

CONSOLIDATED FINANCIAL STATEMENTS

Sisters of Charity of Leavenworth Health System, Inc.
Years Ended December 31, 2009 and 2008
With Reports of Independent Auditors

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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Report of Independent Auditors

The Board of Directors
Sisters of Charity of Leavenworth
Health System, Inc.

We have audited the accompanying consolidated balance sheets of Sisters of Charity of Leavenworth Health System, Inc., identified in Note 1, as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Sisters of Charity of Leavenworth Health System, Inc.'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 (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Sisters of Charity of Leavenworth Health System, Inc.'s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sisters of Charity of Leavenworth Health System, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sisters of Charity of Leavenworth Health System, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations, changes in its net assets, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 12, 2010,
except for Note 18, as to which the date is
April 26, 2010.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Balance Sheets

	December 31	
	2009	2008
	<i>(In Millions)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 136.4	\$ 67.2
Securities lending agreement investments	38.9	87.2
Due from broker	8.5	130.0
Current portion of investments	444.2	395.0
Accounts receivable:		
Patient (less allowance for uncollectible accounts of \$186.9 million in 2009 and \$114.3 million in 2008)	311.7	242.6
Pledges and other	49.3	49.4
Inventory	44.7	34.9
Prepays and other assets	26.0	20.8
Total current assets	<u>1,059.7</u>	<u>1,027.1</u>
Investments:		
Investments, net of current portion	871.6	931.9
Less securities on loan	<u>(37.7)</u>	<u>(85.5)</u>
	833.9	846.4
Assets limited as to use:		
Restricted funds – self-insured risks	114.6	83.7
Trustee-held funds	<u>37.4</u>	<u>7.9</u>
	152.0	91.6
Securities on loan	37.7	85.5
Land, buildings, and equipment, net	2,031.1	1,317.3
Other assets:		
Investments in joint ventures	32.8	79.1
Pledges receivable, net	51.8	63.3
Prepaid pension cost	28.8	–
Notes receivable	5.4	85.6
Other assets	<u>16.4</u>	<u>20.0</u>
	135.2	248.0
Total assets	<u>\$ 4,249.6</u>	<u>\$ 3,615.9</u>

	December 31	
	2009	2008
	<i>(In Millions)</i>	
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term obligations	\$ 436.7	\$ 392.7
Accrued interest payable	7.5	2.3
Due to broker	20.8	182.9
Securities lending agreements payable	38.9	88.8
Accounts payable	158.0	105.7
Accrued salaries, wages, and benefits	102.0	64.9
Other accrued expenses	56.9	69.1
Total current liabilities	820.8	906.4
Other noncurrent liabilities:		
Reserve for self-insured risks	78.0	70.5
Accrued pension payable	14.0	29.0
Accrued swap payable	10.8	20.5
Other liabilities	15.8	10.0
	118.6	130.0
Capital structure:		
Bonds payable	906.5	656.9
Other notes and capital leases payable	123.3	52.0
	1,029.8	708.9
Less current maturities	436.7	392.7
	593.1	316.2
Total liabilities	1,532.5	1,352.6
Noncontrolling interest		
	335.4	1.9
Net assets:		
Unrestricted	2,218.6	2,064.8
Temporarily restricted	134.4	169.2
Permanently restricted	28.7	27.4
Total net assets	2,381.7	2,261.4
Total liabilities and net assets	\$ 4,249.6	\$ 3,615.9

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Operations

	Year Ended December 31	
	2009	2008
	<i>(In Millions)</i>	
Patient services		
Operating revenue:		
Net patient service revenue	\$ 2,429.6	\$ 1,742.4
Other operating revenue	68.5	53.7
Net assets released from restrictions	28.5	32.1
Net gain from joint ventures	10.7	2.4
Net gain from disposal of assets	0.3	1.3
Total operating revenue	<u>2,537.6</u>	1,831.9
Operating expenses:		
Salaries and wages	1,003.2	750.1
Employee benefits	239.2	163.8
Other operating expenses	911.7	699.1
Provision for bad debts	137.5	87.8
Depreciation and amortization	174.5	110.7
Total operating expenses	<u>2,466.1</u>	1,811.5
Income from operations	71.5	20.4
Nonoperating gains (losses)		
Income tax expense	(2.8)	(2.3)
Investment income (loss)	98.1	(240.2)
Mission Fund expenditures	(2.4)	(3.1)
Interest and amortization	(32.0)	(25.3)
Total nonoperating gains (losses), net	<u>60.9</u>	(270.9)
Excess (deficit) of revenue over expenses	132.4	(250.5)
Other changes in unrestricted net assets		
Change in unrealized value of interest rate swaps	9.6	(15.1)
Change in noncontrolling interest	(28.8)	(2.7)
Contributions to related organizations	(44.8)	(11.3)
Pension-related charges other than net periodic pension costs	46.2	(112.3)
Net assets released for capital acquisitions	39.2	36.1
	<u>21.4</u>	(105.3)
Increase (decrease) in unrestricted net assets	<u>\$ 153.8</u>	<u>\$ (355.8)</u>

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Changes in Net Assets

	Year Ended December 31	
	2009	2008
	<i>(In Millions)</i>	
Unrestricted net assets		
Excess (deficit) of revenue over expenses	\$ 132.4	\$ (250.5)
Change in unrealized value of interest rate swaps	9.6	(15.1)
Change in noncontrolling interest	(28.8)	(2.7)
Contributions to related organizations	(44.8)	(11.3)
Pension-related charges other than net periodic pension costs	46.2	(112.3)
Net assets released for capital acquisitions	39.2	36.1
	<u>153.8</u>	<u>(355.8)</u>
Temporarily restricted net assets		
Contributions	26.7	77.9
Net investment activity	4.1	(5.7)
Net assets released from restrictions	(65.6)	(59.2)
	<u>(34.8)</u>	<u>13.0</u>
Permanently restricted net assets		
Contributions	0.3	0.8
Net investment activity	1.0	(2.1)
	<u>1.3</u>	<u>(1.3)</u>
Increase (decrease) in net assets	120.3	(344.1)
Beginning net assets	2,261.4	2,605.5
Ending net assets	<u>\$ 2,381.7</u>	<u>\$ 2,261.4</u>

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2009	2008
	<i>(In Millions)</i>	
Operating activities		
Increase (decrease) in net assets	\$ 120.3	\$ (344.1)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	175.6	111.4
Provision for bad debts	137.5	87.8
Increase in accounts receivable, net of allowances	(117.7)	(101.2)
Change in noncontrolling interest	28.8	2.7
Change in unrealized value of interest rate swaps	(9.6)	15.1
Restricted contributions	(27.0)	(78.7)
Pension-related charges other than net periodic pension costs	(46.2)	112.3
Net assets released for capital acquisitions	(39.2)	(36.1)
Net gain from joint ventures	(10.7)	(2.4)
Net gain from disposal of assets	(0.3)	(1.3)
Decrease in investments classified as trading	198.6	244.3
Decrease in other assets	18.5	12.3
(Decrease) increase in liabilities	(237.8)	37.8
Net cash provided by operating activities	<u>190.8</u>	<u>59.9</u>
Investing activities		
Acquisition of land, buildings, and equipment	(395.0)	(367.2)
Decrease in alternative investments	109.9	138.1
Decrease in investments in joint ventures	17.7	7.4
Net cash used in investing activities	<u>(267.4)</u>	<u>(221.7)</u>
Financing activities		
Restricted contributions	27.0	78.7
Net assets released for capital acquisitions	39.2	36.1
Proceeds from issuance of long-term debt, net of original issue discount and financing costs	158.0	46.2
Payments on bonds, notes, and capital leases payable	(108.2)	(22.3)
Net cash provided by financing activities	<u>116.0</u>	<u>138.7</u>
Net increase (decrease) in cash and cash equivalents	39.4	(23.1)
Beginning cash and cash equivalents	67.2	90.3
Beginning cash and cash equivalents due to change in control, see Note 1	29.8	-
Ending cash and cash equivalents	<u>\$ 136.4</u>	<u>\$ 67.2</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, including amounts capitalized	<u>\$ 40.4</u>	<u>\$ 29.5</u>
Interest expense capitalized	<u>\$ 14.7</u>	<u>\$ 4.5</u>
Capitalized lease obligations	<u>\$ 2.5</u>	<u>\$ -</u>
Debt obligation transferred to Kaiser Permanente	<u>\$ (3.1)</u>	<u>\$ -</u>

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements

December 31, 2009

1. Organization and Principles of Consolidation

Organization

The Sisters of Charity of Leavenworth Health System, Inc. (the Corporation) is a Catholic ministry that operates as a Kansas not-for-profit corporation. The Corporation controls two groups of related entities identified as Affiliates and Exempla Entities, collectively referred to as SCLHS. The mission of SCLHS is, in the spirit of the Sisters of Charity, to reveal God's healing love by improving the health of the individuals and communities it serves, especially those who are poor or vulnerable.

The primary ministry of SCLHS is to witness the Gospel of Jesus by striving to provide quality healthcare in a spirit of justice and charity. Services are provided based on community need and available resources, with special concern for the poor and underserved. This mission is undertaken in many ways, including the provision of healthcare services at its locations.

The Corporation, its hospital, foundation, clinic Affiliates, and Exempla Entities have been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3).

The following organizations comprise the Affiliates and are owned by or affiliated with the Corporation directly or indirectly through sole corporate membership. All Affiliates listed below are included in the accompanying consolidated financial statements. See Note 6 for discussion regarding the Restricted Affiliates.

Restricted Affiliates	Location
Kansas	
Providence Medical Center, Inc.	Kansas City, Kansas
Saint John Hospital, Inc.	Leavenworth, Kansas
St. Francis Health Center, Inc.	Topeka, Kansas
Colorado	
Saint Joseph Hospital, Inc.	Denver, Colorado
St. Mary's Hospital & Medical Center, Inc.	Grand Junction, Colorado
Montana	
Holy Rosary Healthcare	Miles City, Montana
St. James Healthcare	Butte, Montana
St. Vincent Healthcare	Billings, Montana
California	
Saint John's Hospital and Health Center	Santa Monica, California

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Principles of Consolidation (continued)

Other Affiliates	Location
Kansas	
Providence/Saint John Foundation, Inc.	Kansas City, Kansas
St. Francis Health Center Foundation	Topeka, Kansas
Holton Community Hospital	Holton, Kansas
Caritas Clinics, Inc.	Leavenworth and Kansas City, Kansas
Marian Clinic, Inc.	Topeka, Kansas
Caritas, Inc. and Subsidiaries	Lenexa, Kansas
Colorado	
Saint Joseph Hospital Foundation	Denver, Colorado
St. Mary's Hospital Foundation	Grand Junction, Colorado
Marillac Clinic, Inc.	Grand Junction, Colorado
Montana	
Saint Vincent Foundation, Inc.	Billings, Montana
St. James Healthcare Foundation, Inc.	Butte, Montana
Holy Rosary Healthcare Foundation, Inc.	Miles City, Montana
California	
Saint John's Hospital and Health Center Foundation	Santa Monica, California
John Wayne Cancer Center, Inc. and Subsidiaries	Santa Monica, California
Grand Cayman, BWI	
Leaven Insurance Company, Ltd.	Georgetown, Grand Cayman, BWI

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Principles of Consolidation (continued)

In December 2009, the Corporation gained a controlling interest in Exempla, Inc. and Subsidiaries (Exempla). The Exempla Entities listed below are included in the accompanying consolidated financial statements.

Exempla Entities	Location
Colorado	
Exempla, Inc. and Subsidiaries	Denver, Colorado
Exempla Lutheran Medical Center	Wheat Ridge, Colorado
Exempla Lutheran Medical Center Foundation	Wheat Ridge, Colorado
Exempla Good Samaritan Medical Center, LLC (EGSMC)	Lafayette, Colorado
Exempla Good Samaritan Medical Center Foundation	Lafayette, Colorado
Exempla Partners, LLC	Denver, Colorado

Exempla Healthcare is a Denver, Colorado based healthcare delivery system formed on January 1, 1998 by a Joint Operating Agreement (JOA) between the Corporation, Community First Foundation (CFF), Exempla, and Saint Joseph Hospital, Inc. (SJH). Under the JOA, Exempla operates SJH and Exempla's subsidiaries: Exempla Lutheran Medical Center, EGSMC and Exempla Partners, LLC.

On December 2, 2009, changes to the bylaws and articles of incorporation of Exempla gave the Corporation and CFF each the power to appoint one-half of the members of the Board of Directors of Exempla and gave the Corporation the direct power to appoint management after consultation with Exempla's Board of Directors and to implement the Corporation's policies and procedures. In addition, the Corporation obtained reserved powers to approve budgets, strategic plans, debt financing, acquisition, or sale of assets and dissolution of Exempla. With these changes, the Corporation has both effective control over and an economic interest in Exempla, which accordingly is consolidated in the accompanying consolidated financial statements.

The change in control of Exempla was accounted for in a manner similar to that using the pooling of interest method as of January 1, 2009. SCLHS recorded an increase in net assets of \$308.2 million as of January 1, 2009. Due to CFF's retention of an interest in Exempla upon its dissolution, a noncontrolling interest equal to 50% of the net assets of Exempla Healthcare or \$307.7 million also was recognized as of January 1, 2009. The JOA established an equalization adjustment, whereby the profits and losses of Exempla Healthcare are shared equally by SJH and Exempla. For 2008, when Exempla was not consolidated into SCLHS' consolidated financial statements, the equalization adjustment reflected in other operating revenue in the consolidated statements of operations was \$(11.5) million. For 2009, the equalization adjustment is eliminated in the consolidation.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

1. Organization and Principles of Consolidation (continued)

The following table summarizes abbreviated financial statement information of Exempla after consolidating elimination entries:

	Year Ended
	December 31, 2008
	<i>(In Millions)</i>
Operating revenues	\$ 583.1
Operating expenses	548.5
Operating income	34.6
Nonoperating losses	(26.8)
Excess of revenues over expenses	\$ 7.8

2. Summary of Significant Accounting Policies

Principles of Consolidation

All significant balances and transactions have been eliminated in the accompanying consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of a year or less when purchased that have not otherwise been classified as assets limited as to use by Board designation or other arrangements under trust agreements due to a designation for long-term purposes.

Accounts Receivable

SCLHS provides healthcare services through inpatient, outpatient, and ambulatory care facilities and grants credit to patients, substantially all of whom are local residents in the communities served by SCLHS. SCLHS generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies, including, but not limited to, Medicare, Medicaid, health maintenance organizations, and commercial insurance policies.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering the business and general economic condition in its service area, trends in healthcare coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category and other factors. The results of these reviews are then used to make any modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible accounts.

Inventory

Inventory consists primarily of medical supplies and pharmaceuticals and is stated at the lower of actual cost, generally on the first-in, first-out basis, or market.

Investments and Assets Limited as to Use

SCLHS invests funds in excess of operating requirements. These funds are used for the acquisition of equipment and other property. Trustee-held funds are the unspent proceeds related to bond financings and investments related to the executive supplemental retirement plans. Restricted funds – self-insured risks are funds set aside by SCLHS to satisfy insurance claims and for other related expenditures. Investments in equity and debt securities are measured at fair value.

For purposes of recognizing investment returns as a component of excess (deficit) of revenue over expenses, substantially all investments are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess (deficit) of revenue over expenses unless the income or loss is restricted by donor or law. Gains and losses with respect to disposition of marketable securities are based on the specific-identification method. Investment returns related to temporarily and permanently restricted net assets are added or deducted from the appropriate net asset balance based on donors' intent.

Derivative Financial Instruments

SCLHS investment fund managers use derivative financial instruments in the investment portfolio to moderate changes in value due to fluctuations in financial markets. SCLHS has not designated its derivatives related to marketable securities as hedges, and the change in fair value of these derivatives is recognized as a component of investment return and other, net.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

SCLHS uses interest rate swap contracts in managing its capital structure. SCLHS recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of unrestricted net assets and reclassified into excess (deficit) of revenues over expenses in the same period or periods during which the hedged transaction affects excess of revenues over expenses. The ineffective portion is recorded in the excess (deficit) of revenues over expenses in the current period. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, subsequent gains or losses on the derivatives would be recorded in excess (deficit) of revenues over expenses.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or fair market value at the date of donation. Improvements and replacements are capitalized, and repairs and maintenance are expensed when incurred. Interest incurred in connection with borrowings to finance major construction or expansion of facilities is capitalized during the construction period and subsequently amortized over the lives of the related assets. Provision for depreciation is calculated using the straight-line method, which allocates the cost of tangible property equally over its estimated life. Estimated useful lives are generally those recommended by the American Hospital Association.

Land, buildings, equipment, and accumulated depreciation, as of December 31, were as follows:

	2009	2008
	<i>(In Millions)</i>	
Land	\$ 124.5	\$ 70.6
Buildings, land improvements, and equipment	3,186.4	2,014.4
Construction in progress	421.5	453.5
	3,732.4	2,538.5
Less accumulated depreciation	1,701.3	1,221.2
	\$ 2,031.1	\$ 1,317.3

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Asset Impairment

SCLHS considers whether indicators of impairment are present or performs the necessary test to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in income from operations at the time the impairment is identified, except for alternative investment impairments, which are recognized in investment income (loss).

Deferred Financing Costs

Deferred financing costs are amortized over the life of the bonds utilizing the bonds outstanding method.

Investments in Joint Ventures

SCLHS accounts for investments in joint ventures using the equity or cost method, depending on the nature of the investment and extent of control or ownership by SCLHS.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by SCLHS 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 SCLHS in perpetuity.

Contributions to Related Organizations

SCLHS records the annual payment to the SCLHS sponsor and transfers from the related foundations to other affiliated entities as contributions to related organizations, which are recorded as changes in net assets.

Endowments

SCLHS' endowments consist of approximately 70 individual funds established for a variety of purposes. Endowment assets include those assets of donor-restricted funds that SCLHS must hold in perpetuity or for a donor-specified period, as well as board-designated funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

SCLHS is subject to the Uniform Prudent Management of Institutional Funds Acts (UPMIFA), as separately enacted in Kansas, Colorado, Montana, and California. Collectively, these statutes establish requirements for the management, investment, and expenditures of endowed funds. SCLHS has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of their relevant benchmarks while assuming a reasonable level of investment risk.

As of December 31, 2009 and 2008, the permanently restricted endowment net assets were \$25.4 million and \$25.2 million, respectively.

Contributions for Long-Lived Assets

Contributions for long-lived assets are those contributions, bequests, or grants to SCLHS for the sole purpose of acquiring capitalized long-lived assets.

Contributions, Bequests, and Grants

Unconditional promises to give cash and other assets 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. Except for contributions for long-lived assets, all unrestricted contributions, bequests, and grants are included in revenue over expenses. Contributions, bequests, and grants 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 is satisfied (as to either time or purpose), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Resources temporarily restricted by donors for additions to land, buildings, and equipment whose purposes have been met are recorded as net assets released for capital acquisitions in the consolidated statements of operations. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Operating and Nonoperating Gains (Losses)

SCLHS' primary mission is to meet the healthcare needs on its service areas through a broad range of general and specialized healthcare services, including inpatient, acute care, outpatient services, physician services, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other operating activities that result in gains or losses peripheral to SCLHS' primary mission are considered to be nonoperating. Nonoperating activities include income tax expense, investment income (loss), Mission Fund expenditures, and interest and amortization expense.

Performance Indicator

SCLHS' performance indicator (excess (deficit) of revenue over expenses) includes all changes in unrestricted net assets other than change in unrealized value of interest rate swap, change in noncontrolling interest, contributions to related organizations, pension-related charges other than net periodic pension costs, and net assets released for capital acquisitions.

Functional Expenses

SCLHS' accounting policies conform to U.S. generally accepted accounting principles applicable to healthcare organizations. Substantially all expenses are related to providing healthcare services to the community.

Reclassifications

Certain balances in the 2008 consolidated financial statements have been reclassified to conform to the current year presentation. The effect of such reclassifications did not change total net assets or excess (deficit) of revenues over expenses.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Adoption of Accounting Pronouncements

Effective January 1, 2009, SCLHS adopted new accounting guidance that requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses in derivative instruments, and disclosures about credit risk related to contingent features in derivative agreements. See Note 8.

Effective January 1, 2009, SCLHS adopted new accounting guidance regarding the fair value of a liability with a third-party credit enhancement that is inseparable from the liability. This guidance requires disclosure of the existence of third-party credit enhancements and states that the liability shall not include the effect of the credit enhancement in the fair value measurement of the liability. See Note 9.

Effective January 1, 2009, SCLHS implemented new accounting guidance that establishes accounting and disclosure guidance for subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued or available to be issued. See Note 18.

Effective June 30, 2009, SCLHS adopted new accounting guidance regarding the estimation of fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, as well as guidance on circumstances that may indicate that a transaction is not orderly. This guidance also defined the major category of equity and debt securities as “major security type.” SCLHS has provided additional disclosures about fair value measurements in its annual reporting periods. See Note 9.

Effective for the year ended December 31, 2009, SCLHS adopted new accounting guidance related to employers’ disclosures about postretirement benefit plan assets. This guidance requires disclosure of how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and significant concentrations of risk within plan assets. See Notes 11 and 12.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

3. Charity Care

SCLHS has a mission to care for the poor and provides charity care to patients deemed to be either financially or medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets.

Patient charity care provided in 2009 and 2008, measured at established rates, was approximately \$231.7 million and \$160.5 million, respectively. These charges are not included in net patient service revenue in the accompanying consolidated statements of operations. The cost for providing traditional charity care in 2009 and 2008 was approximately \$71.5 million and \$51.5 million, respectively. Additionally, SCLHS accepts patients who are covered by governmental indigent programs. Such indigent programs typically remit amounts less than costs. Costs exceeding reimbursement under terms of governmental indigent programs (Medicaid) were approximately \$42.2 million in 2009 and \$27.2 million in 2008.

In addition to traditional charity care services, SCLHS has a financial assistance policy, which offers discounted services to uninsured patients who do not otherwise qualify for charity. The payments expected from patients are based on rates negotiated with managed care plans, with discounts determined on a sliding scale tied to the federal poverty level. SCLHS' financial assistance policy prohibits the use of collection practices, which do not respect the dignity of its patients, including the use of debtor's prison. Liens on principal residences must be approved by the Affiliate Board Finance Committee and may not be used to force foreclosure or sale.

SCLHS benefits its communities in a variety of ways. To improve the health status of citizens in the communities served, it provides numerous community education programs, which alert the public to various health problems and how they can be addressed. SCLHS offers health promotion and wellness programs and provides specific healthcare services and programs for senior citizens. Each of these programs helps contain the growth of community healthcare costs through prevention and positive intervention. SCLHS has established a Mission Fund at each Affiliate. Earnings from the funds are available to support these charitable services and programs.

SCLHS addresses problems of the poor in the communities by providing services such as health fairs and screenings at no cost or at substantially reduced rates. It provides prenatal education classes especially for low-income persons and transportation for those who otherwise would have no access to medical services. SCLHS also supports organizations that provide other outreach programs for the poor, including the stand-alone clinics that serve only the medically underserved populations in their service areas.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

3. Charity Care (continued)

SCLHS encourages use of its facilities, consistent with its tax-exempt status, by other organizations and individuals to join in carrying out a broad health agenda. It promotes volunteerism by providing specific programs and training for volunteers from the community, encourages staff involvement in community organizations, and provides health-related information to the community by sponsoring speaker bureaus and tours of its facilities.

SCLHS sponsors four stand-alone clinic affiliates (the Clinics) specifically for those individuals who have no other source of healthcare assistance. Generally, the Clinics do not serve persons with Medicare or any kind of private health insurance. The majority of funding for the Clinics is generated from individual contributions, donations, foundations, grants, and in-kind services. The Clinics create access to healthcare for those individuals without access, provide channels for physicians to reach the poor, and make a difference in the communities where they are established.

4. Net Patient Service Revenue

A significant portion of SCLHS' services is provided to patients under Medicare, Medicaid, and other agreements with third-party contractual agencies. Such contracts provide for payment or reimbursement to SCLHS at other-than-standard charges. Estimated settlements have been reflected in the accompanying consolidated balance sheets for differences between interim payments and the total payments to be received under the contracts.

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due or payable until cost reports are audited or otherwise reviewed and settled upon by the applicable administrative agencies. Normal estimation differences between final settlements and amounts accrued in previous years are reported as current year contractual adjustments.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

4. Net Patient Service Revenue (continued)

Net patient service revenue as reflected in the accompanying consolidated statements of operations consists of the following:

	2009	2008
	<i>(In Millions)</i>	
Gross patient service charges:		
Inpatient charges	\$ 4,244.9	\$ 2,966.1
Outpatient charges	2,811.4	1,725.0
Total gross patient service charges	<u>7,056.3</u>	4,691.1
Deductions from patient service charges:		
Contractual allowances and other	4,395.0	2,788.2
Charity allowances	231.7	160.5
Total deductions from patient service charges	<u>4,626.7</u>	2,948.7
Net patient service revenue	<u>\$ 2,429.6</u>	<u>\$ 1,742.4</u>

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 36% and 41% of SCLHS' gross patient service charges for the years ended December 31, 2009 and 2008, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change. 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.

Revenue from Kaiser Permanente (see Note 15) represented approximately 19% and 16% of SCLHS' net patient service revenue for the years ended December 31, 2009 and 2008, respectively.

The United States Attorney's Office and the Department of Health and Human Services Office of the Inspector General have made inquiries regarding certain reimbursements claimed by SCLHS. SCLHS has adopted internal organizational responsibility and compliance programs to address these concerns and seeks to proactively respond to these requests. SCLHS does not expect the ultimate resolution of these inquiries will be material to its consolidated financial statements.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

5. Investments and Assets Limited as to Use

Investments and assets limited as to use, stated at fair value (as discussed in Note 2) and including pooled and separate accounts, as of December 31, were as follows:

	2009	2008
	<i>(In Millions)</i>	
Cash and enhanced cash included in pooled accounts	\$ 324.7	\$ 363.1
Fixed income	320.1	204.9
Domestic equity	202.8	129.5
International equity	91.0	55.0
Real estate	249.2	276.5
Absolute return funds	130.9	179.1
Core hedge funds	46.1	81.3
Tactical fund	54.8	54.7
Private equity	14.6	14.2
Emerging markets	21.3	7.3
Subtotal	1,455.5	1,365.6
Due from broker, net	12.3	52.9
Securities on loan	(37.7)	(85.5)
	\$ 1,430.1	\$ 1,333.0

SCLHS' investments are exposed to various kinds and levels of risk. Fixed income securities expose SCLHS to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. SCLHS' investments are diversified across a broad range of asset classes, durations, and funds to avoid concentrations of risk in any particular company, region, or industry.

Equity securities expose SCLHS to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is that risk associated with a company's operating performance. Liquidity risk as previously defined tends to be higher for foreign equities and equities related to small capitalization companies.

The real estate investments, absolute return funds, and core hedge funds present similar risks to all of the traditional units, with some additional risks. Due to the fact that these are invested through limited partnerships, private real estate investment trusts (REITs), insurance separate accounts, or other limited-access-type vehicles, pricing is infrequent. Due to this limited-access structure, liquidity also will be

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

5. Investments and Assets Limited as to Use (continued)

limited. These investments may also employ leverage that may lead to additional risk of loss. Although these investments are diversified by region and property type, they may at times have concentrations in a particular region or property type, which may cause additional risk. As of December 31, 2009, SCLHS had given full and partial redemption notices to investment managers in the real estate investments, absolute return funds, and core hedge funds totaling \$268.0 million. These redemptions are expected to be paid to SCLHS based on the liquidity requirements of each investment manager. As of December 31, 2009, SCLHS had received \$120.8 million of the redemptions and subsequent to December 31, 2009, SCLHS received an additional \$63.0 million. In addition, SCLHS had committed \$23.8 million in additional investments to private equity funds as of December 31, 2009.

The tactical fund is a mutual fund that invests in other mutual fund investments. The asset classes include emerging market bonds, high-yield bonds, domestic or international stocks, commodities, and other asset classes. These investments are subject to market risk, default risk, interest rate risk, and credit risk, as well as various other types of risk.

SCLHS participated in securities lending transactions with The Bank of New York Mellon Corporation (BNY Mellon) as the investment custodian, whereby a portion of its investments were loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned. As of December 31, 2008, SCLHS had received a segregated portfolio of its pro rata portion of each security held in the securities lending collateral pool and instructed BNY Mellon not to enter into any new loans of securities other than to increase liquidity to cover redemptions. The portfolio was fully redeemed as of January 31, 2010. Collateral provided by brokers was maintained at levels approximating 102% of the market value of the securities on loan (including accrued interest) for the U.S. issuers and 105% for the non-U.S. issuers and was adjusted for daily market fluctuations. SCLHS participated in a program with its investment custodian to reinvest the cash collateral received in other short-term investments. SCLHS earned income on the collateral received while the related loaned securities are outstanding, but had risk of loss on the collateral received due to the reinvestment program. The market value of collateral held for loaned securities is reported as securities lending agreements investments. A corresponding obligation exists for repayment of such collateral upon settlement of the lending transaction and is reported as securities lending agreements payable.

At December 31, 2009, the market value of the securities on loan was \$37.7 million, and accepted collateral for these loans was \$38.9 million, of which all represents cash collateral.

At December 31, 2008, the market value of the securities on loan was \$85.5 million, and accepted collateral for these loans was \$88.4 million, of which \$87.2 million represents cash collateral.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

6. Capital Structure – SCLHS, Excluding Exempla

Long-term debt for SCLHS (excluding Exempla) consists of the following at December 31:

	<u>Annual Interest Rates</u>	<u>2009</u>	<u>2008</u>
		<i>(In Millions)</i>	
Tax-exempt bond issues:			
2006, due through December 2031	Variable rate, 0.23% and 0.97%	\$ 109.4	\$ 112.4
2003, due through December 2038	Variable rate, 0.24% and 0.81%	143.4	149.5
2002, due through December 2032	Variable rate, 0.25% and 0.91%	65.7	67.5
2000, due through December 2028	5.70% to 6.50%	29.8	30.6
1998, due through December 2025	5.00% to 5.25%	285.2	296.2
Total under the master trust indenture		633.5	656.2
Term loan	Variable rate	100.0	–
Revolving credit agreement	Variable rate	–	51.2
Other notes and capital leases		4.2	4.4
		737.7	711.8
Less original issue discount		2.6	2.9
Less current maturities of long-term debt		431.1	392.7
		\$ 304.0	\$ 316.2

The Corporation is the sole member of an Obligated Group of which the Restricted Affiliates are included under the terms of a Master Trust Indenture amended and restated as of January 1, 1994. Under the terms of the Master Trust Indenture, debt can be incurred for which the Obligated Group is jointly and severally liable. As of December 31, 2009, the outstanding indebtedness under the Master Trust Indenture was \$633.5 million, exclusive of original issue discount. In addition, as of December 31, 2009, there were also guarantees of indebtedness by SCLHS outstanding under the Master Trust Indenture of approximately \$39.7 million (see Note 16). The Obligated Group has agreed to certain covenants including, among other things, a specified debt service coverage ratio and debt to capitalization ratio, a restriction on certain types of additional indebtedness, and a restriction on asset dispositions in excess of specified amounts. The consolidated results of the Obligated Group and Restricted Affiliates are used to determine compliance with certain covenants of the Master Trust Indenture. As of December 31, 2009 and 2008, SCLHS was in compliance with all covenants.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

6. Capital Structure – SCLHS, Excluding Exempla (continued)

The Series 2002, 2003, and 2006 Variable Rate Demand Bonds are backed by Standby Bond Purchase Agreements with JPMorgan Chase Bank, National Association, Morgan Stanley Bank, N.A., and The Bank of New York Mellon. The Standby Bond Purchase Agreement supporting the 2002 and 2003 bonds expires on May 26, 2010. The Standby Bond Purchase Agreement supporting the 2006 Series A bonds expires on May 26, 2013. The Standby Bond Purchase Agreements supporting the 2006 Series C and Series D bonds expire on March 25, 2012. In the event that bonds bearing interest at a weekly or daily rate are not successfully remarketed or if funds are not available for remarketing, JPMorgan Chase Bank, National Association, Morgan Stanley Bank, N.A., or The Bank of New York Mellon will pay the purchase price for debt that is tendered. The repayment terms of the Standby Bond Purchase Agreements cause the Series 2002, 2003, and 2006 Variable Rate Demand Bonds to be classified as current.

On September 10, 2007, SCLHS entered into a Revolving Credit Agreement (the JP Agreement) with JPMorgan Chase Bank, National Association that matured on September 10, 2008. On September 9, 2008, the JP Agreement was replaced with a \$100 million Revolving Credit Agreement (the U.S. Bank Agreement) with U.S. Bank, National Association, which matured on September 9, 2009 and was extended through December 23, 2009. On December 23, 2009, the U.S. Bank Agreement was replaced with a \$100 million Term Loan Credit Agreement (the Morgan Stanley Agreement) with Morgan Stanley Bank, National Association, which matures on September 23, 2010. As of December 31, 2009 and 2008, \$100.0 million and \$51.2 million, respectively, were outstanding and included in current maturities of long-term debt. Interest is calculated based on the London Interbank Offered Rate (LIBOR) plus 1.35% and reprices two business days prior to the end of each month.

The bond issues require annual serial maturities, mandatory sinking fund deposits, or mandatory redemptions each December 1, which approximate level debt service for each issue; therefore, such bond issues have term bond redemption dates on December 1, 2016, and various intervals to December 1, 2028, with final maturities extending to 2038.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

6. Capital Structure – SCLHS, Excluding Exempla (continued)

Scheduled principal repayments on long-term debt (excluding original issue discount) are as follows:

<u>Years Ending December 31</u>	Scheduled, With Variable Classified as	
	<u>Scheduled</u>	<u>Current</u>
	<i>(In Millions)</i>	
2010	\$ 123.8	\$ 431.1
2011	25.3	13.6
2012	26.1	14.0
2013	27.3	14.8
2014	28.5	15.5
Thereafter	506.7	248.7
	<u>\$ 737.7</u>	<u>\$ 737.7</u>

7. Capital Structure – Exempla

Long-term debt for Exempla consists of the following at December 31:

	<u>Annual Interest Rates</u>	<u>2009</u>
		<i>(In Millions)</i>
Exempla Obligated Group		
2002 Series A, due through January 2033	4.00% to 5.625%	\$ 50.1
2002 Series B, due through January 2033	Variable rate, 0.20%	31.0
2009 Series A, due through January 2039	Variable rate, 0.20%	33.0
EGSMC		
2002 Series A, due through December 2032	8.75%	158.4
Note payable to Kaiser Permanente, due November 2032	6.00%	16.6
Exempla General Improvement District, Revenue Bonds	Variable rate, 0.30%	1.6
Capital lease obligations		<u>6.0</u>
		296.7
Less original issue discount		2.0
Less current maturities of long-term debt		5.6
		<u>\$ 289.1</u>

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

7. Capital Structure – Exempla (continued)

Revenue bonds were issued through the Colorado Health Facilities Authority on behalf of Exempla under a Master Trust Indenture arrangement and on behalf of EGSMC under a bond indenture.

Under the terms of the Exempla Master Trust Indenture, Exempla, excluding EGSMC, (the Exempla Obligated Group), is liable for all obligations issued there under. The Exempla Obligated Group has agreed to certain covenants, including establishing debt service funds, restrictions on asset disposition in excess of specified amounts, and restrictions on additional indebtedness. These bonds are secured by revenues of the Exempla Obligated Group. The various bond documents require that certain funds be established and controlled by a trustee to satisfy debt service requirements for as long as any of the bonds remain outstanding.

Under the terms of the EGSMC revenue bond indenture, EGSMC is liable for all obligations issued thereunder. EGSMC has agreed to certain covenants, including establishing debt service funds, restrictions on asset dispositions in excess of specified amounts, and restrictions on additional indebtedness. These bonds are secured by EGSMC's revenue and by a mortgage on the majority of EGSMC's property. The bonds are nonrecourse to Exempla. The various bond documents require that certain funds be established and controlled by a trustee to satisfy debt service requirements for as long as any of the bonds remain outstanding. Under terms of the agreement with Kaiser Permanente described in Note 15, EGSMC must refinance the bonds before January 15, 2013. SJH and the Corporation are not parties to the Exempla Master Trust Indenture or the bond indenture and have provided no guarantee on the debt.

A termination of the JOA (described in Note 1) would not automatically be an event of default under either indenture, but would be an event of default under the letters of credit described below.

EGSMC's multiyear agreement with a Kaiser Permanente affiliate (see Note 15) provides for certain capital and operational funding through a subordinated note payable with a November 2032 maturity date. Payment of interest and principal is dependent on EGSMC meeting certain financial ratios. The note is subordinate to the EGSMC revenue bonds. The note payable provides for a maximum principal amount of \$18.0 million.

During 2002, the Exempla General Improvement District (the District) was created by the city of Lafayette, Colorado, for the purpose of issuing \$12.5 million in debt to finance the costs of land improvements at EGSMC. EGSMC has recognized a liability for the revenue bonds. The bonds bear interest at a variable rate based on the rate at which the bonds could be remarketed at their

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

7. Capital Structure – Exempla (continued)

face value and are secured by a lien on the underlying land. During 2009, Exempla paid down a portion of these bonds. Exempla does not intend to make a principal payment during 2010. During 2009, the District separated the obligations of the District into proportional amounts due by Exempla and the Kaiser Permanente Affiliate, resulting in the Kaiser Permanente affiliate being directly obligated to the District, which reduced Exempla's liability for the bonds by \$3.0 million during 2009.

Exempla has executed letters of credit for guarantees provided for the 2002 Series B Exempla revenue bonds in the amount of \$33.1 million, which expires March 31, 2011, and for the 2009 Series A Exempla revenue bonds in the amount of \$33.7 million, which expires February 4, 2012.

Scheduled principal repayments on long-term debt (excluding original issue discount) are as follows:

<u>Years Ending December 31</u>	<u>Scheduled</u> <i>(In Millions)</i>
2010	\$ 5.6
2011	5.9
2012	6.1
2013	6.4
2014	6.8
Thereafter	265.9
	<u>\$ 296.7</u>

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

8. Derivative Instruments

SCLHS has entered into three interest rate swaps. The objective of the hedges is to offset the variability of cash flows due to the repricing of outstanding debt. Details of the interest rate swaps are outlined below:

Notional amount	\$43,165,000	\$43,165,000	\$60,000,000
Fixed annual payment rate	3.18%	3.789%	4.215%
Variable receiver rate	68% of LIBOR	SIFMA Rate	SIFMA Rate
Effective date	December 5, 2003	December 5, 2003	October 2, 2008
Termination date	December 1, 2023	December 1, 2023	December 1, 2031
Reset	Monthly	Weekly	Weekly
Settlement	Monthly	Monthly	Monthly
Classification	Cash flow hedge	Cash flow hedge	Cash flow hedge
Fair value at December 31, 2009	\$(2.0) million	\$(2.7) million	\$(6.1) million
Fair value at December 31, 2008	\$(4.9) million	\$(4.3) million	\$(11.3) million

SCLHS measures the effectiveness of the hedges quarterly based on the cumulative dollar-offset approach. The change in unrealized value of interest rate swaps is excluded from the excess (deficit) of revenue over expenses for the portion of the hedge determined to be effective. Any ineffective portion of the hedges is recorded as investment income (loss). The ineffective portion of the hedges was \$0.1 million at both December 31, 2009 and 2008. The fair value of the swaps is recorded in other noncurrent liabilities at December 31, 2009 and 2008.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements

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 Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of SCLHS' financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income, and equity instruments, and interest rate swap contracts. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities and listed equities.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Certain of SCLHS' alternative investments are primarily made through limited liability companies (LLCs) and limited liability partnerships (LLPs). These LLCs and LLPs provide SCLHS with a proportionate share of the investment gains (losses). SCLHS accounts for its ownership in the LLCs and LLPs under the equity method; thus, these investments are excluded from the scope of the Fair Value Measurements and Disclosures Topic.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2009:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Millions)</i>			
Assets				
Investments:				
Cash and cash equivalents	\$ 104.3	\$ 104.3	\$ –	\$ –
Commingled fixed income fund	204.5	204.5	–	–
Commercial paper and certificates of deposit	16.3	–	16.3	–
U.S. government and agency obligations	64.5	39.1	25.4	–
Corporate debt	110.9	–	110.9	–
Asset backed securities	23.3	–	23.3	–
Mortgage backed securities	161.4	–	161.4	–
International government obligations	1.3	–	1.3	–
Global balanced funds	40.4	40.4	–	–
Domestic equity	197.3	197.3	–	–
International equity	88.3	88.3	–	–
	<u>\$ 1,012.5</u>	<u>\$ 673.9</u>	<u>\$ 338.6</u>	<u>\$ –</u>
Collateral received under securities lending program	\$ 38.9	\$ 38.9	\$ –	\$ –
Liabilities				
Obligations under swap contracts	\$ 10.8	\$ –	\$ 10.8	\$ –
Obligations to return collateral under securities lending program	\$ 38.9	\$ 38.9	\$ –	\$ –

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2008:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Millions)</i>			
Assets				
Investments:				
Cash and cash equivalents	\$ 90.8	\$ 90.8	\$ –	\$ –
Commingled fixed income fund	48.8	48.8	–	–
Commercial paper and certificates of deposit	6.0	–	6.0	–
U.S. government and agency obligations	104.3	66.9	37.4	–
Corporate debt	123.6	–	123.6	–
Asset backed securities	27.0	–	27.0	–
Mortgage backed securities	224.1	–	224.1	–
International government obligations	8.0	–	8.0	–
Global balanced funds	34.3	34.3	–	–
Domestic equity	113.7	113.2	0.5	–
International equity	58.4	58.4	–	–
	<u>\$ 839.0</u>	<u>\$ 412.4</u>	<u>\$ 426.6</u>	<u>\$ –</u>
Collateral received under securities lending program	\$ 87.2	\$ 87.2	\$ –	\$ –
Liabilities				
Obligations under swap contracts	\$ 20.5	\$ –	\$ 20.5	\$ –
Obligations to return collateral under securities lending program	\$ 88.8	\$ 88.8	\$ –	\$ –

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities (primarily fixed income securities) were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads, and estimated prepayment rates where applicable are used for valuation purposes provided by third-party services where quoted market values are not available. Level 2 investments include corporate fixed income, government bonds, mortgage, and asset backed securities. The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates approximate with the risks involved. The valuations reflect a credit spread adjustment to the LIBOR and Securities Industry and Financial Markets Association (SIFMA) discount curve in order to reflect the credit value adjustment for nonperformance risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains (losses) in the near term subsequent to December 31, 2009.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts and pledges receivable, and current liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair value of the fixed-rate bonds was approximately \$525.0 million and \$301.7 at December 31, 2009 and 2008, respectively. The fair value of the variable-rate revenue bonds approximates the carrying value at December 31, 2009 and 2008. The carrying value of all other debt is assumed to approximate fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while SCLHS believes its valuation methods 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 estimate of fair value at the reporting date.

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31, 2009 and 2008, of \$134.4 million and \$169.2 million, respectively, relate primarily to gifts restricted for capital expenditures, research, or healthcare services.

Permanently restricted net assets at December 31, 2009 and 2008, of \$28.7 million and \$27.4 million, respectively, relate primarily to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Plans – SCLHS, Excluding Exempla Healthcare

SCLHS (excluding Exempla Healthcare) participates in a defined-contribution retirement plan (the Defined-Contribution Plan), a 401(a) defined-contribution retirement plan that covers substantially all employees. Employer contributions to the plan are based on a percentage of eligible compensation for participating employees and a percentage of participating employees' contributions to a related 403(b) plan. SCLHS funded \$29.8 million and \$26.8 million related to the plan during 2009 and 2008, respectively.

SCLHS (excluding Exempla Healthcare) also participates in two defined-benefit retirement plans (the Defined-Benefit Plans); one is a plan frozen in 1996 covering a broad spectrum of employees, and the second is an executive supplemental retirement plan. SCLHS makes contributions to the Defined-Benefit Plans based on the funding recommendations of the plans' actuaries. One of the Defined-Benefit Plans is a single plan with multiple-employer participants. The benefits under this Defined-Benefit Plan are frozen for all participating employees except those of St. James Healthcare.

The following sets forth the Defined-Benefit Plans' funded status and accrued pension liability/prepaid benefit cost as of December 31, as actuarially determined:

	2009	2008
	<i>(In Millions)</i>	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 279.2	\$ 253.8
Service cost	2.0	1.3
Interest cost	16.3	14.8
Actuarial (gain) loss	(26.4)	19.0
Benefits paid	(12.1)	(13.6)
Plan amendments	–	3.9
Projected benefit obligation at end of year	259.0	279.2
Change in plan assets		
Fair value of plan assets at beginning of year	250.2	329.4
Actual return on plan assets	39.1	(66.6)
Contributions	0.8	3.0
Benefits paid	(12.1)	(13.6)
Expenses paid	(1.4)	(2.0)
Fair value of plan assets at end of year	276.6	250.2
Prepaid pension cost (accrued pension liability)	\$ 17.6	\$ (29.0)

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Plans – SCLHS, Excluding Exempla Healthcare (continued)

Included in unrestricted net assets at December 31 are the following amounts that have not yet been recognized in net periodic pension cost:

	2009	2008
	<i>(In Millions)</i>	
Unrecognized actuarial losses	\$ (35.3)	\$ (78.3)
Unrecognized prior service costs	(4.1)	(5.0)
	<u>\$ (39.4)</u>	<u>\$ (83.3)</u>

Changes in plan assets and benefit obligations in unrestricted net assets during 2009 and 2008 include:

	2009	2008
	<i>(In Millions)</i>	
Unrecognized actuarial gains (losses)	\$ 43.0	\$ (108.8)
Amortization of prior service credits (costs)	0.9	(3.5)
	<u>\$ 43.9</u>	<u>\$ (112.3)</u>

The prior service cost and actuarial gains included in unrestricted net assets and expected to be recognized in net periodic pension benefit during the year ending December 31, 2010 are less than \$0.1 million.

No plan assets are expected to be returned to SCLHS during the year ending December 31, 2010.

	2009	2008
	<i>(In Millions)</i>	
Components of net periodic benefit cost		
Service cost	\$ 3.2	\$ 2.8
Interest cost	16.3	14.8
Expected return on plan assets	(22.2)	(21.9)
Amortization of unrecognized prior service cost	0.9	0.4
Net periodic pension benefit	<u>\$ (1.8)</u>	<u>\$ (3.9)</u>

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Plans – SCLHS, Excluding Exempla Healthcare (continued)

Weighted-average assumptions used to determine benefit obligations as of December 31:

	<u>2009</u>	<u>2008</u>
Discount rate	6.00%	6.00%
Rate of increase in future compensation levels	4.00	4.00

Weighted-average assumptions used to determine pension benefit as of December 31:

	<u>2009</u>	<u>2008</u>
Discount rate	6.00%	6.00%
Expected return on plan assets	7.50	7.50
Rate of increase in future compensation levels	4.00	4.00

The expected return on plan assets reflects historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the portfolio. The investment strategy is of a long-term nature and is intended to ensure that funds are available to pay benefits as they become due and to maximize the trust's total return at an appropriate level of investment risk. Similar to SCLHS' investments, the Defined-Benefit Plans participate in a securities lending program as described in Note 5. In the event of nonperformance by the other parties to the securities lending agreements, the Defined-Benefit Plans could be exposed to some loss. The Defined-Benefit Plans have participated in the securities lending program for over five years. As of December 31, 2008, SCLHS had provided notice to BNY Mellon of its intention to terminate participation in the securities lending program and had received a segregated portfolio of its pro rata portion of each security held in the securities lending collateral pool. BNY Mellon was instructed not to enter into any new loans of securities unless it is to increase liquidity to cover redemptions. The portfolio was fully redeemed as of January 31, 2010.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Plans – SCLHS, Excluding Exempla Healthcare (continued)

The Defined-Benefit Plans' target and actual asset allocations by asset category are:

Asset Category	Target Allocation	Actual Allocation	
		2009	2008
Enhanced cash	3.0%	0.8%	0.2%
Fixed income securities	27.0	34.4	33.7
Equity securities	35.0	35.9	31.4
International equities	5.0	5.9	4.8
Emerging market equities	5.0	2.4	0.8
Real estate	15.0	12.8	19.7
Core hedge funds	5.0	4.9	5.3
Tactical allocation funds	5.0	2.9	4.1
Total		100.0%	100.0%

The fair value of pension plan assets was determined using the following inputs at December 31, 2009:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Millions)</i>				
Assets				
Enhanced cash and cash equivalents	\$ 3.5	\$ 3.4	\$ 0.1	\$ –
U.S. government related	94.7	94.7	–	–
Corporate debt	0.4	–	0.4	–
Asset backed securities	0.5	–	0.5	–
Mortgage backed securities	0.3	–	0.3	–
Domestic equity	59.9	59.9	–	–
International equity	15.8	15.8	–	–
Global equity	50.9	50.9	–	–
Hedge funds	13.2	7.0	–	6.2
Real estate funds	35.3	25.3	–	10.0
	\$ 274.5	\$ 257.0	\$ 1.3	\$ 16.2

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

11. Retirement Plans – SCLHS, Excluding Exempla Healthcare (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy defined above:

	Alternative Investments
	<i>(In Millions)</i>
Fair value at January 1, 2009	\$ 17.3
Purchases	6.1
Dispositions	(0.4)
Unrealized losses	(6.8)
Fair value at December 31, 2009	<u>\$ 16.2</u>

SCLHS transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable.

SCLHS does not expect to contribute to the Defined-Benefit Plans during 2010.

Expected benefits payments to participants, excluding lump-sum distributions, are as follows (in millions):

2010	\$ 19.5
2011	16.6
2012	18.7
2013	19.3
2014	19.5
2015–2019	113.9

12. Retirement Plans – Exempla Healthcare

Exempla employees participate in a defined-contribution plan (the Exempla Plan) covering substantially all employees of Exempla. The Exempla Plan provides, among other things, that the employer may contribute 3% to 6% based upon years of employment, as well as match employee contribution up to 2% of wages to a separate 403(b) plan. Exempla Healthcare contributed approximately \$18.9 million to the Exempla Plan for the year ended December 31, 2009. Of this amount, \$14.2 million was deposited in March 2010.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

12. Retirement Plans – Exempla Healthcare (continued)

Prior to January 1, 1998, the predecessor to Exempla had a defined-benefit pension plan (the Prior Plan), which covered substantially all of its employees. The benefits were based on years of service and employees' final average compensation. Benefits under the prior plan have been frozen. Exempla's funding policy is to contribute annually the minimum amount under the requirements of the Employee Retirement Income Security Act of 1974. Contributions are currently intended to provide for benefits attributed for services rendered through January 1, 1998.

The following sets forth the Exempla Plans' funded status and accrued pension liability/prepaid benefit cost as of December 31, as actuarially determined:

	2009
	<i>(In Millions)</i>
Change in projected benefit obligation	
Projected benefit obligation at beginning of year	\$ 40.9
Interest cost	2.8
Actuarial loss	5.3
Benefits paid	<u>(2.4)</u>
Projected benefit obligation at end of year	46.6
Change in plan assets	
Fair value of plan assets at beginning of year	35.1
Actual return on plan assets	8.2
Contributions	2.9
Benefits paid	<u>(2.4)</u>
Fair value of plan assets at end of year	<u>43.8</u>
Unfunded status of the accrued pension liability	<u>\$ (2.8)</u>

Included in unrestricted net assets at December 31 is \$16.4 million of unrecognized actuarial losses that have not yet been recognized in net periodic pension cost. Changes in the plan assets and benefit obligations in unrestricted net assets during 2009 include \$2.3 million of unrecognized actuarial gain. The prior service cost and actuarial gains included in unrestricted net assets and expected to be recognized in net periodic pension benefit during the year ending December 31, 2010 are approximately \$1.5 million.

No plan assets are expected to be returned to Exempla during the year ending December 31, 2010.

Sisters of Charity of Leavenworth Health System, Inc.
Notes to Consolidated Financial Statements (continued)

12. Retirement Plans – Exempla Healthcare (continued)

	2009
	<i>(In Millions)</i>
Components of net periodic benefit cost	
Interest cost	\$ 2.8
Expected return on plan assets	(2.5)
Amortization of unrecognized prior service cost	1.9
Net periodic pension benefit	\$ 2.2

Weighted-average assumptions used to determine benefit obligations as of December 31:

	2009
Discount rate	6.00%

Weighted-average assumptions used to determine pension benefit as of December 31:

	2009
Discount rate	6.91%
Expected return on plan assets	7.00
Rate of increase in future compensation levels	N/A

The Exempla Plans' target and actual asset allocations by asset category are:

Asset Category	Target Allocation	Actual Allocation 2009
Cash	5.0%	2.5%
Fixed income securities	25.0	23.2
Equity securities	50.0	54.1
Real estate	5.0	5.2
Tactical asset	15.0	15.0
Total		100.0%

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

12. Retirement Plans – Exempla Healthcare (continued)

The fair value of pension plan assets was determined using the following inputs at December 31, 2009:

	Fair Value Measurements at December 31 Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<i>(In Millions)</i>			
Assets				
Enhanced cash and cash equivalents	\$ 1.1	\$ 1.1	\$ –	\$ –
Equity mutual funds	23.6	23.6	–	–
Fixed income mutual funds	16.8	–	16.8	–
Real estate funds	2.3	–	–	2.3
	<u>\$ 43.8</u>	<u>\$ 24.7</u>	<u>\$ 16.8</u>	<u>\$ 2.3</u>

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy defined above:

	Real Estate Funds
	<i>(In Millions)</i>
Fair value at January 1, 2009	\$ 3.2
Investment income	0.1
Unrealized loss	(1.0)
Fair value at December 31, 2009	<u>\$ 2.3</u>

Expected benefits payments to participants, excluding lump-sum distributions, are as follows (in millions):

2010	\$ 2.4
2011	2.5
2012	2.7
2013	2.8
2014	2.9
2015–2019	16.9

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

13. Insurance Coverage – SCLHS, Excluding Exempla Healthcare

SCLHS (excluding Exempla Healthcare) provides an insurance program to provide for various insurance risks. SCLHS obtains insurance through Leaven Insurance Company, Ltd. (Leaven), a captive insurance company, as well as third-party insurers and other self-insured methods.

Aggregate excess umbrella coverage of \$100.0 million and excess claims-made basis professional liability coverage of \$100.0 million are obtained through Leaven, which cedes these risks to third-party commercial reinsurers located in the United States, Switzerland, and Bermuda. General liability coverage provides for a self-insured retention of \$1.0 million per claim up to an annual aggregate of \$3.0 million. Professional liability coverage provides for a self-insured retention of \$2.0 million per claim up to an annual aggregate of \$7.0 million (these limits are \$3.0 million per claim up to an annual aggregate of \$12.0 million for St. Vincent Healthcare). Professional liability coverages for Kansas affiliates are limited to \$0.2 million per claim up to an annual aggregate of \$0.6 million per affiliate. SCLHS is self-insured to the extent of the deductible amounts not covered by other insurance. Related expense for these coverages totaled \$12.2 million and \$9.2 million in 2009 and 2008, respectively, and have been included in other operating expenses in the accompanying consolidated statements of operations. The loss reserves recorded for estimated self-insured professional and general liability including estimates of the ultimate costs for both reported claims and claims incurred but not reported are discounted at annual rates of 4.00% at December 31, 2009 and 2008.

Professional and general liability coverage is provided through a revocable trust fund.

SCLHS (excluding Exempla Healthcare) self-insures and funds its obligations for workers' compensation. In connection therewith, SCLHS has obtained excess workers' compensation insurance coverage from outside carriers for individual claims in excess of \$1.0 million. During 2009 and 2008, \$6.3 million and \$6.6 million, respectively, of workers' compensation expenses were charged to employee benefits expense in the accompanying consolidated statements of operations.

SCLHS (excluding Exempla Healthcare) offers an employee benefit package to all eligible employees and their dependents. Portions of these benefits are self-insured and are provided through the SCLHS Employee Benefit Plan (the Benefit Plan). Contributions to the Benefit Plan are made in amounts determined in accordance with the recommendations of an independent actuary based on past claims experience and other factors. During 2009 and 2008, \$76.7 million and \$73.8 million, respectively, of expenses were charged to employee benefits expense in the accompanying consolidated statements of operations.

SCLHS is presently not aware of any unasserted casualty, professional liability, workers' compensation, or health and dental benefit claims that would have a material adverse impact on the accompanying consolidated financial statements.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

14. Insurance Coverage – Exempla Healthcare

Effective March 1, 2006, Exempla Healthcare became self-insured for professional and general liability with limits of \$2.0 million per occurrence and \$8.0 million in aggregate for professional liability and \$1.0 million per occurrence and \$3.0 million in aggregate for general liability (the Program). Excess coverages above those limits have been retained through Leaven. A trust fund was established for the Program in 2006, and as of December 31, 2009, the fund totaled \$18.4 million. Funding levels for the trust fund are established annually based upon recommendations of consulting actuaries. The trust fund can only be used for payment of malpractice and general liability losses, related expenses, and the cost of administering the trust. Actuarial-based liabilities of \$13.4 million for unpaid claims incurred since program inception are recorded as of December 31, 2009.

From March 1, 1999 to February 28, 2005, Exempla Healthcare had purchased from Leaven professional and general liability coverage on a claims-made basis. Limits of liability were maintained at \$2.0 million per occurrence and \$8.0 million in the aggregate. Excess coverage above those limits is retained through commercial insurers.

Exempla Healthcare has also established self-insurance programs for workers' compensation benefits and certain employee medical benefits. Annual self-insurance expense and funding under these programs are based on past claims experience and projected losses. Insurance coverage, in excess of the per-occurrence, self-insured retention, has been secured with insurers for specified amounts for workers' compensation. Actuarial estimates of uninsured losses of \$1.7 million as of December 31, 2009 have been accrued on an undiscounted basis and include an estimate for claims incurred but not reported. For medical and dental benefits, the liability for payment of incurred and unpaid claims is included in accrued salaries, wages, and benefits liabilities.

Exempla Healthcare is presently not aware of any unasserted casualty, professional liability, workers' compensation, or health and dental benefit claims that would have a material adverse impact on the accompanying consolidated financial statements.

15. Relationship With Kaiser Permanente

During 2002, EGSMC signed a multiyear agreement with a Kaiser Permanente affiliate, specifying the terms under which EGSMC would provide hospital services to Kaiser Permanente members beginning in 2005. Among other things, the agreement specifies payment terms and termination conditions. Beginning December 31, 2006, the agreement contains certain financial conditions relating to the operation of the hospital and provides that breach of the financial conditions would give Kaiser Permanente certain rights, including the right to purchase the hospital at a purchase price specified in the agreement. Management believes EGSMC was not in breach of the financial conditions as of December 31, 2009.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

15. Relationship With Kaiser Permanente (continued)

A Kaiser Permanente affiliate is also a noneconomic member of EGSMC, giving it certain rights to approve dissolution, reorganization, or voluntary bankruptcy. During 2009, certain payments from Kaiser Permanente under the agreement represent advances from Kaiser Permanente, which are recorded as subordinated debt (see Note 7).

In 2003, a Kaiser Permanente affiliate purchased land from EGSMC. As part of the purchase, the Kaiser Permanente affiliate agreed to pay EGSMC a proportionate amount of the assessments necessary to repay the District bonds. During 2009, the District separated the obligations of the District into proportional amounts due by Exempla and the Kaiser Permanente affiliate, resulting in the Kaiser Permanente affiliate being directly obligated to the District.

In 2003, Exempla Healthcare signed a multiyear agreement with a Kaiser Permanente affiliate, specifying the terms under which SJH provides hospital services to Kaiser Permanente. Among other things, the agreement specifies payment terms and termination conditions.

16. Commitments and Contingencies

SCLHS has guaranteed approximately \$22.7 million of debt for the purpose of constructing medical office buildings in Billings, Montana. This is part of a joint venture in which SCLHS is a 50% partner and co-manager. SCLHS receives an annual fee for the guarantee. SCLHS has also guaranteed \$17.0 million for a rural Kansas hospital, a medical office building in Wyoming, a university in Kansas, an imaging center venture in Kansas, and an imaging center venture in California.

SCLHS has various strategic information systems projects under way with an estimated total cost of \$212.0 million. As of December 31, 2009, SCLHS has spent approximately \$153.6 million on these projects and has reflected this in land, buildings, and equipment, net.

SCLHS has various construction and remodeling projects under way with an estimated total cost of \$1.0 billion. As of December 31, 2009, SCLHS has spent approximately \$930.4 million on these projects and has reflected this in land, buildings, and equipment, net.

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

16. Commitments and Contingencies (continued)

Exempla has executed three letters of credit totaling \$3.9 million that have been issued to certain beneficiaries.

SCLHS' rent expense under operating leases was \$32.7 million and \$16.6 million for the years ended December 31, 2009 and 2008, respectively. Scheduled noncancelable operating lease payments during the next five years are as follows (in millions):

2010	\$	22.9
2011		18.9
2012		15.0
2013		11.8
2014		8.7
Thereafter		17.3

17. Pledges Receivable

Pledges are generally recognized as revenue when unconditional pledges are made at the present value of expected future payments. Pledges receivable are scheduled to be received at December 31 as follows:

	2009	2008
	<i>(In Millions)</i>	
Due in one year or less	\$ 24.8	\$ 43.6
Due after one year through seven years	57.6	75.9
Total pledges receivable	82.4	119.5
Deferred pledge revenue representing interest	(5.5)	(12.1)
	76.9	107.4
Less allowance for doubtful pledges	0.3	0.5
Pledges receivable, net	\$ 76.6	\$ 106.9

Sisters of Charity of Leavenworth Health System, Inc.

Notes to Consolidated Financial Statements (continued)

18. Subsequent Events

SCLHS evaluated events and transactions occurring subsequent to December 31, 2009 through April 26, 2010, the date of issuance of the consolidated financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements.

In March 2010, Congress adopted comprehensive healthcare reform legislation, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act. The legislation is expected to extend access to coverage to 32 million individuals by 2019 through a combination of public program expansions and private section health insurance reforms. Significant changes to existing Medicare and Medicaid coverage and payments are also expected. The specific impact of the legislation on SCLHS is unknown at this time.

In April 2010, the Corporation approved a financing plan that provided for the issuance of up to \$900.0 million in tax-exempt revenue bonds. The proceeds for the new bonds are expected to be used to refinance the Corporation's Series 2000 and 1998 Bonds (see Note 6) and fund new capital improvement projects. The Corporation expects to issue these bonds in May 2010. If such issuance is completed, the Corporation expects the principal amount of the bonds attributable to the refinancing of the Series 2000 and 1998 Bonds to be approximately \$315.0 million, the principal amount attributable to the new money projects to be \$414.3 million, and the total amount of the issue to be approximately \$750.0 million.

On April 14, 2010, Exempla, along with EGSMC, signed an agreement to become a Restricted Affiliate under the Master Trust Indenture. Members of Exempla also agreed to an amendment to the JOA to state that on June 30, 2014, or earlier under certain circumstances, CFF's interest in the JOA and other rights relating to the Exempla would be terminated at a fixed price of \$280 million, principal payable over a 20 year term with interest at the prime rate, adjusted quarterly. With the addition of these entities as Restricted Affiliates, the Corporation amended the financing plan discussed in the previous paragraph to refinance Exempla Obligated Group's 2002 Series A and EGSMC 2002 Series A bonds. The total amount of bonds related to this refinancing is expected to be approximately \$208.5 million.