



Interim Financial Reporting Information
For the Six Months Ended June 30, 2010
Unaudited

Sisters of Charity of Leavenworth Health System
9801 Renner Blvd., Suite 100
Lenexa, Kansas 66219

Disclosure information as of June 30, 2010

August 13, 2010



**Operating Information and Management Discussion
For the Six Months Ended June 30, 2010
Unaudited**

The Sisters of Charity of Leavenworth Health System (Corporation) is a not-for-profit Catholic healthcare system with Affiliates located in Kansas, Colorado, Montana and California. The Corporation controls two groups of related entities identified as Affiliates and Exempla entities.

The Affiliates are owned by or affiliated with the Corporation directly or indirectly through sole corporate membership. The hospital Affiliates (listed below) comprise the Restricted Affiliates.

Providence Medical Center (PMC); Kansas City, Kansas
Saint John Hospital (SJL); Leavenworth, Kansas
Holy Rosary Healthcare (HRH); Miles City, Montana
St. James Healthcare (SJB); Butte, Montana
St. Vincent Healthcare (SVB); Billings, Montana
St. Francis Health Center (SFT); Topeka, Kansas
Saint John ϕ Hospital and Health Center (SJSM); Santa Monica, California
St. Mary ϕ Hospital & Medical Center (SMGJ); Grand Junction, Colorado
Saint Joseph Hospital (SJD); Denver, Colorado

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. On April 14, 2010, the Exempla entities as further defined and discussed herein also became Restricted Affiliates. The Exempla entities listed below are included in the accompanying consolidated financial statements for the 2009 and 2010 fiscal years. Beginning in 2010, the Exempla entities are reported as Restricted Affiliates in the Financial and Operating Information provided below. See %Basis of Presentation . Exempla+below for a discussion of the change in control and accounting treatment.

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

In addition to the Restricted Affiliates, SCLHS Affiliates include Foundations, Clinics, Caritas, Inc. and Subsidiaries (for-profit) and Leaven Insurance Company, Ltd. (off-shore captive insurance company.)

The accompanying Financial Statements represent the consolidated statements of SCLHS (total System) and include a Balance Sheet, Statement of Operations, Statement of Changes in Net Assets and Statement of Cash Flows for the Six Months Ended June 30, 2010.

Basis of Presentation – Exempla

Exempla Healthcare is a Denver, Colorado based healthcare delivery system formed on January 1, 1998 by a Joint Operating Agreement (JOA) among SCLHS, Community First Foundation (CFF), Exempla, and Saint Joseph Hospital, Inc. (SJH). Under the JOA, Exempla operates SJH and Exempla ϕ subsidiaries.

On December 2, 2009, changes to the bylaws and articles of incorporation of Exempla gave SCLHS and CFF each the power to appoint one-half of the members of the Board of Directors of Exempla and gave SCLHS the direct power to appoint management after consultation with the Exempla Board of Directors and to implement SCLHS policies and procedures. In addition, SCLHS obtained reserved powers to approve budgets, strategic plans, debt financing, acquisition or sale of assets and dissolution of Exempla. With these changes, SCLHS has both effective control over and an economic interest in Exempla and is therefore consolidated in the SCLHS 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 the beginning of fiscal year 2009. SCLHS recorded an increase to 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 was also 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 the year ending December 31, 2008, when Exempla was not consolidated into SCLHS financial statements, the equalization adjustment is reflected in the other operating revenue in the consolidated statements of operations was \$(11.5) million. For 2009 and 2010, the equalization adjustment is eliminated in the consolidation.

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 20, 2014, or earlier under certain circumstances, CFF's interest in the JOA and other rights relating to Exempla would be terminated at a fixed amount of \$280 million, principal payable over a 20 year term with interest at the prime rate, adjusted quarterly. Non-controlling interest as of June 30, 2010 is recorded at the present value of the \$280 million fixed amount. Under the Restricted Affiliate Agreement, SCLHS borrowed funds to refinance Exempla's existing fixed rate debt on May 20, 2010 (see discussion under balance sheet below).

Forward-Looking Statements

This Quarterly Report contains disclosures which constitute forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words like may, believe, will, expect, project, estimate, anticipate, plan, initiative or continue. These forward-looking statements are based on the current plans and expectations of SCLHS and are subject to a number of known and unknown uncertainties and risks, many of which are beyond SCLHS's control, that could significantly affect current plans and expectations and SCLHS's future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs (including changes to Medicare outlier payments) that may impact reimbursements to health care providers and insurers, (iv) the ability to achieve expected levels of patient volumes and control the costs of providing services, (v) changes in Federal, state or local regulations affecting the health care industry, (vi) the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against SCLHS (viii) changes in accounting practices, (ix) changes in general economic conditions including growing numbers of uninsured and unemployed patients, (x) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms and (xii) the collectability of uninsured accounts and deductible and co-pay amounts. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of SCLHS. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report, including in Management's Discussion and Analysis of Financial Performance.

Governance

In June 2010, the Community Council of Sisters, which comprises the membership of the Corporation, elected new leadership. Sister Maureen Hall was elected Community Director, replacing Sr. Sue Miller, whose term ended. Sisters Eileen Haynes and Eileen Hurley were elected as Community Councilors and Sr. Nancy Bauman was reelected. The terms of Srs. Marianna Bauder and Linda Roth ended. Sister Sue Miller's ex officio membership on the SCLSH Board of Directors ended with the change in Council leadership. There were no other changes during the period to the Board.

Management

In January 2010, William Murray announced his planned retirement as System President and CEO effective in June 2011. The 18-month transition will permit a national search process to locate his replacement and a substantial overlap for transition. Also in January 2010, Dr. Richard Lopes resigned his position as Sr. Vice President / Chief Clinical Transformation Officer of the System. Terri Potter was appointed Interim CEO of St. Mary's in Grand Junction in January 2010, replacing Robert Ladenburger, who transferred to Exempla as its CEO. In February 2010, Peg Breen was named Vice President/Chief Human Resources Officer. In March 2010, Michael Rowe, Sr. Vice President / Chief Financial Officer announced his resignation effective June 11, 2010. Lydia Jumonville was named Interim Chief Financial Officer in June 2010. In March 2010, Robert Erickson was appointed CEO of St Francis Health Center in Topeka, Kansas replacing Mike Schrader who resigned in September 2009.

In January 2010, management changes were taken for Exempla including the appointment of Robert Ladenburger as CEO of Exempla, Inc., replacing Jeffrey Selberg, the appointment of Bain Farris as CEO of Exempla St. Joseph Hospital replacing Robert Minkin, and the appointment of Grant Wicklund as CEO of Exempla Lutheran Medical Center replacing Robert Malte.

Financial and Operating Information

General

The Statement of Operations included in the attached Financial Statements for SCLHS (Consolidated) is a summary of activity for the fiscal years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010. The Statement of Operations with respect to the fiscal years ended December 31, 2007 2008 and 2009 and for the six months ended June 30, 2010 should be read in conjunction with the audited Financial Statements, including the notes thereto, and the reports of Ernst & Young LLP, independent auditors.

The financial and statistical tables which follow are presented for the SCLHS (Consolidated) and/or for the Obligated Group under the Master Trust Indenture (Restricted Affiliates). Information for Exempla Inc. is included in the tables for Restricted Affiliates beginning with the Six Months Ended June 30, 2010.

Sources of Gross Patient Service Revenue

SCLHS (Consolidated)	Audit Year Ended December 31,			YTD 06/30/2010 Unaudited
	2007	2008	2009	
Medicare	35%	35%	29%	29%
Medicaid	6%	6%	7%	7%
Managed Care	44%	44%	47%	43%
Commercial, Self Pay and Other	15%	15%	17%	21%
Total	100%	100%	100%	100%

Historical Capitalization Ratio

Restricted Affiliates	Audit as of December 31, (in Millions)			FYTD 06/30/2010 Unaudited (In Millions)
	2007	2008	2009	
Long-Term Debt:				
Master Indenture Debt (net of Original Issue Discount)	\$ 674.6	\$ 653.3	\$ 630.9	\$ 1,407.1
Other Long-Term Debt	5.6	51.6	100.1	25.05
Total Long-Term Debt	680.2	704.9	731.0	1,432.1
Less: Current Portion of Long-Term Debt	(356.2)	(392.7)	(431.1)	(337.0)
Plus variable portion not scheduled	329.4	318.6	307.3	306.0
Net Long-Term Debt	653.4	630.8	607.2	1,401.1
Unrestricted Net Assets	2,305.0	1,991.1	2,125.6	2,193.5
Total Capitalization	<u>\$ 2,958.4</u>	<u>\$ 2,621.9</u>	<u>\$ 2,732.8</u>	<u>\$ 3,594.6</u>
Net Long-Term Debt to Capitalization	22.1%	24.1%	22.2%	39.0%

Historical Debt Service Coverage Requirements

Restricted Affiliates	Audit as of December 31, (in Millions)			YTD 06/30/2010 Unaudited (In Millions)
	2007	2008	2009	
Combined Income available for Debt Service:				
Revenue over Expenses	\$ 162.5	(\$ 229.6)	\$ 79.3	(\$ 18.5)*
Net change in unrealized (gains) losses on investments	(35.2)	245.6	(51.9)	(16.0)
Depreciation and Amortization	105.9	108.7	114.1	99.3
Interest and Amortization	29.3	25.3	18.6	22.6
Total Income Available for Debt Service	<u>\$ 262.5</u>	<u>\$ 150.0</u>	<u>\$ 160.1</u>	<u>\$ 87.4</u>
Combined Annual Debt Service Requirements	<u>\$ 54.7</u>	<u>\$ 52.1</u>	<u>\$ 51.3</u>	<u>\$ 32.6**</u>
Debt Service Coverage Ratio	4.8x	2.9x	3.1x	5.3x

* Includes the effect of \$22.3 million Loss on Defeasance in non-operating income.
** Debt refinanced in May 2010 previously had principal and interest payments due December 1. Principal and interest are paid on January 1 for the 2010 issue, thus debt service for 2010 includes one rather than two semi-annual payments for the 2010 issue.

Utilization

Restricted Affiliates	Audit Year Ended December 31,			YTD 06/30/2010 Unaudited**
	2007	2008	2009	
Licensed Beds*	2,667	2,667	2,633	3,387
Staffed Beds*	1,970	1,968	1,904	2,562
Percent of Occupancy, Staffed Beds	59%	59%	57%	56%
Admissions	93,524	90,494	87,543	59,003
Patient Days	426,324	423,273	392,476	261,328
Average Length of Stay	4.6	4.7	4.5	4.4

*Includes Acute Care, Psychiatric, Hospital-based Skilled Nursing and Extended Care
**Includes Exempla, Inc. as a Restricted Affiliated in 2010.

Management's Discussion and Analysis of Financial Performance

Restricted Affiliates	Audit Year Ended December 31,			YTD 06/30/2010 Unaudited *
	2007	2008	2009	
Adjusted Operating Income Margin	1.1%	(0.7%)	0.7%	(0.9%)
Operating Income Margin	9.0%	(14.9%)	4.1%	(1.5%)**
Return on Net Assets	7.0%	(11.5%)	3.7%	(1.7%)**
Debt Service Coverage Ratio	4.8x	2.9x	3.1x	5.3x
Days Cash on Hand (excluding Self-Insured Risk Funds and Trustee-Held Funds)	398	276	236	257
Cushion Ratio	28.6x	22.9x	21.7x	50.9x

* Includes Exempla, Inc. as a Restricted Affiliate in 2010.
**Includes the effect of \$22.3 million Loss on Defeasance reported as non-operating loss.

SCLHS (Consolidated)	Audit Year Ended December 31,			YTD 06/30/2010 Unaudited
	2007	2008	2009	
Adjusted Operating Income Margin	1.5%	(0.5%)	1.1%	(1.1%)
Operating Income Margin	9.8%	(15.8%)	5.1%	(1.6%)*
Return on Net Assets	7.6%	(12.1%)	5.2%	(1.8%)*
Debt Service Coverage Ratio	5.2x	2.8x	3.5x	5.4x
Days Cash on Hand (excluding Self-Insured Risk Funds and Trustee-Held Funds)	434	292	236	271
Cushion Ratio	32.2x	24.9x	29.3x	55.2x

*Includes the effect of \$22.3 million Loss on Defeasance reported as non-operating loss.

Management's Discussion and Analysis of Financial Performance

Balance Sheet

SCLHS (Consolidated) Cash and Investments (excluding Self-Insured Risk Funds and Trustee Held Funds) increased by \$261.0 million during the six months ended June 30, 2010 to 271 Days Cash on Hand.

On May 20, 2010, SCLHS issued fixed rate bonds with a par amount of \$1,004,460,000. The bond proceeds were used to refund the outstanding SCLHS Series 1998 and Series 2000 bonds as well as the Exempla Series 2002A and Exempla Good Samaritan Series 2002 bonds. SCLHS received \$288 million of reimbursement for prior capital expenditures. One hundred (\$100) million of the bond proceeds were used to repay the outstanding term loan with Morgan Stanley Bank, National Association. Eighty (\$80)

million of the bond proceeds are held in a trustee held bond fund for future expenditures anticipated to take place in Montana and Colorado. On May 20, 2010, the outstanding variable rate bonds of Exempla were reissued in the name of SCLHS. The affected bonds were the Exempla Series 2002B bonds and the Exempla Series 2009A bonds, which are hereafter known as the Colorado 2002B bonds and the Colorado 2009A bonds.

On December 23, 2009, SCLHS entered into a \$100 million Term Loan Credit Agreement (the Morgan Stanley Agreement), replacing an outstanding \$100 million Revolving Credit Agreement with U.S. Bank, N.A. The \$100 Million Morgan Stanley Agreement was repaid with a portion of the proceeds of the 2010 Bond issue on May 20, 2010.

On March 7, 2006, SCLHS issued \$120 million of Series 2006 variable rate bonds. SCLHS also entered into a \$60 million swap to convert 50% of the Series 2006 issue from variable to fixed-rate. The Corporation agreed to pay 4.215% and receive a rate equal to SIFMA. Upon closing, \$107.9 million was reimbursed to SCLHS for past qualifying capital expenditures. The fixed rate amount and the floating rate amount are netted against each other monthly and SCLHS pays additional interest only to the extent the fixed swap rate exceeds the floating rate and vice versa. Additional swap interest payments for the Series 2006 Bond Issue totaled \$1.2 million for the six months ended June 30, 2010.

The Series 2003 Bond Issue consists of \$192 million of Variable Rate Demand Revenue Bonds. Upon the issuance of the Series 2003 Bonds, SCLHS entered into a \$60 million swap in which SCLHS agreed to pay 3.789% and receive the SIFMA rate. SCLHS also entered into a \$60 million swap in which the Corporation agreed to pay 3.18% and receive a rate equal to 68% of the monthly LIBOR rate. Both swaps will expire December 1, 2023. The fixed rate amount and the floating rate amount are netted against each other monthly and SCLHS pays additional interest only to the extent the fixed swap rate exceeds the floating rate and vice versa. Additional swap interest payments for the Series 2003 Bond Issue totaled \$1.4 million for the six months ended June 30, 2010.

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., The Bank of New York Mellon and U.S. Bank, N.A. 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., The Bank of New York Mellon or U.S. Bank, N.A. will pay the purchase price for debt that is tendered. The Issues supported by the Standby Bond Purchase Agreements are listed below along with the expiration dates:

Series	Bank	Expiration Date
2002 Colorado, 2003A Montana, 2003B Colorado, 2006A Montana	J.P. Morgan Chase Bank, N.A.	May 26, 2013
2003 California, 2003A Colorado	The Bank of New York Mellon	May 26, 2012
2006 Kansas Series C and D	Morgan Stanley Bank, N.A.	March 25, 2012
2009A Colorado	U.S. Bank, N.A.	February 4, 2012
2002B Colorado	U.S. Bank, N.A.	March 31, 2011

Statement of Operations

For the Six Months Ended June 30, 2010, SCLHS (Consolidated) recorded Earnings before Interest, Depreciation and Amortization (EBIDA) of \$113.5 million compared to \$139.1 million for FY 2009. SCLHS (Consolidated) recorded a Net Loss of \$21.2 million for the Six Months Ended June 30, 2010 compared to Net Income of \$48.6 million for the same period in 2009. The Net Loss in 2010 includes a loss on the early extinguishment of debt of \$22.3 million related to the refunding of certain bonds as discussed above, additional depreciation of \$15.5 million related to major construction projects completed in Colorado and California and a decrease of \$4.3 million in investment earnings.

Gross Patient Service Revenue was \$3.695 billion, up \$169 million from fiscal year 2009. Contractual Allowances and Charity were \$2.424 billion, up \$110 million over the prior fiscal year. Increases in Gross Patient Service Revenue were the result of changes in volume, service mix, acuity and rates. Inpatient admissions were 59,352 in for the first six months of fiscal year 2010, a decrease of 1,595 or 3% versus the same period in the prior fiscal year. Total Operating Expenses of \$1.313 billion for the Six Months Ended June 30, 2010 were \$103.3 million higher than Total Operating Expenses for the Six Months Ended June 30, 2009. Total Operating Expenses for the Six Months Ended June 30, 2010 includes a fee

of \$45.3 million paid to the State of Colorado for a new federal/state program that is offset by revenue received from such program in the amount of \$47.1 million. The remaining increase in Total Operating Expenses is primarily due to increases in salaries, wages and benefits (\$18.7 million), Purchased Services (\$4.6 million), Supplies (\$8.7 million), Bad debts (\$8.1 million), and Depreciation & Amortization (\$15.5 million).

Investment earnings of \$12.4 million (Consolidated) for the six months ended June 30, 2010 represent a 1.5% annualized return on average invested funds. SCLHS's portfolio includes limited investments in absolute return funds, real estate and core hedge funds for which returns are reported on a calendar quarter basis and for which market values are less readily available than investments traded on the open market. SCLHS performs alternative procedures to validate existence and carrying value.

SCLHS's revenues depend upon inpatient occupancy levels, the volume of outpatient procedures and the charges and negotiated payment rates for such services. Hospital volumes and net revenues appear to be adversely impacted by several factors including general economic softness, a growing uninsured population, higher unemployment levels in certain markets, increased co-payments and deductibles and various competitive pressures. SCLHS's strategy includes providing adequate capacity through the responsible allocation of capital, improving the quality of care in order to attract patients, physicians and payers and controlling costs through increased efficiency.

Commitments and Contingencies

The United States Attorney's Office and the Department of Health and Human Services Office of 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.