Novi, MI 48377
Paul G. Neumann	Secretary	27870 Cabot Drive Novi, MI 48377
James Bosscher	Treasurer	27870 Cabot Drive Novi, MI 48377
Henry R. Autry	Director	27870 Cabot Drive Novi, MI 48377
James Bentley	Director	27870 Cabot Drive Novi, MI 48377
Suzanne Brennan	Director	27870 Cabot Drive Novi, MI 48377

APPENDIX A

Information Concerning



Novi, Michigan

TRINITY HEALTH CREDIT GROUP

The information contained herein as
Appendix A to this Official Statement
has been obtained from Trinity
Health on behalf of itself and
the members of its Credit Group.

TRINITY HEALTH CREDIT GROUP

History

Trinity Health Corporation (“Trinity Health”), an Indiana nonprofit corporation, was formed by the consolidation of Holy Cross Health system Corporation (“Holy Cross”) and Mercy Health Services (“Mercy”) in May 2000. Holy Cross, an Indiana nonprofit corporation, was incorporated in 1978 to coordinate the health care activities of the Congregation of the Sisters of the Holy Cross (the “Holy Cross Sisters”). Mercy, a Michigan nonprofit corporation, was incorporated in 1976 to assume ownership of and to coordinate the health care services of the Sisters of Mercy Regional Community of Detroit, now part of Sisters of Mercy of the Americas West Midwest Community (the “Sisters of Mercy”). In conjunction with its formation, Trinity Health formed the Trinity Health Credit Group (described below) to facilitate its capital formation and capital management activities.

Trinity Health is sponsored by Catholic Health Ministries (“CHM”), an association governed by individuals (“CHM Members”) who also comprise the Board of Directors of Trinity Health (the “Trinity Board”). New CHM Members are appointed by current CHM Members. CHM is recognized by the Roman Catholic Church as an entity that acts in its name with respect to CHM’s sponsored works. The health care ministries of CHM (previously the ministries of the Holy Cross Sisters and the Sisters of Mercy) have provided assistance to the sick and infirm for more than 125 years.

The Trinity Health Credit Group

Trinity Health controls or owns, directly or indirectly, various nonprofit and for-profit corporations and other organizations (the “Trinity Health Affiliates”) that currently operate primarily in California, Idaho, Indiana, Iowa, Maryland, Michigan, Ohio and Oregon. Trinity Health and the Trinity Health Affiliates, which at present include all Designated Affiliates (described below), are sometimes collectively referred to in this APPENDIX A as the “Health System.” Trinity Health, the Trinity Health Affiliates and the Designated Affiliates are referred to in this APPENDIX A in the context of the Master Indenture as the “Trinity Health Credit Group” or the “Credit Group.” Trinity Health is the only member of the Trinity Health Credit Group with a direct obligation to make payments on Obligations issued under the Master Indenture, including the 2010 Obligations that secure the Series 2010 Bonds.

The health care facilities owned and operated by members of the Health System include general acute care hospitals, long-term care facilities, skilled nursing facilities and behavioral health facilities with an aggregate of 8,185 staffed beds, as well as residential facilities for the elderly with an aggregate of 1,443 living units. Additional health care and related services provided by members of the Health System include physician services, home health, outpatient surgery, dental clinics, occupational health, mobile health care services, school-based health clinics, skilled nursing facilities, assisted living facilities, senior housing and managed care organizations.

Trinity Health may name Trinity Health Affiliates and other entities as “Designated Affiliates” under the Master Indenture. Designated Affiliates are not obligated to make payments on Obligations issued under the Master Indenture but, at Trinity Health’s direction, may be required to pay, loan or transfer funds to Trinity Health sufficient to make payments on Obligations issued under the Master Indenture, including the 2010 Obligations that secure the Series 2010 Bonds. In addition, pursuant to the Master Indenture, Trinity Health has caused the Designated Affiliates representing, when combined with Trinity Health, not less than 85% of the consolidated net revenues of the Credit Group to grant to Trinity Health security interests in their Pledged Property (as defined in APPENDIX D to this Official Statement) (which security interests have been assigned to the holder of the 2010 Obligations that secure the Series 2010 Bonds, as further discussed under “SECURITY FOR THE BONDS—Security for the Bonds” in the

forepart of this Official Statement), in order to secure all Obligations issued under the Master Indenture, including the 2010 Obligations. As of June 30, 2010, there were 24 Designated Affiliates. For the fiscal year ended June 30, 2010, these Designated Affiliates generated, in the aggregate, 89.7% of the Credit Group's unrestricted revenue and owned, in the aggregate, 90.2% of the Credit Group's total assets.

Those Designated Affiliates whose individual total revenues exceed 5% of the combined total revenues of the Credit Group in any fiscal year are considered "Material Designated Affiliates" as that term is defined in the Master Indenture. For additional information concerning the obligations of Designated Affiliates, see "THE TRINITY HEALTH CREDIT GROUP" and "SECURITY FOR THE BONDS—Security for the Bonds—The Master Indenture" in the forepart of this Official Statement.

Trinity Health and all of the current Designated Affiliates are exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as organizations described in Section 501(c)(3) of the Code, and are not private foundations within the meaning of Section 509(a) of the Code.

The following is a list of the principal facilities owned by and health care services provided by Designated Affiliates. The list does not include Trinity Home Health Services or other Designated Affiliates that do not own health care facilities. Some of the Designated Affiliates own and operate facilities at multiple geographic locations. Each of these facilities is individually licensed and has a distinct Medicare provider number.

Designated Affiliates as of June 30, 2010

State	Designated Affiliate	Description of Facility/Activity	Number of Licensed Facilities and Staffed Beds ⁽¹⁾	Location
California	Saint Agnes Medical Center ⁽²⁾	Acute Care	1/436	Fresno
Idaho	Saint Alphonsus Regional Medical Center, Inc. ⁽²⁾	Acute Care	1/398	Boise
	Mercy Hospital	Acute Care	1/117	Nampa
Indiana	Saint Joseph Regional Medical Center – South Bend Campus, Inc. ⁽²⁾	Acute Care	1/267	South Bend
	Saint Joseph Regional Medical Center – Plymouth Campus, Inc.	Acute Care	1/45	Plymouth
	Trinity Continuing Care Services – Indiana, Inc.	Comprehensive Care and Residential Care	4/348	South Bend
Iowa	Mercy Health Services – Iowa, Corp. ⁽²⁾	Acute Care and Long-Term Care	2/269	Dubuque
		Acute Care and Long-Term Care	1/25	Dyersville
		Acute Care, Skilled Nursing, Psychiatric Care and Acute Rehabilitation	2/241	Mason City
		Acute Care and Skilled Nursing	1/18	New Hampton
		Acute Care	1/258	Sioux City

State	Designated Affiliate	Description of Facility/Activity	Number of Licensed Facilities and Staffed Beds ⁽¹⁾	Location
	Mercy Medical Center – Clinton, Inc.	Acute Care and Long-Term Care	2/341	Clinton
Maryland	Holy Cross Hospital of Silver Spring, Incorporated ⁽²⁾	Acute Care	1/425	Silver Spring
	Trinity Continuing Care Services – Indiana, Inc.	Comprehensive Care	1/145	Burtonsville
Michigan	Trinity Health – Michigan ⁽²⁾	Acute Care and Psychiatric Care	1/289	Livonia
		Acute Care	1/119	Port Huron
		Acute Care and Psychiatric Care	2/530	Ann Arbor
		Acute Care and Psychiatric Care	1/102	Chelsea
		Acute Care	1/55	Howell
		Acute Care	1/24	Saline
		Acute Care and Psychiatric Care	1/390	Pontiac
		Acute Care	1/56	Cadillac
		Acute Care and Long-Term Care	1/89	Grayling
		Acute Care and Psychiatric Care	2/344	Grand Rapids
	Mercy Health Partners	Acute Care and Psychiatric Care	2/230	Muskegon
	Mercy Health Partners – Hackley Campus	Acute Care	1/172	Muskegon
	Mercy Health Partners – Lakeshore Campus	Acute Care	1/24	Shelby
	Battle Creek Health System	Acute Care and Psychiatric Care	2/181	Battle Creek
	Trinity Continuing Care Services	Nursing Home, Long-Term Care and Home for the Aged	7/965	Warren, Royal Oak, Battle Creek, Fraser, Grand Rapids, Grand Haven and Muskegon
Ohio	Mount Carmel Health ⁽²⁾	Acute Care and Psychiatric Care	2/715	Columbus
	Mount Carmel New Albany Hospital	Acute Care	1/42	New Albany
	St. Ann's Hospital of Columbus, Inc.	Acute Care	1/244	Westerville
Oregon	Trinity St. Elizabeth Health Services	Acute Care	1/75	Baker City
	Trinity Holy Rosary Medical Center	Acute Care	1/49	Ontario

⁽¹⁾ Includes all licensure categories except for normal newborn bassinets and partial hospitalization psychiatric beds.

⁽²⁾ Material Designated Affiliate.

GOVERNANCE AND MANAGEMENT

Governance

The Trinity Health Bylaws provide that the Trinity Board will consist of not fewer than nine nor more than 15 people, who are also CHM Members. The President and Chief Executive Officer of Trinity Health serves *ex-officio*, with a vote, on both the Trinity Board and CHM. Directors not serving *ex-officio* are appointed for three-year terms, with total service not to exceed ten consecutive years, coterminous with their membership on CHM.

The following powers and responsibilities are reserved to CHM: (i) approval of any amendments, modifications or restatements of the Articles of Incorporation of Trinity Health; (ii) approval of any amendments, modifications or restatements of the Bylaws of Trinity Health; (iii) approval of any changes to the Mission and Core Values of Trinity Health, and matters affecting the Catholic identity of Trinity Health; (iv) approval of the sale, lease, mortgage, transfer or encumbrance of or easement on any property of Trinity Health which requires approval under Canon Law; (v) approval of any merger, consolidation, liquidation or dissolution of Trinity Health, the acquisition of Trinity Health or the sale of all or substantially all of the assets of Trinity Health; (vi) appointment of and removal, with or without cause, of the members of the Trinity Board; (vii) ratification of the appointment of the President and Chief Executive Officer of Trinity Health and of the Trinity Board Chair; and (viii) removal, with or without cause, of the President and Chief Executive Officer of Trinity Health.

The current members of the Trinity Board are set forth below.

<u>Name</u>	<u>Occupation</u>	<u>Term Expires December 31,</u>
Mary Mollison, CSA, Chair	Vice President of Ministry and Spirituality Agnesian Health Care Fond du Lac, Wisconsin	2012
Henry R. Autry	Founder, Chairman and Chief Executive Officer Contrado Partners Chicago, Illinois	2011
James Bentley, PhD	Retired	2012
Suzanne Brennan, CSC	President and Executive Director Holy Cross Ministries Salt Lake City, Utah	2011
Melanie Dreher, PhD, RN	Dean, College of Nursing Rush University Chicago, Illinois	2010
Sarah Eames	Executive Director Russell Reynolds Associates, Inc. New York, New York	2010
Uma Kotagal, MD	Director, Center for Health Policy and Clinical Effectiveness, Department of Pediatrics Cincinnati Children's Hospital Medical Center Cincinnati, Ohio	2011
Robert Ladenburger	President and Chief Executive Officer Exempla Healthcare Denver, Colorado	2012
Paul Robertson	Chairman and Chief Executive Officer Robertson Brothers Company Bloomfield Hills, Michigan	2012
Jose Santillan	Head of Investments Harris Bank-Private Client Group Chicago, Illinois	2012
Linda Werthman, RSM	Councilor, Institute Leadership Team Sisters of Mercy of the Americas Silver Spring, Maryland	2011
Joseph R. Swedish	President and Chief Executive Officer Trinity Health	<i>Ex-officio</i>

Operations

Unified Enterprise Ministry. Trinity Health describes itself as a Unified Enterprise Ministry™ (“UEM”) that has established a culture and operating model designed to assist with the successful execution of Trinity Health’s strategic plan. A UEM focuses the organization, as a whole, on execution of strategies and accountability for performance. As a UEM, the Health System approaches change as a system, unless variation can be proven to create more value for the Health System. Using small,

multidisciplinary teams of experts doing the work on behalf of the UEM, the enterprise organizes around the needs of the Health System and the execution of strategic objectives.

Ministry Organizations. The operations of the Health System are organized into "Ministry Organizations," each of which either includes at least one hospital, as well as other facilities and programs within a specific geographic area (each a "Hospital Ministry Organization"), or is dedicated to a particular service line or business. Ministry Organizations are the operating units of the Health System and may include facilities owned by multiple Designated Affiliates or may include less than all of the facilities owned by a single Designated Affiliate. (For a listing of Designated Affiliates that own and operate licensed health care facilities, please refer to the table beginning on page A-2). Each Ministry Organization has been delegated certain governance and management responsibilities over its operations and is managed under the shared leadership of the President of Hospital Operations and the President of Health Networks. A listing of the largest Ministry Organizations as measured by total unrestricted revenue is provided on page A-16 herein.

Trinity Health provides a number of centralized services and standardized processes to the Ministry Organizations. These include purchasing and supply chain management, legal services, financial management and treasury services, organizational integrity and audit services, administration of retirement plans and employee benefit programs, insurance, risk management and common core information systems.

Hospital Ministry Organizations. The Health System's acute care hospital operations are organized into 17 Hospital Ministry Organizations.

Other Health-Related Ministry Organizations. In addition to acute care hospital operations, Trinity Health operates other health-related Ministry Organizations. Based on unrestricted revenue, the largest of the other health-related Ministry Organizations are the long-term care and senior housing operations and the home care operation. Trinity Continuing Care Services and Trinity Continuing Care Services – Indiana, Inc., both of which own and operate long-term care and senior housing facilities, and Trinity Home Health Services, which provides home health services, are Designated Affiliates.

During the fiscal year ended June 30, 2009, the Trinity Board recognized the need to focus on the changing health care delivery environment and began implementation of a UEM initiative to develop Trinity Health's ambulatory care service lines. In recognition of this, the Trinity Board appointed a President of Health Networks in July 2009 to oversee development of Trinity Health's ambulatory care service lines. This initiative includes joint venture arrangements, physician alignment, co-management of clinical systems and physician recruitment and is a priority within the Health System.

Performance Monitoring and Enhancement. As part of its organizational performance improvement activities, Trinity Health's central management makes use of benchmarking in monitoring the performance of individual Ministry Organizations. When operational problems at a specific Ministry Organization are identified, a multidisciplinary performance improvement team is assembled with participants of varying skill sets selected depending on the nature and scope of the problems identified. The improvement teams' activities range from reviewing actions already taken by local management to providing specific resources to assist in implementing management initiatives. Such improvement teams meet frequently to monitor progress in operational improvements.

In addition to the management initiatives described above, Ministry Organizations have developed and continuously implement performance improvement strategies prior to any deterioration in operating results. Successful improvement initiatives developed by one Ministry Organization are then made available to others, as appropriate. In addition, innovative techniques from other industries have

been successfully applied by certain Ministry Organizations to improve operating and clinical results. When appropriate, such techniques are adopted by other Ministry Organizations to enhance their operating results.

Information Technology. An integral element of Trinity Health's process improvement initiatives is the substantial investment being made in information systems. Trinity Health's initiative in information technology, an initiative that Trinity Health has named "Genesis," is a set of related projects designed to integrate clinical, financial and planning data through a common information system that, when fully operational, will serve the Ministry Organizations. Genesis has four main structural components: (i) computerized physician order entry ("CPOE"), which is used to communicate physician orders directly to ancillary departments and other clinical staff; (ii) adverse drug event notification system ("ADE"); (iii) electronic medical records ("EMR"); and (iv) financial systems, which are a combination of applications designed to enhance support functions such as revenue cycle management, human resources, financial management and supply chain management.

In the aggregate, Genesis currently has an approved total capital budget of approximately \$305 million, of which approximately \$272 million has been expended since its inception in fiscal year ended June 30, 2001. The capital expenditures related to Genesis do not include routine replacement or upgrade of existing hardware such as servers and personal computers. In addition, certain personnel training and implementation costs related to Genesis have been recorded as operating expenses in the fiscal years in which they were incurred.

Genesis is being implemented in phases over a multi-year time frame, and is expected to take several more years to fully implement. The estimated capital costs associated with Genesis are incorporated in Trinity Health's five-year capital plan. Since originally conceived, Genesis has been modified and expanded to incorporate additional applications and the implementation timeline has been expanded accordingly. Management updates the Finance and Stewardship Committee of the Trinity Board regularly as to the status of Genesis, including reports on the implementation schedule and expenditures to date compared to the overall budget.

As part of its investment in information technology, Trinity Health has established two independent data centers situated in geographically disparate locations. As Genesis is implemented, each of these independent data centers will store the same information for all the Hospital Ministry Organizations related to critical applications. This purposeful creation of system redundancy is designed to protect the Hospital Ministry Organizations' operations in the event that a natural disaster or other similar event affects the operations of one data center or the other.

Community Benefit Ministry

As described more completely under the caption "ORGANIZATION AND MISSION—Community Benefit Ministry" in note 1 to the consolidated financial statements included as APPENDIX B to this Official Statement, consistent with its mission, Trinity Health and its Affiliates provide health care services to all patients regardless of their ability to pay. Trinity Health has finance policies defining financial support criteria, which policies have been implemented by each Ministry Organization. In accordance with the guidelines and standard definitions released by the Catholic Health Association of the United States 2008 Edition (the "CHA Revised Guidelines"), Trinity Health delineates its Community Benefit Ministry into two broad categories: (i) Ministry for the Poor and Underserved; and (ii) Ministry for the Broader Community. In accordance with the CHA Revised Guidelines, Trinity Health's 2008 calculation of its cost to charge ratio has been revised to exclude provision for bad debts.

During the three fiscal years ended June 30, 2010, Trinity Health and its Affiliates have incurred, in the aggregate, approximately \$926 million in costs related to providing services and programs to the working poor, the uninsured, the underinsured and the indigent.

During the three fiscal years ended June 30, 2010, Trinity Health and its Affiliates have incurred, in the aggregate, approximately \$287 million in costs related to providing services for the general benefit of the populations in each community in which they operate.

Senior Management

Management of Trinity Health is vested in the President and Chief Executive Officer, who is appointed by the Trinity Board, with the ratification of the CHM Members. Management of Trinity Health then is coordinated through the senior management team. Michael Slubowski, President, Health Networks, has announced that he has accepted a position outside of Trinity Health and will be leaving in late November 2010. Management is reviewing how best to transition the activities Mr. Slubowski oversees following his departure.

Following Mr. Swedish, Mr. Adkins, Mr. O'Connell and Mr. Slubowski, certain executive and finance leaders are listed below in alphabetical order.

Joseph R. Swedish, President and Chief Executive Officer. Age: 59. Mr. Swedish has 37 years of diverse senior executive operations experience in both investor owned (as the East Florida Division president for Hospital Corporation of America) and non-profit health care systems that spans faith-based and secular health care, university and community based academic medical centers, integrated delivery systems and regional rural referral hospitals in the mid-Atlantic states, Florida and Colorado and now the states that encompass Trinity Health's markets. Prior to joining Trinity Health, Mr. Swedish was president and chief executive officer of Centura Health, Denver, Colorado. He is a fellow in the American College of Healthcare Executives. He serves as a board member for the Catholic Health Association, the National Center for Healthcare Leadership, and the Institute for Diversity in Health Management, an affiliate of the American Hospital Association, as its chair. He is chairperson of the Advocacy & Public Policy Committee for the Catholic Health Association as well as a member of the American Hospital Association Long Range Policy Committee, and has served as a member of the American Hospital Association Regional Policy Board – Region 8. In 1999 he was elected chairman of the Colorado Hospital Association Board of Directors.

Mr. Swedish was chosen for the Modern Healthcare "Top 100 Most Powerful Leaders in Healthcare" in 2006, 2007, 2008, and 2009. He was awarded the University Medal by the Board of Regents for the University of Colorado. In addition, he was recognized as the 2003 Ernst & Young Entrepreneur of the Year – Rocky Mountain Region and was the recipient of the American College of Healthcare Executives Regents Award for Career Achievement.

Mr. Swedish received his bachelor's degree from the University of North Carolina at Charlotte and a master's degree in health administration from Duke University.

Kedrick D. Adkins, President, Integrated Services. Age: 57. Mr. Adkins oversees the complete span of financial services, treasury, information services, supply chain management, insurance/risk management and operations improvement at Trinity Health. Prior to assuming this role at Trinity Health in 2007, Mr. Adkins was a senior partner at Accenture, where he held a number of positions over a 30 year tenure, including U.S. country managing director and global chief diversity officer. He currently serves on the Corporate Advisory Board of University of Michigan's College of Engineering and Blue Care Network's Board of Directors. Mr. Adkins earned his bachelor's degree in industrial and operations

engineering and his master's degree in business administration in accounting and finance from the University of Michigan.

James Richard O'Connell, President, Hospital Operations. Age: 57. Mr. O'Connell was appointed to his current position on an interim basis in July 2009 and appointed permanently in January 2010. His responsibilities include managing the day-to-day functions of hospital operations. Mr. O'Connell has been with Trinity Health since October 2008 as interim chief operations officer of Saint Alphonsus Regional Medical Center in Boise, Idaho. Mr. O'Connell has 35 years of progressive health care experience in executive level roles including president and chief executive officer of four hospital systems: Penrose – St. Francis Health Services in Colorado Springs, Colorado; Lucerne Medical Center in Orlando, Florida; Columbia Medical Center – Daytona in Daytona Beach, Florida; and Pembroke Pines Hospital in Pembroke Pines, Florida. Mr. O'Connell earned a bachelor's degree in business administration from Central State University in Edmund, Oklahoma.

Michael A. Slubowski, President, Health Networks. Age: 56. Mr. Slubowski was appointed to his present position in July 2009. Mr. Slubowski oversees development and management of Trinity Health's UEM ambulatory services initiative and physician network development as well as Trinity Health's long term care, home care and hospice operations. Prior to that appointment, Mr. Slubowski served as president of hospital and health networks and had been the executive vice president for the Eastern Division of Trinity Health since July 2001 and executive vice president for the Michigan region for both Trinity Health and Mercy since September 1999. Mr. Slubowski also previously held the position of vice president/director of operations – Michigan for Mercy. From 1990 to 1997, Mr. Slubowski held executive positions at Providence Hospital and Medical Centers, Southfield, Michigan. For the years 1976 to 1990, he held various management and executive positions at St. Joseph's Health Network in Mt. Clemens, Michigan, Samaritan Physicians Center in Phoenix, Arizona and Henry Ford Health System in Detroit, Michigan. Mr. Slubowski is a fellow of both the American College of Healthcare Executives and the American College of Medical Practice Executives. He is also a member of the Medical Group Management Association, regent for the American College of Healthcare Executives – Eastern Michigan Region, a former director on the board of directors of Blue Care Network of Southeast Michigan and Allegiance Corporation, and a former founding co-chair of the Steering Committee of Healthy People, Healthy Oakland. Mr. Slubowski earned a bachelor's degree in business administration and a master's degree in business administration from Wayne State University in Detroit, Michigan, and received a certificate in advanced health care leadership from the University of Michigan in 2002.

James Bosscher, Senior Vice President, Treasury and Chief Investment Officer. Age: 61. Mr. Bosscher was appointed to his present position in January 2009. Prior to that appointment, Mr. Bosscher served as vice president treasury. He is responsible for all treasury activities including investment management, debt management, cash management, the tax department and interfacing with all external capital market audiences (rating agencies, investors, bond insurance companies, investment and commercial banks, etc.). Prior to joining Trinity Health, Mr. Bosscher was an assistant treasurer with Ford Motor Company. Mr. Bosscher has a bachelor's degree in finance from Michigan State University and a master's degree in business administration from Wayne State University.

Debra A. Canales, Executive Vice President and Chief Administrative Officer. Age: 47. Ms. Canales was appointed to her current position in July 2009. Prior to that appointment, Ms. Canales served as executive vice president/chief human resource officer, organization and talent effectiveness. Prior to joining Trinity Health, Ms. Canales was senior vice president of human resources at Centura Health. Ms. Canales previously served as a human resource executive at Compaq Computer Corporation, KFC/PepsiCo and R.H. Macy's, Inc. Ms. Canales has a bachelor's degree in business administration from the University of Texas at Austin.

Benjamin Carter, Senior Vice President and Chief Financial Officer. Age: 52. Mr. Carter oversees Trinity Health's financial management, financial reporting, financial operations, strategic financial and capital planning, and budget development. He also provides leadership for the Trinity Health Unified Revenue Organization, a shared services department managing six revenue functions. Prior to assuming this role in March 2010, Mr. Carter served as an executive vice president and chief operating officer at the Detroit Medical Center, where he was responsible for the operations of the regional system's eight hospitals and related outpatient facilities. Prior to the Detroit Medical Center, he spent nearly 20 years in executive-level financial positions at Oakwood Healthcare in Dearborn, Michigan. Prior to his experience at Oakwood, Mr. Carter was a director of the Plante Moran accounting firm and spent 8 years in various roles in addition to earning his certified public accountant certification. Mr. Carter graduated *magna cum laude* and earned both a bachelor's degree and a master's degree in business from the University of Michigan.

Catherine DeClercq, OP, Senior Vice President, Governance and Sponsorship. Age: 74. Sister DeClercq supports CHM, the Public Juridic Person that sponsors Trinity Health, and the Trinity Board. She previously served as assistant to the president of Mercy from 1987 to 2000, assuming responsibility for Mercy governance and working with the sponsors, the Sisters of Mercy, Regional Community of Detroit. From 1978 to 1986 she held the position of general council member and administrator for the Adrian Dominican Congregation based in Adrian, Michigan. In her leadership role with the Adrian Dominican Congregation, Sister DeClercq helped guide the Adrian Dominican Hospitals in California and Nevada into Catholic Healthcare West. She has a bachelor's degree from Siena Heights University and a master's degree from the University of Michigan.

Daniel P. Dwyer, Senior Vice President, Mission Integration. Age: 64. Mr. Dwyer oversees mission services, leadership formation, ethics and spiritual care for Trinity Health. Mr. Dwyer was appointed to his current position in August 2008. Previously, Mr. Dwyer served as director, mission and community health at Sisters of Mercy Health System in Chesterfield, Missouri, director of ethics at St. John's Health System in Springfield, Missouri, and various teaching, clinical and corporate positions spanning his 32 year career. Mr. Dwyer has a bachelor's degree from Marquette University, a master of science degree in social work, a doctor of philosophy degree in urban social institutions from the University of Wisconsin-Milwaukee and a master of theology degree in health care mission from Aquinas School of Theology.

Preston Gee, Senior Vice President, Strategic Planning and Marketing. Age: 56. Mr. Gee was appointed to his current position in May 2008. Previously, Mr. Gee served in that position in an interim role since September 2007. Mr. Gee provides leadership and guidance throughout Trinity Health in the development of strategic, business, service line, marketing and communications planning and execution. Mr. Gee also helps orchestrate system-wide strategy, and provides leadership in identifying and prioritizing market-differentiating initiatives and consumer-centric approaches. Mr. Gee has more than 25 years of experience as a senior strategist and marketer with hospitals and health systems. Mr. Gee has authored or co-authored nine books on health care strategy, including three on service-line management. He has also written more than 250 articles on emerging trends and leading issues, and is a frequent presenter at national and state forums. Previously, Mr. Gee served as senior director at Phase 2 Consulting in Houston, Texas, and senior vice president of strategic planning for St. David's Healthcare Partnership in Austin, Texas. Mr. Gee started his career with The Quaker Oats Company in marketing and new product development. Mr. Gee received a bachelor's degree and a master's degree in business administration from Brigham Young University.

Daniel G. Hale, Executive Vice President, Trinity Institute for Health and Community Benefit and Special Advisor to the President. Age: 64. Mr. Hale was appointed to his current position effective September 1, 2009. Prior to that appointment, Mr. Hale served as executive vice president, community

benefit ministry and public affairs. Mr. Hale also served Holy Cross and Trinity Health as general counsel beginning in August 1996. Previously, Mr. Hale was vice president for legal services with Franciscan Health System, Aston, Pennsylvania, and was a partner in the law firms Drinker Biddle & Reath in Philadelphia, Pennsylvania and Baker & Hostetler in Columbus, Ohio. Mr. Hale received his bachelor's degree in English from Kenyon College and his juris doctor degree from Capital University Law School. A frequent speaker and author on various aspects of health care law, Mr. Hale is a member of the American Bar Association and the American Health Lawyers Association. He previously was an adjunct professor of law at Capital University Law School.

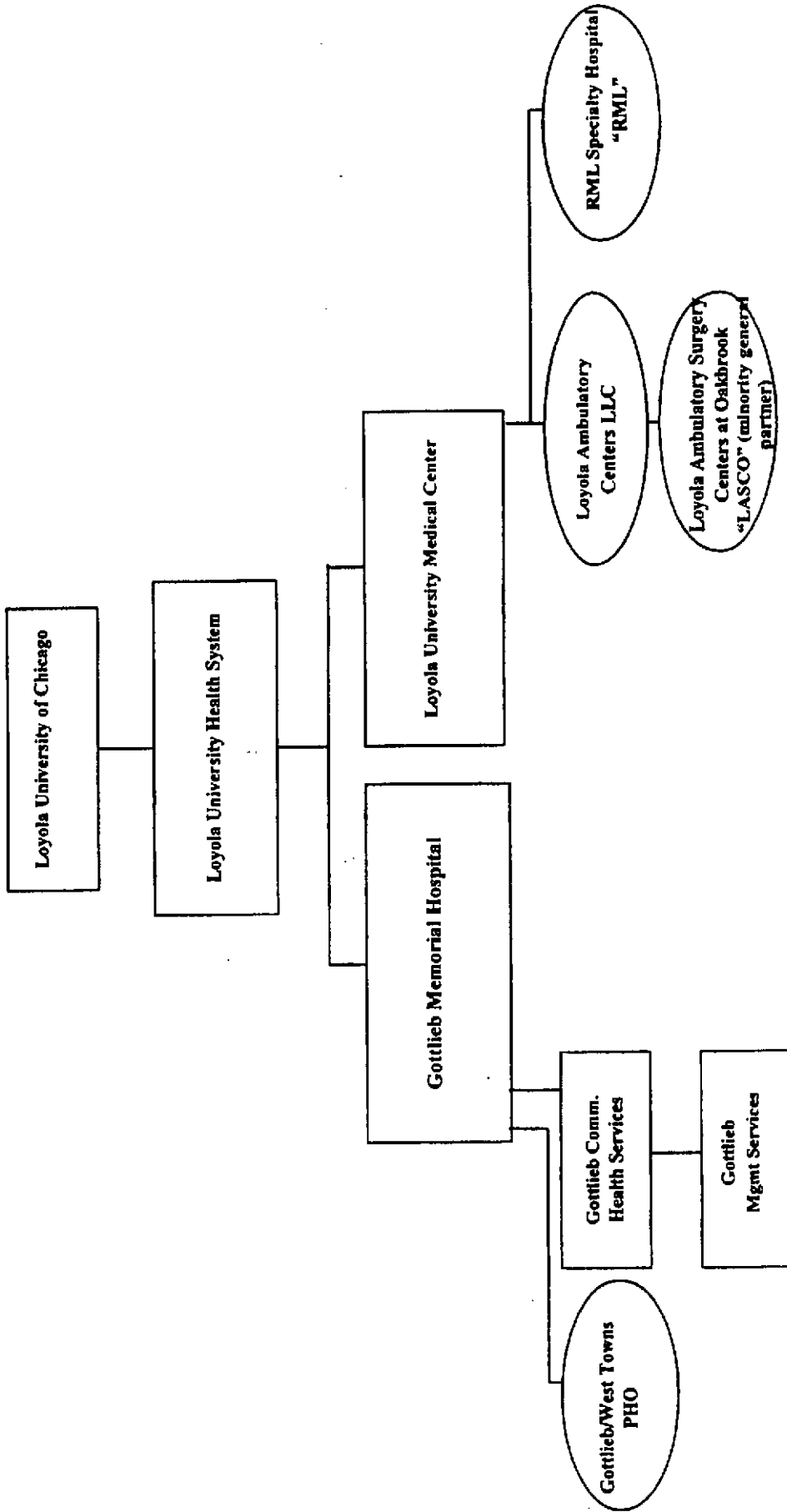
Paul G. Neumann, Esq., Senior Vice President and General Counsel. Age: 51. Mr. Neumann was appointed to his current position, effective November 2, 2009. Prior to this appointment, Mr. Neumann was senior vice president, legal services and general counsel at Catholic Health Initiatives in Denver, Colorado. Prior to assuming that position with Catholic Health Initiatives in 1997, Mr. Neumann was a partner with both Foley & Lardner LLP in San Francisco, California and Weissburg & Aronson in San Francisco, California, where he represented hospitals and other health care entities in governance, mergers and acquisitions, business transactions and compliance matters. He received a bachelor's degree from Haverford College and a juris doctor degree from the University of Virginia School of Law.

P. Terrence O'Rourke, MD, Executive Vice President & Chief Medical Officer. Age: 67. Dr. O'Rourke is responsible for advancing clinical effectiveness and quality, as well as patient safety across the system. He serves as an advocate for Trinity Health's medical staffs and is working to advance physician alignment initiatives throughout the organization. Dr. O'Rourke was appointed to his current position in June 2008. Prior to joining Trinity Health, Dr. O'Rourke was chief medical officer at Centura Health. Dr. O'Rourke was a member of the board of trustees of Centura Health and chaired the Centura board for seven years. Dr. O'Rourke is a past member of the board of trustees of the Catholic Health Association and chair of the Physician Committee of the Catholic Health Association. He is also a past member and vice-chair of the Holy Cross Health System Board of Directors. He has been a member of the Executive Advisory Committee of the Diocese of Colorado Springs and has also been a member of the Advisory Board of the College of Letters, Arts, and Sciences of the University of Colorado. He has served on the board of directors and is a past president of the El Paso Unit of the American Cancer Society. He received the Sword of Hope Award from the American Cancer Society in 1992 and was recognized as one of the "Best Doctors in America" in 2000. Dr. O'Rourke holds certifications from the Board of Surgery and Advanced Trauma Life Support. He received a bachelor's degree from Georgetown University and a medical degree from the University of Michigan Medical School. Dr. O'Rourke is a member of the American Medical Association, fellow of the American College of Surgeons, the Western Surgical Association and the Denver Academy of Surgery.

Maria Szymanski, Senior Vice President, Chief Development Officer. Age: 61. Ms. Szymanski was appointed to her current position in July 2006. As chief development officer, Ms. Szymanski is responsible for merger, acquisition, divestiture and joint venture activities. Prior to these appointments, Ms. Szymanski served as senior vice president, business development and senior vice president, finance. Previously, Ms. Szymanski served as vice president, finance for Mcrey, chief financial officer and treasurer for SelectCare and vice president and controller of St. Joseph's Health Network in Mt. Clemens, Michigan. She has a bachelor's degree in accounting from the University of Detroit.

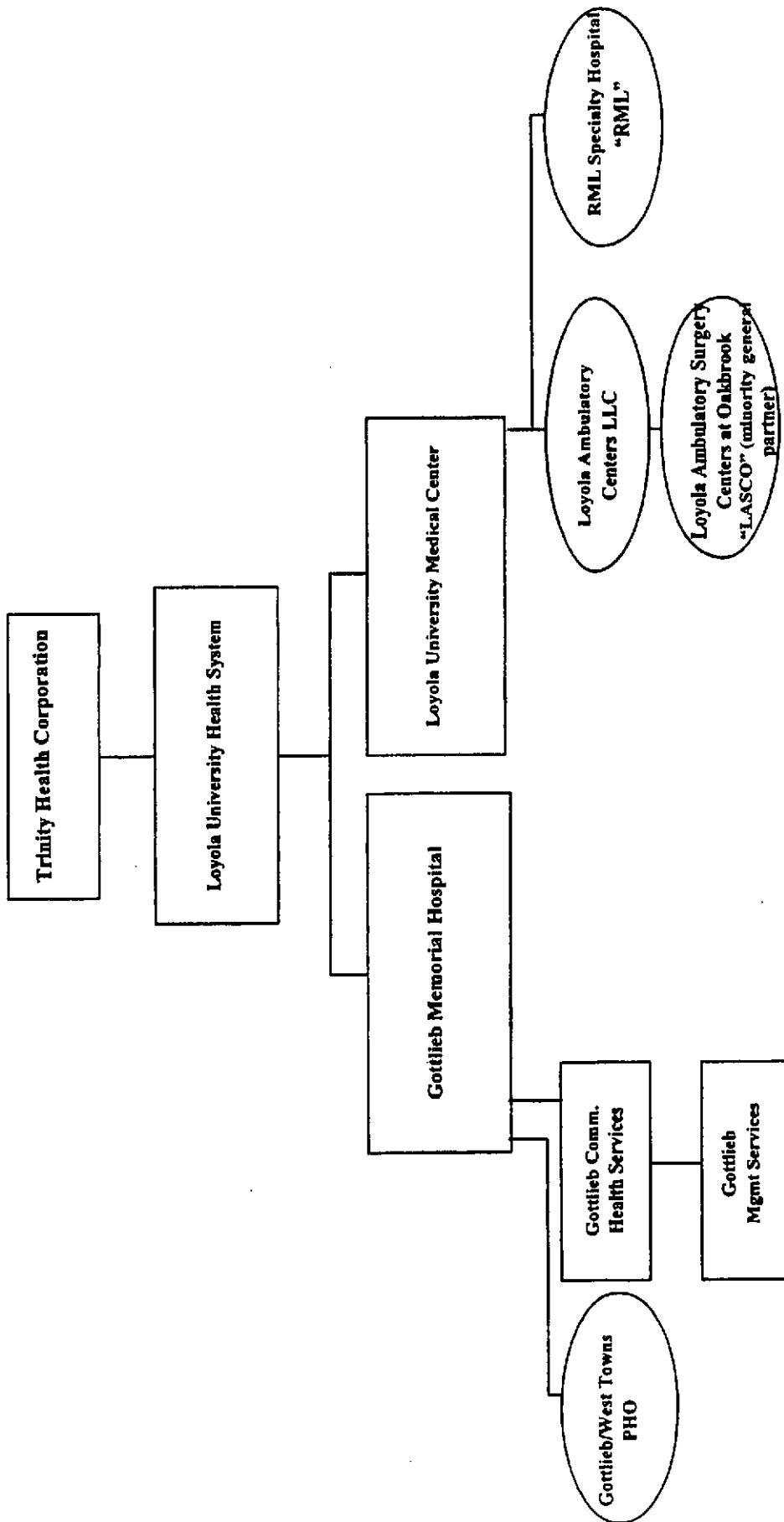
Loyola University Health System

as of 3/4/2011



Loyola University Health System

Corporate Structure Following Transaction



Attachment 5
Transaction Documents

On March 4, 2011, Trinity and the University signed a Letter of Intent regarding the Transaction. A copy of the signed Letter of Intent is attached at Attachment 5. Trinity and the University are currently negotiating the Definitive Agreement (and related schedules) for the Transaction. Trinity will supplement this COE Application with a copy of the Definitive Agreement on or about March 31, 2011.

Trinity Health Corporation and Loyola University of Chicago

Letter of Intent

March 4, 2011

This Letter of Intent ("LOI") memorializes the collaborative discussions between Trinity Health Corporation ("Trinity") and Loyola University of Chicago (the "University"). With this letter, we take another major step toward creating a mutual vision of how our two Catholic organizations can work together in a collaborative and integrative enterprise to advance Catholic health care, research and medical education, both today and into the future.

We are setting forth our common understandings and intent in key areas necessary to create the working framework for a binding agreement and long term future together.

Statement of Our Common Vision

We begin with an agreed statement of the vision and core concepts of our future. At the outset, we recognize that our relationship will be the beneficiary of a series of unique features we each bring to the table and can benefit from together. These include the ability to integrate a leading medical school with a quaternary teaching hospital, Loyola University Medical Center ("LUMC") into the Trinity Health family. LUMC will continue to be a part of, and provide support for, the University's academic and research missions and programs. We recognize together that there will be an ongoing effort to take advantage of the organizational synergies which the University has created, through such things as the maintenance of the integrated faculty/medical staff approach to research and care delivery.

Second, Trinity, Loyola University Health System ("LUHS") and LUMC will remain committed to academic support. This will be accomplished through academic support payments and a programmatic commitment to help maintain and enhance the research and education missions. As set forth more fully in this LOI, we have a mutual recognition of the need for a commitment to the capital required to move our collective vision forward in a meaningful way, as well as an assumption of significant liabilities, to ensure a long term future not only of LUHS and the LUHS Affiliates (herein defined), including LUMC, but also for the University and its Medical and Nursing Schools.

Third, LUHS will take its place as a part of Trinity's Unified Enterprise Ministry, receiving the benefits of an affiliation with a strong Catholic partner committed to patient centered care and the healing ministry, and able to provide its own insights into the medicine and care models of the future.

And finally, we have committed to working together through joint assessment and planning processes to understand and address the needs of our integrated enterprises now, and into the future, both with respect to the campus, and within the greater Chicago healthcare community.

With the foregoing in mind, the specific terms and conditions of our LOI establish the material terms and conditions of our collaboration, pursuant to which Trinity will replace the

University, as the sole member of LUHS, and provide medical education, research and capital commitments. The terms set forth in this LOI shall be the starting point from which we will move forward to complete our mutual due diligence, and proceed with preparation and negotiation of the Definitive Agreement and the other definitive documentation related thereto.

Terms and Conditions

1. **LUHS Structure.** Trinity or a subsidiary of Trinity shall become the sole member of LUHS as of the date of the Closing (herein defined). As an affiliate of Trinity, LUHS and its affiliates and subsidiary entities shall become a part of the Unified Enterprise Ministry consisting of Trinity and its subsidiaries and affiliates, and shall participate in Trinity's mission and core values as well as Trinity's governance and management structure, reserve powers, principles and policies.

2. **Payment to University for Medical Education.** Trinity supports the University's commitment to medical education. In recognition of this commitment, a payment shall be made to the University in the amount of \$100 million. An element of this amount is based on LUHS assets and liabilities as reported on the interim balance sheet dated December 31, 2010 and will be adjusted post Closing based upon the audited balance sheet as of the date of Closing. The formula for this post Closing adjustment shall be set forth in the Definitive Agreement. On the date of Closing, \$20 million of the \$100 million amount will be used to establish an escrow for a number of years to be agreed to by the parties in the Definitive Agreement for the payment of any unrecorded, misstated or under-reserved liabilities or breach of any representations, warranties or covenants made pursuant to the Definitive Agreement or other agreements pertaining to the Transaction (herein defined). This escrow will also account for gain contingencies payable to the University, and to the extent that such gain contingencies result in a net payment owed to the University, payment will be to the University for such amount. Pursuant to the Definitive Agreement, a schedule shall be established for release of escrow proceeds over time. The portion of the \$100 million which is not used to establish the indemnification escrow and a balance sheet true-up escrow shall be paid to the University on the date of Closing.

3. **Research Enterprise Facility.** As a fundamental element of the relationship being formed, Trinity and the University will jointly contribute \$150 million (\$75 million each) to fund the development of a University research enterprise facility to advance and expand the research capabilities of the University, LUHS and Trinity. This collaboration, among other purposes, will provide for joint planning and decision making to facilitate the University's construction of its new research facilities, expand the operational capabilities and resources of the research enterprise and support related infrastructure. The funding commitment by Trinity for this research enterprise shall be \$75 million with the terms and conditions for such commitment established in the Definitive Agreement. A portion of these funds will be placed in escrow on the date of Closing and released upon determination that there has been no material adverse change in the assets of LUHS since the date of this LOI.

4. **Capital Commitment.** Trinity shall cause the expenditure of at least \$300 million in the aggregate over a seven (7) year period following the Closing for capital and equipment needs to support the operations of LUHS and the LUHS Affiliates. Expenditure of at least an additional \$100 million will be contingent and made available subject to the attainment of pre-

established financial performance metrics. The criteria for the commitment and expenditure of such funds shall be set forth in the Definitive Agreement. Such funds shall be spent in accordance with a strategic planning process developed and approved by LUHS and Trinity. Specific capital projects to be funded within two (2) years of Closing will be identified and listed in the Definitive Agreement.

5. **Included Assets.** Except as mutually agreed by the parties, all assets and properties, tangible and intangible, of LUHS and its affiliates and subsidiary entities ("LUHS Affiliates") shall at Closing remain assets of LUHS or the LUHS Affiliates. Neither LUHS, nor any LUHS Affiliates, shall sell, transfer or otherwise dispose of such assets prior to Closing, except in the ordinary course of business or as permitted by the Definitive Agreement.

6. **Included Liabilities.** Except as mutually agreed by the parties, all outstanding long-term debt and other liabilities of LUHS and the LUHS Affiliates shall at Closing remain with LUHS or the LUHS Affiliates.

7. **Governance.** LUHS shall continue to be governed by a local board of directors. The composition of the Board of LUHS will be reconstituted to include religious members, University representatives, Trinity representatives, community members and certain existing members of the LUHS Board. Trinity will continue LUHS' commitment to Gottlieb and to the clinical faculty for board representation under the current terms of the LUHS Bylaws. LUHS will also continue to recognize the role played by the Clinical Leadership Committee ("CLC") and the Health System Leadership Group ("HSLG"). The reconstituted board of directors for LUHS shall include an ex-officio position for the Senior Vice President for Health Sciences of the University. Trinity shall have a seat on the University Board. The commitments of this LOI regarding governance shall be incorporated into the Definitive Agreement and the governing documents of LUHS as necessary.

8. **Medical Staff.** LUMC shall continue to be operated consistent with the existing closed staff model pursuant to the 2008 Closing Agreement among LUHS, LUMC and Loyola University Physician Foundation ("LUPF") (which provided for the integration of the clinical physicians of LUPF as employees of LUMC), provided that this structure shall be reevaluated as necessary with the assistance of the CLC and HSLG to determine that such structure is adequate to support the hospital and to ensure that the healthcare needs of the community are met. Exceptions may be made to the closed staff structure with the concurrence of the Dean of the Stritch School of Medicine and the President of LUHS, which concurrence shall not be unreasonably withheld or delayed.

9. **Branding.** The University shall continue to grant LUHS a license to use the Loyola name, logo, service marks, etc. in connection with healthcare operations pursuant to the Trademark License Agreement between the parties. The University shall also grant Trinity a license to use the Loyola name, logo, service marks, etc. in connection with certain healthcare operations pursuant to the terms and conditions of a separate Branding and Trademark License Agreement which also provides for protection of the Loyola brand.

10. **Faculty Physician Matters.** The employment of the faculty physicians shall continue with LUHS and the LUHS Affiliates, and Trinity intends to continue the incentive

compensation model in order to further the faculty/physician integration at LUHS. The University and Trinity shall collaboratively develop revisions to the existing pay and benefits methodologies used for the jointly employed faculty and physicians. The new pay and benefit methodologies will enhance physician integration at LUHS and maintain faculty status within the confines of the tax, research and other regulations that must be applied within the new LUHS corporate structure. The parties understand that Loyola University of Chicago Insurance Company currently provides medical malpractice insurance for the clinical physicians of the LUHS Affiliates as well as the faculty and students of SSOM. Subject to satisfactory due diligence, the parties will cooperate to ensure the Definitive Agreement provides for continuation of this coverage, or substantially similar coverage, with an appropriate allocation of expense between the parties, all as set forth in the Definitive Agreement.

11. **Non-Faculty Employee Matters.** All non-faculty employees of LUHS and the LUHS Affiliates shall retain their current employment upon the same terms and conditions as prior to Closing. All current employment policies, commitments and benefit plans will remain in effect after Closing until the same are amended, modified, replaced or terminated in accordance with the provisions of those policies, commitments and benefit plans. LUHS senior executive management employees will become Trinity employees on the date of Closing. All existing unions at LUHS and the LUHS Affiliates will be recognized and all current collective bargaining agreements will be honored according to their respective terms.

12. **Sustaining Religious Traditions.** At all times post Closing, Trinity shall assure that LUHS and the LUHS Affiliates are operated as a Catholic ministry in a manner consistent with the teachings of the Roman Catholic Church and the values and principles inherent in the medical-moral teachings of the Church (such as the Ethical and Religious Directives for Catholic Health Care Services). LUHS and the LUHS Affiliates shall be sponsored by Catholic Health Ministries (the sponsor of Trinity).

13. **Academic Affiliation Agreement.** An Academic Affiliation Agreement between LUHS, LUMC and the University shall be negotiated and become effective as of the date of Closing. The Academic Affiliation Agreement shall supersede and replace the existing Affiliation and Operating Agreement between the University and LUHS, dated October 1, 1995, or any subsequent document amending the same. Unless otherwise agreed to by Trinity or unless existent prior to Closing (e.g., Hines VA) and disclosed to Trinity, LUHS and LUMC shall be the primary clinical affiliates of the Stritch School of Medicine ("SSOM") and the Marcella Niehoff School of Nursing ("SON") in the Chicagoland metropolitan market. Similarly, Trinity and LUHS agree that SSOM and SON shall be the primary academic affiliates of Trinity, LUHS and the LUHS Affiliates in the Chicago metropolitan market. The parties shall define the extent and terms of such primary affiliation relationship in the Definitive Agreement and the Academic Affiliation Agreement.

The Academic Affiliation Agreement, among other customary terms and conditions, shall provide for an annual academic support payment to the University in the amount of \$22.5 million, with a mutually agreed-upon annual inflation adjustment. The use of such funds shall be determined as part of SSOM's annual budget review process that shall include participation from representatives of LUHS. The University agrees to budget an amount of at least \$3 million annually to support faculty recruitment and retention activities or such other uses as may be agreed

to by the President of LUHS and the Dean of SSOM. The specific uses of such recruitment and retention amount shall be jointly determined in good faith by the Dean of the SSOM and the President of LUHS

The Academic Affiliation Agreement shall be automatically extended on an evergreen basis to at all times maintain a term of five (5) years with the precise terms and conditions of the continuing extensions and the ability to renegotiate, modify, or renew certain terms of the Academic Affiliation Agreement to be as set forth in the Definitive Agreement.

14. **Fund Raising Activities.** Trinity acknowledges that prior to Closing, fund raising activities by the University were conducted jointly by SSOM and LUHS. All grants or funds received for the purpose of, conducting research and/or education activities shall belong to, or be the property of, the University. Trinity shall have no rights, claims or interest with respect to such grants or funds. After the Closing, LUHS and the University will engage in independent, yet coordinated, fund raising activities.

15. **Charity Care.** LUHS shall maintain its existing charity care policies and practices post Closing and such policies will remain in effect for at least 24 months post Closing.

16. **Statutory Service Commitments.** It is the intention of Trinity to expand and grow the scope and nature of the services provided by LUHS. For a period of at least 12 months post Closing, no beds or services will be closed or discontinued. LUMC shall continue to be operated as an academic medical center providing undergraduate, graduate and postgraduate medical education training. Trinity will maintain ownership and control of LUHS for at least 36 months following the Closing.

17. **Repurchase Rights.** If LUHS or Trinity is ever acquired by or merged with another institution not in-line with its current Catholic identity or current teaching and research mission, or LUMC is prevented from operating as an academic medical center, then the University shall have the right to reacquire LUHS at fair market value. The specific terms and conditions of the University's right to repurchase LUHS will be as set forth in the Definitive Agreement.

18. **Documents.** Trinity, the University, LUHS and the LUHS Affiliates shall enter into certain written contractual agreements that shall specify the objectives and purposes of the affiliations being created by this collaboration and delineate the respective duties and obligations of each party. The written agreements shall include but not necessarily be limited to the following documents: Definitive Agreement, Academic Affiliation Agreement, Shared Services Agreement, real estate agreements and Branding and Trademark License Agreement (hereinafter sometimes referred to as ("**Ancillary Agreements**")).

The Definitive Agreement will contain customary terms for transactions of this type, including, without limitation, the following:

a. **Representations, Warranties and Covenants.** The Definitive Agreement will contain customary representations and warranties and covenants.

b. **Conditions to Closing.** The Definitive Agreement will contain customary conditions to closing, including the following:

- Satisfactory legal, financial and other diligence by all parties;
- Execution of the Definitive Agreement and the Ancillary Agreements;
- Receipt of necessary regulatory and lender approvals;
- Receipt of a Certificate of Exemption by the State of Illinois;
- Absence of material adverse change in the operations or business prospects of LUHS;
- Approval by the Board of Directors of Trinity;
- Approval by the Board of Trustees of the University and others as determined necessary by the parties.

19. **Closing Date.** The Closing of the transaction contemplated herein (the "Closing") will occur on or about June 30, 2011, or at such other time as is mutually agreed to by the parties.

20. **Due Diligence.** The terms of this LOI are subject to the results of the parties' mutual due diligence review, which will include the validation of financial, governance, and contractual commitments and representations, as well as legal and regulatory compliance assessments. The University and Trinity shall cooperate with each other and shall provide each other (and the other's representatives and agents) prompt and reasonable access to each of their respective key employees, books, records, contracts and other information (and in the case of the University, the key employees, books, records, contracts and other information of LUHS).

21. **Fees and Expenses.** Each of the University and Trinity shall be solely responsible for and bear all of their respective fees and expenses in connection with this LOI, the Definitive Agreement, and the Transaction contemplated herein, including, without limitation, expense of counsel, accountants and advisors, except as agreed to in writing.

22. **Communication.** The parties agree to work together in good faith with respect to all public or other third-party communications regarding this LOI, the transaction it contemplates, and the ongoing negotiations and communications taking place between the parties (collectively, the "Transaction"). Before the parties (or their respective agents and advisors) make any public or other third-party communication with respect to the Transaction, they shall first consult with the other party. The parties also agree to exercise reasonable efforts to discuss and consult with each other with respect to their respective internal communications regarding the Transaction, in particular with respect to describing the Transaction to the work force, the faculty physicians, or their respective donor communities.

23. **Confidentiality.** The parties acknowledge, ratify and confirm their respective obligations under the Confidentiality Agreement ("CA"), dated November 5, 2010, by and among Trinity, the University and LUHS, which agreement remains in full force and effect and is incorporated herein by reference. The CA shall continue in full force and effect until the termination of the CA, except as to those provisions which by their own terms shall continue following termination of the CA.

24. **Exclusivity.** The parties acknowledge, ratify and confirm their respective obligations under the Exclusive Negotiation Agreement ("ENA"), dated February 3, 2011, by and among Trinity and the University, which agreement remains in full force and effect and is incorporated herein by reference. The ENA shall continue in full force and effect until the termination of this LOI.

25. **Governing Law.** This LOI, the Definitive Agreement and the Ancillary Agreements shall be governed by and construed in accordance with the law of the State of Illinois.

26. **Counterparts.** To facilitate execution, this LOI may be signed in multiple counterparts, each of which shall be an original and all of which together shall constitute one instrument.

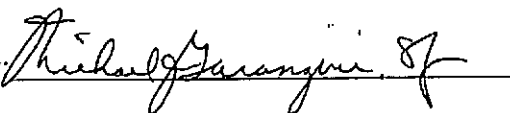
27. **Non-Binding Obligation.** This LOI is not intended to be a binding obligation of the University or Trinity. Neither party shall be legally bound to pursue the Transaction with the other described above unless and until the Definitive Agreement is executed and delivered, except that the provisions of paragraphs 21, 22, 23, 24 and 25 shall be legally binding on the parties and shall survive termination of this LOI.

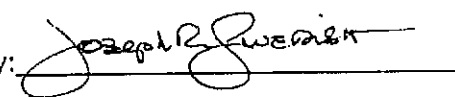
This LOI shall remain in effect until the earlier to occur of (a) the execution of the Definitive Agreement and Ancillary Agreements, (b) June 30, 2011, or (c) the date Trinity or the University provides written notice to the other of the intention to terminate this Letter of Intent.

This Letter of Intent has been entered into by our duly authorized officers as of the day and year first above written.

LOYOLA UNIVERSITY OF CHICAGO

TRINITY HEALTH CORPORATION

By: 

By: 

Name: Michael J. Garanzini, S.J.
Title: President

Name: Joseph R. Swedish
Title: President & Chief Executive Officer

Attachment 6
Financial Information

The following documents are attached at Attachment 6:

1. Proof of Trinity Health Corporation's "AA" bond rating from Fitch Ratings (dated as of September 30, 2010).
2. Proof of Trinity Health Corporation's "Aa2" bond rating from Moody's Investor's Services (dated as of October 6, 2010).
3. Trinity Health Corporation's audited consolidated financial statements for the year ended June 30, 2010.
4. Trinity Health Corporation's audited consolidated financial statements for the year ended June 30, 2009 (which includes comparative data for the year ended June 30, 2008).

FitchRatings

Fitch Rates Trinity Health (MI) 2010 Rev Bonds 'AA'; Affirms Outstanding Bonds at 'AA' & 'F1+' Ratings

30 Sep 2010 12:32 PM (EDT)

Fitch Ratings-New York-30 September 2010: Fitch Ratings assigns its 'AA' long-term rating to Trinity Health Credit Group's (Trinity) revenue and revenue refunding bonds issued through the following conduit issuers:

- Approximately \$136.2 million Michigan Finance Authority series 2010A;
- Approximately \$ 65.3 million Indiana Finance Authority series 2010B;
- Approximately \$ 25.5 million County of Franklin (OH) series 2010C;
- Approximately \$ 27.9 million Idaho Health Facilities Authority series 2010D;
- Approximately \$ 20.8 million Ontario Hospital Facility Authority series 2010E;

The series 2010 bonds are expected to be fixed rate and will price the week of Oct. 11, 2010 through negotiation. Bond proceeds will be used to reimburse Trinity for prior capital expenditures, fund new capital projects, refund approximately \$159.6 million of bonds outstanding, repay \$70 million of commercial paper for prior capital expenditures and pay associated costs of issuance. Total outstanding debt after this issuance is approximately \$2.7 billion, which is 74% fixed rate and 26% variable rate, after the effect of swaps.

In addition, Fitch affirms its 'AA' long-term rating on the remaining outstanding bonds as well as its 'F1+' short-term rating on approximately \$1.1 billion of bonds outstanding and a \$400 million commercial paper program supported by Trinity's own liquidity.

The Rating Outlook is Stable.

RATING RATIONALE:

- The breadth and scale of Trinity's care delivery system which includes 47 acute care hospitals located in eight states from Maryland to California moderates the system's overall operating risk from adverse economic, demographic or operational changes in any one of its markets.
- Trinity continues to use its scale to drive greater efficiencies (i.e. lower per unit cost) in administrative / corporate services, revenue cycle, supply chain and information technology. Moreover, development of and exportation of clinical best practices reduces the variability of care, reducing waste and improving outcomes.
- Trinity's substantial liquidity position provides a high level of protection from changes in reimbursement, service area demographics and payor mix.
- While Trinity's operating profitability has experienced a slight deterioration from the effects of the recession, operating and operating EBITDA margins remain solid and consistent with its 'AA' peer group.
- Fitch views the organization's 'Genesis' information technology system as a credit strength providing healthcare reform readiness, among other things.

KEY RATING DRIVERS:

- Most of Trinity's acute care facilities are located in highly competitive markets such Southeast Michigan, Central Ohio, and Central California forcing management to focus on sustaining competitive advantages that may result in accelerated capital outlays.
- Rising Medicaid volumes combined with increasing charity care and bad debt expense may weigh on system profitability.
- Effects of federal health reform efforts portend a lower reimbursement environment.

SECURITY:

The bonds are secured by a pledge of revenues (including receivables), but not a mortgage pledge.

CREDIT SUMMARY:

0043

Headquartered in Novi, Michigan, Trinity Health owns or operates 47 acute care hospitals across eight states with an aggregate of 8,185 staffed beds. In addition, Trinity operates residential facilities for the elderly (including nursing and assisted living care), home health, outpatient surgery, dental clinics, occupational health, mobile health care services, school-based health clinics and managed care organizations. In fiscal 2010, Trinity had total revenues of approximately \$7 billion.

The 'AA' rating reflects the benefits that accrue from Trinity's size, scale as well the geographic diversity of its operations. Trinity continues to realize improved economies of scale through consolidation of various administrative services as well standardization of certain operational, clinical and managerial practices. For example, through improved revenue cycle management days in account receivable has improved to 42.2 days in fiscal 2010 from 48.9 days in fiscal 2008. Moreover, Fitch views the geographic diversity of Trinity's operations favorably as it serves to insulate the system from the attendant business / reimbursement risk in any region.

Other credit factors supporting the 'AA' rating are Trinity's strong liquidity indicators, solid operating performance and moderate debt burden. At June 30, 2010, Trinity had \$4.1 billion in unrestricted cash and investments which is up \$564 million or 16% from June 30, 2009. Trinity's liquidity indicators are strong at fiscal year-end 2010 with days cash on hand of 242.6, a 22.4 times (x) cushion ratio (based on pro forma maximum annual debt service; MADS) and 159% of long-term debt; all of which exceed the respective 2010 'AA' category medians of 214.7, 19.6x and 149.9%. Besides insulating the corporation against operating risk, Trinity's liquidity position affords the organization the ability to make strategic investments or acquisitions quickly. While Trinity's operating profitability has experienced slight erosion over the last two fiscal years reflecting the effects of the recession, it remains solid and consistent with its 'AA' peer group. In fiscal 2010, Trinity generated operating and operating EBITDA margins (before nonrecurring one time items) of 3% and 10.1%, respectively, in spite of an approximate 12% increase in bad debt expense. Trinity's debt burden is moderate as indicated by MADS being 2.6% of fiscal 2010 revenues. Coverage of MADS by operating EBITDA has been very consistent at 4.2x, 3.9x and 4.0x in fiscal 2008, 2009 and 2010, respectively. Trinity expects to issue \$125 million of additional debt in spring 2011, which is not expected to impact the rating.

Key rating drivers that cause some concern for downside risk relate to Trinity's facilities being located in highly competitive markets such as Southeast Michigan, Central Ohio, and Central California. Additionally, rising Medicaid volumes combined with growing charity care and bad debt expense may weigh on system profitability.

The 'F1+' rating reflects the adequacy of Trinity's eligible cash, investments, and dedicated lines of credit to pay the maximum put exposure in any given week. At June 30, 2010, Trinity had a total of \$2.2 billion of highly liquid, unrestricted cash and fixed income available to fund any unremarked bonds or commercial paper. Furthermore, Trinity has secured a \$916 million dedicated credit facility from a consortium of 10 banks to provide liquidity on its outstanding variable rate demand bonds and its commercial paper program, in addition to an approximately \$103 million facility to support the series 2000C bonds. Combining the corporation's eligible cash and investment position with amounts recognized by Fitch under the dedicated credit facility, Trinity has total funding sources available to meet the maximum one-week tender exposure well in excess of Fitch's 'F1+' threshold of 1.25x. Fitch has received a written internal procedures letter from Trinity which outlines internal policies to meet any funding requirements. Fitch receives monthly investment reports which are used to monitor Trinity's cash and investment position relative to its liquidity coverage.

The Rating Outlook is Stable. Fitch views Trinity as among the strongest credits in Fitch's 'AA' non-profit health care portfolio due to its consistent operating profitability, strong balance sheet, and the breadth and depth of services spread over multiple facilities in multiple states. Fitch believes Trinity's efficiency improvements have offset the negative affect of rising bad debt and weaker payor mix enabling the corporation to maintain consistent operating profitability.

DISCLOSURE:

Trinity disseminates annual audited financial statements and quarterly unaudited financial information to the MSRB's EMMA system.

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In addition to the sources of information identified in the report 'Revenue-Supported Rating Criteria', this action was additionally informed by information from the Underwriter.

Applicable Criteria and Related Research:

- 'Revenue-Supported Rating Criteria', dated Aug. 16, 2010;
- 'Nonprofit Hospitals and Health Systems Rating Criteria', dated Dec. 29, 2009;
- 'Criteria for Assigning Short-Term Ratings Based on Internal Liquidity', dated Dec. 29, 2009

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria
Nonprofit Hospitals and Health Systems Rating Criteria
Criteria for Assigning Short-Term Ratings Based on Internal Liquidity

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MOODY'S

INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa2 RATINGS TO TRINITY HEALTH CREDIT GROUP'S (MI) \$275.6 MILLION OF SERIES 2010A-E FIXED RATE BONDS; OUTLOOK IS STABLE

Global Credit Research - 06 Oct 2010

TRINITY HEALTH CREDIT GROUP HAS A TOTAL OF \$2.7 BILLION OF RATED DEBT TO BE OUTSTANDING

Health Care-Hospital
MI

Moody's Rating ISSUE	RATING
Refunding Revenue Bonds, Series 2010A	Aa2 ¹
Sale Amount \$136,250,000	
Expected Sale Date 10/13/10	
Rating Description Healthcare Revenue Bonds	
Refunding & Revenue Bonds, Series 2010B	Aa2 ²
Sale Amount \$65,250,000	
Expected Sale Date 10/13/10	
Rating Description Healthcare Revenue Bonds	
Refunding & Revenue Bonds, Series 2010C	Aa2 ³
Sale Amount \$25,415,000	
Expected Sale Date 10/13/10	
Rating Description Healthcare Revenue Bonds	
Revenue Bonds, Series 2010D	Aa2 ⁴
Sale Amount \$27,860,000	
Expected Sale Date 10/13/10	
Rating Description Healthcare Revenue Bonds	
Revenue Bonds, Series 2010E	Aa2 ⁵
Sale Amount \$20,785,000	
Expected Sale Date 10/13/10	
Rating Description Healthcare Revenue Bonds	

¹ Issued by Michigan Finance Authority.

² Issued by Indiana Finance Authority.

³ Issued by County of Franklin, Ohio.

⁴ Issued by Idaho Health Facilities Authority.

⁵ Issued by Hospital Facility Authority of the City of Ontario, Oregon.

Moody's Outlook Stable

Opinion

NEW YORK, Oct 6, 2010 – Moody's Investors Service has assigned Aa2 ratings to Trinity Health Credit Group's (Trinity Health) proposed \$275.6 million of Series 2010A-E fixed rate revenue and refunding bonds to be issued by various authorities. The outlook is stable. At this time Moody's has also affirmed the Aa2 unenhanced ratings assigned to Trinity Health \$2.55 billion of rated debt to remain outstanding (see RATED DEBT section for debt list at end of report). Trinity Health will also issue \$57 million of Series 2010F private placement bonds that will not be rated by Moody's.

RATINGS RATIONALE

USE OF PROCEEDS: The bond proceeds will be used to: (1) reimburse for prior capital costs (\$109 million), including the repayment of \$50 million of commercial paper to fund these projects, and support prospective capital projects (\$14 million); (2) refund certain series of outstanding bonds (\$160 million); and (3) pay the costs of issuance. Trinity Health plans to use issue an additional \$57 million of private

placement bonds Series 2010F that will reimburse for prior capital expenditures (\$51 million) and provide for future capital (\$6 million). Moody's will not be rating the Series 2010F bonds.

LEGAL SECURITY: Trinity Health is the only obligated group member of the Trinity Health Credit Group. Twenty entities, accounting for 90% of revenues and 90% of total assets are currently Designated Affiliates. Designated Affiliates are not obligated to make payments on the bonds, but may be required to transfer funds to Trinity Health that may then be used to make payments on the bonds. The Designated Affiliates provide a security interests in their pledged property (as defined in an amendment to the master indenture, and including unrestricted receivables), in order to secure all obligations issued under the Master Indenture. Moody's views the restricted affiliate structure as a weaker security for bondholders than is a joint and several obligation.

INTEREST RATE DERIVATIVES: Trinity Health utilizes various financial instruments to hedge interest rates and other exposures, but has policies that prohibit trading in derivative financial instruments on a speculative basis. Trinity Health has entered into various interest rate swaps for a total notional amount of \$1.46 billion with different counterparties (including Merrill Lynch, Goldman, JP Morgan, Morgan Stanley, and Scotia Bank). As of June 30, 2010, Trinity Health had \$80.0 million in fixed-receiver swaps, \$526.7 million in fixed-payer swaps and \$830.0 million in basis swaps outstanding, and recorded a net liability in the amount of \$104 million. The net market value represented only 2.3% of unrestricted liquidity at fiscal yearend 2010. Trinity Health has \$32.5 million in collateral posted against the swaps as of June 30, 2010.

STRENGTHS

*Geographic diversification across eight states with the six markets making the largest contributions to operating cash flow located in five different states, and only two markets comprising greater than 10% individually of system operating cash flow (Columbus, OH and Ann Arbor, MI) and maintaining good operating performance

*Good operating profit (2.9% margin) and operating cash flow (10.1% margin) that generated strong 5.57 times Moody's-adjusted maximum annual debt service (MADS) coverage in fiscal year (FY) 2010; pro forma MADS coverage remains good at 5.29 times

*Liquidity remains over 200 days cash on hand, with a rebound in fiscal year (FY) 2010 after a decline in FY 2009, at 232 days at fiscal yearend (FYE) 2010; pro forma liquidity to increase slightly with reimbursement of prior capital spend (~\$160M) from bond proceeds

*Good cash-to-debt ratio of 147% at FYE 2010 and debt-to-cash flow ratio of 3.23 times in FY 2010; 6.7% increase in debt load over FYE 2010 weakens pro forma ratios slightly to 144% cash-to-debt and 3.4 times debt-to-cash flow

CHALLENGES

*Sizable concentration of operating cash flow generated by Michigan operations (45% in FY 2009) with Blue Cross Blue Shield the largest insurer in the state and the state fiscally challenged with unfavorable economic indicators

*Sizable capital plans in the near term, with expectations to issue debt annually to fund master facility plans at several ministry organizations (MOs), though proven ability and willingness to pull back on capital

*Second year of declining operating cash flow with major markets showing declines, including third year for Columbus, second year for Ann Arbor, third year for Fresno

MARKET POSITION/COMPETITIVE STRATEGY: GEOGRAPHIC DIVERSITY OF CASH FLOWS A CREDIT POSITIVE, THOUGH SOME CONCENTRATION EXISTS

Moody's believes that one of Trinity Health's primary credit strengths is its geographically diversified portfolio of hospitals. Trinity Health is one of the largest not-for-profit health care systems in the U.S., generating \$7.0 billion in annual operating revenues (before investment income) and operating 47 owned or managed acute care hospitals, along with continuing care and other health related services, in eight states. The majority of Trinity Health's hospitals are sizable (greater than 200 beds) and are located in major metropolitan markets. Several of the hospitals are located in competitive markets, but hold leading to near-leading market shares in their primary service areas.

Moody's views the diversification of operating cash flow across the system as a credit strength, though certain pockets of concentration exist. The six Ministry Organizations (MOs) generating the largest percentages of operating cash flow in FY 2010 are located in four different states - Ohio (Columbus), Michigan (Ann Arbor, Grand Rapids, and Oakland), Idaho (Boise), and Maryland (Silver Spring). This diversification reduces the risk to the system due to changes in the dynamics of any one local market.

The top six MOs combined accounted for 63% of system operating cash flow in FY 2010. Columbus, the largest individual contributor, has accounted for a fairly stable 19%-21% of system operating cash flow across the past four years. Only one other MO - Ann Arbor - generated operating cash flow that exceeded 10% of the system's total (15.8% in FY 2010, slightly lower than the prior year). Collectively, there is some degree of concentration risk within Michigan, as the MOs in the state accounted for 43% of the system's FY 2010 reported operating cash flow. We note, however, that these hospitals are diversified around the state and are not over burdened with a high Medicaid load. Management has proven an ability to operate effectively in the state, but we retain some concerns for the near-term due to the economic challenges Michigan continues to face.

OPERATING PERFORMANCE: OPERATING CASH FLOW DECLINES FOR SECOND CONSECUTIVE YEAR IN FY 2010 BUT DEBT COVERAGE REMAINS GOOD

Trinity Health experienced slower revenue growth in FY 2010 despite growth in the number of facilities to enhance market share in certain markets, with same store admissions generally flat or down. Operating income (adjusted as detailed in the KEY INDICATORS section) declined for the third consecutive year to \$187 million (2.7% margin) from \$210 million (3.1% margin) in FY 2009 and the peak of \$271 million (4.5% margin) in FY 2007. Due to a sizable increase in depreciation expense in FY 2008 that drove a decline in operating profit in FY 2008, operating cash flow has declined only two consecutive years, to \$694 million (9.9% margin) from \$715 million (10.6%) in FY 2009 and a peak of \$745 million (11.7% margin) in FY 2008. Contributing to the decline has been increasing bad debt expense (36% increase across the two year period) and in FY 2010 an increase in pension expense with the curtailment of the Hackley pension plans and a decrease in the pension discount rate. As a result of the decline in cash flow, along with the growth in debt outstanding, debt-to-cash flow weakened to 3.34 times in FY 2010 from 2.92 times in FY 2009, with pro forma debt-to-cash flow of 3.47 times, levels that are above Aa2 rated peers. Nonetheless, Moody's-adjusted MADS remains good at 5.1 times on a pro forma basis.

With the downturn in the economy in FY 2009, Trinity Health began to implement strategic cost control initiatives and advance its revenue enhancement measures. Reductions in supply chain costs and labor costs (including a 5% staffing reduction) were implemented system-wide. Revenue enhancement measures including revisited contract negotiations, and improved coding and accounts receivable collections, were implemented. Additional focus was placed on efficiency improvements. Not included in Moody's calculation of operating profitability is the continuation of favorable malpractice expense reductions.

Trinity Health experienced both increases and decreases in operating performance at its various MOs, with six of the top twelve showing increases and six showing decreases. The top markets of Columbus, Ann Arbor and Boise experienced some weakening, the Grand Rapids, Oakland and Silver Springs markets showed improvement. Of particular note is the favorable improvement in operating performance in South Bend, although not to historical levels.

BALANCE SHEET POSITION: DAYS CASH REMAINS OVER 200 DAYS; DEBT LOAD INCREASING SLIGHTLY

Absolute unrestricted liquidity increased by 16.2% to \$4.1 billion at FYE 2010 to improve cash on hand to 232 days. The major driving factors to the improvement were reimbursement for prior capital spending from the proceeds of the Series 2009 bonds, favorable investment returns, and reduced capital spending from the prior year. The Series 2010A-E bonds and the private placement Series 2010F bonds will reimburse for prior capital expenditures in the amount of approximately \$159 million, of which about \$50 million will be used to reduce the amount outstanding under the commercial paper program, increasing liquidity slightly.

Pro forma debt load increases 4.3% from the time of our last review for the Series 2009 bond sale in October 2009, and a higher 15.3% over FYE 2009 debt outstanding including the Series 2009 bonds. As a result, pro forma debt-to-operating revenues increases to 41% from 36% in FY 2009. Moody's notes that over the past four years, pro forma debt-to-operating revenues has been 2-3 percentage points above the actual ratio the following year, a further indication of consistent growth in the organization. Pro forma cash-to-debt declines only slightly to 144% from 147% at FYE 2010 and is equivalent to the 144% coverage at FYE 2009. In addition, with the increase in debt and decline in operating cash flow, debt-to-cash flow increases to a pro forma 3.47 times from 3.34 times in FY 2010 and 2.92 times in FY 2009. This ratio has increased over the past two years and is beginning to show a little stress for an Aa2 rating.

With the current bond issue, the debt portfolio will consist of 54% fixed rate bonds (including the Series 2008A-2 \$120.5 million long-mode term bond at a fixed rate until December 1, 2013 (\$10.0 million), December 1, 2015 (\$35.0 million) and December 1, 2017 (\$75.5 million) when the bonds will be remarketed and a new rate determined) and 46% variable rate bonds. The variable rate bonds are secured primarily by self-liquidity, with only one series supported by a standby bond purchase agreement. The amount of puttable debt, including the long mode term bonds and the SBPA supported bonds, is \$1.26 billion, with cash-to-puttable debt comfortable at 321%.

Management maintains a \$400 million taxable commercial paper (CP) program that it utilizes to fund key capital projects on an interim basis during the year, and currently anticipates issuing bond debt annually to reimburse itself for these and other key capital expenditures. The CP program is currently outstanding in the amount of \$170 million; management plans to reduce the outstanding balance to \$100 million concurrent with the bond transaction. Future capital plans for \$2.4 billion over the next three years, averaging \$720 million per year, remains above scheduled depreciation expense in the near term. Trinity Health anticipates supporting its capital partly from new debt issuances, which currently are scheduled to total \$750 million over the three years. Moody's notes that Trinity Health's capital spending ratio has been above 1.5 times in six of the past seven audited years. We also note that Trinity Health has reduced its capital plans when operating performance falls below budgeted expectations.

Outlook

The stable outlook reflects our belief that management will continue to generate double digit operating cash flows to support existing debt service, while maintaining its liquidity and balance sheet profile.

What could change the rating—UP

Material improvement in operating and operating cash flow margins; continued liquidity growth; demonstrated sustained market leadership in most major MOs

What could change the rating—DOWN

Substantial increase in debt load without a corresponding increase in cash flow; material decline in operating performance; weakening of liquidity; operational losses at several MOs concurrently

KEY INDICATORS

Assumptions & Adjustments:

- Based on financial statements for Trinity Health
- First number reflects audit year ended June 30, 2009
- Second number reflects pro forma on audit year ended June 30, 2010, adjusted to include \$46 million of net additional proposed debt from the Series 2010A-F bonds
- Excludes from operating revenues \$4.7 million of investment income and \$7.1 million gain on sale in FY 2009, and \$13.0 million of investment income in FY 2010
- Excludes from expenses \$28.2 million of non-cash expense reductions primarily due to Michigan tort reform favorably impacting claims experience and \$23.3 million of restructuring charges in FY 2009
- Excludes from expenses \$49.0 million for one-time pension settlement in FY 2010
- Excludes from non-operating \$23.3 million and \$24.2 million of change in market value of interest rate swaps (non-cash) in FY 2009 and FY 2010, respectively, and \$9.1 million and \$0.9 million of loss from early extinguishment of debt in FY 2009 and FY 2010, respectively

-Includes in interest expense capitalized interest of \$11.6 million and \$10.2 million in FY 2009 and FY 2010, respectively

-Investment returns smoothed at 6% unless otherwise noted

*Inpatient discharges: 328,577; 331,206

*Total operating revenues: \$6.73 billion; \$7.00 billion

*Moody's-adjusted net revenue available for debt service: \$929 million; \$915 million

*Total debt outstanding: \$2.42 billion; \$2.88 billion

*Maximum annual debt service (MADS): \$168.5 million; \$178.8 million

*MADS Coverage with reported investment income (realized only): 3.15 times; 5.62 times

*Moody's-adjusted MADS Coverage with normalized investment income: 5.52 times; 5.12 times

*Debt-to-cash flow: 2.92 times; 3.47 times

*Days cash on hand: 210 days; 237 days

*Cash-to-debt: 144%; 144%

*Operating margin: 3.1%; 2.7%

*Operating cash flow margin: 10.6%; 9.9%

RATED DEBT (as of June 30, 2010)

- \$400 million Taxable Commercial Paper Notes program (\$170 million outstanding; about \$100 to remain outstanding), rated P-1

Issued by the Michigan State Hospital Finance Authority:

-Series 2009B, variable rate bonds (\$51.4 million outstanding), rated Aa2/MMIG 1, short term rating supported by Trinity Health's own self liquidity

-Series 2009C, variable rate bonds (\$51.4 million outstanding) rated Aa2/MMIG 1, short term rating supported by Trinity Health's own self liquidity

- Series 2008A-1 fixed rate bonds (\$192.8 million outstanding), rated Aa2

- Series 2008A-2 fixed rate long-maturity term bonds (\$120.5 million outstanding), with mandatory tenders on December 1, 2013 (\$10.0 million), December 1, 2015 (\$35.0 million) and December 1, 2017 (\$75.5 million), rated Aa2

- Series 2008C variable rate bonds (\$388.1 million outstanding) rated Aa2/MMIG 1, short term rating supported by Trinity Health's own self liquidity

- Series 2006A fixed rate bonds (\$119.8 million outstanding), rated Aa2

- Series 2005D fixed rate bonds (\$43.6 million outstanding), rated Aa2

- Series 2005E variable rate bonds (\$36.9 million outstanding), rated Aa2/MMIG1, short term rating supported by Trinity Health's own self liquidity

- Series 2005F variable rate bonds (\$45.9 million outstanding), rated Aa2/MMIG1, short term rating supported by Trinity Health's own self liquidity

- Series 2002C fixed rate bonds (\$152.0 million outstanding), rated Aa2

- Series 2000A fixed rate bonds (\$108.2 million outstanding), rated Aa2

- 1999 Series X, fixed rate bonds (\$1.1 million outstanding), originally issued by Mercy Health Services Obligated Group, insured by MBIA, Aa2 unenhanced rating

Issued by the Idaho Health Facilities Authority:

- Series 2008B fixed rate bonds (\$178.3 million outstanding), rated Aa2

Issued by the Indiana Finance Authority:

- Series 2008D-1 & D-2 variable rate bonds (\$390.1 million outstanding) rated Aa2/MMIG 1, short term rating supported by Trinity Health's own self liquidity

- Series 2006B fixed rate bonds (\$10.9 million outstanding), rated Aa2

Issued by County of Franklin, Ohio:

- Series 2005A fixed rate bonds (\$36.1 million outstanding), rated Aa2

Issued by Montgomery County, MD:

- Series 2001 fixed rate bonds (\$58.3 million outstanding), rated Aa2

Issued by Iowa Finance Authority:

- Series 2009A fixed rate bonds (\$244.7 million outstanding), rated Aa2
- Series 2000B fixed rate bonds (\$32.3 million outstanding; \$0 expected to be outstanding post financing), rated Aa2
- Series 2000D variable rate bonds (\$47.3 million outstanding), rated Aa2/MMIG1, short term rating supported by Trinity Health's own self liquidity

Issued by City of Fresno, CA:

- Series 2000C variable rate bonds (\$102.9 million outstanding), rated Aa2/MMIG1, supported by a standby bond purchase agreements with Landesbank Hessen-Thuringen Girozentrale (Heleba) expiring January 30, 2011

Trinity Health (formerly Holy Cross Health System) debt outstanding:

- Maryland Industrial Development Financing Authority Series 1996 fixed rate bonds (\$3.0 million outstanding), rated Aa2
- County of Franklin, OH Series 1995 variable rate bonds (\$29.9 million outstanding), rated Aa2/MMIG1, short term rating supported by Trinity Health's own self liquidity
- County of Franklin, OH Series 1996 fixed rate bonds (\$2.5 million outstanding; \$0 expected to be outstanding post financing), rated Aa2
- County of Franklin, OH Series 1998 fixed rate bonds (\$36.7 million outstanding), insured by MBIA, Aa2 unenhanced rating
- Fresno, CA Series 1998 fixed rate bonds (\$4.0 million outstanding; \$0 expect to be outstanding post refunding), insured by MBIA, Aa2 unenhanced rating
- Idaho Health Facilities Authority Series 1998 fixed rate bonds (\$39.5 million outstanding), insured by MBIA, Aa2 unenhanced rating
- Indiana Health Facility Financing Authority Series 1998 fixed rate bonds (\$17.7 million outstanding; \$0 expected to be outstanding post financing), insured by MBIA, Aa2 unenhanced rating

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The last rating action with respect to Trinity Health Credit Group was on October 23, 2009, when a municipal finance scale ratings of Aa2, Aa2/MMIG 1 and P-1 were affirmed with a stable outlook. Those ratings were subsequently recalibrated to Aa2, Aa2/MMIG 1 and P-1 on May 7, 2010.

The principal methodology used in rating Trinity Health Credit Group was Not-for-Profit Hospitals and Health Systems rating methodology published in January 2008. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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TRINITY HEALTH

*Consolidated Financial Statements for
the Years Ended June 30, 2010 and 2009
and Independent Auditors' Report*

TRINITY HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trinity Health
Novi, Michigan

We have audited the accompanying consolidated balance sheets of Trinity Health and subsidiaries (the "Corporation") as of June 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 the Corporation'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 the Corporation as of June 30, 2010 and 2009, 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.

Deloitte & Touche LLP

September 22, 2010

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2010 AND 2009

(In Thousands)

ASSETS	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents	\$ 552,418	\$ 546,083
Investments	1,538,048	1,301,827
Security lending collateral	156,162	88,940
Assets limited or restricted as to use, current portion	9,437	17,454
Patient accounts receivable, net of allowance for doubtful accounts of \$175.7 million and \$158.6 million in 2010 and 2009, respectively	714,428	703,463
Estimated receivables from third-party payors	36,415	38,954
Other receivables	89,241	87,755
Inventories	110,625	100,347
Prepaid expenses and other current assets	107,426	93,324
Total current assets	3,314,200	2,978,147
ASSETS LIMITED OR RESTRICTED AS TO USE, NON-CURRENT PORTION:		
Held by trustees under bond indenture agreements	45,741	45,485
Self-insurance, benefit plans and other	191,620	165,065
By Board	1,969,650	1,648,251
By donors	97,841	102,703
Total assets limited or restricted as to use, non-current portion	2,304,852	1,961,504
PROPERTY AND EQUIPMENT, NET	3,451,916	3,388,949
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	92,308	95,863
EXCESS OF COST OVER NET ASSETS ACQUIRED , net of accumulated amortization of \$26.1 million and \$23.5 million in 2010 and 2009, respectively	54,480	57,997
INTANGIBLE ASSETS , net of accumulated amortization of \$11.4 million and \$5.6 million in 2010 and 2009, respectively	16,614	15,368
OTHER ASSETS	87,210	82,703
TOTAL ASSETS	\$ 9,321,580	\$ 8,580,531

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

LIABILITIES AND NET ASSETS	2010	2009
CURRENT LIABILITIES:		
Line of credit	\$ -	\$ 686
Commercial paper	169,956	99,981
Short-term borrowings	1,143,940	1,060,050
Current portion of long-term debt	30,952	30,843
Accounts payable	282,036	264,859
Accrued expenses	81,734	58,161
Salaries, wages and related liabilities	319,990	314,439
Payable under security lending agreements	156,162	88,940
Estimated payables to third-party payors	159,308	119,700
Total current liabilities	2,344,078	2,037,659
LONG-TERM DEBT, NET OF CURRENT PORTION	1,406,548	1,224,561
SELF-INSURANCE RESERVES	295,266	302,656
ACCRUED PENSION AND RETIREE HEALTH COSTS	672,889	731,875
OTHER LONG-TERM LIABILITIES	292,861	253,991
Total liabilities	5,011,642	4,550,742
EXTERNAL FINANCIAL INTEREST	87,885	81,530
NET ASSETS:		
Unrestricted	4,119,660	3,832,806
Temporarily restricted	70,657	86,256
Permanently restricted	31,736	29,197
Total net assets	4,222,053	3,948,259
TOTAL LIABILITIES AND NET ASSETS	\$ 9,321,580	\$ 8,580,531

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2010 AND 2009 (In Thousands)

	2010	2009
UNRESTRICTED REVENUE:		
Net patient service revenue	\$ 6,186,536	\$ 5,953,806
Capitation and premium revenue	359,503	333,349
Net assets released from restrictions	20,631	14,222
Other revenue	442,008	444,639
Total unrestricted revenue	<u>7,008,678</u>	<u>6,746,016</u>
EXPENSES:		
Salaries and wages	2,692,757	2,627,512
Employee benefits	679,534	604,153
Contract labor	53,892	67,896
Total labor expenses	<u>3,426,183</u>	<u>3,299,561</u>
Supplies	1,163,758	1,131,201
Purchased services	639,239	618,880
Depreciation and amortization	422,810	410,045
Occupancy	299,385	295,265
Provision for bad debts	314,998	280,942
Medical claims and capitation purchased services	191,531	177,594
Interest	73,233	83,662
Other	266,866	243,871
Total expenses	<u>6,798,003</u>	<u>6,541,021</u>
OPERATING INCOME BEFORE OTHER ITEMS	210,675	204,995
Pension settlement	(48,986)	-
Reduction in insurance expense	-	28,188
Restructuring charges	-	(23,317)
OPERATING INCOME	<u>161,689</u>	<u>209,866</u>
NONOPERATING ITEMS:		
Investment income (loss) - marketable securities	277,645	(361,843)
Equity earnings (losses), other investments	59,088	(278,161)
Change in market value and cash payments of interest rate swaps	(40,385)	(37,292)
Loss from early extinguishment of debt	(949)	(9,052)
External financial interest	(12,048)	(1,760)
Other, including income tax expense	(10,945)	(11,001)
Total nonoperating items	<u>272,406</u>	<u>(699,109)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	434,095	(489,243)

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

	2010	2009
UNRESTRICTED NET ASSETS:		
Excess (deficiency) of revenue over expenses	434,095	(489,243)
Change in market value of interest rate swaps	-	1,054
Net assets released from restrictions for capital acquisitions	21,058	24,671
Net change in retirement plan related items	(170,962)	(764,984)
Adjustment to apply retirement plan measurement date provisions	-	(22,226)
Other	2,663	7,790
Increase (decrease) in unrestricted net assets	<u>286,854</u>	<u>(1,242,938)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	21,351	24,134
Net investment gain (loss)	2,873	(6,879)
Net assets released from restrictions	(41,689)	(38,893)
Other	1,866	(2,463)
Decrease in temporarily restricted net assets	<u>(15,599)</u>	<u>(24,101)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions for endowment funds	360	601
Net investment gain (loss)	1,450	(3,263)
Other	729	2,537
Increase (decrease) in permanently restricted net assets	<u>2,539</u>	<u>(125)</u>
INCREASE (DECREASE) IN NET ASSETS	273,794	(1,267,164)
NET ASSETS, BEGINNING OF YEAR	<u>3,948,259</u>	<u>5,215,423</u>
NET ASSETS, END OF YEAR	<u>\$ 4,222,053</u>	<u>\$ 3,948,259</u>

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

	2010	2009
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 273,794	\$ (1,267,164)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	422,810	410,045
Provision for bad debts	314,998	280,942
Deferred retirement items arising during the year	261,628	764,984
Adjustment to apply retirement plan measurement date provisions	-	22,226
Change in net unrealized and realized (gains) losses on investments	(258,234)	729,843
Change in market values of interest rate swaps	24,194	27,799
Undistributed equity earnings from unconsolidated affiliates	(19,593)	(20,729)
Loss on disposals of property and equipment	7,083	7,472
Restricted contributions and investment income received	(7,537)	(5,613)
External financial interest in consolidated subsidiaries	6,355	(10,595)
Loss from extinguishment of debt	949	9,052
Gain on sale unconsolidated affiliates and subsidiaries	(10,130)	(9,407)
Reduction in insurance expense	-	(28,188)
Other adjustments	15,518	20,706
Changes in, excluding assets acquired:		
Patient accounts receivable	(305,656)	(223,198)
Other assets	(8,865)	(28,136)
Accounts payable and accrued expenses	35,334	19,143
Estimated payables to third-party payors, net	35,407	22,777
Self-insurance reserves	(7,390)	8,781
Accrued pension and retiree health costs	(320,614)	(3,517)
Other liabilities	1,806	(347)
Total adjustments	<u>188,063</u>	<u>1,994,040</u>
Net cash provided by operating activities	<u>461,857</u>	<u>726,876</u>

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

	2010	2009
INVESTING ACTIVITIES:		
Purchases of investments	(2,171,562)	(1,905,202)
Proceeds from sales of investments	1,854,238	1,790,608
Purchases of property and equipment	(445,692)	(610,958)
Acquisition of subsidiaries, net of \$46.2 million and \$1.7 million cash assumed in 2010 and 2009, respectively	(67,718)	(22,304)
Decrease in other investments in affiliates	24,985	25,422
Decrease in assets limited as to use	10,275	10,053
Proceeds from sale of unconsolidated affiliates and subsidiaries	10,130	9,722
Proceeds from disposal of property and equipment	6,838	4,522
Net cash used in investing activities	<u>(778,506)</u>	<u>(698,137)</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	347,495	1,510,515
Repayments of debt	(91,457)	(1,261,931)
Net increase (decrease) in commercial paper and line of credit	69,289	(60,392)
Increase in financing costs and other	(9,880)	(10,835)
Proceeds from restricted contributions and restricted investment income	7,537	5,613
Net cash provided by financing activities	<u>322,984</u>	<u>182,970</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,335	211,709
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>546,083</u>	<u>334,374</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 552,418</u>	<u>\$ 546,083</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest (net of amounts capitalized)	\$ 88,555	\$ 89,955
Capital lease obligations for buildings and equipment	14,540	581
Accruals for purchases of property and equipment and other long-term assets	42,492	49,872
Unsettled investment trades, purchases	9,695	113,023
Unsettled investment trades, sales	25,343	149,569
(Increase) decrease in security lending collateral	(67,222)	193,333
Increase (decrease) in payable under security lending agreements	67,222	(193,333)

TRINITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

1. ORGANIZATION AND MISSION

Trinity Health, an Indiana not-for-profit corporation, and its subsidiaries are collectively referred to as the Corporation. The Corporation is sponsored by Catholic Health Ministries ("CHM"), a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in eight states. The mission statement for Trinity Health is as follows:

We serve together in Trinity Health, in the spirit of the Gospel, to heal body, mind and spirit, to improve the health of our communities and to steward the resources entrusted to us.

Community Benefit Ministry - Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments such as copays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States' ("CHA"), *A Guide for Planning and Reporting Community Benefit*, 2008 Edition.

The following amounts below reflect the quantifiable costs of the Corporation's community benefit ministry for the years ended June 30:

	2010	2009
	(In Thousands)	
Ministry for the poor and underserved:		
Charity care at cost	\$ 131,387	\$ 118,095
Unpaid cost of Medicaid and other public programs	167,326	128,648
Programs for the poor and the underserved:		
Community health services	20,535	20,291
Subsidized health services	32,991	28,755
Financial contributions	7,512	5,254
Community building activities	1,730	1,593
Community benefit operations	1,830	1,924
Total programs for the poor and underserved	<u>64,598</u>	<u>57,817</u>
Ministry for the poor and underserved	<u>363,311</u>	<u>304,560</u>
Ministry for the broader community:		
Community health services	10,192	8,603
Health professions education	54,607	50,246
Subsidized health services	13,814	18,211
Research	7,199	6,480
Financial contributions	3,075	3,708
Community building activities	1,436	3,189
Community benefit operations	2,364	1,374
Ministry for the broader community	<u>92,687</u>	<u>91,811</u>
Community benefit ministry	<u>\$ 455,998</u>	<u>\$ 396,371</u>

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, that is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2010 and 2009, the Corporation reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of \$123.1 million and \$111.9 million, respectively.

Ministry for the poor and underserved represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured and the indigent. This is done with the conviction that healthcare is a basic human right.

Ministry for the broader community represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies as further described in Note 4. The cost of charity care is calculated using a cost to charge ratio methodology.

Unpaid cost of Medicaid and other public programs represents the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

Community health services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free immunization services, free or low cost prescription medications, and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Health professions education includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians and students in allied health professions.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

Research includes unreimbursed clinical and community health research and studies on health care delivery.

Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special system-wide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or assets assessments, and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the Corporation, and all wholly owned, majority-owned and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments, that are not controlled by the Corporation, are accounted for using the equity method of accounting. The Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other revenue in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances; recorded values of investments; provisions for bad debts; reserves for losses and expenses related to health care professional and general liability; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Investments and Investment Earnings – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds and other investments structured as limited liability corporations or partnerships. Commingled funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. Limited liability corporations and partnerships that do not directly hold securities are accounted for under the equity method. Redemptions of certain limited liability corporations and partnerships may be made with written notice ranging from one month to one year.

Investment earnings (including equity earnings, realized gains and losses on investments, holding gains and losses, and interest and dividends) are included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on commingled funds and other investments structured as limited liability corporations and partnerships are included in nonoperating items.

Investment earnings on assets held by trustees under bond indenture agreements, assets designated by the Board for debt redemption, assets held for borrowings under the intercompany loan program, and assets deposited in trust funds by a captive insurance company for self-insurance purposes in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other unrestricted investments and board designated funds are included in nonoperating investment income.

Derivative Financial Instruments – The Corporation periodically utilizes various financial instruments (e.g., options, foreign currency futures, caps, swaps, and convertible bonds and stocks) to hedge interest rate, equity downside risk and other exposures. The Corporation's policies prohibit trading in derivative financial instruments on a speculative basis.

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties

as collateral for the securities loaned. Each business day the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, the Corporation obtains additional collateral as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. At June 30, 2010 and 2009, the Corporation had securities loaned of \$155.3 million and \$95.8 million, respectively, and received collateral (cash and noncash) totaling \$159.8 million and \$99.4 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in investment income (loss) - marketable securities on the consolidated statements of operations and changes in net assets.

Assets Limited as to Use – Assets set aside by the Board for future capital improvements, future funding of retirement programs and insurance claims, retirement of debt, held for borrowings under the intercompany loan program, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

Donor-Restricted Gifts – Unconditional promises to give cash and other assets to the Corporation's various ministry organizations are reported at fair value at the date the promise is received. Conditional promises to give and indications 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 to unrestricted net assets and reported in the consolidated statements of operations and 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 consolidated statements of operations and changes in net assets.

Property and Equipment – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset, is computed using either the straight-line or an accelerated method and includes capital lease and internal-use software amortization. The useful lives of these assets range from 3 to 45 years. Interest costs incurred during the period of construction of capital assets are 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 to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Asset Impairment – The Corporation periodically evaluates the carrying value of its long-lived assets for impairment. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. The evaluation of excess of costs over net assets acquired is based principally on the projected undiscounted cash flows generated by the underlying tangible assets.

Inventories – Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the weighted average cost method.

Excess of Costs over Net Assets Acquired – Excess of costs over net assets acquired are capitalized and amortized using the straight-line method over their estimated useful lives, which range from 5 to 40 years. Amortization of excess of costs over net assets acquired for the years ended June 30, 2010 and 2009 of \$4.3 million and \$4.7 million, respectively, is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

Intangible Assets – Intangible assets primarily include non-compete agreements with finite lives amortized using the straight-line method over their estimated useful lives, which range from 5 to 8 years.

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors and Net Patient Service Revenue – The Corporation has agreements with third-party payors that provide for payments to the Corporation's ministry organizations at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated receivables from and payables to 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.

Allowance for Doubtful Accounts – Substantially all of the Corporation's receivables are related to providing healthcare services to patients. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Corporation's estimate for its allowance for doubtful accounts is based upon management's assessment of historical and expected net collections by payor.

Short-term borrowings – Puttable variable rate demand bonds supported by self liquidity or liquidity facilities considered short-term in nature are included in short-term borrowings.

Premium and Capitation Revenue – The Corporation has certain ministry organizations that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on a yearly basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees. Premiums received prior to the period of coverage are recorded as deferred revenue and included in accrued expenses in the consolidated balance sheet.

Certain of the Corporation's ministry organizations have entered into capitation arrangements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's ministry organizations are financially responsible for services provided to the health plan members by other institutional health care providers. Capitation revenue is recognized during the period for which the ministry organization is obligated to provide services to health plan enrollees under capitation contracts. Capitation receivables are included in other receivables in the consolidated balance sheet.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services covered under the premium and capitation arrangements. The premium and capitation arrangement reserves are classified with accrued expenses in the consolidated balance sheet. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Subsequent actual claim experience will differ from the estimated liability due to variances in estimated and actual utilization of health care services, the amount of charges, and other factors. As settlements are made and estimates are revised, the differences are reflected in current operations. The Corporation limits a portion of its liability through stop-loss reinsurance.

Income Taxes – The Corporation and substantially all of its subsidiaries have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has taxable subsidiaries, which are included in the consolidated financial statements. Certain of the taxable subsidiaries have entered into tax sharing agreements and file consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation includes penalties and interest, if any, with its provision for income taxes.

Excess (Deficiency) of Revenue Over Expenses – The consolidated statement of operations and changes in net assets includes excess (deficiency) of revenue over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenue over expenses, consistent with industry practice, include the effective portion of the change in market value of derivatives that meet hedge accounting requirements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), net change in postretirement plan related items, discontinued operations, extraordinary items and cumulative effects of changes in accounting principles.

Adopted Accounting Pronouncements – In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Topic 105, *Generally Accepted Accounting Principles* (“ASC 105”) (formerly known as Financial Accounting Standards No. 168 – “*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*”). This standard establishes the ASC as the single source of authoritative U.S. Generally Accepted Accounting Principles (“GAAP”), superseding all previously issued authoritative guidance. All references to pre-Codification GAAP in the Corporation’s consolidated financial statements have been replaced with descriptive titles.

On July 1, 2009, the Corporation adopted FASB’s ASC guidance regarding disclosures about derivative instruments and hedging activities. This guidance expands current disclosure requirements when accounting for derivative instruments and hedging activities. It requires additional disclosures regarding: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are currently being accounted for under existing FASB ASC Guidance and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. In addition, this guidance requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation, the purpose of derivative use in terms of the risks that the entity is intending to manage, quantitative disclosures about the fair values of derivative instruments and their gains and losses and disclosures about credit-risk-related contingent features. The adoption of this guidance did not have a material impact on the Corporation’s financial position and results of operations, but resulted in additional disclosures as presented in Note 11.

On July 1, 2009, the Corporation adopted FASB’s ASC guidance regarding employer’s disclosures about postretirement benefit plan assets as presented in Note 8. This standard requires entities to provide enhanced disclosures about how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period, and significant concentrations of risk within plan assets.

Forthcoming Accounting Pronouncements – In April 2009, the FASB issued new ASC guidance for not-for-profit entities regarding mergers and acquisitions. This guidance defines a combination of one or more other not-for-profit entities, business or nonprofit activities as either a merger or acquisition. It also establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies the carryover method in accounting for mergers, applies the acquisition method in accounting for acquisitions, including which of the combining entities is the acquirer, and requires enhanced disclosures about the merger or acquisition. In addition, it amends existing FASB ASC guidance on goodwill and other intangible assets and noncontrolling interests in consolidated financial statements to make previous guidance that was only applicable to for-profit entities fully applicable to not-for-profit entities. In January 2010, the FASB issued ASC guidance to clarify the scope of noncontrolling interests in consolidated financial statements related to decrease in ownership provisions. This guidance is effective for the Corporation beginning July 1, 2010. The Corporation is still assessing the impact of this guidance on the consolidated financial statements.

In June 2009, the FASB issued ASC guidance on accounting for transfers of financial assets. This guidance clarifies that the objective is to determine whether a transferor and all of the entities included in the transferor’s financial statements being presented have surrendered control over transferred financial assets.

That determination must consider the transferor's continuing involvements in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. This guidance is effective for the Corporation beginning July 1, 2010. The adoption of this guidance will not have a material impact on the consolidated financial statements.

In January 2010, the FASB issued ASC guidance that amends current disclosure requirements under existing fair value accounting standard. It requires entities to disclose separately the amounts of significant transfers into and out of Level 1 and Level 2 fair value measurements along with the reasons for those transfers. In addition, it also requires entities to present separately information about purchases, sales, issuances, and settlements on a gross basis rather than as one net number in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This guidance is effective for the Corporation beginning on July 1, 2010 except for Level 3 fair value measurement disclosure that is effective July 1, 2011. The adoption of this guidance will result in additional disclosures in the notes to the consolidated financial statements.

Reclassification and Modification of Presentation – Certain amounts for 2009 have been reclassified to conform to the 2010 presentation. An amount of \$58.2 million was reclassified from accounts payable and accrued expense to accrued expense on the 2009 consolidated balance sheet for separate disclosure. In the Corporation's 2009 consolidated statements of cash flows, an amount of \$266.6 million for net realized losses on investments and \$463.2 million for change in net unrealized gains on investments were summarized into one line to conform to the 2010 presentation. These reclassifications had no impact on previously reported excess (deficiency) of revenue over expenses, net assets or cash flows of the Corporation.

In the 2009 consolidated statements of cash flows, the provision for bad debts of \$280.9 million was included in changes in patient accounts receivable, net. The Corporation has presented the provision for bad debts separately from the change in patient accounts receivable in 2010 and modified the comparative 2009 presentation in the consolidated statements of cash flows. The modification had no impact on reported net cash provided by operating activities in the 2009 consolidated statements of cash flows.

3. CONSOLIDATED AFFILIATES, INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS AND DIVESTITURES

Consolidated Affiliates – The Corporation consolidates certain affiliates even though ownership may be less than 51% based on control of these entities. The only significant consolidated affiliate with less than 51% ownership interest is Battle Creek Health System ("BCHS"). On July 1, 1991, BCHS was formed through an agreement between the Corporation and Community Hospital Association of Battle Creek, Michigan. The Corporation owns 50% of the stock of BCHS. BCHS is effectively controlled by the Corporation, and accordingly, the financial statements of BCHS are included in the consolidated financial statements of the Corporation with a 50% provision for external financial interest. Before the provision for external financial interest, BCHS reported excess (deficiency) of revenue over expenses of \$14.9 million and \$(6.8) million for the years ended June 30, 2010 and 2009, respectively, that is consolidated in these financial statements. As of June 30, 2010 and 2009, consolidated net assets include \$149.6 million and \$139.1 million, respectively, for BCHS prior to the provision for external financial interest.

Investments in Unconsolidated Affiliates – The Corporation and certain of its ministry organizations have investments in entities that are recorded under the cost and equity methods of accounting. At June 30, 2010, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 3.2% to 50%. The Corporation's share of equity earnings from entities accounted for under the equity method was \$19.6 million and \$20.7 million for the years ended June 30, 2010 and 2009, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended June 30 are as follows:

2010						
(In Thousands)						
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 113,449	\$ 67,862	\$ 63,059	\$ 16,746	\$ 138,720	\$ 399,836
Total debt	66,443	16,365	35,677	-	41,239	159,724
Net assets	40,573	39,827	22,196	7,639	69,617	179,852
Revenue, net	39,362	115,060	94,515	50,578	126,100	425,615
Excess of revenue over expenses	5,105	20,146	30,566	4,295	3,731	63,843

2009						
(In Thousands)						
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 91,688	\$ 73,799	\$ 58,915	\$ 18,008	\$ 112,325	\$ 354,735
Total debt	53,860	18,400	29,834	-	37,806	139,900
Net assets	30,245	42,026	23,982	9,408	54,192	159,853
Revenue, net	23,412	130,879	87,187	51,584	112,821	405,883
Excess of revenue over expenses	2,215	22,952	28,184	5,366	1,241	59,958

Business Acquisitions and Divestitures – The Corporation entered into the following significant acquisition and divestiture activities during 2010 and 2009:

Business Acquisitions:

Saint Alphonsus Regional Health System – Effective April 1, 2010, a new regional health ministry was formed to serve the needs of residents who live in the area ranging from Idaho’s Treasure Valley to eastern Oregon. The new system is comprised of the following three acquired ministry organizations: Mercy Medical Center, Nampa, Idaho; Holy Rosary Medical Center, Ontario, Oregon; and St. Elizabeth Health Services, Inc. Baker City, Oregon and the Corporation’s existing Saint Alphonsus Regional Medical Center, Boise, Idaho. The fair value of assets acquired and liabilities assumed exceeded the \$113.7 million cost of acquisition, resulting in negative goodwill of \$77.3 million. The negative goodwill was allocated to reduce the fair value of property and equipment. The three acquired ministry organizations have been consolidated in the 2010 financial statements. Summarized combined balance sheet information for the three acquired ministry organizations at April 1, 2010 is shown below.

(In Thousands)			
Cash and investments	\$ 49,286	Current liabilities	\$ 17,626
Patient accounts receivable	20,307	Other liabilities	643
Other current assets	7,064	Total liabilities acquired	<u>18,269</u>
Assets limited or restricted as to use, non-current	954	Temporarily restricted	1,735
Property and equipment	44,363	Permanently restricted	524
Other assets	12,268	Total net assets acquired	<u>2,259</u>
Total assets acquired	<u>\$ 134,242</u>	Total liabilities and net assets acquired	<u>\$ 20,528</u>

The operating results of the acquired ministry organizations for the three-month period ended June 30, 2010, included total unrestricted revenue of \$45.4 million and excess of revenue over expenses of \$2.8 million.

Chelsea Community Hospital ("Chelsea") – Effective May 1, 2009, the Corporation, through its operating division, St. Joseph Mercy Health System, Ann Arbor acquired 100% ownership of Chelsea for \$25 million. The fair value of assets acquired and liabilities assumed exceeded the cost of acquisition, resulting in negative goodwill of \$40.1 million. The negative goodwill was allocated to reduce the fair value of property and equipment. Chelsea has been consolidated in the 2009 financial statements. Summarized balance sheet information for Chelsea at May 1, 2009 is shown below.

<u>(In Thousands)</u>			
Cash and investments	\$ 6,178	Current liabilities	\$ 7,697
Assets limited or restricted as to use, current portion	23,717	Long-term debt	40,851
Other current assets	9,369	Other liabilities	<u>1,279</u>
Assets limited or restricted as to use, non-current portion	310	Total liabilities acquired	<u>\$ 49,827</u>
Property and equipment	38,492		
Other assets	243		
Total assets acquired	<u>\$ 78,309</u>		

The operating results of Chelsea, for the year ended June 30, 2010 and the two-month period ended June 30, 2009, included total unrestricted revenue of \$97.4 million and \$15.2 million and excess of revenue over expense of \$8.7 million and \$1.3 million, respectively.

Business Divestitures:

Our Lady of Peace - South Bend – Effective November 1, 2008, the Corporation, through its subsidiary Saint Joseph Regional Medical Center, sold Our Lady of Peace, a 32 bed long term acute care hospital. As a result of the sale, a gain of \$7.1 million was included in other revenue in the 2009 consolidated statement of operations and changes in net assets. Excluding the gain related to the sale, the operating results of Our Lady of Peace for 2009 (to the date of the sale) were as follows:

<u>2009</u>	
<u>(In Thousands)</u>	
Total unrestricted revenue	\$ 4,770
(Deficiency) of revenue over expenses	(1,592)

4. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors follows:

Medicare - Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

Medicaid - Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules, and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

Other - Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

During 2010 and 2009, 39% and 38% of net patient service revenue was received under the Medicare program, 10% and 9% under state Medicaid and indigent care programs and 51% and 53% from other payor contracts and patients, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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.

Charity Care - The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify for charity care, they are not reported as net patient service revenue in the consolidated statements of operations and changes in net assets.

A summary of net patient service revenue for the years ended June 30 is as follows:

	2010	2009
	(In Thousands)	
Gross charges:		
Acute inpatient	\$ 7,496,292	\$ 7,285,596
Outpatient, nonacute inpatient, and other	7,228,700	6,839,646
Gross patient service revenue	14,724,992	14,125,242
Less:		
Contractual and other allowances	(8,010,553)	(7,683,758)
Charity care charges	(385,726)	(350,199)
Allowance for self-insured health benefits	(142,177)	(137,479)
Net patient service revenue	<u>\$ 6,186,536</u>	<u>\$ 5,953,806</u>

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30 is as follows:

	2010	2009
	(In Thousands)	
Land	\$ 189,280	\$ 183,521
Buildings and improvements	3,986,798	3,736,464
Equipment	2,938,834	2,810,875
Total	7,114,912	6,730,860
Less accumulated depreciation and amortization	(3,902,519)	(3,818,181)
Construction in progress	239,523	476,270
Property and equipment, net	<u>\$ 3,451,916</u>	<u>\$ 3,388,949</u>

Buildings and improvements include assets recorded under capital leases of \$31.7 million and \$17.8 million with accumulated amortization for such assets of \$7.6 million and \$6.4 million as of June 30, 2010 and 2009, respectively. Equipment includes assets recorded under capital leases of \$10.4 million and \$7.1 million with accumulated amortization for such assets of \$6.9 million and \$2.9 million as of June 30, 2010 and 2009, respectively. The associated charges to income are recorded in depreciation and amortization expense.

At June 30, 2010, commitments to purchase property and equipment of approximately \$61 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following ministry organizations: Saint Joseph Mercy Health System in Ann Arbor, Michigan - \$12 million; Mt. Carmel Health System in Columbus, Ohio - \$15 million, Saint Joseph Mercy Oakland in Pontiac, Michigan - \$8 million; Mercy Medical Center in Sioux City, Iowa - \$5 million; and purchase of a building by the Corporation for \$9 million. Costs of these projects are expected to be financed by proceeds from bond issuances, available funds, future operations of the hospitals and contributions.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of short-term borrowings, long-term debt, capital lease and other obligations at June 30 is as follows:

	2010	2009
	<u>(In Thousands)</u>	
Short-Term borrowings:		
Variable rate demand bonds. Interest payable monthly at rates ranging from 0.08% to 0.60% during 2010 and from 0.10% to 9.15% during 2009.	\$ 1,143,940	\$ 1,060,050
Long-Term debt, capital lease and other obligations:		
Tax-exempt revenue bonds and refunding bonds:		
Fixed rate term and serial bonds, payable at various dates through 2038. Interest rate ranges from 2.00% to 6.50% during 2010 and 3.75% to 6.50% during 2009.	\$ 1,401,995	\$ 1,225,751
Notes payable to banks, 2.28% to 7.80%, fixed and variable, payable in varying monthly installments, due through 2021.	8,725	10,449
Capital lease obligations (excluding imputed interest of \$18.4 million and \$12.8 million at June 30, 2010 and 2009, respectively).	32,261	19,971
Other	3,635	3,708
Long-Term debt, capital lease and other obligations	<u>1,446,616</u>	<u>1,259,879</u>
Less current portion of long-term debt	(30,952)	(30,843)
Unamortized bond (discounts) premiums	(9,116)	(4,475)
Long-term debt	<u>\$ 1,406,548</u>	<u>\$ 1,224,561</u>

Contractually obligated principal repayments on short-term borrowings and long-term debt are as follows:

	Short-Term Borrowings	Long-Term Debt
	<u>(In Thousands)</u>	
Years ending June 30:		
2011	\$ 22,670	\$ 30,952
2012	28,075	28,058
2013	29,325	26,612
2014	36,990	20,584
2015	27,595	32,801
Thereafter	999,285	1,307,609
Total	<u>\$ 1,143,940</u>	<u>\$ 1,446,616</u>

A summary of interest costs on borrowed funds held primarily by the trustee under the revenue bond indentures during the years ended June 30 is as follows:

	2010	2009
	<u>(In Thousands)</u>	
Interest costs incurred	\$ 83,476	\$ 95,231
Less capitalized interest	(10,243)	(11,569)
Interest expense included in operations	<u>\$ 73,233</u>	<u>\$ 83,662</u>

Obligated Group and Other Requirements – The Corporation has debt outstanding under a Master Trust Indenture dated July 1, 1998, as amended and supplemented thereto, the Amended and Restated Master Indenture (“ARMI”). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are general, direct obligations of the Corporation and any future members of the Trinity Health Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI, the Corporation is the sole member of the Trinity Health Obligated Group. Certain ministry organizations of the Corporation constitute Designated Affiliates and the Corporation covenants to cause each Designated Affiliate to pay, loan or otherwise transfer to the Corporation such amounts necessary to pay the amounts due on all obligations issued under the ARMI. The Corporation, the Designated Affiliates and all other controlled affiliates are referred to as the Credit Group. The Corporation has granted a security interest in certain pledged property and has caused not less than 85% of the Designated Affiliates representing, when combined with the Corporation and any future members, not less than 85% of the consolidated net revenue of the Credit Group to grant to the Corporation security interests in certain pledged property in order to secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) were \$2,546 million and \$2,286 million at June 30, 2010 and 2009, respectively.

There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any Material Designated Affiliate (a Designated Affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of the Credit Group for the most recent fiscal year). Long-term debt outstanding as of June 30, 2010 and 2009, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

Issuance and Defeasance of Debt – In November 2009, the Corporation issued \$347.5 million in tax-exempt, fixed rate hospital revenue bonds and variable rate revenue and refunding bonds (the “Series 2009 Bonds”) under the ARMI. The proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire \$41 million of the Corporation’s then outstanding fixed rate hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of \$0.9 million, which has been included in non-operating items in the 2010 consolidated statement of operations and changes in net assets. Of the proceeds received, \$244.7 million were included in long-term debt with \$102.8 million included in short-term borrowings.

In November 2008, the Corporation issued \$1,277 million in tax-exempt, fixed rate hospital revenue bonds and variable rate revenue and refunding bonds (the “Series 2008 Bonds”) under the ARMI. The proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire \$938.8 million of the Corporation’s then outstanding variable rate hospital revenue bonds, including auction rate securities, and \$109.2 million of the Corporation’s commercial paper. These transactions resulted in a loss from extinguishment of debt of \$4 million, which has been included in non-operating items in the 2009 consolidated statement of operations and changes in net assets. Of the proceeds received, \$491.6 million was included in long-term debt and \$785 million in short-term borrowings.

During May 2009, the Corporation extinguished \$43.6 million of outstanding hospital revenue bonds related to Chelsea Community Hospital (the “Series 1998”, “Series 2000” and “Series 2005” Bonds), through the issuance of commercial paper.

The outstanding balance of all bonds advance refunded through net defeasance and excluded from the consolidated balance sheets was \$172.9 million and \$243.5 million at June 30, 2010 and 2009, respectively. The Corporation advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee held escrow accounts are invested in U.S. government securities.

Commercial Paper – The Corporation has entered into a commercial paper program authorized for borrowings up to \$400 million. Proceeds from this program are to be used to finance certain acquisitions and for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during 2010 ranged from 0.20% to 0.45% and ranged from 0.35% to 6.0% during 2009.

Liquidity Facilities – In November 2009, the Corporation renewed its 2008 Credit Agreement (the “2008 Credit Agreement”), with The Bank of Nova Scotia, which acts as an administrative agent for a group of lenders thereunder. The 2008 Credit Agreement established a revolving credit facility for the Corporation, under which that group of lenders will agree to lend to the Corporation amounts that may fluctuate from time to time but, in the aggregate at any one time, outstanding will not exceed \$676 million. Amounts drawn under the 2008 Credit Agreement can only be used to support the Corporation’s obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes.

In August 2009, the Corporation entered into an additional Credit Agreement (the “2009 Credit Agreement”), with The Bank of Nova Scotia, which acts as an administrative agent for a group of lenders. The 2009 Credit Agreement also established a revolving credit facility for the Corporation, under which that group of lenders will agree to lend to the Corporation amounts that may fluctuate from time to time but, in the aggregate at any one time outstanding, will not exceed \$240 million. Amounts drawn under the 2009 Credit Agreement can be used only to support the Corporation’s obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed and the maturing principal of and interest on commercial paper notes.

The 2008 and the 2009 Credit Agreements, along with the Corporation’s own self-liquidity, provided support for \$1,041 million of variable rate demand bonds that are classified as short-term borrowings in the consolidated balance sheet. The Corporation entered into credit agreements subsequent to year end as discussed in Note 14.

As of June 30, 2010, a standby letter of credit in the amount of \$104.1 million provides liquidity support for \$102.9 million of variable rate demand bonds that are classified as short-term borrowings in the 2010 consolidated balance sheet, is also available to the Corporation. This dedicated facility is effectively available until January 2011. The Corporation has the intent to renew the liquidity facility.

As of June 30, 2010 and 2009, certain liquidity facilities had expiration dates of less than one year from the balance sheet dates. Therefore, \$1,144 million and \$1,060 million of the variable rate demand bonds supported by these liquidity facilities and self-liquidity were classified as short-term borrowings at June 30, 2010 and 2009, respectively. Variable rate demand bonds have contractual maturity dates through 2035.

At June 30, 2008, \$42.7 million of variable rate demand bonds that were insured by weakened bond insurance companies and tendered back to the Corporation, were outstanding under the liquidity facilities. During 2009, the liquidity facilities were used for redeeming an additional \$158.1 million of variable rate demand bonds. Subsequently, bonds in the amount of \$80 million were remarketed during 2009. As part of the November 2008 issuance, the remaining \$120.8 million of variable rate demand bonds outstanding under the liquidity facilities were refinanced. During 2009, the Corporation recorded a loss from extinguishment of debt of \$5.1 million related to the tendering of variable rate demand bonds, which was included in non-operating items in the 2009 consolidated statement of operations and changes in net assets.

Standby Letters of Credit –The Corporation entered into various standby letters of credit totaling approximately \$22.3 million at both June 30, 2010 and 2009, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs. There were no draws on these letters of credit during 2010 or 2009.

7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation's insurance company, Venzke Insurance Company, Ltd. ("Venzke"), a wholly owned subsidiary of Trinity Health, qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to the Corporation's ministry organizations. The Corporation is self-insured for certain levels of general and professional liability, workers' compensation and certain other claims. The Corporation, through Venzke, has limited its liability by purchasing reinsurance and commercial coverage from unrelated third-party insurers.

For 2010 and 2009, the self-insured limit for the first layers of professional liability was \$20 million per occurrence. Additional layers of professional liability insurance are available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is \$100 million in aggregate.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry-wide data. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. Such adjustments are reflected in current operations, and resulted in a reduction in liabilities of \$28.2 million for the year ended 2009. The amount of the changes to the estimated self-insurance reserves was determined based upon the annual, independent actuarial analyses. During 2010, the frequency of claims moderated while severity began to rise. The Corporation believes the upward trend in severity is primarily due to economic conditions and increasing long-term survivability, life-care medical costs and defense costs.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2010, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of Counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations or cash flows of the Corporation.

8. PENSION AND OTHER BENEFIT PLANS

Self-Insured Employee Health Benefits – The Corporation administers self-insured employee health benefits plans for employees. The majority of the Corporation's employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's ministry organizations or other health care providers. Gross patient service revenue has been reduced by an allowance for self-insured employee health benefits of \$142.2 million and \$137.5 million for 2010 and 2009, respectively, which represented revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

Deferred Compensation – The Corporation has nonqualified deferred compensation plans at certain ministry organizations that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. At June 30, 2010 and 2009, the assets under these plans totaled \$38.1 million and \$29.9 million, and liabilities totaled \$44.5 million and \$33.3 million, respectively.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. The plans include discretionary employer matching contributions of up to 3% of compensation. Employer and employee contributions are self-directed by plan participants in defined contribution plans. The Corporation suspended the majority of employer matching contributions for the fiscal year 2010. Contribution expense under the plans totaled \$3.7 million and \$32.5 million in 2010 and 2009, respectively.

Noncontributory Defined Benefit Pension Plans (“Pension Plans”) – Substantially all of the Corporation’s employees participate in qualified, noncontributory defined benefit pension plans. Certain non-qualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. Because the Pension Plans have Church Plan status as defined in the Employee Retirement Income Security Act of 1974 (“ERISA”), funding in accordance with ERISA is not required. The Corporation’s adopted funding policy for qualified plans, which is reviewed annually, is to fund the current normal cost based on the accumulated benefit obligation at the plans’ December 31 year-end, and amortization of any under or over funding over a ten year period. The Corporation funded \$191.6 million in excess of the stated funding policy in 2010. The Corporation funded \$51.9 million in excess of the stated funding policy in 2009 including a \$50 million prepayment made in June 2008.

Plan Amendment – In September 2009, the Corporation amended substantially all of its defined benefit pension plans to modify the benefit formula from a final average pay formula to a cash balance formula effective July 1, 2010, and the plans’ liabilities and assets were remeasured as of September 30, 2009. Through June 30, 2010, benefits were based on years of service and employees’ highest five years of compensation. Benefits accrued through June 30, 2010 under the final average pay formula were frozen. Beginning July 1, 2010, participants accrue benefits based on the cash balance formula, which credits participants annually with percentage of eligible compensation based on age and years of service, as well as an interest credit based on a benchmark interest rate. A transition adjustment will be provided to participants who are vested as of June 30, 2010, whose age and service meet certain requirements. The transition adjustment applies to the pension benefit earned through June 30, 2010. The effect of modifying the benefit formula and remeasuring the plan’s assets and liabilities resulted in a decrease of \$231.0 million in plan liabilities and a net decrease of \$22.6 million in 2010 net periodic pension cost.

Plan Terminations – The Corporation acquired Hackley Health System (“Hackley”) on April 1, 2008, including its pension plans. Hackley maintained three defined benefit pension plans covering employees of three subsidiaries. Effective October 2008, Hackley approved the freeze of its three defined benefit pension plans as of December 31, 2008. Employees became participants of the Corporation’s defined benefit plan effective January 1, 2009, and the Corporation recorded an increase of \$8.8 million to plan liabilities. During December 2009, the Corporation settled its pension obligations to participants in the Hackley plans through lump sum payments and purchased annuities. The Corporation funded an additional \$79.9 million to the Hackley plans to fully settle the obligations, and recorded a settlement loss of \$49.0 million.

During the year ended June 30, 2009, the Corporation amended one of its non-qualified, supplemental plan arrangements to eliminate benefits for certain participants and settle liabilities through cash payments to participants. The plan change resulted in a curtailment charge of \$1.9 million and a decrease in plan liabilities of \$3.2 million. In 2010, the Corporation further amended the plan to modify the plan design and provide benefits to participants in the form of a deferred compensation arrangement. The plan change resulted in a curtailment gain of \$1.9 million.

Postretirement Health Care and Life Insurance Benefits ("Postretirement Plans") – The Corporation sponsors both funded and unfunded, contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The plans cover certain hourly and salaried employees who retire from certain ministry organizations. Medical benefits for these retirees are subject to deductibles and co-payment provisions. In June 2010, the Corporation approved an amendment to restructure the funded plans as Health Reimbursement Account arrangements for Medicare eligible participants effective January 1, 2011. The change resulted in a decrease in the plans' liabilities of \$30.4 million at June 30, 2010.

Adoption of Measurement Date Change – Effective July 1, 2008, the Corporation adopted accounting provisions requiring the measurement date for plan assets and liabilities to coincide with the plan sponsor's year-end. For the defined benefit pension plans and postretirement plans the measurement date had been March 31. Net periodic benefit cost was calculated for the 15-month period between the earlier measurement date of March 31, 2008 and June 30, 2009 and allocated proportionally between amounts recognized as an adjustment to unrestricted net assets and net periodic benefit cost for fiscal 2009. This resulted in a decrease in unrestricted net assets of \$23.0 million for the defined benefit pension plans and an increase of \$0.8 million for postretirement plans as of July 1, 2008.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations, changes in plan assets and funded status of the plans for both the Pension and Postretirement Plans for the year ended June 30, 2010 and the fifteen months ended June 30, 2009:

	Pension Plans		Postretirement Plans	
	2010	2009	2010	2009
	(In Thousands)		(In Thousands)	
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 3,365,469	\$ 3,106,488	\$ 129,947	\$ 129,121
Service cost	117,491	184,603	1,400	1,936
Interest cost	226,095	272,548	8,759	10,913
Amendments	(230,982)	(9,954)	(30,388)	-
Actuarial losses (gains)	634,803	(54,368)	8,798	(5,965)
Acquisition of Hackley	-	8,815	-	-
Benefits paid	(120,419)	(139,489)	(6,422)	(7,215)
Plan settlement benefits paid	(132,573)	-	-	-
Curtailments / settlements	(4,721)	(3,174)	-	-
Medicare Part D reimbursement	-	-	933	1,157
Benefit obligation, end of year	<u>3,855,163</u>	<u>3,365,469</u>	<u>113,027</u>	<u>129,947</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	2,694,356	3,155,984	69,185	87,408
Actual return on plan assets	335,162	(472,537)	6,330	(13,874)
Employer contributions	448,669	150,398	2,110	2,866
Benefits paid	(120,419)	(139,489)	(6,422)	(7,215)
Plan settlement benefits paid	(132,573)	-	-	-
Reversion to plan sponsor	(1,097)	-	-	-
Fair value of plan assets, end of year	<u>3,224,098</u>	<u>2,694,356</u>	<u>71,203</u>	<u>69,185</u>
Unfunded amount recognized June 30	<u>\$ (631,065)</u>	<u>\$ (671,113)</u>	<u>\$ (41,824)</u>	<u>\$ (60,762)</u>

The accumulated benefit obligation and fair value of plan assets for the qualified defined benefit pension plans for the years ended June 30 are as follows:

	Pension Plans	
	(In Thousands)	
	2010	2009
Accumulated benefit obligation	\$ 3,705,098	\$ 3,006,753
Fair value of plan assets	3,224,098	2,693,066
Funded status	<u>\$ (481,000)</u>	<u>\$ (313,687)</u>

The accumulated benefit obligation and plan assets of the non-qualified pension plan are not material to these consolidated financial statements.

Components of net periodic benefit cost for the years ended June 30 consisted of the following:

	Pension Plans		Postretirement Plans	
	2010	2009	2010	2009
	(In Thousands)		(In Thousands)	
Service cost	\$ 117,491	\$ 148,232	\$ 1,400	\$ 1,549
Interest cost	226,095	219,431	8,759	8,731
Expected return on assets	(228,352)	(265,379)	(5,332)	(7,180)
Amortization of unrecognized transition asset	(6,282)	(8,193)	-	-
Amortization of prior service cost	(13,059)	2,967	(1,129)	(7,244)
Recognized net actuarial loss	<u>72,385</u>	<u>523</u>	<u>1,782</u>	<u>148</u>
Net periodic benefit cost (income) before curtailments / settlements	168,278	97,581	5,480	(3,996)
Curtailment (gain) loss	(1,958)	1,993	-	-
Settlement loss	48,986	-	-	-
Net periodic benefit cost (income)	<u>\$ 215,306</u>	<u>\$ 99,574</u>	<u>\$ 5,480</u>	<u>\$ (3,996)</u>

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	Pension Plans			
	(In Thousands)			
	Net (Gain) Loss	Prior Service Cost	Transition Asset	Total
Balance at July 1, 2008	\$ 260,012	\$ 14,281	\$ (16,524)	\$ 257,769
Adoption of measurement date accounting provisons	(131)	(742)	2,049	1,176
Curtailments / settlements	(5,048)	(118)	-	(5,166)
Reclassified into net periodic benefit cost	(523)	(2,967)	8,193	4,703
Arising during the year	<u>748,698</u>	<u>(9,954)</u>	<u>-</u>	<u>738,744</u>
Balance at June 30, 2009	1,003,008	500	(6,282)	997,226
Curtailments / settlements	(36,969)	-	-	(36,969)
Reclassified into net periodic benefit cost	(72,385)	13,059	6,282	(53,044)
Arising during the year	<u>515,290</u>	<u>(230,981)</u>	<u>-</u>	<u>284,309</u>
Balance at June 30, 2010	<u>\$ 1,408,944</u>	<u>\$ (217,422)</u>	<u>\$ -</u>	<u>\$ 1,191,522</u>

	Postretirement Plans			All Plans
	(In Thousands)			Grand Total
	Net (Gain) Loss	Prior Service (Credit)	Total	
Balance at July 1, 2008	\$ 8,547	\$ (11,617)	\$ (3,070)	\$ 254,699
Adoption of measurement date accounting provisons	(37)	1,810	1,773	2,949
Curtailments / settlements	-	-	-	(5,166)
Reclassified into net periodic benefit cost	(148)	7,244	7,096	11,799
Arising during the year	<u>16,658</u>	<u>-</u>	<u>16,658</u>	<u>755,402</u>
Balance at June 30, 2009	<u>25,020</u>	<u>(2,563)</u>	<u>22,457</u>	<u>1,019,683</u>
Curtailments / settlements	-	-	-	(36,969)
Reclassified into net periodic benefit cost	(1,782)	1,129	(653)	(53,697)
Arising during the year	<u>7,708</u>	<u>(30,389)</u>	<u>(22,681)</u>	<u>261,628</u>
Balance at June 30, 2010	<u>\$ 30,946</u>	<u>\$ (31,823)</u>	<u>\$ (877)</u>	<u>\$ 1,190,645</u>

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during 2011:

	Pension Plans	Postretirement Plans
	(In Thousands)	
Amortization of prior service cost (credit)	\$ (19,074)	\$ (7,357)
Recognized net actuarial loss	92,788	3,194
	<u>\$ 73,714</u>	<u>\$ (4,163)</u>

Assumptions used to determine benefit obligations and net periodic benefit cost were as follows:

	Pension Plans		Postretirement Plans	
	2010	2009	2010	2009
Benefit Obligations:				
Discount rate at June 30	6.00%	7.25%	4.55% - 5.80%	5.85% - 7.15%
Discount rate at September 30	6.35%	N/A	N/A	N/A
Rate of compensation increase in 2009				
Graduated to 4% by 2012	3.0%	2.0%	N/A	N/A
Net Periodic Benefit Cost:				
Discount rate at June 30	7.25%	7.25%	5.85% - 7.15%	6.0 - 7.25%
Discount rate at September 30	6.35%	N/A	N/A	N/A
Expected long-term return on plan assets	8.00%	8.50%	8.00%	8.50%
Rate of compensation increase in 2009				
Graduated to 4% by 2012	2.0%	4.0%	N/A	N/A

The discount rate used to determine the benefit obligations for the three terminating Hackley pension plans was 5.60% for the year ended June 30, 2009. The range of assumptions used to determine net periodic pension cost were: Discount rate 6.75% - 7.25%, changed to 5.44% at the October 31, 2008 remeasurement date, long-term return on plan assets 8.0%, changed to 3.0% at the remeasurement date, and rate of compensation increase 4.0% - 4.5%.

The Corporation uses an efficient frontier analysis approach in determining its asset allocation and long-term rate of return for plan assets. Efficient frontier analysis models the risk and return trade-offs among asset classes while taking into consideration the correlation among the asset classes. Historical market returns and risks are examined as part of this process, but risk-based adjustments are made to correspond with modern portfolio theory. Long-term historical correlations between asset classes are used, consistent with widely accepted capital markets principles. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term rate of return is established using the efficient frontier analysis approach with proper consideration of asset class diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

Health Care Cost Trend Rates – Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as follows:

	<u>2010</u>	<u>2009</u>
Medical and drugs, pre-age 65	9.4%	10.0%
Medical and drugs, post-age 65	9.4%	10.0%
Ultimate trend rate	5.0%	5.0%
Year the rate reaches Ultimate Rate	2018	2018

A one-percentage point change in assumed health care cost trend rates would have the following effects as of June 30, 2010:

	<u>1 Percentage Point Increase</u>	<u>1 Percentage Point Decrease</u>
	(In Thousands)	
Effect on total of service cost and interest cost components	\$ 718	\$ (976)
Effect on postretirement benefit obligation	9,836	(8,398)

The Corporation's investment allocations at June 30, by investment category are as follows:

Investment Category:	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	11 %	10 %	1 %	2 %
Marketable securities:				
U.S. government and government agency obligations	5	7	-	-
U.S. and non-U.S. fixed income obligations	27	25	53	-
U.S. equity securities	11	11	46	98
Non-U.S. equity securities and mutual funds	4	9	-	-
Other investments:				
Hedge funds	19	21	-	-
Commingled funds directly holding securities	9	5	-	-
Long/short equity	10	8	-	-
Private equity funds	3	3	-	-
Real estate partnership and other	1	1	-	-
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other investments such as hedge funds, interest rate swaps, and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements,

and periodic asset/liability studies. The combined target investment allocation at June 30, 2010 was U.S. equity securities 10%; non-U.S. equity securities and commingled funds directly holding securities 10%; fixed income obligations 35%; hedge funds 20%; long/short equity 10%; private equity 5%; real assets 5%; and opportunistic fixed income 5%.

The following table summarizes the pension and postretirement plans' assets measured at fair value as of June 30, 2010. See Note 10 for definitions of levels 1, 2 and 3 fair value hierarchy.

	(In Thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Pension Plans:				
Cash and short term investment funds	\$ 339,272	\$ -	\$ -	\$ 339,272
Equity:				
U.S. common stock	346,808	105	-	346,913
Non U.S. common stock	59,597	-	-	59,597
Equity mutual funds	68,988	-	-	68,988
Fixed income:				
Government and government agency obligations	-	177,610	-	177,610
Corporate bonds	-	791,097	6,409	797,506
Mortgage and asset backed securities	-	70,016	-	70,016
Fixed income mutual funds	-	112,108	-	112,108
Subtotal marketable securities	475,393	1,150,936	6,409	1,632,738
Derivatives	274	11,073	-	11,347
Commingled funds directly holding securities	-	173,103	-	173,103
Hedge funds	-	-	930,920	930,920
Private equity	-	-	106,711	106,711
Real estate partnerships	-	-	5,684	5,684
Other	24,323	-	-	24,323
Total pension plans' assets at fair value	\$ 839,262	\$ 1,335,112	\$ 1,049,724	\$ 3,224,098
Postretirement Plans:				
Marketable securities:				
Short term investment mutual funds	\$ 158	\$ -	\$ -	\$ 158
Fixed income mutual fund	36,425	-	-	36,425
Commingled funds directly holding securities	-	33,920	-	33,920
Other	700	-	-	700
Total postretirement plans' assets at fair value	\$ 37,283	\$ 33,920	\$ -	\$ 71,203

See Note 10 for the Corporation's methods and assumptions to estimate the fair value of marketable securities and commingled funds directly holding securities.

Derivatives – The Pension plans are party to certain agreements, which are designed to manage exposures to equities and interest rate risks. These instruments are used for the purpose of hedging changes in the fair value of assets and actuarial present value of accumulated plan benefits that result from interest rate changes, or as an efficient substitute for traditional securities. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The Pension plans' investment policies specifically prohibit the use of derivatives for speculative purposes.

Real estate partnerships – These assets are reported at fair value based on either independent appraisals performed by the general partner during the year, or estimated using discounted cash flow and market analysis, supported by sales comparison information.

Hedge funds – The plan invests in various hedge fund strategies. These funds utilize a “fund-of-funds” approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies, and derivatives. These funds are valued at net asset value, which is calculated using the most recent partnership financial statements.

Private equity – These assets include several private equity funds that invest primarily in the United States, Asia and Europe, both directly and on the secondary market pursuing distressed opportunities and natural resources, primarily energy. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

Other – Represents unsettled transactions, relating primarily to purchases and sales of plan assets, and accrued income. Due to the short maturity of these assets and liabilities, the fair value is equal to the carrying amounts.

The following table summarizes the changes in Level 3 pension plan assets for the year ended June 30, 2010:

Level 3 Pension Plan Assets					
Year ended June 30, 2010					
(In thousands)	Corporate bonds	Hedge funds	Private equity	Real estate partnerships	Total
Balance at June 30, 2009	\$ -	\$ 769,298	\$ 62,615	\$ 7,524	\$ 839,437
Realized gains / (losses)	-	12,842	507	-	13,349
Unrealized gains / (losses)	460	63,623	8,434	(1,840)	70,677
Purchases, sales, issuances and settlements, net	5,949	85,157	35,155	-	126,261
Balance at June 30, 2010	<u>\$ 6,409</u>	<u>\$ 930,920</u>	<u>\$ 106,711</u>	<u>\$ 5,684</u>	<u>\$ 1,049,724</u>

Of the Level 3 pension plan assets held at June 30, 2010, the unrealized net gain as of June 30, 2010 was \$71.8 million. Realized net losses relate to investments sold during the year with proceeds totaling \$167.2 million. The pension plan also purchased \$305.4 million of investments during the year.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Expected Contributions – The Corporation expects to contribute an additional \$161.2 million to its pension plans, and \$1.9 million to its postretirement plans in 2011 under the Corporation’s stated funding policy. The Corporation may elect to make additional contributions.

Expected Benefit Payments – The Corporation expects to pay the following for pension benefits, that reflect expected future service as appropriate, and expected postretirement benefits, before deducting the Medicare Part D subsidy.

(In Thousands)	Pension Plans	Postretirement Plans	Postretirement Medicare Part D Subsidy
2011	\$ 131,138	\$ 7,716	\$ 496
2012	143,782	7,732	143
2013	162,527	8,069	143
2014	183,241	8,357	141
2015	206,241	8,596	137
Years 2016 - 2020	1,423,694	44,393	582

9. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, in 2010 and 2009, was \$91.5 million and \$93.0 million, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2010, that have initial or remaining lease terms in excess of one year:

	(In Thousands)
Years ending June 30:	
2011	\$ 57,401
2012	46,301
2013	37,043
2014	27,824
2015	20,636
Thereafter	68,965
Total	\$ 258,170

Guarantees – The Corporation entered into debt guarantees prior to December 31, 2002, that are excluded from the consolidated balance sheets. The guaranteed debt was used to finance equipment purchases and to finance or construct professional office buildings, including outpatient surgery centers, rehabilitation facilities, medical facilities and medical office buildings.

Multiple guarantees at the following levels existed at June 30, 2010:

(In Thousands)	Dollars Guaranteed by Corporation	Percentage Guaranteed by Corporation	Percentage Guaranteed by Others
Total Principal Amount			
\$ 6,585	\$ 6,585	100%	0%
11,110	5,555	50%	50%
2,520	756	30%	70%
375	94	25%	75%
2,320	435	18.75%	81.25%
\$ 22,910	\$ 13,425		

Asset Retirement Obligations – The Corporation has conditional asset retirement obligations for certain fixed assets mainly related to the removal of asbestos contained within facilities and the removal of underground storage tanks.

A reconciliation of the asset retirement obligations at June 30 follows:

	2010	2009
	(In Thousands)	
Asset retirement obligation, beginning of year	\$ 18,186	\$ 17,548
Accretion	946	924
Liabilities incurred	351	122
Liabilities settled	(108)	(408)
Asset retirement obligation, end of year	<u>\$ 19,375</u>	<u>\$ 18,186</u>

Litigation

On September 21, 2007, in Boise, Idaho a jury awarded \$58.9 million in damages to MRI Associates, LLP, an Idaho limited partnership (“MRIA”) against Saint Alphonsus Regional Medical Center and its subsidiary Saint Alphonsus Diversified Care, Inc. (together, “Saint Alphonsus”). The lawsuit involved Saint Alphonsus’ withdrawal from the MRIA partnership. The jury award was remitted by the trial judge to \$36.3 million, which was offset by the award of \$4.6 million to Saint Alphonsus, which was the value of its partnership interest in MRIA. St. Alphonsus appealed to the Idaho Supreme Court, asserting, among other things, that the trial court decision that the withdrawal was “wrongful” as a matter of law was incorrect. In October 2009, the Idaho Supreme Court overturned the trial court decision concluding that the withdrawal was not wrongful as a matter of law and remanded the case for a new trial. The trial date is tentatively set for September 20, 2011. Pre-trial motions are scheduled to be heard on October 1, 2010 which will clarify somewhat the damage exposure. The Corporation recorded management’s estimation for litigation expense of \$20 million in the 2007 consolidated statement of operations and changes in net assets. As of June 30, 2010 and 2009, the liability is included in other long-term liabilities in the consolidated balance sheets in the event of an unfavorable resolution of this matter.

In June 2007, the Corporation was added to litigation pending in the United States District Court for the Eastern District of Michigan, alleging that certain hospitals in Southeastern Michigan conspired to suppress the wages of nurses over a period of five years. The plaintiffs brought the action on their own behalf and on behalf of all others similarly situated and seeking certification of the class. The complaint alleges that there was a direct agreement among the executives of defendant hospitals to suppress compensation and that they shared non-public compensation information which had an anticompetitive effect on wages. The complaint specifically references St. Mary Mercy Hospital in Livonia, Michigan and St. Joseph Mercy Oakland in Pontiac, Michigan. This case is one of five similar actions filed by the same group of plaintiffs’ counsel, in different cities, raising similar claims and allegations of collusion. Three of the seven defendants have settled the litigation, but the Corporation has not. Discovery is complete and several dispositive motions have been pending since June 2009, including defendants’ motion for summary judgment. Plaintiffs’ motion to certify a class is also pending and has been opposed by defendants. If the outcome is adverse to the Corporation, the Corporation could potentially incur material damages or other financial consequences. At this time, it is premature to assess the likely course or outcome of this litigation.

The Corporation is involved in other litigation and regulatory investigations arising in the course of doing business. After consultation with legal Counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation’s future consolidated financial position or results of operations.

10. FAIR VALUE MEASUREMENTS

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis on the Corporation's consolidated balance sheets include cash, cash equivalents, marketable securities, commingled funds, securities lending collateral, interest rate swaps, investment collars and certain pension assets. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

To determine fair value, the Corporation uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation assesses the inputs used to measure fair value using a three level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets;
- Quoted prices for identical or similar instruments in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

Valuation Methodologies

Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The Corporation classifies these securities as Level 2 within the fair value hierarchy.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation used for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents – The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets.

Security Lending Collateral and Investment Collars – The fair value amounts of security lending collateral and investment collars are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Marketable Securities – The fair value amounts of marketable securities, included in investments and assets limited or restricted as to use in the consolidated balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Commingled Funds – The Corporation invests in various commingled funds that are included in investments and assets limited or restricted as to use in the consolidated balance sheets. Commingled funds are recorded at fair value as the underlying investments consist of securities that have a readily determinable market value.

The Corporation classifies its marketable securities and commingled funds as trading securities. Holding gains (losses) included in the excess (deficiency) of revenue over expenses for the periods ending June 30, 2010 and 2009 were approximately \$177.5 million and (\$102.8) million, respectively.

Other Investments – The Corporation accounts for these investments using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments generally utilize a “fund-of-funds” approach resulting in diversified multi-strategy, multi-manager investments. Generally, redemptions may be made with written notice ranging from one month to one year. Underlying investments in these funds may include other funds, equities, fixed income securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds’ year-end. Management’s estimates of the fair values of these investments are based on information provided by the external investment and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management’s internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel and changes in process, along with evaluations of current market conditions for these investments. Fund-of-funds managers also meet with the Corporation’s Investment Subcommittee of the Finance and Stewardship Committee of the Board of Directors on a periodic basis. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed. The balance of these investments at June 30, 2010 and 2009, was \$612.2 million and \$332.7 million, respectively.

Cash, cash equivalents, marketable securities, commingled funds and other investments totaled \$4,384 million and \$3,796 million at June 30, 2010 and 2009, respectively.

Interest rate swaps – The fair value of the Corporation’s interest rate swaps is estimated utilizing the terms of the swaps and publicly available market yield curves along with the Corporation’s nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades. These swap agreements are classified as Level 2 within the fair value hierarchy.

The following table presents information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis and recorded at June 30:

	2010 (In Thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	\$ 1,055,651	\$ 51,520	\$ -	\$ 1,107,171
Security lending collateral	-	156,162	-	156,162
Marketable securities:				
U.S. government and government agency obligations	6,065	299,535	-	305,600
U.S. and Non-U.S. fixed income and mutual funds	363,685	449,539	-	813,224
U.S. equity securities and mutual funds	591,800	2,838	-	594,638
Non-U.S. equity securities and mutual funds	260,307	-	-	260,307
Other	3,440	1,636	-	5,076
Total marketable securities	1,225,297	753,548	-	1,978,845
Interest rate swaps	-	23,154	-	23,154
Investment collars	-	5,359	-	5,359
Commingled funds	-	679,776	-	679,776
Total Assets	\$ 2,280,948	\$ 1,669,519	\$ -	\$ 3,950,467
Liabilities:				
Interest rate swaps	\$ -	\$ 127,350	\$ -	\$ 127,350
Investment collars	-	8,736	-	8,736
Total Liabilities	\$ -	\$ 136,086	\$ -	\$ 136,086

2009
(In Thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	\$ 905,121	\$ 112,336	\$ -	\$ 1,017,457
Security lending collateral	-	88,940	-	88,940
Marketable securities:				
U.S. government and government agency obligations	259	180,260	-	180,519
U.S. and Non-U.S. fixed income and mutual funds	18,769	145,977	-	164,746
U.S. equity securities and mutual funds	629,240	10,009	-	639,249
Non-U.S. equity securities and mutual funds	300,129	-	-	300,129
Other	1,148	1,732	-	2,880
Total marketable securities	949,545	337,978	-	1,287,523
Interest rate swaps	-	25,764	-	25,764
Commingled funds	-	1,158,015	-	1,158,015
Total Assets	\$ 1,854,666	\$ 1,723,033	\$ -	\$ 3,577,699
Liabilities:				
Interest rate swaps	-	106,777	-	106,777
Total Liabilities	\$ -	\$ 106,777	\$ -	\$ 106,777

The composition of investment returns included in the consolidated statement of operations and changes in net assets for the years ending June 30 is as follows:

	2010	2009
	(In Thousands)	
Dividend, interest income and other	\$ 95,819	\$ 84,367
Realized gains (losses), net	24,154	(266,220)
Realized equity earnings (losses), other investments	32,578	(388)
Change in net unrealized gains (losses) on investments	201,502	(463,235)
Total investment return	\$ 354,053	\$ (645,476)
Included in:		
Operating income	\$ 12,997	\$ 4,670
Nonoperating items	336,733	(640,004)
Changes in restricted net assets	4,323	(10,142)
Total investment return	\$ 354,053	\$ (645,476)

In addition to investments, assets restricted as to use include receivables for unconditional promises to give cash and other assets net of allowances for uncollectible promises to give.

Unconditional promises to give consist of the following at June 30:

	2010	2009
	(In Thousands)	
Amounts expected to be collected in:		
Less than one year	\$ 8,942	\$ 15,656
One to five years	17,038	20,127
More than five years	4,229	2,717
	<u>30,209</u>	<u>38,500</u>
Discount to present value of future cash flows	2,173	2,072
Allowance for uncollectible amounts	3,084	2,996
Total unconditional promises to give, net	<u>\$ 24,952</u>	<u>\$ 33,432</u>

Patient Accounts Receivable, Estimated Receivables from Third-Party Payors and Current Liabilities – The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Long-Term Debt – The carrying amounts of the Corporation's variable-rate debt approximate their fair values. The fair value of the Corporation's fixed-rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed-rate long-term revenue and refunding bonds was \$1,474 million and \$1,251 million for 2010 and 2009, respectively. The related carrying value of the fixed-rate long-term revenue and refunding bonds was \$1,402 million and \$1,226 million for 2010 and 2009, respectively. The fair values of the remaining fixed-rate capital leases, notes payable to banks, and other debt are not materially different from their carrying values.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments – In the normal course of business, the Corporation is exposed to market risks, including the effect of changes in interest rates and equity market volatility. To manage these risks the Corporation enters into various derivative contracts, primarily interest rate swaps and investment collars. Interest rates swaps are used to manage the effect of interest rate fluctuations. Investment collars are used to manage the effects of equity market volatility.

Management reviews the Corporation's hedging program, derivative position, and overall risk management on a regular basis. The Corporation only enters into transactions it believes will be highly effective at offsetting the underlying risk.

Interest Rate Swaps – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation's variable interest rate debt, variable rate leases and a fixed income investment portfolio. Cash payments on interest rate swaps totaled \$16.2 million and \$14.0 million in 2010 and 2009, respectively and are included in non-operating income.

Certain of the Corporation's interest rate swaps contain provisions that give certain counterparties the right to terminate the interest rate swap if a rating is downgraded below specified thresholds. If a ratings downgrade threshold is breached, the counterparties to the derivative instruments could demand immediate termination of the swaps. Such termination could result in a payment from the Corporation or a payment to the Corporation depending on the market value of the interest rate swap.

Certain of the Corporation's interest rate swaps are secured by \$32.5 million and \$21.7 million of collateral included in prepaid expenses and other current assets in the Corporation's consolidated balance sheets at June 30, 2010 and 2009, respectively.

Investment Collars – The Corporation engaged in a downside risk mitigation strategy employing an equity collar structure utilizing a combination of equity call and put options. This hedging strategy was based on investment portfolio exposure to long only equities and contained no leverage.

Effect of Derivative Instruments on Excess of Revenue over Expenses or Unrestricted Net Assets

The following table represents the effect derivative instruments had on the Corporation's financial performance for the years ending June 30:

Derivatives not designated as hedging instruments:	Location of Net Gain (Loss) Recognized in Excess of Revenue over Expenses or Unrestricted Net Assets	Amount of Net Gain (Loss) Recognized in Excess of Revenue over Expenses or Unrestricted Net Assets	
		2010	2009
		(In Thousands)	
Excess of Revenue over Expenses:			
Interest rate swaps	Change in market value and cash payment on interest rate swaps	\$ (40,385)	\$ (37,292)
Interest rate swaps	Investment income (loss) - marketable securities	922	967
Investment collars	Investment income (loss) - marketable securities	(3,338)	-
		<u>\$ (42,801)</u>	<u>\$ (36,325)</u>
Unrestricted Net Assets:			
Interest rate swaps	Change in market value of interest rate swaps	-	1,054
	Total	<u>\$ (42,801)</u>	<u>\$ (35,271)</u>

Balance Sheet Effect of Derivative Instruments

The following table summarizes the estimated fair value of the Corporation's derivative financial instruments at June 30:

Derivatives not designated as hedging instruments:	Consolidated Balance Sheet Location	Fair Value	
		2010	2009
		(In Thousands)	
Asset Derivatives:			
Investment collars	Prepaid expenses and other current assets	\$ 5,359	\$ -
Interest rate swaps	Investments	6,164	5,242
Interest rate swaps	Other assets	16,990	20,522
	Total asset derivatives	<u>\$ 28,513</u>	<u>\$ 25,764</u>
Liability Derivatives:			
Investment collars	Accrued liabilities	\$ 8,736	\$ -
Interest rate swaps	Other long term liabilities	124,693	106,777
	Total liability derivatives	<u>\$ 133,429</u>	<u>\$ 106,777</u>

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of nonperformance. At June 30, 2010 and 2009 an adjustment for non-performance risk reduced derivative assets by \$0.9 million and \$2.0 million and derivatives liabilities by \$9.1 million and \$6.6 million, respectively.

12. ENDOWMENTS

The Corporation's endowments consist of funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Corporation considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of endowment funds for a prudent level of risk. The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Corporation can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

Endowment net asset composition by type of fund at June 30 is as follows:

	2010 (In Thousands)			Total
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
Donor-restricted endowment funds	\$ -	\$ 464	\$ 31,736	\$ 32,200
Board-designated endowment funds	19,737	-	-	19,737
Total endowment funds	\$ 19,737	\$ 464	\$ 31,736	\$ 51,937

	2009 (In Thousands)			Total
	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	
Donor-restricted endowment funds	\$ -	\$ 430	\$ 29,197	\$ 29,627
Board-designated endowment funds	17,157	-	-	17,157
Total endowment funds	\$ 17,157	\$ 430	\$ 29,197	\$ 46,784

Changes in endowment net assets for the years ended June 30 include:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
	(In Thousands)			
Endowment net assets, July 1, 2008	\$ 20,333	\$ 3,883	\$ 29,322	\$ 53,538
Investment return:				
Investment losses	(228)	(59)	(1,155)	(1,442)
Change in net realized and unrealized gains and losses	(2,939)	(204)	(2,108)	(5,251)
Total investment return	(3,167)	(263)	(3,263)	(6,693)
Contributions	314	-	601	915
Appropriation of endowment assets for expenditures	(323)	(653)	-	(976)
Other	-	(2,537)	2,537	-
Endowment net assets, June 30, 2009	17,157	430	29,197	46,784
Investment return:				
Investment gains	779	6	162	947
Change in net realized and unrealized gains and losses	1,519	15	1,288	2,822
Total investment return	2,298	21	1,450	3,769
Contributions	215	16	360	591
Appropriation of endowment assets for expenditures	(383)	(3)	-	(386)
Other	450	-	729	1,179
Endowment net assets, June 30, 2010	<u>\$ 19,737</u>	<u>\$ 464</u>	<u>\$ 31,736</u>	<u>\$ 51,937</u>

The table below describes endowment amounts classified as permanently restricted net assets and temporarily restricted net assets as of June 30:

	2010	2009
	(In Thousands)	
Permanently restricted net assets:		
Hospital operations support	\$ 12,075	\$ 11,299
Medical program support	3,951	5,546
Scholarship funds	4,350	4,269
Research funds	2,604	2,603
Community service funds	5,462	3,029
Other funds	3,294	2,451
Total endowment funds classified as permanently restricted net assets	<u>\$ 31,736</u>	<u>\$ 29,197</u>
Temporarily restricted net assets:		
Term endowment funds	\$ 176	\$ 160
Other	288	270
Total endowment funds classified as temporarily restricted net assets	<u>\$ 464</u>	<u>\$ 430</u>

Funds with Deficiencies – Periodically the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and/or continued appropriation for certain programs that was deemed prudent by the Corporation.

13. RESTRUCTURING CHARGES

During 2009, management authorized and committed the Corporation to undertake a comprehensive performance improvement plan to realign its cost structure. The Corporation had a workforce reduction as part of the plan. As a result of these actions, restructuring charges of \$23.3 million were included in the 2009 consolidated statement of operations and changes in net assets. The restructuring charges are primarily for severance and termination benefits. Substantially all of the severance and termination benefits have been paid as of June 30, 2010.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 22, 2010, the date the consolidated financial statements were issued. The following subsequent event was noted:

In July 2010, the Corporation entered into credit agreements (the "2010 Credit Agreements") with Bank of America, N.A., which acts as an administrative agent for a group of lenders thereunder. The 2010 Credit Agreements establish a revolving credit facility for the Corporation, under which that group of lenders agrees to lend to the Corporation amounts that may fluctuate from time to time but, as of September 22, 2010, the amount is \$916 million. Amounts drawn under the 2010 Credit Agreements can only be used to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the \$916 million, \$256 million expires in July 2011, \$310 million expires in July 2012, \$275 million expires in July 2013 and \$75 million expires in July 2014.

* * * *

TRINITY HEALTH

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

TRINITY HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trinity Health
Novi, Michigan

We have audited the accompanying consolidated balance sheets of Trinity Health and subsidiaries (the "Corporation") as of June 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 the Corporation'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 the Corporation 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.

Deloitte & Touche LLP

September 29, 2009

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2009 AND 2008

(In Thousands)

ASSETS	2009	2008
CURRENT ASSETS:		
Cash and cash equivalents	\$ 546,083	\$ 334,374
Investments	1,301,827	1,488,114
Security lending collateral	88,940	282,273
Assets limited or restricted as to use, current portion	17,454	21,194
Patient accounts receivable, net of allowance for doubtful accounts of \$158.6 million and \$150.5 million in 2009 and 2008, respectively	703,463	754,421
Estimated receivables from third-party payors	38,954	-
Other receivables	87,755	84,796
Inventories	100,347	98,358
Prepaid expenses and other current assets	93,324	73,517
Total current assets	<u>2,978,147</u>	<u>3,137,047</u>
ASSETS LIMITED OR RESTRICTED AS TO USE, NON-CURRENT PORTION:		
Held by trustees under bond indenture agreements	45,485	149,524
Self-insurance, benefit plans and other	165,065	306,432
By Board	1,648,251	1,800,654
By donors	102,703	123,368
Total assets limited or restricted as to use, non-current portion	<u>1,961,504</u>	<u>2,379,978</u>
PROPERTY AND EQUIPMENT, NET	3,388,949	3,200,764
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	95,863	100,341
EXCESS OF COST OVER NET ASSETS ACQUIRED, net of accumulated amortization of \$23.5 million and \$17.3 million in 2009 and 2008, respectively	57,997	62,775
PREPAID PENSION COSTS	-	133,419
INTANGIBLE ASSETS, net of accumulated amortization of \$5.6 million and \$3.5 million in 2009 and 2008, respectively	15,368	15,605
OTHER ASSETS	82,703	62,244
TOTAL ASSETS	<u>\$ 8,580,531</u>	<u>\$ 9,092,173</u>

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

LIABILITIES AND NET ASSETS	2009	2008
CURRENT LIABILITIES:		
Line of credit	\$ 686	\$ 3,226
Commercial paper	99,981	157,833
Short-term borrowings	1,060,050	1,080,210
Current portion of long-term debt	30,843	42,294
Accounts payable and accrued expenses	323,020	352,684
Salary, wages and related liabilities	314,439	285,624
Payable under security lending agreements	88,940	282,273
Estimated payables to third-party payors	119,700	58,012
Total current liabilities	2,037,659	2,262,156
LONG-TERM DEBT, NET OF CURRENT PORTION	1,224,561	935,392
SELF-INSURANCE RESERVES	302,656	320,895
ACCRUED PENSION AND RETIREE HEALTH COSTS	731,875	72,786
OTHER LONG-TERM LIABILITIES	253,991	193,395
Total liabilities	4,550,742	3,784,624
EXTERNAL FINANCIAL INTEREST	81,530	92,126
NET ASSETS:		
Unrestricted	3,832,806	5,075,744
Temporarily restricted	86,256	110,357
Permanently restricted	29,197	29,322
Total net assets	3,948,259	5,215,423
TOTAL LIABILITIES AND NET ASSETS	\$ 8,580,531	\$ 9,092,173

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2009 AND 2008 (In Thousands)

	2009	2008
UNRESTRICTED REVENUE:		
Net patient service revenue	\$ 5,953,806	\$ 5,632,298
Capitation and premium revenue	333,349	289,155
Net assets released from restrictions	14,222	14,611
Other revenue	444,639	446,552
Total unrestricted revenue	<u>6,746,016</u>	<u>6,382,616</u>
EXPENSES:		
Salaries and wages	2,627,512	2,505,047
Employee benefits	604,153	558,194
Contract labor	67,896	68,272
Total labor expenses	<u>3,299,561</u>	<u>3,131,513</u>
Supplies	1,131,201	1,091,697
Purchased services	618,880	557,263
Depreciation and amortization	410,045	367,771
Occupancy	295,265	277,662
Provision for bad debts	280,942	232,215
Medical claims and capitation purchased services	177,594	136,301
Interest	83,662	102,943
Other	243,871	212,585
Total expenses	<u>6,541,021</u>	<u>6,109,950</u>
OPERATING INCOME BEFORE OTHER ITEMS	204,995	272,666
Reduction in insurance expense	28,188	87,002
Restructuring charges	(23,317)	-
OPERATING INCOME	<u>209,866</u>	<u>359,668</u>
NONOPERATING ITEMS:		
Investment loss - marketable securities	(361,843)	(160,481)
Equity losses, other investments	(278,161)	(5,038)
Change in market value and cash payments of interest rate swaps	(37,292)	(32,758)
Loss from early extinguishment of debt	(9,052)	(15,987)
External financial interest	(1,760)	(6,220)
Other, including income tax expense	(11,001)	(11,323)
Total nonoperating items	<u>(699,109)</u>	<u>(231,807)</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(489,243)	127,861

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

	2009	2008
UNRESTRICTED NET ASSETS:		
(Deficiency) excess of revenue over expenses	(489,243)	127,861
Change in market value of interest rate swaps	1,054	(9,543)
Net assets released from restrictions for capital acquisitions	24,671	28,126
Net change in post retirement plan related items	(764,984)	207,021
Adjustment to initially apply FAS 158 measurement date provisions	(22,226)	-
Other	7,790	(9,937)
(Decrease) increase in unrestricted net assets before discontinued operations	<u>(1,242,938)</u>	<u>343,528</u>
Gain on sale of discontinued operations - Mercy Mount Clemens Corporation	-	46,651
(Decrease) increase in unrestricted net assets	(1,242,938)	390,179
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	24,134	37,778
Net investment loss	(6,879)	(3,245)
Net assets released from restrictions	(38,893)	(42,737)
Other	(2,463)	1,039
Decrease in temporarily restricted net assets	<u>(24,101)</u>	<u>(7,165)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions for endowment funds	601	654
Net investment loss	(3,263)	(1,173)
Other	2,537	2,087
(Decrease) increase in permanently restricted net assets	<u>(125)</u>	<u>1,568</u>
(DECREASE) INCREASE IN NET ASSETS	(1,267,164)	384,582
NET ASSETS, BEGINNING OF YEAR	<u>5,215,423</u>	<u>4,830,841</u>
NET ASSETS, END OF YEAR	<u>\$ 3,948,259</u>	<u>\$ 5,215,423</u>

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2009 AND 2008

(In Thousands)

	2009	2008
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (1,267,164)	\$ 384,582
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Adjustment to initially apply FAS 158 measurement date provisions	22,226	-
Net change in post retirement plan related items	764,984	(207,021)
Restricted contributions and investment income received	(5,613)	(18,431)
Reduction in insurance expense	(28,188)	(87,002)
(Gain) loss on sale:		
Unconsolidated affiliates and subsidiaries	(9,407)	(15,417)
Care Choices	-	(11,933)
Discontinued operations	-	(46,651)
Loss from extinguishment of debt	9,052	15,987
Depreciation and amortization	410,045	367,771
Change in net unrealized gains on investments	463,235	251,245
Net realized losses on investments	266,608	46,647
Change in market values of interest rate swaps	27,799	43,621
Equity earnings in unconsolidated affiliates	(20,729)	(24,887)
External financial interest in consolidated subsidiaries	(10,595)	3,994
Loss on disposal of property and equipment	7,472	126
Other adjustments	20,706	7,432
Net purchases of trading security investments	-	(97,702)
Changes in:		
Patient accounts receivable, net	57,744	(47,047)
Other assets	(28,136)	(19,309)
Accounts payable and accrued expenses	19,143	(679)
Estimated payables to third-party payors, net	22,777	(10,061)
Self-insurance reserves	8,781	21,035
Accrued pension and retiree health costs	(3,517)	(10,938)
Other liabilities	(347)	10,651
Total adjustments	<u>1,994,040</u>	<u>171,431</u>
Net cash provided by operating activities	<u>726,876</u>	<u>556,013</u>

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

	2009	2008
INVESTING ACTIVITIES:		
Purchases of investments	(1,905,202)	(265,237)
Proceeds from sales of investments	1,790,608	86,300
Purchases of property and equipment	(610,958)	(595,581)
Proceeds from disposal of property and equipment	4,522	9,584
Proceeds from sale of:		
Unconsolidated affiliates and subsidiaries	9,722	22,544
Care Choices	-	9,628
Mercy Mount Clemens Corporation	-	105,400
Merger of Hackley Health System	-	6,694
Acquisition of Chelsea Community Hospital	(22,304)	-
Other acquisitions	-	(10,813)
Decrease in assets limited as to use	10,053	3,022
Decrease in other investments in affiliates	25,422	25,960
Net cash used in investing activities	<u>(698,137)</u>	<u>(602,499)</u>
FINANCING ACTIVITIES:		
Proceeds from restricted contributions and restricted investment income	5,613	18,431
Proceeds from issuance of debt	1,510,515	696,455
Repayments of debt	(1,261,931)	(857,832)
Net (decrease) increase in commercial paper and line of credit	(60,392)	154,845
Increase in financing costs and other	(10,835)	-
Net cash provided by financing activities	<u>182,970</u>	<u>11,899</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	211,709	(34,587)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>334,374</u>	<u>368,961</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 546,083</u>	<u>\$ 334,374</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest (net of amounts capitalized)	\$ 89,955	\$ 105,049
Capital lease obligations for buildings and equipment	581	3,572
Accruals for purchases of property, plant and equipment and other long-term assets	49,872	69,095
Unsettled investment trades, purchases	113,023	40,279
Unsettled investment trades, sales	149,569	14,814
Decrease in security lending collateral	193,333	94,709
(Decrease) in payable under security lending agreements	(193,333)	(94,709)

TRINITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

1. ORGANIZATION AND MISSION

Trinity Health, an Indiana not-for-profit corporation, and its subsidiaries are collectively referred to as the Corporation. The Corporation is sponsored by Catholic Health Ministries ("CHM"), a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in seven states. The mission statement for Trinity Health is as follows:

We serve together in Trinity Health, in the spirit of the Gospel, to heal body, mind and spirit, to improve the health of our communities and to steward the resources entrusted to us.

Community Benefit Ministry - Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments such as copays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates.

The following summary has been prepared in accordance with the Catholic Health Association of the United States' ("CHA"), *A Guide for Planning and Reporting Community Benefit*, 2008 Edition. In accordance with revisions in this edition, the Corporation's 2008 calculation of its cost to charge ratio has been revised to exclude provision for bad debts. The cost to charge ratio is used in the calculations of Charity Care at Cost and the Unpaid Cost of Medicaid. In addition, the 2008 calculation of the costs of programs for the poor and broader community are no longer offset by grants or contributions used for community benefit activities.

The following amounts below reflect the quantifiable costs of the Corporation's community benefit ministry for the years ended June 30:

	2009	2008
	(In Thousands)	
Ministry for the poor and underserved:		
Charity care at cost	\$ 118,095	\$ 104,721
Unpaid cost of Medicaid and other public programs	128,648	102,639
Programs for the poor and the underserved:		
Community health services	20,291	20,194
Subsidized health services	28,755	27,117
Financial contributions	5,254	3,609
Community building activities	1,593	1,859
Community benefit operations	1,924	1,933
Total programs for the poor and underserved	<u>57,817</u>	<u>54,712</u>
Ministry for the poor and underserved	<u>304,560</u>	<u>262,072</u>
Ministry for the broader community:		
Community health services	8,603	10,416
Health professions education	50,246	53,090
Subsidized health services	18,211	21,164
Research	6,480	6,227
Financial contributions	3,708	5,030
Community building activities	3,189	3,297
Community benefit operations	1,374	1,055
Ministry for the broader community	<u>91,811</u>	<u>100,279</u>
Community benefit ministry	<u>\$ 396,371</u>	<u>\$ 362,351</u>

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, that is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2009 and 2008, the Corporation reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of \$111.9 million and \$93.7 million, respectively.

Ministry for the poor and underserved represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured and the indigent. This is done with the conviction that healthcare is a basic human right.

Ministry for the broader community represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies as further described in Note 4. The cost of charity care is calculated using a cost to charge ratio methodology.

Unpaid cost of Medicaid and other public programs represents the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

Community health services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free immunization services, free or low

cost prescription medications, and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Health professions education includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians and students in allied health professions.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

Research includes unreimbursed clinical and community health research and studies on health care delivery.

Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special system-wide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or assets assessments, and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of the Corporation, and all wholly owned, majority-owned and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments, that are not controlled by the Corporation, are accounted for using the equity method of accounting. The Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other revenue in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

As further described in Note 3, the Corporation sold substantially all of the assets and liabilities of Mercy Mount Clemens Corporation ("Mt. Clemens") effective July 1, 2007. The consolidated financial statements present the gain on sale of Mt. Clemens as a discontinued operation. There were no results of operations in the consolidated 2008 financial statements due to the sale. Notes to these consolidated financial statements exclude the impact of Mt. Clemens.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances; recorded values of investments; provisions for bad debts; reserves for losses and expenses related to health care professional and general liability; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Investments and Investment Earnings – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds and absolute return strategy funds structured as limited liability corporations or partnerships. Commingled funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. The absolute return strategy investments are accounted for under the equity method. Redemptions may be made with written notice ranging from one month to one year.

Investment earnings (including equity earnings, realized gains and losses on investments, holding gains and losses on trading securities, and interest and dividends) are included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on commingled funds and absolute return strategy funds structured as limited liability corporations and partnerships are included in nonoperating items.

Investment earnings on assets held by trustees under bond indenture agreements, assets designated by the Board for debt redemption, assets held for borrowings under the intercompany loan program, and assets deposited in trust funds by a captive insurance company for self-insurance purposes in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other unrestricted investments and Board designated funds are included in nonoperating investment income.

Derivative Financial Instruments - The Corporation periodically utilizes various financial instruments (e.g., options, foreign currency futures, caps, swaps, and convertible bonds and stocks) to hedge interest rate and other exposures. In addition, the Corporation periodically uses index futures in conjunction with a portfolio of fixed income securities to replicate the S&P 500 index on an unleveraged basis. The index futures are marked-to-market and net-settled daily with any related realized gains or losses reported in investment income in the consolidated statements of operations and changes in net assets. The Corporation's policies prohibit trading in derivative financial instruments on a speculative basis.

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, the Corporation obtains additional collateral as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. At June 30, 2009 and 2008, the Corporation had securities loaned of \$95.8 million and \$318.5 million, respectively, and received collateral (cash and noncash) totaling \$99.4 million and \$329.6 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in investment loss - marketable securities on the consolidated statements of operations and changes in net assets.

Assets Limited as to Use - Assets set aside by the Board for future capital improvements, future funding of retirement programs and insurance claims, retirement of debt, held for borrowings under the intercompany loan program, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets to the Corporation's various ministry organizations are reported at fair value at the date the promise is received. Conditional promises to give and indications 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 to unrestricted net assets and reported in the consolidated statements of operations and 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 consolidated statements of operations and changes in net assets.

Property and Equipment - Property and equipment are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes capital lease amortization. The useful lives of these assets range from 3 to 40 years. Interest costs incurred during the period of construction of capital assets are 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 to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Asset Impairment - The Corporation periodically evaluates the carrying value of its long-lived assets for impairment. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. The evaluation of excess of costs over net assets acquired is based principally on the projected undiscounted cash flows generated by the underlying tangible assets.

Inventories - Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the first-in first-out method.

Excess of Costs over Net Assets Acquired - Excess of costs over net assets acquired are capitalized and amortized using the straight-line method over their estimated useful lives, which range from 5 to 40 years. Amortization of excess of costs over net assets acquired for the years ended June 30, 2009 and 2008 of \$4.7 million and \$3.7 million, respectively, is included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

Intangible Assets - Intangible assets primarily include non-compete agreements with finite lives amortized using the straight-line method over their estimated useful lives, which range from 5 to 8 years.

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors and Net Patient Service Revenue - The Corporation has agreements with third-party payors that provide for payments to the Corporation's ministry organizations at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated receivables from and payables to 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.

Allowance for Doubtful Accounts - Substantially all of the Corporation's receivables are related to providing healthcare services to patients. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Corporation's estimate for its allowance for doubtful accounts is based upon management's assessment of historical and expected net collections by payor.

Short-term borrowings— Puttable variable rate demand bonds supported by self liquidity or liquidity facilities considered short-term in nature and auction rate securities with unconditional tender options executable by investors within one year of the balance sheet date are included in short-term borrowings.

Premium and Capitation Revenue - The Corporation has certain ministry organizations that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on a yearly basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees. Premiums received prior to the period of coverage are recorded as deferred revenue and included in accounts payable and accrued expenses in the consolidated balance sheet.

Certain of the Corporation's ministry organizations have entered into capitation arrangements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's ministry organizations are financially responsible for services provided to the health plan members by other institutional health care providers. Capitation revenue is recognized during the period for which the ministry organization is obligated to provide services to health plan enrollees under capitation contracts. Capitation receivables are included in other receivables in the consolidated balance sheet.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services covered under the premium and capitation arrangements. The premium and capitation arrangement reserves are classified with accounts payable and accrued expenses in the consolidated balance sheet. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Subsequent actual claim experience will differ from the estimated liability due to variances in estimated and actual utilization of health care services, the amount of charges, and other factors. As settlements are made and estimates are revised, the differences are reflected in current operations. The Corporation limits a portion of its liability through stop-loss reinsurance.

Income Taxes - The Corporation and substantially all of its subsidiaries have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has taxable subsidiaries, which are included in the consolidated financial statements. Certain of the taxable subsidiaries have entered into tax sharing agreements and file consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation includes penalties and interest, if any, with its provision for income taxes.

(Deficiency) Excess of Revenue Over Expenses— The consolidated statement of operations and changes in net assets includes (deficiency) excess of revenue over expenses. Changes in unrestricted net assets which are excluded from (deficiency) excess of revenue over expenses, consistent with industry practice, include the effective portion of the change in market value of derivatives that meet hedge accounting requirements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), net change in post retirement plan related items, discontinued operations, extraordinary items and cumulative effects of changes in accounting principles.

Adopted Accounting Pronouncements –

On June 30, 2007, the Corporation adopted the recognition and disclosure provisions of FASB Statement No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*" ("FAS 158"). On July 1, 2008, the Corporation adopted the provisions of FAS 158 regarding the change in the measurement date of postretirement plans. Those provisions require the measurement date for plan assets and liabilities to coincide with the sponsor's year end. The effect of adopting FAS 158 measurement date provisions on the Corporation's financial condition at July 1, 2008 has been included in the accompanying consolidated financial statements, including a charge to unrestricted net assets of \$22.2 million. See Note 9 for further discussion of the effect on the Corporation's consolidated financial statements in adopting the measurement date provisions of FAS 158 for plan assets and liabilities.

On July 1, 2008, the Corporation adopted the provisions of FASB Statement No. 157, "*Fair Value Measurements*" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability including a consideration of non-performance risk. The adoption of FAS 157 did not have a material impact on the consolidated financial statements of the Corporation. It resulted in additional disclosures as presented in Note 11. In February 2008, the FASB approved FASB Staff Position No. FAS 157-2, "*Effective Date of FASB Statement No. 157*" ("FSP 157-2") which permits the Corporation to partially defer the effective date of FAS 157 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal year 2010. The Corporation has not yet determined the impact of FSP 157-2 on the consolidated financial statements. In October 2008, the FASB issued FSP No. 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*" ("FSP 157-3") which clarifies the application of FAS 157 in determining the fair value of an asset in a market that is not active. The effect of adopting FSP 157-3 did not have a material impact on the consolidated financial statements of the Corporation. In April 2009, the FASB issued FSP No. 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 157-4") which provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The effect of adopting FSP 157-4 did not have a material impact on the consolidated financial statements of the Corporation.

On July 1, 2008, the FASB issued FASB Statement No. 159 "*The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of SFAS No. 115*" ("FAS 159"), permitted the Corporation to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Non-profit entities that elect the fair value option will report unrealized gains and losses in the excess of revenue over expenses at each subsequent reporting date. The fair value option is elected on an instrument-by-instrument basis, with few exceptions. FAS 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. The Statement also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. The Corporation did not elect to measure any financial assets and financial liabilities at fair value which were not previously required to be measured at fair value. FAS 159 also amended FASB Statement No. 115 "*Accounting for Certain Investments in Debt and Equity Securities*", effective July 1, 2008, as it relates to the presentation of cash flows related to trading securities. As a result, the 2009 cash flows from trading securities are included in the investing section versus the operating section of the consolidated statement of cash flows. The adoption of FAS 159 had no other impact on the consolidated financial statements of the Corporation.

On July 1, 2008 the Corporation adopted the provisions of FASB Staff Position FSP 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 117-1"). FSP 117-1 is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. FSP 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. FSP 117-1 also requires additional disclosures about endowments (both donor-restricted funds and board-designated quasi endowment funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The adoption of FSP 117-1 had no impact on the Corporation's consolidated financial position and results of operations, but resulted in additional disclosures as presented in Note 12.

In May 2009, the FASB issued FASB Statement No. 165 *"Subsequent Events"* ("FAS 165"). FAS 165 is intended to establish general standard of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the financial statements presented. FAS 165 is effective for the Corporation as of June 30, 2009. See Note 14 for subsequent events disclosure.

Forthcoming Accounting Pronouncements –

In March 2008, the FASB issued FASB Statement No. 161, *"Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133"* ("FAS 161"). FAS 161 expands the disclosure requirements of FASB Statement No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("FAS 133"). FAS 161 requires additional disclosures regarding: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. In addition, FAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation, the purpose of derivative use in terms of the risks that the entity is intending to manage, quantitative disclosures about the fair values of derivative instruments and their gains and losses and disclosures about credit-risk-related contingent features. FAS 161 will be effective for the Corporation in fiscal 2010. The Corporation has not yet determined the impact of this statement on its consolidated financial statement disclosures.

In December 2008, the FASB issued Staff Position 132(R)-1, *"Employers' Disclosures about Postretirement Benefit Plan Assets"* ("FSP132(R)-1"). FSP 132(R)-1 requires entities to provide enhanced disclosures about how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period, and significant concentrations of risk within plan assets. FSP 132(R)-1 is effective for the Corporation for the fiscal year ending June 30, 2010. The Corporation has not yet determined the impact of FSP 132(R)-1 on the consolidated financial statement.

In April 2009, the FASB issued FASB Statement No. 164, "Not-for-Profit Entities: Mergers and Acquisitions-including an amendment of FASB Statement No. 142" ("FAS 164"). FAS 164 defines a combination of one or more other not-for-profit entities, business or nonprofit activities as either a merger or acquisition. FAS 164 establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies carryover method in accounting for mergers, applies acquisition method in accounting for acquisitions, including which of the combining entities is the acquirer, and requires enhanced disclosures about the merger or acquisition. It also amends FASB Statement No. 142 "Goodwill and Other Intangibles Assets" ("FAS 142") to make it fully applicable to not-for-profit entities. Furthermore it amends FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements" and its amendments to Accounting Research Bulletin ARB No. 51, "Consolidated Financial Statements", and FASB Statement No. 141(R) "Business Combinations". FAS 164 and the amended FAS 141(R), 142 and 160 are effective for the Corporation beginning July 1, 2010 and may not be applied before that date. The Corporation has not yet determined the impact of these statements on the consolidated financial statements.

In June 2009, the FASB issued FASB Statement No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" ("FAS 166"). FAS 166 clarifies that the objective of Statement 140 is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets. That determination must consider the transferor's continuing involvements in the transferred financial asset, including all arrangements or agreements made contemporaneously with, or in contemplation of, the transfer, even if they were not entered into at the time of the transfer. FAS 166 is effective for the Corporation beginning July 1, 2010. The Corporation has not yet determined the impact of this statement on the consolidated financial statements.

Reclassification – Certain amounts for 2008 have been reclassified to conform to 2009 presentation. On the consolidated statements of operations and changes in net assets at June 30, 2008, \$32.8 million was reclassified from investment loss – marketable securities to change in market value and cash payments of interest rate swaps for separate disclosure. This reclassification had no impact on previously reported excess of revenue over expenses, net assets or cash flows of the Corporation.

3. JOINT VENTURES, INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS AND DIVESTITURES

Joint Ventures – The Corporation is involved in several joint ventures whose operations have been consolidated in the Corporation's financial statements.

Mercy Health Network ("MHN") – MHN is a venture between the Corporation and Catholic Health Initiatives ("CHI") to bring together their respective healthcare services in Iowa on a partially integrated basis. The original agreement took effect July 1, 1998 and has been modified several times since that date. The agreement provides for the Corporation and CHI to maintain ownership and operation of their respective Iowa assets, while working collaboratively within MHN to periodically evaluate healthcare services and implement leading practices across MHN hospitals. Both the Corporation and CHI hold a 50% membership interest in MHN, a Delaware not-for-profit Corporation that is accounted for under the equity method of accounting.

Under the terms of the amended agreement, the Corporation and CHI equally share in additional capital contributions to MHN. Required annual capital contributions of the Corporation are equal to the lesser of 25% of combined MHN free cash flow, as defined, or \$1.5 million payable within 120 days after MHN's June 30 year end. For the year ended June 30, 2009, the required capital contribution of \$1.5 million was accrued in the consolidated balance sheet. In 2008, the required capital contribution of \$1.5 million was accrued in the consolidated balance sheet and subsequently the liability was discharged in 2009. Capital contributions may be returned to the Corporation and CHI once MHN determines capital contributions in excess of those required have been made. Trinity Health – Iowa reported (deficiency) excess of revenue over expenses of \$(35.1) million and \$29.3 million for the years ended June 30, 2009 and 2008, respectively, that is consolidated in these financial statements. As of June 30, 2009 and 2008, consolidated net assets include \$400.0 million and \$446.0 million, respectively, for Trinity Health – Iowa.

Battle Creek Health System (“BCHS”) - On July 1, 1991, BCBS was formed through a joint venture agreement between the Corporation and Community Hospital Association of Battle Creek, Michigan. The Corporation owns 50% of the stock of BCBS. BCBS is effectively controlled by the Corporation, and accordingly, the financial statements of BCBS are included in the consolidated financial statements of the Corporation with a 50% provision for external financial interest. Before the provision for external financial interest, BCBS reported (deficiency) excess of revenue over expenses of \$(6.8) million and \$6.0 million for the years ended June 30, 2009 and 2008, respectively, that is consolidated in these financial statements. As of June 30, 2009 and 2008, consolidated net assets include \$139.1 million and \$165.8 million, respectively, for BCBS prior to the provision for external financial interest.

Mercy Health Services North (“MHSN”) - Effective July 1, 1998, the Corporation and Munson Healthcare (“MHC”) entered into an agreement to create an alignment in northern Michigan. Under the agreement, MHC provides management and other services to MHSN, an operating division of the Corporation with acute care hospitals in Cadillac and Grayling, Michigan. MHSN reported excess of revenue over expenses of \$6.2 million and \$0.6 million for the years ended June 30, 2009 and 2008, respectively, that is consolidated in these financial statements. As of June 30, 2009 and 2008, consolidated net assets include \$56.7 million and \$51.4 million, respectively, for MHSN.

The management contract is an affiliation agreement that allows for payments to MHC for certain services provided to MHSN. The consolidated statement of operations and changes in net assets included \$8.7 million and \$7.7 million for purchased services and \$0.8 million and \$0.3 million for contract labor paid to MHC for the years ended June 30, 2009 and 2008, respectively.

Investments in Unconsolidated Affiliates – The Corporation and certain of its ministry organizations have investments in entities that are recorded under the cost and equity methods of accounting. At June 30, 2009, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 3.2% to 50.0%. The Corporation's share of equity earnings from entities accounted for under the equity method was \$20.7 million and \$24.9 million for the years ended June 30, 2009 and 2008, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets.

During 2008, the Corporation sold its ownership interest in six entities recorded under the equity method of accounting for a total gain of \$15.4 million. The most significant included Sagamore PPO and Edison Lakes Medical Center Associates (“ELMCA”) owned by the Corporation's subsidiary, Saint Joseph Regional Medical Center. The divestitures resulted in gains of \$8.9 million and \$4.0 million, respectively, recorded in other revenue in the 2008 consolidated statement of operations and changes in net assets. The remaining gains on sales of equity investees were not material to these consolidated financial statements.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended June 30 are as follows:

2009						
(In Thousands)						
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 91,688	\$ 73,799	\$ 58,915	\$ 18,008	\$ 112,325	\$ 354,735
Total debt	53,860	18,400	29,834	-	37,806	139,900
Net assets	30,245	42,026	23,982	9,408	54,192	159,853
Revenue, net	23,412	130,879	87,187	51,584	112,821	405,883
Excess of revenue over expenses	2,215	22,952	28,184	5,366	1,241	59,958

2008						
(In Thousands)						
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 94,131	\$ 71,592	\$ 54,809	\$ 19,663	\$ 101,265	\$ 341,460
Total debt	54,348	16,825	21,306	113	36,353	128,945
Net assets	35,352	43,335	23,447	6,527	48,867	157,528
Revenue, net	24,820	132,005	74,957	52,685	102,369	386,836
Excess of revenue over expenses	2,304	28,916	25,231	1,196	1,122	58,769

Business Acquisitions and Divestitures – The Corporation entered into the following significant acquisition and divestiture activities during 2009 and 2008:

Business Acquisitions:

Chelsea Community Hospital (“Chelsea”) – Effective May 1, 2009, the Corporation, through its operating division, St. Joseph Mercy Health System, Ann Arbor acquired 100% ownership of Chelsea for \$25 million. The fair value of assets acquired and liabilities assumed exceeded the cost of acquisition, resulting in negative goodwill of \$40.1 million. The negative goodwill was allocated to reduce the fair value of property and equipment. Chelsea has been consolidated in the 2009 financial statements. Summarized balance sheet information for Chelsea at May 1, 2009 is shown below.

(In Thousands)			
Cash and investments	\$ 6,178	Current liabilities	\$ 7,697
Assets limited or restricted as to use, current portion	23,717	Long-term debt	40,851
Other current assets	9,369	Other liabilities	1,279
Assets limited or restricted as to use, non-current portion	310	Total liabilities acquired	<u>\$ 49,827</u>
Property and equipment	38,492		
Other assets	243		
Total assets acquired	<u>\$ 78,309</u>		

The operating results of Chelsea, for the two-month period ended June 30, 2009, included total unrestricted revenue of \$15.2 million and excess of revenue over expense of \$1.3 million.

Hackley Health System, Inc. and Affiliates (“Hackley”) – Effective April 1, 2008, the Corporation, through its subsidiary, Mercy Health Partners – Muskegon, Michigan acquired 100% ownership of Hackley and assumed the liabilities. The fair value of assets acquired exceeded liabilities assumed, resulting in negative goodwill of \$45 million. The negative goodwill was allocated to reduce the fair value of property and equipment. Hackley has been consolidated in the accompanying financial statements.

As further discussed in Note 9, the Corporation resolved the preacquisition contingency to terminate Hackley’s acquired pension plans effective October 28, 2008, within the purchase accounting allocation period. As a result, the Corporation remeasured the obligations of the Hackley defined benefit pension plans and recorded an \$8.8 million increase to accrued pension liabilities with a corresponding decrease to negative goodwill. Summarized balance sheet information for Hackley at April 1, 2008 is shown below.

(In Thousands)			
Cash and investments	\$ 9,738	Current liabilities	\$ 35,029
Other current assets	37,917	Long-term debt	34,186
Assets limited or restricted		Accrued pension and retiree health costs	24,526
as to use, non-current	18,188	Other liabilities	<u>5,784</u>
Property and equipment	31,656	Total liabilities acquired	<u>\$ 99,525</u>
Other assets	5,071		
Total assets acquired	<u>\$ 102,570</u>		

The operating results of Hackley for the year ended June 30, 2009 and the three-month period ended June 30, 2008, included total unrestricted revenue of \$205.6 million and \$57.1 million, respectively, and deficiency of revenue over expenses of \$7.9 million and \$2.5 million, respectively.

Business Divestitures:

Our Lady of Peace - South Bend - Effective November 1, 2008, the Corporation, through its subsidiary Saint Joseph Regional Medical Center, sold Our Lady of Peace, a 32 bed long term acute care hospital. As a result of the sale, a gain of \$7.1 million was included in other revenue in the 2009 consolidated statement of operations and changes in net assets. Excluding the gain related to the sale, the operating results of Our Lady of Peace (to the date of the sale) and 2008 were as follows:

	2009	2008
	(In Thousands)	
Total unrestricted revenue	\$ 4,770	\$ 11,693
(Deficiency) excess of revenue over expenses	(1,592)	1,081

Mt. Clemens - On May 15, 1990, the Corporation entered into a joint venture with Henry Ford Health System (“HFHS”) that included the acquisition of and inclusion in the joint venture, Mt. Clemens, a subsidiary of the Corporation. On July 1, 2007, the Corporation sold its 50% ownership in the assets and liabilities of Mt. Clemens for \$105.5 million to HFHS. As a result of the sale, a gain on disposal of \$46.7 million was recorded in discontinued operations in the 2008 consolidated statement of operations and changes in net assets.

4. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors follows:

Medicare - Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

Medicaid - Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules, and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

Other - Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

Charity Care – The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify for charity care, they are not reported as net patient service revenue in the consolidated statements of operations and changes in net assets.

During both 2009 and 2008, 38% of net patient service revenue was received under the Medicare program, 9% under state Medicaid and indigent care programs and 53% from other payor contracts and patients. A summary of net patient service revenue for the years ended June 30 is as follows:

	2009	2008
	(In Thousands)	
Gross charges:		
Acute inpatient	\$ 7,285,596	\$ 7,082,435
Outpatient, nonacute inpatient, and other	6,839,646	6,206,972
Gross patient service revenue	14,125,242	13,289,407
Less:		
Contractual and other allowances	(7,683,758)	(7,225,577)
Charity care charges	(350,199)	(308,065)
Allowance for self-insured health benefits	(137,479)	(123,467)
Net patient service revenue	\$ 5,953,806	\$ 5,632,298

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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.

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30 is as follows:

	2009	2008
	(In Thousands)	
Land	\$ 183,521	\$ 166,413
Buildings and improvements	3,736,464	3,345,937
Equipment	<u>2,810,875</u>	<u>2,661,415</u>
Total	6,730,860	6,173,765
Less accumulated depreciation and amortization	(3,818,181)	(3,424,931)
Construction in progress	<u>476,270</u>	<u>451,930</u>
Property and equipment, net	<u>\$ 3,388,949</u>	<u>\$ 3,200,764</u>

Buildings and improvements include assets recorded under capital leases of \$17.8 million and \$68.5 million with accumulated amortization for such assets of \$6.4 million and \$14.7 million as of June 30, 2009 and 2008, respectively. Equipment includes assets recorded under capital leases of \$7.1 million and \$6.7 million with accumulated amortization for such assets of \$2.9 million and \$2.2 million as of June 30, 2009 and 2008, respectively. The associated charges to income are recorded in depreciation and amortization expense.

At June 30, 2009, commitments to purchase property and equipment of approximately \$168 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following ministry organizations: Saint Joseph Regional Medical Center in South Bend, Indiana - \$83 million; Saint Joseph Mercy Health System in Ann Arbor, Michigan - \$47 million; Saint Joseph Mercy Oakland in Pontiac, Michigan - \$22 million; and Mt. Carmel Health System in Columbus, Ohio - \$15 million. Costs of these projects are expected to be financed by proceeds from bond issuances, available funds, future operations of the hospitals and contributions.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of short-term borrowings, long-term debt and capital lease obligations at June 30 is as follows:

	2009	2008
	(In Thousands)	
Short-Term Borrowings:		
Variable rate demand bonds. Interest payable monthly at rates ranging from 0.1% to 9.15% during 2009 and 2008.	\$ 1,060,050	\$ 481,585
Auction rate securities. Interest payable monthly at rates ranging from 1.98% to 12.0% during 2008.	-	598,625
Total Short-Term Borrowings	\$ 1,060,050	\$ 1,080,210
Long-Term Debt, Capital Lease Obligations and Other:		
Tax-exempt revenue bonds and refunding bonds:		
Fixed rate term and serial bonds, payable at various dates through 2037. Interest rate ranges from 3.75% to 6.50% during 2009.	\$ 1,225,751	\$ 759,887
Variable rate demand bonds payable. Interest payable monthly at rates ranging from 1.0% to 3.9% during 2008.	-	102,915
Liquidity facilities draw payable. Interest rate of 5% at June 30, 2008.	-	42,700
Notes payable to banks, 2.69% to 6.70%, fixed and variable, payable in varying monthly installments, due through 2021.	10,449	9,916
Capital lease obligations (excluding imputed interest of \$12.8 million and \$26.2 million at June 30, 2009 and 2008, respectively).	19,971	56,637
Other	3,708	3,777
Total Long-Term Debt, Capital lease Obligations and Other	1,259,879	975,832
Less current portion of long-term debt	(30,843)	(42,294)
Unamortized bond (discounts) premiums	(4,475)	1,854
Long-term debt	\$ 1,224,561	\$ 935,392

Contractually obligated principal repayments on short-term borrowings and long-term debt are as follows:

	Short-Term Borrowings	Long-Term Debt
	(In Thousands)	
Years ending June 30:		
2010	\$ 18,950	\$ 30,843
2011	22,670	29,332
2012	28,075	26,556
2013	29,325	25,225
2014	36,990	19,300
Thereafter	924,040	1,128,623
Total	\$ 1,060,050	\$ 1,259,879

A summary of interest costs on borrowed funds held primarily by the trustee under the revenue bond indentures during the years ended June 30 is as follows:

	2009	2008
	(In Thousands)	
Interest costs incurred	\$ 95,231	\$ 110,373
Less capitalized interest	(11,569)	(7,430)
Interest expense included in operations	<u>\$ 83,662</u>	<u>\$ 102,943</u>

Obligated Group and Other Requirements - The Corporation has debt outstanding under a Master Trust Indenture dated July 1, 1998, as amended and supplemented thereto, the Amended and Restated Master Indenture ("ARMI"). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are general, direct obligations of the Corporation and any future members of the Trinity Health Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI, the Corporation is the sole member of the Trinity Health Obligated Group. Certain ministry organizations of the Corporation constitute Designated Affiliates and the Corporation covenants to cause each Designated Affiliate to pay, loan or otherwise transfer to the Corporation such amounts necessary to pay the amounts due on all obligations issued under the ARMI. The Corporation, the Designated Affiliates and all other controlled affiliates are referred to as the Credit Group. The Corporation has granted a security interest in certain pledged property and has caused not less than 85% of the Designated Affiliates representing, when combined with the Corporation and any future members, not less than 85% of the consolidated net revenue of the Credit Group to grant to the Corporation security interests in certain pledged property in order to secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) were \$2,286 million and \$1,986 million at June 30, 2009 and 2008, respectively.

There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any Material Designated Affiliate (a Designated Affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of the Credit Group for the most recent fiscal year). Long-term debt outstanding as of June 30, 2009 and 2008, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

Issuance and Defeasance of Debt - During May 2009, the Corporation extinguished \$43.6 million of outstanding hospital revenue bonds related to Chelsea Community Hospital (the "Series 1998", "Series 2000" and "Series 2005" Bonds), through the issuance of commercial paper.

In November 2008, the Corporation issued \$1,277 million in tax-exempt, fixed rate hospital revenue bonds and variable rate revenue and refunding bonds (the "Series 2008 Bonds") under the ARMI. The proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire \$938.8 million of the Corporation's then outstanding variable rate hospital revenue bonds, including auction rate securities, and \$109.2 million of the Corporation's commercial paper. These transactions resulted in a loss from extinguishment of debt of \$4 million, which has been included in non-operating items in the 2009 consolidated statement of operations and changes in net assets. Of the proceeds received, \$491.6 million was included in long-term debt and \$785 million in short-term borrowings.

During June 2008, the Corporation extinguished \$42.4 million of outstanding hospital revenue bonds related to Hackley Health System and \$66.8 million of variable rate demand bonds (the "Series 2004C" and "Series 2005G" Bonds) under the ARMI, through the issuance of commercial paper. The extinguishment of variable rate demand bonds resulted in a loss from extinguishment of debt of \$1.7 million, which was included in non-operating items in the 2008 consolidated statement of operations and changes in net assets.

In February 2008, two of the Corporation's auction rate security programs experienced failed auctions of \$129.6 million and the rates were set at a maximum auction rate of 12% until the next auction period. During March and April 2008, the Corporation voluntarily extinguished \$598.6 million of its auction rate securities and immediately reissued auction rate securities with unconditional tender option agreements. The tender options provided liquidity to the investors by allowing them to "tender" back the auction rate securities to the Corporation at the end of their auction period ranging from November 2008 to January 2009. Accordingly, as of June 30, 2008, the auction rate securities were classified as short-term borrowings in the consolidated balance sheet. During 2008, the average interest rate on the auction rate securities with tender options was 2.58%. For the year ended June 30, 2008, the transaction resulted in a loss from extinguishment of debt of \$14.3 million, which was reflected in non-operating items in the consolidated statement of operations and changes in net assets.

The outstanding balance of all bonds advance refunded through net defeasance and excluded from the consolidated balance sheets was \$243.5 million and \$235.9 million at June 30, 2009 and 2008, respectively. The Corporation advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee held escrow accounts are invested in U.S. government securities.

Commercial Paper – The Corporation has entered into a commercial paper program authorized for borrowings up to \$400 million. Proceeds from this program are to be used to finance certain acquisitions and for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during 2009 ranged from .35% to 6.0% and ranged from 2.32% to 4.5% during 2008.

Liquidity Facilities – In November 2008, the Corporation entered into a Credit Agreement (the "Credit Agreement"), with The Bank of Nova Scotia, which acts as an administrative agent for a group of lenders thereunder. The Credit Agreement established a revolving credit facility for the Corporation, under which that group of lenders will agree to lend to the Corporation amounts that may fluctuate from time to time but, in the aggregate at any one time, outstanding will not exceed \$676 million. Amounts drawn under the Credit Agreement can only be used to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. The credit agreement, along with the Corporation's own self-liquidity, provides support for \$957 million of variable rate demand bonds that are classified as short-term borrowings in the consolidated balance sheet. The Credit Agreement expires in November 2009. The Corporation has the intent to renew the Credit Agreement.

As of June 30, 2009, a liquidity facility and standby letter of credit in the amount of \$104.1 million, which provides support for \$102.9 million of variable rate demand bonds that are classified as short-term borrowings in the 2009 consolidated balance sheet, is also available to the Corporation. This dedicated facility is effectively available until January 2011. The Corporation has the intent to renew the liquidity facility.

As of June 30, 2009 and 2008, certain liquidity facilities had expiration dates of less than one year from the balance sheet dates. Therefore, \$1,060 million and \$481.6 million of the variable rate demand bonds supported by these liquidity facilities were classified as short-term borrowings at June 30, 2009 and June 30, 2008, respectively. Variable rate demand bonds have contractual maturity dates through 2034.

During 2009 and 2008, the liquidity facilities were used for redeeming \$158.1 million and \$70.3 million, respectively, of variable rate demand bonds that were insured by weakened bond insurance companies and tendered back to the Corporation. Subsequently, bonds in the amount of \$80 million and \$27.6 million were remarketed during 2009 and 2008, respectively. At June 30, 2008, \$42.7 million was outstanding under the liquidity facilities, which was convertible to a five-year term note in December 2008, however such bonds were remarketed in July 2008. The remaining \$120.8 million of outstanding variable rate demand bonds were refinanced during the November 2008 issuance. During 2009, the Corporation recorded a loss from extinguishment of debt of \$5.1 million related to the tendering of variable rate demand bonds, which was included in non-operating items in the 2009 consolidated statement of operations and changes in net assets.

Line of Credit –The Corporation had \$1.4 million and \$4.3 million available under various lines of credit at June 30, 2009 and 2008 respectively, of which \$0.7 million and \$3.2 million were outstanding at June 30, 2009 and 2008, respectively. These agreements had a variable interest rate based on the London InterBank Offered Rate (“LIBOR”) or the banks’ prime rate. The interest rate charged on borrowings outstanding during 2009 ranged from 2.69% to 2.93% and during 2008 ranged from 4.5% to 7.25%.

Standby Letters of Credit –The Corporation entered into various standby letters of credit totaling approximately \$22 million at both June 30, 2009 and 2008, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs. There were no draws on these letters of credit during 2009 or 2008.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

A summary of accounts payable and accrued expenses at June 30 is as follows:

	2009	2008
	(In Thousands)	
Accounts payable	\$ 264,859	\$ 282,059
Incurred but not reported claims	15,492	12,503
Interest	8,152	7,872
Deferred revenue	3,889	5,675
Unsettled investment trades	459	3,410
Other	30,169	41,165
Total	<u>\$ 323,020</u>	<u>\$ 352,684</u>

8. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation’s insurance company, Venzke Insurance Company, Ltd. (“Venzke”), a wholly owned subsidiary of Trinity Health, qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to the Corporation’s ministry organizations. The Corporation is self-insured for certain levels of general and professional liability, workers’ compensation and certain other claims. The Corporation, through Venzke, has limited its liability by purchasing reinsurance and commercial coverage from unrelated third-party insurers.

For 2009 and 2008, the self-insured limit for the first layers of professional liability was \$20 million per occurrence. Additional layers of professional liability insurance are available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is \$100 million in aggregate.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry-wide data. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. Such adjustments are reflected in current operations, and resulted in a reduction in liabilities of \$28.2 million and \$87.0 million for the years ended June 30, 2009 and 2008, respectively. The amount of the changes to the estimated self-insurance reserves was determined based upon the annual, independent actuarial analyses, which recognized declining frequency and moderating severity of claims trends at the Corporation. The Corporation believes these favorable trends are primarily attributable to risk management and patient safety initiatives and tort reforms enacted in key states.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2009, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of Counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations or cash flows of the Corporation.

9. PENSION AND OTHER BENEFIT PLANS

Self-Insured Employee Health Benefits - The Corporation administers self-insured employee health benefits plans for employees. The majority of the Corporation's employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's ministry organizations or other health care providers. Gross patient service revenue has been reduced by an allowance for self-insured employee health benefits of \$137.5 million and \$123.5 million for 2009 and 2008, respectively, which represented revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

Deferred Compensation - The Corporation has nonqualified deferred compensation plans at certain ministry organizations that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. At June 30, 2009 and 2008, the assets under these plans totaled \$29.9 million and \$38.9 million, and liabilities totaled \$33.3 million and \$38.9 million, respectively.

Defined Contribution Benefits - The Corporation sponsors defined contribution pension plans covering substantially all of its employees. The majority of the employer matching contributions contributed by the Corporation of up to 3% of compensation are deposited in a cash balance arrangement in the defined benefit pension plans. Effective July 1, 2009, under IRS regulations published in 2007, the Corporation is required to deposit matching contributions for non-profit organizations into the defined contribution plan. The new regulations resulted in a \$12.9 million decrease in cash balance defined benefit pension plan liabilities. For for-profit organizations, employer contributions are self-directed by plan participants in defined contribution plans. Employee contributions in all plans are self-directed by plan

participants. Contribution expense under the plans totaled approximately \$32.5 million and \$34.2 million in 2009 and 2008, respectively.

Noncontributory Defined Benefit Pension Plans ("Pension Plans") - Substantially all of the Corporation's employees participate in qualified, noncontributory defined benefit pension plans. Benefits are based on years of service and employees' highest five years of compensation. Certain non-qualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. Because the Pension Plans have Church Plan status as defined in the Employee Retirement Income Security Act of 1974 ("ERISA"), funding in accordance with ERISA is not required. The Corporation's adopted funding policy for qualified plans, which is reviewed annually, is to fund the current normal cost based on the accumulated benefit obligation at the plans' December 31st year-end, and amortization of any under or over funding over a ten year period. The Corporation funded \$51.9 million in excess of the stated funding policy in 2009 including a \$50 million prepayment made in June 2008. The corporation funded its funding policy amount for 2008, including a \$107.5 million prepayment made in June 2007.

As discussed in Note 3, the Corporation acquired Hackley on April 1, 2008, including its pension plans. Hackley maintains three defined benefit pension plans covering employees of three subsidiaries who have completed one year of continuous service. These plans do not have Church Plan status. Benefits paid under the plans are based generally on employees' years of service and compensation levels during employment. The plans require annual contributions that are sufficient to meet the minimum funding standards of ERISA and the Internal Revenue Code of 1986. Effective October 2008, Hackley approved the freeze of its three defined benefit pension plans as of December 31, 2008. Employees

became participants of the Corporation's defined benefit plan effective January 1, 2009, and the Corporation recorded an increase of \$8.8 million to plan liabilities. Lump sum payments and purchased annuities will be used to settle the Hackley pension plan liabilities, anticipated to occur during fiscal 2010.

During the year ended June 30, 2009, the Corporation amended one of its non-qualified, supplemental plan arrangements to eliminate benefits for certain participants and settle liabilities through cash payments to participants. The plan change resulted in a curtailment charge of \$1.9 million and a decrease in plan liabilities of \$3.2 million.

During the year ended June 30, 2008, the Corporation recorded a curtailment loss from the sale of Mt. Clemens described in Note 3, and related reduction in plan liabilities of \$19.1 million. The curtailment loss of \$185,000 is included in gain on sale of discontinued operations in the consolidated statement of operations and changes in net assets.

Postretirement Health Care and Life Insurance Benefits ("Postretirement Plans") - The Corporation sponsors both funded and unfunded, contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The plans cover certain hourly and salaried employees who retire from certain ministry organizations. Medical benefits for these retirees are subject to deductibles and co-payment provisions.

Adoption of FAS 158 Measurement Date Change - Effective July 1, 2008 the Corporation adopted the measurement date provisions of Statement of Financial Standards No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)." Those provisions require the measurement date for plan assets and liabilities to coincide with the plan sponsor's year-end. For the defined benefit pension plans and postretirement plans the measurement date had been March 31. Net periodic benefit cost was calculated for the 15-month period between the earlier measurement date of March 31, 2008 and June 30, 2009 and allocated proportionally between amounts recognized as an adjustment to unrestricted net assets and net periodic benefit cost for fiscal 2009. This resulted in a decrease in unrestricted net assets of \$23.0 million for the defined benefit pension plans and an increase of \$0.8 million for postretirement plans as of July 1, 2008.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations, changes in plan assets and funded status of the plans for both the Pension and Postretirement Plans for the fifteen months ended June 30, 2009 and the year ended June 30, 2008 measured as of March 31, 2008:

	Pension Plans		Postretirement Plans	
	2009 (In Thousands)	2008	2009 (In Thousands)	2008 (In Thousands)
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 3,106,488	\$ 3,183,161	\$ 129,121	\$ 149,862
Service cost	184,603	158,405	1,936	2,287
Interest cost	272,548	197,194	10,913	8,677
Amendments	(9,954)	1,799	-	-
Actuarial gains	(54,368)	(422,372)	(5,965)	(26,149)
Acquisition of Hackley	8,815	108,614	-	-
Benefits paid	(139,489)	(101,182)	(7,215)	(5,982)
Curtailments / settlements	(3,174)	(19,131)	-	-
Medicare Part D reimbursement	-	-	1,157	426
Benefit obligation, end of year	<u>3,365,469</u>	<u>3,106,488</u>	<u>129,947</u>	<u>129,121</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	3,155,984	3,105,846	87,408	92,656
Actual return on plan assets	(472,537)	25,580	(13,874)	(966)
Acquisition of Hackley	-	84,088	-	-
Employer contributions	150,398	41,652	2,866	1,700
Benefits paid	(139,489)	(101,182)	(7,215)	(5,982)
Fair value of plan assets, end of year	<u>2,694,356</u>	<u>3,155,984</u>	<u>69,185</u>	<u>87,408</u>
Funded status	<u>(671,113)</u>	<u>49,496</u>	<u>(60,762)</u>	<u>(41,713)</u>
Employer contribution between measurement date and fiscal year end	-	52,530	-	320
Net amount recognized June 30:	<u>\$ (671,113)</u>	<u>\$ 102,026</u>	<u>\$ (60,762)</u>	<u>\$ (41,393)</u>
Noncurrent asset	\$ -	\$ 133,419	\$ -	\$ -
Noncurrent liability	\$ (671,113)	\$ (31,393)	\$ (60,762)	\$ (41,393)

The accumulated benefit obligation ("ABO") and fair value of plan assets for the qualified defined benefit pension plans for the years ended June 30, measured as of June 30, 2009, and March 31, 2008, are as follows:

	Pension Plans		
	(In Thousands)		
	2009	2008	2008
	Plans with	Plans with	Plans with
	ABO in Excess	ABO in Excess	Assets in
	of Assets	of Assets	Excess of ABO
Accumulated benefit obligation	\$ 3,006,753	\$ 91,217	\$ 2,596,402
Fair value of plan assets	2,693,066	84,088	3,069,723
Funded status	<u>\$ (313,687)</u>	<u>\$ (7,129)</u>	<u>\$ 473,321</u>

The accumulated benefit obligation and plan assets of the non-qualified pension plan are immaterial to these consolidated financial statements.

Components of net periodic benefit cost for the years ended June 30, prior to the charge of \$23.0 million for the defined benefit plan and credit of \$0.8 million for the postretirement plans, for adopting the FAS 158 measurement date provision, consisted of the following:

	Pension Plans		Postretirement Plans	
	2009	2008	2009	2008
	(In Thousands)		(In Thousands)	
Service cost	\$ 148,232	\$ 158,405	\$ 1,549	\$ 2,287
Interest cost	219,431	197,194	8,731	8,677
Expected return on assets	(265,379)	(270,871)	(7,180)	(7,905)
Curtailment	1,993	185	-	-
Amortization of unrecognized transition asset	(8,193)	(8,193)	-	-
Amortization of prior service cost	2,967	3,109	(7,244)	(13,637)
Recognized net actuarial loss	<u>523</u>	<u>11,893</u>	<u>148</u>	<u>2,095</u>
Net periodic benefit cost (income)	<u>\$ 99,574</u>	<u>\$ 91,722</u>	<u>\$ (3,996)</u>	<u>\$ (8,483)</u>

The amounts in unrestricted net assets, including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

	Pension Plans			
	(In Thousands)			
	Net (Gain) Loss	Prior Service Cost	Transition Asset	Total
June 30, 2007	\$ 468,119	\$ 15,776	\$ (24,717)	\$ 459,178
Reclassified into net periodic benefit cost	(11,893)	(3,294)	8,193	(6,994)
Arising during the year	(196,214)	1,799	-	(194,415)
June 30, 2008	260,012	14,281	(16,524)	257,769
Adoption of measurement date provisions of FAS 158	(131)	(742)	2,049	1,176
Curtailments / settlements	(5,048)	(118)	-	(5,166)
Reclassified into net periodic benefit cost	(523)	(2,967)	8,193	4,703
Arising during the year	748,698	(9,954)	-	738,744
June 30, 2009	<u>\$ 1,003,008</u>	<u>\$ 500</u>	<u>\$ (6,282)</u>	<u>\$ 997,226</u>

	Postretirement Plans		
	(In Thousands)		
	Net (Gain) Loss	Prior Service (Credit)	Total
June 30, 2007	\$ 27,796	\$ (25,254)	\$ 2,542
Reclassified into net periodic benefit cost	(2,095)	13,637	11,542
Arising during the year	(17,154)	-	(17,154)
June 30, 2008	8,547	(11,617)	(3,070)
Adoption of measurement date provisions of FAS 158	(37)	1,810	1,773
Reclassified into net periodic benefit cost	(148)	7,244	7,096
Arising during the year	16,658	-	16,658
June 30, 2009	<u>\$ 25,020</u>	<u>\$ (2,563)</u>	<u>\$ 22,457</u>

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during fiscal 2010:

	Pension Plans	Postretirement Plans
	(In Thousands)	
Amortization of prior service cost (credit)	\$ 1,651	\$ (1,128)
Amortization of transition asset	(6,282)	-
Recognized net actuarial loss	58,856	1,782
	<u>\$ 54,225</u>	<u>\$ 654</u>

Assumptions used to determine benefit obligations and net periodic benefit cost for the fiscal years were as follows:

	<u>Pension Plans</u>		<u>Postretirement Plans</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Benefit Obligations:				
Discount rate	7.25%	7.25%	5.85% - 7.15%	6.0 - 7.25%
Rate of compensation increase in 2009 Graduated to 4% by 2012	2.0%	4.0%	N/A	N/A
Net Periodic Benefit Cost:				
Discount rate	7.25%	6.25%	6.0 - 7.25%	5.5 - 6.0%
Expected long-term return on plan assets	8.50%	8.75%	8.50%	8.75%
Rate of compensation increase	4.0%	4.0%	N/A	N/A

The discount rate used to determine the benefit obligations for the three terminating Hackley pension plans was 5.60% for the year ended June 30, 2009 and ranged from 6.75% to 7.25% for the year ended June 30, 2008. The range of assumptions used to determine net periodic pension cost were: Discount rate 6.75% - 7.25%, changed to 5.44% at the October 31, 2008 remeasurement date, long-term return on plan assets 8.0%, changed to 3.0% at the remeasurement date, and rate of compensation increase 4.0% - 4.5%.

The Corporation uses an efficient frontier analysis approach in determining its asset allocation and long-term rate of return for plan assets. Efficient frontier analysis models the risk and return trade-offs among asset classes while taking into consideration the correlation among the asset classes. Historical market returns and risks are examined as part of this process, but risk-based adjustments are made to correspond with modern portfolio theory. Long-term historical correlations between asset classes are used, consistent with widely accepted capital markets principles. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term rate of return is established using the efficient frontier analysis approach with proper consideration of asset class diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

Health Care Cost Trend Rates – Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as follows:

	<u>2009</u>	<u>2008</u>
Medical and drugs, pre-age 65	10.0%	11.0%
Medical and drugs, post-age 65	10.0%	13.0%
Ultimate trend rate	5.0%	5.0%
Year the rate reaches Ultimate Rate	2018	2014

A one-percentage point change in assumed health care cost trend rates would have the following effects as of June 30, 2009:

	<u>1 Percentage Point Increase</u>		<u>1 Percentage Point Decrease</u>	
	<u>(In Thousands)</u>			
Effect on total of service cost and interest cost components	\$	497	\$	(820)
Effect on postretirement benefit obligation		8,760		(11,343)

The Corporation's asset allocations at June 30, 2009 and 2008, by asset category are as follows:

Asset Category:	Pension Plans		Postretirement Plans	
	2009	2008	2009	2008
Cash and cash equivalents	10 %	3 %	2 %	1 %
Marketable securities:				
U.S. government and government agency obligations	7	7	-	-
U.S. and non-U.S. fixed income obligations	25	5	-	56
U.S. equity securities	11	20	98	43
Non-U.S. equity securities and mutual funds	9	12	-	-
Other investments:				
Absolute return strategy	21	38	-	-
Commingled funds directly holding securities	5	7	-	-
Long/short equity	8	5	-	-
Private equity funds	3	2	-	-
Real estate and other	1	1	-	-
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other assets such as absolute return strategy funds, interest rate swaps, and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. The combined target asset allocation at June 30, 2009 was U.S. equity securities 10%; non-U.S. equity securities and commingled funds directly holding securities 10%; fixed income obligations 35%; absolute return strategy (hedge funds) 20%; long/short equity 10%; private equity 5%; real assets 5%; opportunistic fixed income 5%. See Note 11 for management's methods and assumptions used for determining the fair value of investments.

Expected Contributions - The Corporation expects to contribute an additional \$258.4 million to its pension plans, inclusive of \$71.7 million for the Hackley plans, and \$2.2 million to its postretirement plans in fiscal year 2010 under the Corporation's stated funding policy. The Corporation may elect to make additional contributions.

Expected Benefit Payments – The Corporation expects to pay the following for pension benefits, that reflect expected future service as appropriate, and expected postretirement benefits, before deducting the Medicare Part D subsidy. Pension plan payments in the year 2010 include the estimated settlement payments for terminating the Hackley plans.

(In Thousands)	Pension Plans	Postretirement Plans	Postretirement Medicare Part D Subsidy
2010	244,744	7,236	786
2011	125,643	8,168	878
2012	139,105	8,867	973
2013	154,558	9,499	1,067
2014	171,655	10,091	1,070
Years 2015 - 2019	1,178,604	57,290	2,423

10. COMMITMENTS AND CONTINGENCIES

Operating Leases - The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, in 2009 and 2008, was \$93.0 million and \$85.9 million, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2009, that have initial or remaining lease terms in excess of one year:

Years ending June 30:	(In Thousands)
2010	\$ 63,580
2011	47,589
2012	41,039
2013	32,565
2014	24,350
Thereafter	79,817
Total	<u>\$ 288,940</u>

Guarantees – The Corporation entered into debt guarantees prior to December 31, 2002, that are excluded from the consolidated balance sheets. The guaranteed debt was used to finance equipment purchases and to finance or construct professional office buildings, including outpatient surgery centers, rehabilitation facilities, medical facilities and medical office buildings.

Multiple guarantees at the following levels existed at June 30, 2009:

(In Thousands)			
Total Principal Amount	Dollars Guaranteed by Corporation	Percentage Guaranteed by Corporation	Percentage Guaranteed by Others
\$ 6,885	\$ 6,885	100%	0%
11,510	5,755	50%	50%
2,737	821	30%	70%
375	94	25%	75%
2,320	435	18.75%	81.25%

Asset Retirement Obligations - The Corporation has conditional asset retirement obligations for certain fixed assets mainly related to the removal of asbestos contained within facilities and the removal of underground storage tanks.

A reconciliation of the asset retirement obligations at June 30 follows:

	2009	2008
	(In Thousands)	
Asset retirement obligation, beginning of year	\$ 17,548	\$ 15,799
Accretion	924	881
Liabilities incurred	122	922
Liabilities settled	(408)	(54)
Asset retirement obligation, end of year	<u>\$ 18,186</u>	<u>\$ 17,548</u>

Litigation Accrual – On September 21, 2007, in Boise, Idaho a judgment was awarded in the amount of \$58.9 million in damages against Saint Alphonsus Regional Medical Center and its subsidiary Saint Alphonsus Diversified Care, Inc. (together, “Saint Alphonsus”). The lawsuit involved Saint Alphonsus’s withdrawal from MRI Associates, LLP, an Idaho limited partnership providing MRI services. The judge in the case had determined that the withdrawal constituted a “wrongful disassociation,” and the jury was asked to determine damages, if any, for the withdrawal and certain other claims against Saint Alphonsus. The jury awarded \$63.5 million to the counter-plaintiff and \$4.6 million to Saint Alphonsus. The amount was subsequently remitted to a net of \$33.9 million and Saint Alphonsus appealed to the Idaho Supreme Court, where the matter is now pending. A Cross-Appeal was filed. The case was argued before the Idaho Supreme Court in August 2009. A decision from that court has not yet been rendered. The Corporation recorded management’s estimation for the litigation accrual expense of \$20 million in the 2007 consolidated statement of operations and changes in net assets. As of June 30, 2009 and 2008, the liability for the accrual is included in other long-term liabilities in the consolidated balance sheets in the event of an unfavorable resolution of this matter.

Litigation – In June 2007, the Corporation was added to litigation pending in the United States District Court for the Eastern District of Michigan, alleging that certain hospitals in Southeastern Michigan conspired to suppress the wages of nurses over a period of five years. The plaintiffs brought the action on their own behalf and on behalf of all others similarly situated and seeking certification of the class. The complaint alleges that there was a direct agreement among the executives of defendant hospitals to suppress compensation and that they shared non-public compensation information which had an anticompetitive effect on wages. The complaint specifically references St. Mary Mercy Hospital in Livonia, Michigan and St. Joseph Mercy Oakland in Pontiac, Michigan. This case is one of five similar actions filed by the same group of plaintiffs’ counsel, in different cities, raising similar claims and allegations of collusion. Discovery is ongoing in the case. Several attempts at mediation have been directed by the Court, but no settlement involving the Corporation has occurred. If the outcome is adverse to the Corporation, the Corporation could potentially incur material damages or other financial consequences. At this time, it is premature to assess the likely course or outcome of this litigation.

The Corporation is involved in other litigation and regulatory investigations arising in the course of doing business. After consultation with legal Counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation’s future consolidated financial position or results of operations.

11. FINANCIAL INSTRUMENTS AND DERIVATIVES

The Corporation determined the estimated fair value of financial instruments using available market information and appropriate valuation methodologies. These estimates can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation used the following methods and assumptions to estimate the fair value of financial instruments:

Cash and Cash Equivalents, Security Lending Collateral, Patient Accounts Receivable, Estimated Receivables from Third-Party Payors and Current Liabilities - The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Marketable Securities - The fair value amounts of marketable securities, included in investments and assets limited or restricted as to use in the consolidated balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Other Investments - The Corporation invests in various commingled and absolute return strategy funds both of which are included in investments and assets limited or restricted as to use in the consolidated balance sheets. Commingled funds are recorded at fair value as the underlying investments consist of securities that have a readily determinable market value.

The absolute return strategy funds are structured as limited liability corporations and partnerships and are designed to produce positive investment returns regardless of market activity. These investments utilize a "fund-of-funds" approach resulting in diversified multi-strategy, multi-manager investments. Generally, redemptions may be made with written notice ranging from one month to one year. Underlying investments in these funds may include other funds, equities, fixed income securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds' year-end. Management's estimates of the fair values of alternative investments are based on information provided by the external investment and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management's internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel and changes in process, along with evaluations of current market conditions for these investments. Fund-of-funds managers also meet with the Corporation's Investment Subcommittee of the Finance and Stewardship Committee of the Board of Directors on a periodic basis. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed.

The composition of cash, cash equivalents, and investments at June 30 is set forth below:

	2009	2008
	<u>(In Thousands)</u>	
Cash and cash equivalents	\$ 1,017,457	\$ 688,769
Marketable securities:		
U.S. government and government agency obligations	180,519	162,188
U.S. and non-U.S. fixed income and mutual funds	164,746	325,095
U.S. equity securities and mutual funds	639,249	920,295
Non-U.S. equity securities and mutual funds	300,129	390,119
Other	2,880	26,859
Total marketable securities	<u>1,287,523</u>	<u>1,824,556</u>
Other investments:		
Commingled funds directly holding securities	1,158,015	973,843
Absolute return strategy	332,740	694,093
Total other investments	<u>1,490,755</u>	<u>1,667,936</u>
Total cash, cash equivalents and investments	<u>\$ 3,795,735</u>	<u>\$ 4,181,261</u>

In addition to investments, assets restricted as to use include receivables for unconditional promises to give, cash and other assets net of allowances for uncollectible promises totaling \$33.4 million and \$43.2 million at June 30, 2009 and 2008, respectively. The allowance for uncollectible promises was \$3.0 million and \$3.6 million at June 30, 2009 and 2008, respectively.

Unconditional promises to give consist of the following at June 30, 2009:

	<u>(In Thousands)</u>
Amounts expected to be collected in:	
Less than one year	\$ 15,656
One to five years	20,127
More than five years	2,717
	<u>38,500</u>
Discount to present value of future cash flows	2,072
Allowance for uncollectible amounts	2,996
Total unconditional promises to give, net	<u>\$ 33,432</u>

The composition of investment returns included in the consolidated statement of operations and changes in net assets is as follows:

	2009	2008
	(In Thousands)	
Dividend, interest income and other	\$ 84,367	\$ 131,902
Realized losses, net	(266,220)	(41,929)
Realized equity (losses) earnings, other investments	(388)	4
Change in net unrealized losses on investments	(463,235)	(248,246)
Total investment return	<u>\$ (645,476)</u>	<u>\$ (158,269)</u>
Included in:		
Operating income	\$ 4,670	\$ 11,668
Nonoperating items	(640,004)	(165,519)
Changes in restricted net assets	(10,142)	(4,418)
Total investment return	<u>\$ (645,476)</u>	<u>\$ (158,269)</u>

The Corporation classifies its marketable securities as trading securities. As a result all holding gains and losses are included in excess of revenue over expenses. Net holding losses recorded for trading securities in the statement of operations for the year ended June 30, 2009 and 2008 were approximately \$102.8 million and \$238.2 million, respectively.

Commercial Paper, Short-Term Borrowings and Long-Term Debt - The carrying amounts of the Corporation's variable-rate debt and commercial paper approximate their fair values. The fair value of the Corporation's fixed-rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed-rate long-term revenue and refunding bonds was \$1,251.2 million and \$750.4 million for 2009 and 2008, respectively. The related carrying value of the fixed-rate long-term revenue and refunding bonds was \$1,225.8 million and \$759.8 million for 2009 and 2008, respectively. The fair values of the remaining fixed-rate capital leases, notes payable to banks, and other debt are not materially different from their carrying values.

Derivative Financial Instruments - The Corporation has entered into certain derivative instruments, mainly interest rate swaps and index futures.

Interest Rate Swaps - The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation's variable interest rate debt, variable rate leases and a fixed income investment portfolio. Cash payments on interest rate swaps totaled \$14.0 million and \$6.3 million in 2009 and 2008, respectively. Certain of the Corporation's interest rate swaps are secured by \$21.7 million of collateral included in prepaid expenses and other current assets in the Corporation's balance sheet at June 30, 2009. The following table provides details on changes in the Corporation's estimated fair value of the interest rate swap agreements.

(In Thousands)	Variable to Fixed (1)	Variable to Fixed (2)	Variable to Variable (3)	Fixed to Variable (4)	Total
Asset (liability) at June 30, 2007	\$ (23,835)	\$ 16,768	\$ (5,472)	\$ 2,946	\$ (9,593)
Recognized in:					
Interest expense	(2,649)	-	-	-	(2,649)
Operating investment income	-	-	-	1,329	1,329
Non-operating items	-	(24,730)	(8,028)	-	(32,758)
Excess of revenue over expenses	(2,649)	(24,730)	(8,028)	1,329	(34,078)
Unrestricted net assets	(9,543)	-	-	-	(9,543)
Asset (liability) at June 30, 2008	(36,027)	(7,962)	(13,500)	4,275	(53,214)
Recognized in:					
Interest expense	(6,572)	-	-	-	(6,572)
Non-operating items	-	(29,733)	6,485	967	(22,281)
Excess of revenue over expenses	(6,572)	(29,733)	6,485	967	(28,853)
Unrestricted net assets	1,054	-	-	-	1,054
Hedging declassification	40,676	(40,676)	-	-	-
Asset (liability) at June 30, 2009	\$ (869)	\$ (78,371)	\$ (7,015)	\$ 5,242	\$ (81,013)

- (1) The Corporation entered into interest rate swap agreements that previously met the accounting requirements for cash flow hedges. Under two agreements with a notional amount of \$200 million, floating rate tax-exempt debt is effectively converted to a fixed rate basis. The fixed rate is 5.21% and the floating rate is a variable SIFMA rate. These agreements mature on August 15, 2030. The ineffective portion of these cash flow hedges was recorded in interest expense in the consolidated statement of operations and changes in net assets. During November 2008, the Corporation refinanced the bonds that were hedged under the swaps.

The Corporation entered into interest rate swap agreements with a notional amount of \$12.8 million that effectively convert variable rate operating leases to fixed rate leases. These agreements expired in October 2007. The floating rate was 65% of 1.25% plus one month LIBOR and the fixed payment rate is 4.295%. Additionally, in October 2007, the Corporation entered into interest rate swap agreements with a notional amount of \$12.0 million that effectively converted variable rate operating leases to fixed rate leases. The floating rate is 65% of 1.25% plus one month LIBOR and the fixed payment rate was 4.364%. These agreements expire on October 1, 2012.

- (2) The following agreements do not qualify for hedge accounting resulting in changes in fair value being recorded in non-operating items. In October 2004, the Corporation entered into two agreements with a notional amount of \$86.7 million, effectively converting floating rate tax-exempt debt to a fixed rate basis. The fixed rate is 3.512% and the floating rate is 68% of one month LIBOR. These agreements mature on December 1, 2038.

In September 2005, the Corporation entered into two agreements with a notional amount of \$100 million, effectively converting floating rate tax-exempt debt to a fixed rate basis. The fixed rate is 3.303% and the floating rate is 68% of one month LIBOR. These agreements mature on December 1, 2036.

In November 2005, the Corporation entered into two agreements with a notional amount of \$75 million, effectively converting floating rate tax-exempt debt to a fixed rate basis. The fixed rate is 3.537% and the floating rate is 68% of one month LIBOR. These agreements mature on November 1, 2040.

In August 2006, the Corporation entered into a swap agreement with a notional amount of \$65 million, effectively converting floating rate tax-exempt debt to a fixed rate basis. The fixed rate is 3.8101% and the floating rate is 68% of one month LIBOR. These agreements mature on December 1, 2032.

- (3) The following agreements do not qualify for hedge accounting resulting in changes in fair value being recorded in non-operating items. The Corporation entered into interest rate swap agreements with a notional amount of \$200 million that swap a variable BMA rate to 71% of one month LIBOR. These agreements mature on August 15, 2030.

In March 2007, the Corporation entered into an interest rate swap agreement with a notional amount of \$130 million that swaps a variable BMA rate to 67% of one month LIBOR plus 0.312%. This agreement matures on April 1, 2027.

In November 2008, the Corporation entered into an interest rate swap agreement with a notional amount of \$150 million that swaps a variable BMA rate to 67% of one month LIBOR plus 1.112% versus SIFMA swap index. This agreement matures on June 1, 2029.

In December 2008, the Corporation entered into an interest rate swap agreement with a notional amount of \$150 million that swaps a variable BMA rate to 67% of three month LIBOR plus .85% until January 15, 2012 and then 95.6% of LIBOR thereafter versus SIFMA swap index. This agreement matures on January 15, 2029.

In January 2009, the Corporation entered into an interest rate swap agreement with a notional amount of \$100 million that swaps a variable BMA rate to 67% of three month LIBOR plus .85% until January 15, 2012 and then 92% of LIBOR thereafter versus SIFMA swap index. This agreement matures on January 15, 2033.

In January 2009, the Corporation entered into an interest rate swap agreement with a notional amount of \$100 million that swaps a variable BMA rate to 67% of three month LIBOR plus .85% until February 1, 2012 and then 97.7% of LIBOR thereafter versus SIFMA swap index. This agreement matures on February 1, 2034.

- (4) The Corporation entered into interest rate swap agreements whereby the Corporation receives fixed rates ranging from 4.781% through 5.364%, and pays a variable rate based upon a floating BMA index with a remaining notional principal amount of \$30 million. The purpose of these swaps is to hedge market price risk on fixed income investment securities. These agreements do not qualify for hedge accounting resulting in changes in fair value being recorded in non-operating investment income. These agreements mature at various dates throughout the year 2019.

The Corporation is exposed to credit loss in the event of nonperformance by the counter parties to the interest rate swap agreements. However, the Corporation does not anticipate nonperformance by the counter parties.

Index Futures and Other –The Corporation entered into S&P 500 Index Futures used in conjunction with a portfolio of fixed income securities to replicate the S&P 500 index on an unleveraged basis. At June 30, 2009, and 2008, the notional value of S&P 500 Index futures was \$4.3 million and \$213 million, respectively. The market value of these index futures was zero at June 30, 2009 and 2008, with daily changes in net position reflected in investment loss – marketable securities in the consolidated statements of operations and changes in net assets. At June 30, 2009 and 2008, the market value amount of mortgage-backed forward purchase contracts was \$0 million and \$19 million, respectively, with the notional amount approximately equal to the market value due to the short-term duration of these securities. In addition, at June 30, 2009 and 2008, the market value of collateralized mortgage obligations was \$84 million and \$87 million, respectively, with the notional amount equal to \$103 million and \$95 million. The Corporation records its derivative financial instruments at fair market value in its consolidated balance sheet, and records the changes in fair market value for these derivatives in investment loss - marketable securities in the consolidated statement of operations and changes in net assets.

Additional Fair Value Disclosures under FAS 157 - On July 1, 2008 the Corporation adopted FAS 157, subject to the deferral provisions of FSP 157-2 as discussed in Note 2. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical assets in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Level 1 securities include exchange-traded securities whose fair value is derived using quoted prices in active markets. In instances where quoted market prices are not readily available, the fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The Corporation classifies these securities as Level 2 within the fair value hierarchy.

Interest rate swaps – The fair value of the Corporation’s interest rate swaps is estimated utilizing the terms of the swaps and publicly available market yield curves. These swap agreements are classified as Level 2 within the fair value hierarchy. FAS 157 requires that the valuation of derivative liabilities take into account the Corporation’s own nonperformance risk and credit risk of the respective counter party’s nonperformance. Effective July 1, 2008, the Corporation updated its derivative liability valuation methodology to consider its own nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades.

The following table presents information about the fair value of the Corporation’s financial assets and liabilities at June 30, 2009 according to the valuation techniques the Corporation used to determine their fair values.

	2009			Total Fair Value
	(In Thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 905,121	\$ 112,336	\$ -	\$ 1,017,457
Security lending collateral	-	88,940	-	88,940
Marketable securities:				
U.S. government and government agency obligations	259	180,260	-	180,519
U.S and Non-U.S. fixed income and mutual funds	18,769	145,977	-	164,746
U.S. equity securities and mutual funds	629,240	10,009	-	639,249
Non-U.S. equity securities and mutual funds	300,129	-	-	300,129
Other	1,148	1,732	-	2,880
Total marketable securities	<u>949,545</u>	<u>337,978</u>	<u>-</u>	<u>1,287,523</u>
Interest rate swap agreements		25,764		25,764
Commingled funds	-	1,158,015	-	1,158,015
Total Assets	<u>\$ 1,854,666</u>	<u>\$ 1,723,033</u>	<u>\$ -</u>	<u>\$ 3,577,699</u>
Interest rate swap agreements	-	106,777	-	106,777
Total Liabilities	<u>\$ -</u>	<u>\$ 106,777</u>	<u>\$ -</u>	<u>\$ 106,777</u>

12. ENDOWMENTS

The Corporation's endowments consist of funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Corporation considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of endowment funds for a prudent level of risk. The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Corporation can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

Endowment net asset composition by type of fund was as of June 30, 2009:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
	(In Thousands)			
Donor-restricted endowment funds	\$ -	\$ 430	\$ 29,197	\$ 29,627
Board-designated quasi-endowment funds	17,157	-	-	17,157
Total endowment funds	<u>\$ 17,157</u>	<u>\$ 430</u>	<u>\$ 29,197</u>	<u>\$ 46,784</u>

Changes in endowment net assets for the fiscal year ended June 30, 2009 include:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
	(In Thousands)			
Endowment net assets, June 30, 2008	\$ 20,333	\$ 3,883	\$ 29,322	\$ 53,538
Investment return:				
Investment losses	(228)	(59)	(1,155)	(1,442)
Change in net realized and unrealized gains and losses	(2,939)	(204)	(2,108)	(5,251)
Total investment return	(3,167)	(263)	(3,263)	(6,693)
Contributions	314	-	601	915
Appropriation of endowment assets for expenditures	(323)	(653)	-	(976)
Other	-	(2,537)	2,537	-
Endowment net assets, June 30, 2009	<u>\$ 17,157</u>	<u>\$ 430</u>	<u>\$ 29,197</u>	<u>\$ 46,784</u>

The table below describes endowment amounts classified as permanently restricted net assets and temporarily restricted net assets as of June 30, 2009:

	2009
	(In Thousands)
Permanently restricted net assets:	
Hospital operations support	\$ 11,299
Medical program support	5,546
Scholarship funds	4,269
Research funds	2,603
Community service funds	3,029
Other funds	2,451
	<hr/>
Total endowment funds classified as permanently restricted net assets	\$ 29,197
	<hr/>
Temporarily restricted net assets:	
Term endowment funds	\$ 160
Other	270
	<hr/>
Total endowment funds classified as temporarily restricted net assets	\$ 430
	<hr/>

Funds with Deficiencies – Periodically the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and/or continued appropriation for certain programs that was deemed prudent by the Corporation.

13. RESTRUCTURING CHARGES

During fiscal year 2009, management authorized and committed the Corporation to undertake a comprehensive performance improvement plan to realign its cost structure. The Corporation had a workforce reduction as part of the plan. As a result of these actions, restructuring charges of \$23.3 million have been included in the consolidated statement of operations and changes in net assets. The restructuring charges are primarily for severance and termination benefits. As of June 30, 2009, \$9.8 million in benefits have been paid.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2009, the date the financial statements were issued. The following subsequent event was noted:

Liquidity Facility - In August 2009, the Corporation entered into an additional Credit Agreement (the "2009 Credit Agreement"), with The Bank of Nova Scotia, which acts as an administrative agent for a group of lenders. The 2009 Credit Agreement also established a revolving credit facility for the Corporation, under which that group of lenders will agree to lend to the Corporation amounts that may fluctuate from time to time but, in the aggregate at any one time outstanding, will not exceed \$240 million. Amounts drawn under the 2009 Credit Agreement can be used only to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed and the maturing principal of and interest on commercial paper notes. Of the \$240 million, \$140 million expires in August 2010 and \$100 million expires in August 2011.

* * * *

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Explanatory Note 2
Outstanding Permits

Loyola University Health System (“LUHS”) and Loyola University Medical Center (“LUMC”) are currently applicants or co-applicants on two outstanding permits; specifically, Project No. 08-098 and Project 09-057. Both projects will be completed prior to the effective date of the proposed membership substitution/ownership change set forth in this COE.

Project No. 08-098

Project No. 08-098 involves LUHS and LUMC leasing space in a medical office building located at 6800 North Frontage Road in Burr Ridge, Illinois. The CON permit for Project No. 08-098 was issued on March 10, 2009 and Project No. 08-098 was obligated shortly thereafter. Project No. 08-098 listed a project completion date of May 31, 2011 and is on target to be completed on schedule. Thus, Project No. 08-098 will be completed prior to the effective date of the proposed membership substitution/ownership change set forth in this COE.

Project No. 09-057

Project No. 09-057 involved Bethany Hospital and RML Health Providers Limited Partnership (the “Partnership”). When the CON for Project No. 09-057 was filed in October of 2009, the Partnership had two limited partners and one general partner. More specifically, LUMC, a limited partner, owned 49.5% of the partnership interests in the Partnership; Rush University Medical Center (“Rush”), a limited partner, owned 49.5% of the partnership interests in the Partnership; and RMLHP Corporation, the general partner, owned 1% of the partnership interests in the Partnership. At the time, the Partnership only owned and operated a long term acute care hospital located in Hinsdale, Illinois (known as RML Specialty Hospital -- Hinsdale.)

The Partnership and Advocate Health & Hospitals Corporation (“Advocate”) and various other related parties filed a CON for Project No. 09-057 to effectuate the sale of Advocate's Bethany Hospital, a long term acute care hospital on the west side of Chicago (“Bethany Hospital”), to the Partnership.

Project No. 09-057 set forth a two phase transaction between LUMC, Rush and Advocate. In Phase I of the transaction, the Partnership would acquire Bethany Hospital and Advocate would be granted/purchase 33% of the partnership interests in the Partnership. This part of the transaction has been completed.

In Phase II, Advocate and LUMC would acquire Rush's partnership interests in the Partnership. Thus, at the conclusion of Phase II, LUMC, a limited partner, would own 49.5% of the partnership interests in the Partnership; Advocate, a limited partner, would own 49.5% of the partnership interests in the Partnership; and RMLHP Corporation, the general partner, would own 1% of the partnership interests in the Partnership. Phase II of the transaction is scheduled to close on or before May 31, 2011.

The CON for Project No. 09-057 listed a project completion date of June 1, 2011 and is on schedule. Thus, Project No. 09-047 will be completed prior to the effective date of the proposed Transaction.

Explanatory Note 11
Anticipated Acquisition Price

The anticipated acquisition price for LUHS in this Transaction is approximately \$175,000,000, which is based on the historical book value of LUHS. Please note that LUHS includes LUMC, Gottlieb, LUMC's provider based dialysis facility in Maywood, LUMC's provider based ambulatory surgery center in Maywood (all of which are subject to simultaneously filed COE Applications), as well as LUMC's interests in 28 ambulatory practice sites and 2 long term care hospitals (as described and referenced in Section 3 of this COE Application). The anticipated acquisition price for this Transaction is subject to adjustment depending on the magnitude of the liabilities that have to be assumed by Trinity.

Explanatory Note 12
Fair Market Value

The anticipated fair market value of LUHS in this Transaction is approximately \$175,000,000, which is based on the historical book value of LUHS. Please note that LUHS includes LUMC, Gottlieb, LUMC's provider based dialysis facility in Maywood, LUMC's provider based ambulatory surgery center in Maywood (all of which are subject to simultaneously filed COE Applications), as well as LUMC's interests in 28 ambulatory practice sites and 2 long term care hospitals (as described and referenced in Section 3 of this COE Application). This fair market value calculation is subject to adjustment depending on the magnitude of the liabilities that have to be assumed by Trinity in this Transaction.

Explanatory Notes
Section 1130.520

1130.520(b)(1)
No Change in Services or Beds

Trinity intends to expand and grow the scope and nature of the services provided by LUHS and its affiliates and subsidiaries, including LUMC and Gottlieb. Indeed, Trinity has made a significant commitment to future capital expenditures to accomplish this goal. Thus, there are no plans to discontinue any beds or substantially reduce any services at LUHS or its subsidiaries and affiliates, including LUMC and Gottlieb, following the closing of the Transaction. In short, Trinity and LUHS will act in a manner consistent with the regulatory requirements of Sections 1130.520 and 1110.240. See Paragraph 16 of the LOI.

1130.520(b)(2)
Transaction Documents

On March 4, 2011, Trinity and the University signed an LOI regarding the Transaction. A copy of the signed LOI is attached at Attachment 5. Trinity and the University are currently negotiating the Definitive Agreement for the Transaction. Trinity will supplement this COE Application with a copy of the Definitive Agreement on or about March 31, 2011. The effectiveness of the LOI is expressly conditioned upon the issuance of a COE from the Board. See Paragraph 18(b) of the LOI. The Definitive Agreement will contain a similar restriction.

1130.520(b)(3)
Qualified to Provide Healthcare in Illinois

Trinity has the qualifications, background and character to adequately provide a proper standard of healthcare service to the communities served by LUHS and LUHS's subsidiaries and affiliates. As a new entrant into Illinois, Trinity has had no adverse actions taken against any facility owned or operated by Trinity in Illinois during the three (3) years prior to the filing of this COE Application.

1130.520(b)(4)
Sufficient Funding

Trinity has received a "AA" bond rating from Fitch Ratings (September 30, 2010 rating) and a "Aa2" bond rating from Moody's Investor's Services (October 6, 2010 rating), copies of which are attached at Attachment 6. Trinity has sufficient funding to consummate the Transaction set forth in this COE Application and to operate the LUHS facilities for the next three years (and long thereafter).

1130.520(b)(5)

Ownership

Trinity will maintain ownership and control of LUHS for at least 36 months following the closing of the Transaction set forth in this COE Application. See Paragraph 16 of the LOI.

1130.520(b)(6)

Pending CON Projects

As set forth in Explanatory Note 2, LUHS and LUMC are currently applicants or co-applicants on two outstanding permits; specifically, Project No. 08-098 and Project 09-057. Both projects should be completed prior to the effective date of the proposed Transaction set forth in this COE.

1130.520(b)(7)

Charity Care

As set forth in the attached affidavit from Mr. Joseph Swedish ("Mr. Swedish"), the President and CEO of Trinity, neither Trinity nor LUHS will adopt more restrictive charity care policies at LUMC, Gottlieb, or the other LUHS healthcare facilities, affiliates and subsidiaries, following the proposed transaction between Trinity and the University, and for no less than two years thereafter. Mr. Swedish's charity care affidavit is attached at Attachment 7.

The charity care policies currently in place at LUMC and Gottlieb are attached at Attachment 7.

1130.520(b)(8)

Project Completion

Trinity and the University intend to close the Transaction set forth in this COE Application on June 30, 2011, with an effective date of July 1, 2011.

1130.520(d)(1)

Community Benefits

Trinity is the fourth largest Catholic health care system in the country with more than \$7.1 billion in unrestricted revenue in fiscal year 2010. LUHS is a leading Catholic academic medical center with a multidisciplinary focus on delivering outstanding patient care, leading-edge research and rigorous medical, nursing and graduate education.

Together, the University, Trinity and LUHS will strive to become one of the nation's leading providers of Catholic health care, research, and medical education and a model for physician, provider, and community collaboration. When Trinity's resources are combined with LUHS's renowned physicians and intellectual capital, the University, Trinity, and LUHS firmly believe that patient care, education, and research efforts in the greater Chicagoland area will be significantly enhanced.

The University, Trinity and LUHS also expect the Transaction to result in the implementation of new, innovative, and efficient health-care delivery models in the region and nationally. Leaders of both organizations have agreed to collaborate to better serve people in the LUHS communities, including those who are underserved and uninsured, and to strengthen and preserve both research and education missions of the organizations.

Critically, as part of the Transaction, Trinity has committed to cause the expenditure of no less than \$300 million over the next seven years for capital and equipment needs to support the operational needs of LUHS and LUHS's subsidiaries and affiliates, including LUMC and Gottlieb, following the Transaction.

1130.520(d)(2)
Cost Savings

Trinity anticipates that the proposed Transaction will result in some level of cost savings at LUHS and LUHS's subsidiaries and affiliates and the communities served by LUHS. That said, it is not possible for Trinity to predict with specificity the cost savings that will be realized.

All non-faculty employees of LUHS and its subsidiaries and affiliates, including LUMC and Gottlieb, will retain their current employment upon the same terms and conditions as prior to the closing of the Transaction. All current employment policies, commitments and benefit plans will remain in effect after the closing of the Transaction until the same are amended, modified, replaced or terminated in accordance with the provisions of those policies, commitments and benefit plans.

And all existing unions at LUHS and its subsidiaries and its affiliates, including LUMC and Gottlieb, will be recognized and all current collective bargaining agreements will be honored according to their respective terms.

1130.520(d)(3)
Quality Control

Trinity and LUHS take great pride in the quality of services that each of their many facilities has traditionally provided. Trinity and LUHS are committed to the on-going training and development of its employees and staff and will continue to invest in state-of-the art facilities and equipment.

1130.520(d)(4)
Organizational Structure Following the Transaction

Under the proposed Transaction, Trinity will replace the University as the sole member of LUHS. Organizational charts for LUHS prior to and following the Transaction are attached at Attachment 4.

1130.520(d)(5)
Selection of Board

Following the Transaction, LUHS, and each of its licensed facilities, including LUMC and Gottlieb, will continue to be governed by local boards of directors. The composition of the Board of Directors of LUHS will be reconstituted to include religious members, University representatives, Trinity representatives, community members and certain existing members of the LUHS Board of Directors. See Paragraph 7 of the LOI.

1130.520(d)(6)
1110.240 Compliance

See Explanatory Notes for Section 1110.240 set forth below.

1130.520(d)(7)
No Change in Services or Beds

Trinity intends to expand and grow the scope and nature of the services provided by LUHS and its affiliates and subsidiaries, including LUMC and Gottlieb. Indeed, Trinity has made a significant commitment to future capital expenditures to accomplish this goal. Thus, there are no plans to discontinue any beds or substantially reduce any services at LUHS or its subsidiaries and affiliates, including LUMC and Gottlieb, following the closing of the Transaction. In short, Trinity and LUHS will act in a manner consistent with the regulatory requirements of Sections 1130.520 and 1110.240. See Paragraph 16 of the LOI.

March 4, 2011

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

27870 Cabot Drive
Novi, MI 48377-2920
ph 248.489.6000

34605 Twelve Mile Road
Farmington Hills, MI 48331-3221
ph 248.489.6000

www.trinity-health.org

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1130.520(b)(7), Charity Care Certification


Dear Ms. Avery and Mr. Constantino:

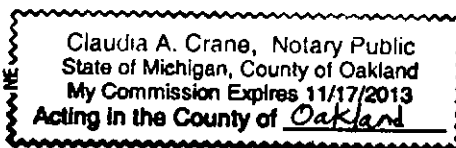
I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1130.520(b)(7), that Trinity Health Corporation ("Trinity") shall not cause Loyola University Health System ("LUHS") to adopt more restrictive charity care policies at Foster G. McGaw Hospital-Loyola University Medical Center, Gottlieb Memorial Hospital, or the other LUHS healthcare facilities, affiliates and subsidiaries, following the proposed transaction between Trinity and Loyola University of Chicago, and for no less than two years thereafter.

Sincerely,


Joseph Swedish
President & CEO

SUBSCRIBED AND SWORN
to before me this 4th day
of March, 2011.


Notary Public



CHI2_2519821.1

We serve together in Trinity Health, in the spirit of the Gospel, to heal body, mind and spirit to improve the health of our communities and to steward the resources entrusted to us.

Respect • Social Justice • Compassion • Care of the Poor and Underserved • Excellence

Sponsored by Catholic Health Ministries

0149



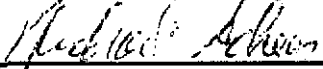
ATTACHMENT

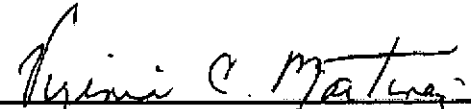


Subject: CHARITY CARE AND FINANCIAL ASSISTANCE

Date Implemented: Date: 5/1/04 Revised: 8/01/08

Medical Center Administration Approval:


Michael Scheer Senior Vice President &
CFO & Treasurer
Loyola University Health System
Loyola University Medical Center


Virginia C. Martinez Vice President
Business Operations

I. PURPOSE

The purpose of this policy is to ensure to healthcare services and consistency in providing financial assistance to patients who are indigent or are experiencing temporary financial hardship. This policy is based upon Loyola's commitment to provide health care services to all patients based on medical necessity. It reflects our tradition as a Catholic, Jesuit institution, as well as our responsibility as a not-for-profit health care organization.

II. DEFINITIONS/APPLICATIONS

Loyola University Medical Center (LUMC) and Loyola University Physician Foundation (LUPF) provide medical care to all patients in need of their services. Patients who earn up to 200% of Federal Poverty Guideline (FPG) will receive care at no cost. Patient's that earn up to 300% of the FPG will receive a 75% discount, and patient's that earn up to 400% of the FPG will receive a 50% discount. The dollar amount of the account balance is also taken into consideration. If the balance due is 50% or greater than patient's documented family income, the patient is then extended 100% charity.

III. POLICY

In advising self-pay, uninsured patients a financial counselor will explain LUMC's payment policy and discuss a payment plan for the services at issue. Patients who are not able to comply with the payment will then be evaluated for possible Medicaid eligibility. The financial counselor will initiate the Medicaid application or direct the patient to the Public Aid Office whenever it appears the patient would qualify. A copy of the Medicaid denial may be requested prior to extending charity.

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: FIN-002**

When patients qualify for charity care or financial assistance, they will receive the applicable discount for a period of six months. This will be so indicated on the registration system by the appropriate assigned plan code for each level of discount.

The following documentation is required for evaluation for charity care or financial assistance review and approval:

1. A copy of the previous year W2, 1040, and any other applicable tax forms that were filed.
2. Copies for the last 3 most recent paycheck stubs from the employer.
3. If patient is paid cash a letter from employer stating amount paid weekly
4. Copies of Social Security check if they are receiving one.
5. Copy of last statement for checking and/or saving account.

If patient does not provide appropriate documentation, a credit check will be run on the patient. Based on the information provided by Trans Union Services, a charity determination will be made.

IV. RESPONSIBILITY

Any questions or concerns regarding the policy should be directed to the Vice President of Business Services at 708-216-0469.

LUMC and LUPF Charity and Financial Assistance Guidelines

**Based on Federal Poverty Standards
April 08**

Family Unit	100%	75%	50%
1	10,400 20,800	20,801 31,200	31,201 41,600
2	14,000 28,000	28,001 42,000	42,001 56,000
3	17,600 35,200	35,201 52,800	52,801 70,400
4	21,200 42,400	42,401 63,600	63,601 84,800
5	24,800 49,600	49,601 74,400	74,401 99,200
6	28,400 56,800	56,801 85,200	85,201 113,600
7	32,000 64,000	64,001 96,000	96,001 128,000
8	35,600 71,200	71,201 106,800	106,801 142,400

**For family units of more than 8 (eight) persons, add \$3,600 for each additional person and compute discount.

Charity care are health services for which LUHS determines the patient is unable to pay. Charity care results from LUHS's policy to provide health care services free of charge, or where only partial payment is expected, to individuals who meet certain financial criteria. Charity care is measured on the basis of revenue forgone at full established rates. Charity care does not include contractual write-offs.

GOTTLIEB MEMORIAL HOSPITAL POLICY AND PROCEDURE	Policy Number:	
	Effective Date:	01/01/2011
SUBJECT: SELF PAY PATIENTS - PAYMENTS AND DISCOUNTS		

I. PURPOSE

Gottlieb Memorial Hospital (GMH) is dedicated to providing high-quality care to the community it serves. Patients who cannot afford to pay may receive charity care. Patients without health insurance will be offered a substantial discount from charges. GMH does this in furtherance of its health care mission and in recognition of its responsibility to be a thoughtful steward of its charitable assets.

The purpose of this policy is to define the payment policies of patient care services provided to patients who do not have insurance coverage or who do not have coverage for a particular service.

II. POLICY

Patients without insurance coverage scheduled to receive or who have already received services will be extended a discount from usual and customary services. This discount is sixty percent (60%) for hospital charges.

Unless patient income is less than 600% Federal Poverty Guideline, this applies to:

1. Denied Services – any patient care service that is denied by the patient’s insurance company as a non-covered service.
2. Expired Services – any patient care service that is denied by the patient’s insurance company because the insurance policy has expired.
3. Uninsured Patient Services – any patient care service provided to patients without any health insurance coverage.

This policy does not apply to self pay account balances that are office visits co-payments, deductibles, or co-insurance nor does it apply to elective “packaged” services such as LASIK eye surgery, cosmetic surgery, etc.

III. PROCEDURE

Scheduling New Patients

New patients seeking non-emergent services who report that they do not have insurance coverage will be interviewed by a Benefits staff member to ensure consistent instructions about payment

responsibilities, specifically the responsibility to pay GMH standard fees less the 60% hospital discount at the time of services.

If the patient indicates an inability to pay the discounted fee, he/she will be further assessed by a financial counselor to determine eligibility for a payment plan, Medicaid or charity care. Please refer to the "Charity Care and Financial Assistance Policy". The patient's appointment will be scheduled once satisfactory financial arrangements are made.

For all non-emergency situations, patients who do not agree to pay the discounted charges or speak to a financial counselor, will not be scheduled.

Initial Visit and Subsequent Ancillary Services

Patients arriving for their scheduled visit will be reminded of the self-pay policy, which includes 60% discount, and the requirement for payment for all services provided at end of visit. If the patient indicates the inability to pay, he/she will be given the opportunity to consult with a GMH financial counselor to assess eligibility for a payment plan, Medicaid, or charity case.

Patients requesting emergency medical treatment should be directed to the Emergency Department before consultation with any financial counselor.

Approved *Eileen Chin* Vice President Finance

GOTTLIEB MEMORIAL HOSPITAL POLICY AND PROCEDURE	Policy Number:	
	Effective Date:	01/01/2011
SUBJECT: CHARITY CARE AND FINANCIAL ASSISTANCE		

I. PURPOSE

The purpose of this policy is to ensure healthcare services and consistency in providing financial assistance to patients who are indigent or are experiencing temporary financial hardship. This policy is based upon Gottlieb's commitment to provide health care services to all patients based on medical necessity. It reflects our commitment to our community as well as our responsibility as a not-for-profit health care organization.

II. DEFINITIONS/APPLICATIONS

Gottlieb Memorial Hospital (GMH) provides medical care to all patients in need of medically necessary services. Medically necessary services are those services typically covered by Medicare. Elective services, such as cosmetic surgery, are not included in the Charity Program. Patients who earn up to 200% of Federal Poverty Guideline (FPG) will receive care at no cost. Patients who earn up to 300% of the FPG will received a 80% discount and patients that earn up to 400% of the FPG will receive a 75% discount. Patients that earn up to 600% of FPG will receive a discount based on cost, to be reviewed on an annual basis.

III. POLICY

In advising patients, a financial counselor will explain GMH's payment policy and discuss a payment plan for the services. Patients who are not able to comply with the request for payment will then be evaluated for possible Medicaid eligibility. The financial counselor will initiate the Medicaid application or direct the patient to the Public Aid Office whenever it appears the patient would qualify. A copy of the Medicaid denial may be requested prior to extending charity or financial assistance. A patient when requesting charity care must provide the following documentation within 14 days of the request.

When patients qualify for charity care or financial assistance, they will receive the applicable discount for that calendar year. This will be indicated on the registration system by the appropriate assigned plan code of each level of discount.

The following documentation is required for evaluation for charity care or financial assistance review and approval:

1. A copy of most current tax year W-2, 1040, and any other applicable tax forms that were filed.
2. Copies of the last three (3) most recent employer paycheck stubs.
3. If patient is paid in cash, a letter from the employer stating amount paid weekly.
4. Copies of Social Security check is applicable.
5. Copy of last three (3) checking and/or saving account statements.

If patient does not provide documentation, a credit check will be run on patient. Based on the information provided by Trans Union Services, a charity determination will be made.

IV. RESPONSIBILITY

Any questions or concerns regarding the policy should be directed to the Director of Patient Financial Services at 708-681-3200.

Approved Gecyn Chin Vice President Finance

Explanatory Notes
Section 1110.240

1110.240(b)
Impact Statement

As support for this Criterion, please see the above Explanatory Notes for Sections 1130.520(b)(1), 1130.520(d)(1), 1130.520(d)(2), 1130.520(d)(7), and the Narrative set forth in Attachment 3.

1110.240(c)
Access

As set forth in the attached affidavit from Mr. Swedish, neither Trinity nor LUHS will adopt more restrictive admission policies or take measures to reduce access to care at LUMC, Gottlieb, or the other LUHS healthcare facilities, affiliates and subsidiaries, following the proposed transaction between Trinity and the University. Mr. Swedish's access affidavit is attached at Attachment 8.

The admission policies for LUMC and Gottlieb are attached at Attachment 8.

1110.240(d)
Other Health Care Providers

The proposed Transaction set forth in this COE Application will only benefit the communities currently served by LUHS. The proposed Transaction will not negatively impact any other healthcare provider in the service areas currently served by the LUHS and its affiliates and subsidiaries.

March 4, 2011

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

27870 Cabot Drive
Novi, MI 48377-2920
ph 248.489.6000

34605 Twelve Mile Road
Farmington Hills, MI 48331-3221
ph 248.489.6000

www.trinity-health.org


Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1110.240(c), Admission Policy & Access to Care Certification

Dear Ms. Avery and Mr. Constantino:

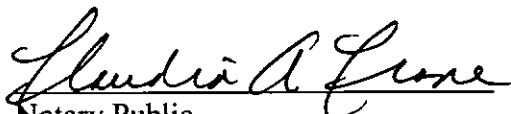
I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1110.240(c), that Trinity Health Corporation ("Trinity") shall not cause Loyola University Health System ("LUHS") to adopt more restrictive admission policies or take measures to reduce access to care at Foster G. McGaw Hospital-Loyola University Medical Center, Gottlieb Memorial Hospital, or the other LUHS healthcare facilities, affiliates and subsidiaries, following the proposed transaction between Trinity and Loyola University of Chicago.

Sincerely,



Joseph Swedish
President & CEO

SUBSCRIBED AND SWORN
to before me this 4th day
of March, 2011.



Notary Public

NE
Claudia A. Crane, Notary Public
State of Michigan, County of Oakland
My Commission Expires 11/17/2013
Acting in the County of Oakland
SE

CHI2_2519822.1

We serve together in Trinity Health, in the spirit of the Gospel, to heal body, mind and spirit to improve the health of our communities and to steward the resources entrusted to us.

Respect • Social Justice • Compassion • Care of the Poor and Underserved • Excellence





LOYOLA UNIVERSITY
HEALTH SYSTEM

PATIENT CARE POLICY AND PROCEDURE

SUBJECT: PATIENT ADMISSION / REASSESSMENT / PLAN OF CARE	#13.0001.02
--	-------------

Paula Hindle, RN, MS, MBA
Vice President, Patient Care Services
Chief Nurse Executive/Health Care Services

POLICY: Individual, goal-directed nursing care is to be provided to patients through the use of the Nursing Process.

The patient admission assessment and plan of care are documentation of the Nursing Process (assessment, diagnosis, planning, intervention and evaluation) for each patient from admission through discharge. The plan of care is permanently integrated within the patient record.

The RN will make appropriate referrals to other healthcare professionals based on the needs of the patient (e.g. Social Work, Pastoral Care).

The multidisciplinary discharge note or physician progress note, critical pathway and discharge rounds are used to communicate the tasks needed to be completed to coordinate a timely and well-planned multidisciplinary discharge.

The Nursing Process and multidisciplinary treatment plan will be the basis for the Nursing Plan of Care.

PROCEDURE:

- A. The RN will complete the patient admission database within 24 hours of admission with information available at time of admission.
- B. The initial assessment includes a nutritional and skin integrity assessment. EPIC link for RN to RD referral, if needed, within 24 hour time order.

PAGE 1 OF 2 PAGES

- C. The RN will document problems, interventions, evaluations, and reassessments at a minimum of once a day and when the patient condition warrants reassessment. The RN will utilize the Problem-Intervention-Evaluation (PIE)/Subjective-Objective-Assessment Plan (SOAP) method of documentation in the progress notes.
- D. An initial discharge assessment will be done to identify the need for a social work consult.
- E. Patients must be reassessed if any change of their condition. This reassessment is documented in the flowsheet and/or progress note.

NOTE: Assessment/Reassessment of pain and physical status is located on the patient care flowsheet.

Assessment/Reassessment of education is located in the Patient Education Record or Progress Notes.

Assessment/Reassessment of physical/psychosocial status is located in the Progress Notes.

- F. Upon patient transfer, the transferring RN/Receiving RN will complete the transfer note on the flowsheet.



Subject: Patient Rights and Responsibilities

Date Implemented: April 1998

Date Revisd: July 2010

Medical Center Administration Approval:

Paul K. Whelton, M.B., M.D., M.Sc.
President and Chief Executive Officer

William Cannon, M.D.
Chief of Staff

I. PURPOSE

To recognize and respect the rights of each patient and to establish the foundation for providing care, treatment, and services in a way that demonstrates respects and fosters dignity, autonomy, positive self-regard, civil rights, and involvement of patients.

II. DEFINITIONS/APPLICATIONS

A. Definitions

1. The term "rights" as used in the following statement refers to:

- a. State and federal legal rights (such as care without discrimination and signing out AMA, etc.)
- b. Moral and ethical considerations (such as concern for personal dignity, privacy, and respect for human relationships.)
- c. The Joint Commission's standards.

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: QAPS-001**

B. Applications

1. This policy applies to patients of Loyola University Medical Center. Patient means an individual who received treatment from LUMC. For the purposes of this policy, patient representative may have the rights of the patient, including: 1) the parent or legal guardian, if the patient is a minor, unless the minor is married, pregnant, or emancipated; 2) the legal guardian, person holding the patient's durable power of attorney, health-care surrogate, or next of kin (refer to Patient Care Consent Policy 13.0003.29) if the patient is deceased or incapacitated; 3) the patient's appointed guardian or conservator if the patient has been legally declared mentally incompetent; 4) the guardianship Administrator at either the Department of Children and Family Services or the County Public Guardian's Office if the patient is a ward of the state.
2. This policy applies to the Workforce including employees of Loyola University Health System ("LUHS"), Loyola University Medical Center ("LUMC"), Faculty Clinical Operations ("FCO") and Loyola University of Chicago ("LUC") working on the Maywood Campus and at the ambulatory care sites and also includes the following: students, members of the Medical Staff, volunteers, and agency or temporary staff receiving or performing services on behalf of the Loyola entities.

III. POLICY

- A. The following patient rights and responsibilities will be included in the Information Guide for Patients & Families and posted in several visible public areas at LUMC. Upon admission to the hospital, a statement of patient rights and responsibilities will be given to each patient admitted, and reviewed as needed.
- B. The patient or patient's representative (as allowed under state and federal law) has the following rights:
 - To be given access to treatments and facilities regardless of race, color, religion or national origin or ancestry, sex, sexual orientation, age, marital status, veteran status, physical or mental handicap/disability, or any other classification protected by applicable law.
 - To accommodation of any special needs or disabilities including provision of interpreter services or assistive devices.
 - To be respected as an individual deserving competent, private and compassionate care. The patient is entitled to know the names of his or her health care team members as well as their level of training and their role in the patient's care.
 - To be listened to with full attention and focus on the needs of the patient.
 - To have his or her cultural, psychosocial, spiritual and personal values, beliefs and preferences respected.
 - To receive pastoral care and/or spiritual services as desired.
 - To receive care and treatment consistent with sound nursing, medical, and rehabilitation practices in a safe setting free of abuse or harassment of any kind. Patients' requests for preferences will be considered in patient care assignments as feasible. When intimate care is provided, consideration for providing two caregivers should be considered.

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: QAPS-001**

- To access protective and advocacy services.
- To be free from seclusion and restraints of any form that are not medically necessary or are used as a means of coercion, discipline, convenience, or retaliation by staff. (See Policy #13.0018.06, Restraints Use.)
- To be informed of his or her health status, condition and proposed treatment, to be involved in care planning and treatment, and to make informed decisions regarding his or her care.
- To be informed about the outcomes of care, treatment, and services, including unanticipated outcomes.
- To participate in the development and implementation of his or her plan of care.
- To pain management.
- To request or refuse treatment to the extent permitted by law. The patient does not have the right to demand services deemed medically unnecessary or inappropriate.
- To request a consultation or second opinion from another physician as well as to change physicians, hospitals or outpatient centers.
- To have a family member or representative and the patient's physician notified of admission.
- To participate in research studies after receiving an explanation of the nature and possible consequences of the research before it is conducted and after giving informed consent. To refuse to participate in research studies without such refusal affecting care.
- To consent to, or refuse to consent to, being filmed or recorded without such a decision affecting the health care received.
- To request and participate in an ethics consultation.
- To know the approximate cost of hospital or outpatient services or whether a service is covered by Medicare or other insurer, before admission or treatment, and to examine and receive a reasonable explanation of the patient's total bill for services rendered by his or her physician or health care provider, including the itemized charges for specific services received.
- To have his or her end-of-life wishes honored by their caregivers. (See Policy OPER-002, Advance Directives).
- To personal privacy and to the confidentiality of his or her medical records and information (to the extent provided by law).
- To inspect, copy and to request amendments to the patient's medical information and to

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: QAPS-001**

have access to his or her medical record in the presence of a physician while hospitalized. After discharge, the patient may request a copy of his or her medical record.

- To request restrictions or limitations on the medical information LUMC uses or discloses about the patient.
- To receive confidential communications (i.e., that LUMC only contact the patient in a certain manner or at a certain location) from LUMC.
- To an accounting of disclosures required by the Health Insurance Portability and Accountability Act's Privacy Rule.
- To discuss any dissatisfaction with the care received, or any concerns about patient care and safety. We are committed to your satisfaction with care and services you receive at Loyola. Please discuss dissatisfaction or concerns about the quality or safety of patient care with your nurse, physician, Patient Relations at (708) 216-5140, or by calling (708) 327-SAFE, the Loyola Hotline. You may also report your concerns directly to the Illinois Department of Public Health at 525 W. Jefferson St., Springfield, IL, 62761-0001, Fax (217) 782-0382 or call (800) 252-4343. TTY – (Hearing Impaired use only) (800) 547-0466 or to the Joint Commission for the Accreditation of Healthcare Organizations at (800) 994-6610.
- To complain if the patient believes his or her privacy rights have been violated. For privacy related complaints, the patient shall be referred to the Patient Relations staff as described in the Patient Complaints & Grievances Policy. The patient may also contact the Secretary of the Department of Health and Human Services, 200 Independence Avenue, S.W., Washington, D.C. 20201 Telephone: 202-619-0257, Toll Free: 1-877-696-6775, <http://www.hhs.gov/ContactUs.html>.
- To receive a written statement at time of admission of all the above rights if you are admitted to LUMC or as soon thereafter as the condition of the patient permits.
- To receive a copy of Loyola's Notice of Privacy Practices upon the patient's first visit to LUMC after April 14, 2003.

C. The responsibilities of the patient/patient's representative include:

- To provide an accurate and complete medical history upon admission.
- To abide by LUMC policies as found in the Patient Information Guide.
- To follow the treatment plan and inform the medical team of any changes in condition.
- To be responsible for the outcomes if the care, treatment, and service plan is not followed.
- To ask questions if information is not understood.
- To treat other patients and LUMC staff with concern and respect.

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: QAPS-001**

- To provide timely payment for services provided.
- To tell us if you have Durable Power of Attorney for Healthcare or Legal Guardianship of the patient.

IV. RESPONSIBLE PARTY

Any questions or concerns regarding the above rights and responsibilities should be directed to the Director of Patient Relations at (708) 216-5140.



LOYOLA
UNIVERSITY
HEALTH SYSTEM
Loyola University Chicago

LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE PICY NUMBER: A-22

Subject:

ADMITTING AND REGISTRATION

Date Implemented: May, 2000

Last Revised: October, 2002

Medical Center Administration Approval:

B.S.N.
Director, Admitting and Registration

John Lee, M.D.

Chairman, Department of Pathology

Jan Lukas, RN,

Rae Hibner
Director, Risk Management

John Sullivan
Executive Vice President
Loyola University Medical Center

I PURPOSE

To enumerate the steps to be followed for those occasions when patients are admitted with "Doe" names or when it is obvious that names are incorrectly spelled. This also should be followed when clinical staff ask that patients be given "Alias" names for security purposes.

Objective:

To revise names of patients in the registration system, (therefore, all downstream systems) so the patient can be identified by his/her legal name by all disciplines involved without interfering with the care of the patient.

Procedure:

Nursing:

1. As family present themselves on the Nursing unit and are able to identify a "Doe" patient, family/patient states a name is incorrectly spelled, or clinical staff requests patient's name to be changed to an "Alias", Nursing should initiate this procedure by sending the patient's family to Admitting where the name can be updated/revised.

A determination would have been made by Nursing at this point that the patient is stable and will not be in need of a blood transfusion within the next few hours.

2. Upon receiving an updated facesheet, blue card, bed ticket and armband from Admitting, nursing Will be responsible, if applicable, for redrawing a Type and Crossmatch on the patient, and Rebanding the patient with a new bloodband and armband to demonstrate the name change.

LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE PICY NUMBER: A-22

Admitting:

1. As family present themselves to Admitting stating they would like to update the name of a family member admitted (either revising spelling or updating a "Doe" name), the Service Representative should call the charge nurse of the nursing unit to confirm the name can be updated without interfering with the care of the patient.
2. If approved by nursing, the Service Representative should immediately update the name in SMS, to that of the legal name. Service Rep should then toggle to LUCI to validate name change occurred correctly. If it did not, she/he should call MIS at 6-3270 or after hours have the MIS on call person paged by dialing the Help Desk at 62160 and pressing "O" for operations.
3. A new facesheet, armband and blue card must be printed on the patient and tubed immediately to the nursing unit caring for the patient. This process should take less than 15 minutes from the time of family presentation.
4. The Service Representative should then notify the following departments of the name change:
 - A. Blood Bank at 6-3951
 - B. Medical Records at 6-3862. This number does have voice mail if no one is available.
 - C. If needed, MIS: 6-3270: See #2 above.

Blood Bank:

1. Upon receipt of a new Type and Crossmatch on a patient whose name has been revised, Blood Bank will use the new specimen to re-crossmatch any blood allocated to the patient.
2. Following the repeat crossmatch, all units of blood will be relabeled so that the patient name, medical record number and armband number on the unit tags and patient armband will be identical.

ADMINISTRATION/HOUSEWIDE

POLICY AND PROCEDURE

PATIENT'S RIGHTS AND RESPONSIBILITIES

POLICY: Gottlieb Memorial Hospital respects the rights of the patient, recognizes that each patient is an individual with unique health care needs, and because of the importance of respecting each patient's personal dignity, provides considerate, respectful care focused upon the patient's individual needs.

Gottlieb affirms the patient's right to make decisions regarding his/her medical care, including the decision to discontinue treatment, to the extent permitted by law.

Gottlieb will assist the patient in the exercise of his/her rights and inform the patient of any responsibilities incumbent upon him/her in the exercise of those rights.

PURPOSE: To define the Rights and Responsibilities for all patients regardless of age or parents or guardians of patients in the hospital.

SCOPE: Applies to all patients and parents or guardians of patients admitted to the hospital.

LEVEL OF RESPONSIBILITY:

Hospital leadership is responsible for ensuring that staff (employees and physicians) respects the rights of patients, parents and guardians, and informs patients, parents and guardians of their responsibilities.

PROCEDURE:

Reference Policies and Procedures:
Category #3.00, Ethics, Rights & Responsibilities

I. PATIENT RIGHTS

- A. The Adult, Pediatric, Neonatal Patient/Parent/Guardian is entitled to:
1. Considerate and respectful continuity of care.
 2. Have a family member or representative of their choice or own physician be notified promptly of their admission to the hospital.

I. **PATIENT RIGHTS:** (Cont.)

3. Appropriate equipment, furniture, therapeutic environment that is safe for the patient's age and development.
4. Impartial access to medically indicated treatment regardless of race, creed, sex, national origin, or sources of payment of care.
5. Be called by proper name or nickname as desired.
6. Have an advance directive (such as a Living Will or Durable Power of Attorney for Health Care) concerning treatment or designating a surrogate decision maker with the expectation that the hospital will honor that directive to the extent permitted by law.
7. Know by name the physician responsible for the coordination of patient care and the identities of others involved in providing care.
8. Obtain information from physicians and other direct caregivers in understandable terms concerning diagnosis, treatment, prognosis and plans for discharge and follow-up care.
9. Be informed regarding participating in decisions regarding your plan of care and current health status, except in emergency situations where lifesaving measures are required. In giving their consent before the start of any procedure or treatment, they are entitled to know the potential benefits and any related risks and the likelihood of success. The same information is provided regarding any significant treatment alternatives.
10. Participate in the development and implementation of their care and refuse treatment to the extent permitted by law and be informed of the medical consequences of such action.
11. Appropriate assessment and management of pain.
12. Review their medical records within a reasonable time frame and have information explained or interpreted by a primary health care provider, except as restricted by law.
13. Consideration of security and patient privacy in case discussion, consultation, examination and treatment, as well as freedom in any setting from potential abuse and/or harassment. A request may be made to transfer to another room if another patient or visitor(s) in that room are unreasonably disturbing to them.

I. PATIENT RIGHTS: (Cont.)

14. Expect that all communications, records and other information pertaining to their care be treated as confidential by the hospital, except in cases such as suspected abuse or public health hazards which are required by law to be reported.
15. Consent to being photographed, only as appropriate, to protect patient confidentiality. No patient record may be photographed in any manner unless for purposes of patient care or insurance claims.
16. Expect the hospital to respond to their requests for service, within its capacity, and to provide evaluation, service or referral by the urgency of patient care needs.
17. Obtain information as to any relationship between the hospital and other health care and educational institutions which may influence patient care.
18. Consent or refuse to participate in any treatment that is considered experimental in nature, and to have those studies fully explained prior to consent.
19. Participate in decisions regarding ethical issues surrounding their care including issues of conflict resolution, withholding resuscitation, foregoing or withdrawal of life-sustaining treatment and participation in investigational studies or clinical trials.
20. Expect that the hospital will support the right of each patient to personal dignity. Have spiritual, psychosocial, cultural beliefs and personal values and preferences respected that do not harm others or interfere with medical treatment. This includes the right to pastoral/other spiritual services.
21. Know if their request for services cannot be reasonably provided by the hospital. If they request to be transferred to another facility, they have the right to know about the need for and alternatives to such a transfer. Every attempt to honor their request will be made if their medical condition allows and the facility agrees to receive and treat them.
22. Obtain information about hospital policies that relate to their care. Express a concern or complaint regarding their care or concerns regarding patient safety to the attending physician, nurse assigned to delivery of patient care or the nursing supervisor. The right to a timely response to the concern or complaint and a resolution is provided when possible. Expression of a concern or complaint will not compromise patient care or future access to care.

I. PATIENT RIGHTS, (Cont.)

23. Access protective services, if necessary.
24. Freedom from restraints of any kind used in the provision of acute medical and surgical care and/or management of behavior unless clinically required.
25. Examine and receive an explanation of their hospital bill, regardless of the source of payment.
26. Be cared for by hospital personnel who are educated about patient rights and their role in supporting those rights.
27. Expect that all hospital personnel will clean their hands before any direct patient contact.

II. PATIENT RESPONSIBILITIES:

B. The Adult, Pediatric, Neonatal Patient/Parent/Guardian has the following responsibilities to:

1. Ask questions about specific problems and request information when the illness or treatment is not understood.
2. Provide accurate and complete information about their health history to physicians and other caregivers, including present complaints, past illnesses, hospitalizations, medications and reporting perceived risks in their care.
3. Notify the physician and nursing staff of child's name or nickname to which he/she best responds.
4. Provide the hospital with a copy of the written advance directive if one is available. If the directive is missing, inform hospital staff regarding the substance of directive.
5. Follow the treatment plan recommended by physicians and other caregivers, or if treatment is refused, they are responsible for their actions and the medical consequences.
6. Consider the rights of all hospital personnel and other patients and ensure that their visitors are considerate in the control of noise, limiting numbers of visitors and abstinence from smoking.

II. PATIENT RESPONSIBILITIES: (Cont.)

7. Respect hospital property and the property of other patients. The hospital is not responsible for any damage or loss of personal property. Patients or visitors who bring their own medical devices of any kind into the hospital are totally responsible for the use and maintenance of the equipment. Hospital personnel have no responsibility whatsoever for evaluation or maintenance of the equipment or for any non-emergency medical care related to the use of it.
8. Follow the hospital's policy regarding cellular phone use. Cellular phones are allowed in areas of the hospital with the exception of Intensive Care, Emergency Department and within the patient's room, unless otherwise approved by the nurse.
9. Follow all instructions related to infection prevention including proper handwashing and isolation precautions (if indicated).
10. Let the staff know if you have a cough. Cover your mouth and nose with tissue when you sneeze or cough. After sneezing or coughing, clean your hands with soap and water or alcohol hand gel. To protect others from getting your germs, you may be asked to wear a mask if you are coughing or sneezing.
11. Follow all hospital policies affecting patient care and conduct.
12. Meet financial commitments.
13. Provide necessary information to ensure processing of hospital bills and make payment arrangements when necessary.
14. Follow insurance coverage requirements for pre-certification of hospital services.

Original: 9/30/86
Revised: 5/95
Revised: 5/97
Reviewed & Revised: 1/99 (Organ Donation)
Reviewed: 7/2000
Reviewed: 5/2001
Reviewed: 10/2002
Reviewed: 9/03
Revised: 7/04
Reviewed: 7/05
Reviewed: 12/05
Reviewed: 12/06, 6/08
Reviewed: 2/09
Reviewed: 10/10

Trinity Health Corporation
Foster G. McGaw Hospital/Loyola University Medical Center
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