

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER
FINANCIAL INFORMATION

CHRISTUS Health
Years Ended June 30, 2009 and 2008

CHRISTUS Health

Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2009 and 2008

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Independent Auditors' Report

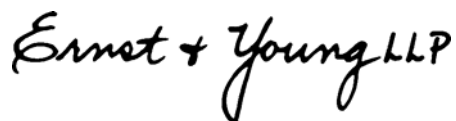
To the Board of Directors of CHRISTUS Health

We have audited the consolidated balance sheets of CHRISTUS Health as of June 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of CHRISTUS Health'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. 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 CHRISTUS Health'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 CHRISTUS Health's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CHRISTUS Health at June 30, 2009 and 2008, and the results of its consolidated operations and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

October 20, 2009

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

CHRISTUS HEALTH

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2009 AND 2008

(In thousands)

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 363,366	\$ 174,474
Short-term investments	279,681	277,738
Equity investments in managed funds	95,928	315,262
Assets whose use is limited or restricted, required for current liabilities	51,216	55,245
Patient accounts receivable, net of allowance for uncompensated care of \$207,879 and \$192,195 at June 30, 2009 and 2008, respectively	353,919	375,705
Estimated third-party payor settlements	5,478	2,371
Notes and other receivables	199,746	154,503
Inventories	82,577	83,017
Assets held for sale	29,617	2,021
Securities pledged to creditors	53,054	36,502
Security lending collateral	53,365	39,789
Other current assets	32,783	31,291
Total current assets	1,600,730	1,547,918
ASSETS WHOSE USE IS LIMITED OR RESTRICTED—Less current portion	478,501	690,719
PROPERTY, PLANT, AND EQUIPMENT—Net of accumulated depreciation	1,872,654	1,921,396
OTHER ASSETS:		
Investments in unconsolidated organizations	159,501	181,337
Derivative instruments	-	2,941
Goodwill, net of amortization	113,796	119,387
Other assets	84,573	86,315
Other restricted assets	23,328	27,366
Total other assets	381,198	417,346
TOTAL	\$ 4,333,083	\$ 4,577,379

CHRISTUS HEALTH

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2009 AND 2008

(In thousands)

	2009	2008
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 319,361	\$ 373,241
Accrued employee compensation and benefits	145,215	140,987
Accrued pension benefits	8,816	3,551
Estimated third-party pay or settlements	19,618	14,332
Current portion of long-term debt	42,222	30,306
Payable under security lending agreements	54,238	39,789
Long-term obligations subject to remarketing agreements	-	138,535
	<u>589,470</u>	<u>740,741</u>
Total current liabilities	589,470	740,741
LONG-TERM DEBT—less current portion	1,194,743	1,074,520
ACCRUED PENSION BENEFITS—less current portion	213,672	86,614
DERIVATIVE INSTRUMENTS	70,823	22,861
OTHER LONG-TERM OBLIGATIONS—Primarily related to self-funded liabilities—less current portion	145,268	136,027
	<u>2,213,976</u>	<u>2,060,763</u>
Total liabilities	2,213,976	2,060,763
MINORITY INTEREST	91,791	78,021
NET ASSETS:		
Unrestricted	1,954,230	2,372,539
Temporarily restricted	59,873	52,939
Permanently restricted	13,213	13,117
	<u>2,027,316</u>	<u>2,438,595</u>
Total net assets	2,027,316	2,438,595
TOTAL	<u>\$ 4,333,083</u>	<u>\$ 4,577,379</u>

See accompanying notes.

CHRISTUS HEALTH

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

	2009	2008
UNRESTRICTED REVENUES:		
Net patient service revenue	\$ 3,128,867	\$ 2,806,809
Premium revenue	151,071	147,874
Other revenue	190,283	184,703
Equity in (loss) income of unconsolidated organizations	<u>(3,895)</u>	<u>26,312</u>
Total revenues	<u>3,466,326</u>	<u>3,165,698</u>
EXPENSES:		
Employee compensation and benefits	1,571,563	1,398,001
Services and other	890,292	818,168
Supplies	595,558	516,996
Depreciation and amortization	236,300	216,846
Provision for uncollectible accounts	165,740	174,069
Interest	<u>39,988</u>	<u>48,034</u>
Total expenses	<u>3,499,441</u>	<u>3,172,114</u>
OPERATING LOSS	(33,115)	(6,416)
NONOPERATING INVESTMENT LOSS	(223,260)	(101,277)
NONOPERATING LOSS	<u>(10,100)</u>	<u>(1,155)</u>
REVENUES IN DEFICIT OF EXPENSES	<u>(266,475)</u>	<u>(108,848)</u>

(Continued)

CHRISTUS HEALTH

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

	2009	2008
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net change in unrealized loss on investments	\$ (8,236)	\$ (9,470)
Change in pension liabilities	(129,783)	(37,842)
Other	<u>(13,815)</u>	<u>5,856</u>
CHANGES IN UNRESTRICTED NET ASSETS	(418,309)	(150,304)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	13,157	17,458
Net change in unrealized loss on investments	(1,873)	(1,527)
Net assets released from restrictions and other	<u>(4,350)</u>	<u>(8,476)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	6,934	7,455
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	<u>96</u>	<u>(1,490)</u>
CHANGES IN NET ASSETS	(411,279)	(144,339)
NET ASSETS—Beginning of year	<u>2,438,595</u>	<u>2,582,934</u>
NET ASSETS—End of year	<u>\$ 2,027,316</u>	<u>\$ 2,438,595</u>

See accompanying notes.

(Concluded)

CHRISTUS HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (In thousands)

	2009	2008
OPERATING ACTIVITIES:		
Changes in net assets	\$ (411,279)	\$ (144,339)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Change in pension liabilities	127,058	27,115
Other changes in net assets	(13,157)	(17,458)
Equity in loss (income) of unconsolidated organizations	3,895	(26,312)
Equity losses (earnings) on investments in managed funds	87,957	(15,965)
Depreciation and amortization	236,300	216,846
Provision for uncollectible accounts	165,740	174,069
Change in derivative fair value	50,903	53,828
Loss on early extinguishment of debt	13,062	-
Changes in operating assets and liabilities, net of acquisitions:		
Net patient accounts receivable	(143,954)	(186,140)
Decrease (increase) in trading securities	211,755	(48,326)
Increase in notes and other receivables	(45,243)	(104,546)
Decrease (increase) in inventories	440	(1,896)
Increase in other current assets	(1,492)	(3,397)
(Decrease) increase in accounts payable, accrued expenses, and accrued employee compensation and benefits	(26,075)	63,649
Increase (decrease) in net third-party payor settlements	2,179	(19,332)
Increase (decrease) in liability for self-funded liabilities	7,416	(38,423)
Net cash provided by (used in) operating activities	<u>265,505</u>	<u>(70,627)</u>
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(206,306)	(247,208)
Proceeds from sale or disposal of property, plant, and equipment	5,624	1,459
Decrease in equity investments in managed funds	133,926	50,550
Decrease in investments in unconsolidated organizations	17,940	15,510
(Increase) decrease in securities pledged to creditors	(16,552)	55,416
Increase in other assets	(1,543)	(14,437)
(Increase) decrease in security lending collateral	(13,576)	55,538
Acquisitions of health care entities, net of cash acquired	-	(151,908)
Net cash used in investing activities	<u>(80,487)</u>	<u>(235,080)</u>

(Continued)

CHRISTUS HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (In thousands)

	2009	2008
FINANCING ACTIVITIES:		
Contributions of temporarily restricted net assets	\$ 13,157	\$ 17,458
Other costs associated with debt refinancing	(10,437)	303
Proceeds from debt issuance	654,775	293,160
Payments on long-term debt	(668,070)	(21,932)
Increase (decrease) in payable under security lending agreements	<u>14,449</u>	<u>(55,538)</u>
Net cash provided by financing activities	<u>3,874</u>	<u>233,451</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	188,892	(72,256)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>174,474</u>	<u>246,730</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 363,366</u>	<u>\$ 174,474</u>
NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Capital lease obligations incurred for purchases of property, plant, and equipment	<u>\$ 3,648</u>	<u>\$ 11,684</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid during the year for interest (net of amount capitalized)		
	<u>\$ 46,478</u>	<u>\$ 51,792</u>

See accompanying notes.

(Concluded)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

1. MISSION, VISION, AND ORGANIZATION OF CHRISTUS HEALTH

CHRISTUS Health was incorporated as a Texas nonprofit corporation on December 15, 1998. CHRISTUS Health is sponsored by the Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas, and the Congregation of the Sisters of the Incarnate Word of San Antonio, Texas. The Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas, sponsors the Sisters of Charity Health Care System (SCH), and the Congregation of the Sisters of Charity of the Incarnate Word of San Antonio, Texas, sponsors the Incarnate Word Health System (IWHS). SCH and IWHS continue to exist and carry out their ministries.

The mission of CHRISTUS Health is to extend the healing ministry of Jesus Christ. The Gospel values underlying the mission statement challenge CHRISTUS Health to make choices that respond to the economically disadvantaged and the underserved with health care needs. The growth and development of CHRISTUS Health are determined by the health care needs of the communities that CHRISTUS Health serves, its available resources, and the interrelationship of those serving and those being served. Responsible stewardship mandates that CHRISTUS searches out new, effective means to deliver quality health care and to promote wholeness in the human person.

The vision of CHRISTUS Health is to be a leader, a partner and an advocate in the creation of innovative health and wellness solutions that improve the lives of individuals and communities so that all may experience God's healing presence and love.

The consolidated financial statements of CHRISTUS Health include activities of its affiliated market-based organizations and other related entities, all of which are wholly or majority-owned and commonly referred to as regions or entities. For purposes of these consolidated financial statements, the "System" is defined as CHRISTUS Health's affiliated market-based organizations and other related entities. The other related entities include, but are not limited to, hospital foundations, professional office buildings, management services organizations, physician groups, a collection agency, self-insurance trusts, an offshore captive insurance company, a health plan, integrated community health networks, and diagnostic imaging companies.

1. MISSION, VISION, AND ORGANIZATION OF CHRISTUS HEALTH (Continued)

CHRISTUS Health controls or owns, directly or indirectly, or manages various non-profit and for profit corporations and other organizations that currently operate in the States of Texas, Arkansas, Georgia, Louisiana, Missouri, New Mexico, Iowa and Utah and the Republic of Mexico. According to the terms of the CHRISTUS Health Master Trust Indenture, the Obligated Group consists of eight CHRISTUS Health regions as follows: CHRISTUS Spohn Health System, CHRISTUS Health Gulf Coast, CHRISTUS Health Southeast Texas, CHRISTUS Santa Rosa Health Care Corporation, CHRISTUS Health Ark-La-Tex, CHRISTUS Health Northern Louisiana, CHRISTUS Health Central Louisiana, and CHRISTUS Health Southwestern Louisiana. CHRISTUS Health is the Obligated Group Agent.

Certain entities of CHRISTUS Health, otherwise included in the consolidated financial statements of CHRISTUS Health, are excluded from the CHRISTUS Health Obligated Group. These entities include, but are not limited to, the CHRISTUS Health Liability Retention Trust, Emerald Assurance, CHRISTUS St. Vincent Regional Medical Center, CHRISTUS Health Utah, Dubuis Health System, C.H. Wilkinson Physician Network, CHRISTUS HomeCare, CHRISTUS Muguerza, S.A. de C.V., and various philanthropic foundations.

CHRISTUS Health and certain affiliated nonprofit corporations are generally exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3).

2. COMMUNITY HEALTH

In accordance with its mission and philosophy, the System commits significant resources to improving the health of the communities it serves. In support of its mission, the System provides programs and services for entire communities but with a special consideration for those who are poor and underserved.

Programs and Services for the Poor and Underserved- represent the financial commitment to serve those who have inadequate resources and/or are uninsured or underinsured. Services are offered with the conviction that health care is a basic human right and all deserve access. The categories included as programs and services for the poor and the underserved are as follows:

Charity Care- in accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the organization's criteria for financial assistance.

Traditional charity care is defined by the state of Texas as the unreimbursed costs of providing, funding, or otherwise financially supporting the health care services provided to a person with income at or below 200% of the federal poverty level. Charity care services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets as there is minimal or no expectation of payment.

2. COMMUNITY HEALTH (Continued)

Unpaid Costs of Medicaid and Other Public Programs for the Indigent- represent the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of any payments received from all sources.

Community Services for the Poor and the Underserved- represent the unpaid cost of services provided for which a patient is not billed, or for which a fee has been assessed that recovers only a portion of the cost of the rendered service. This category includes services to those in need through community health programs. The programs cover a broad spectrum of services from community health centers to immunizations for children and seniors, meals on wheels, transportation services, home repair projects, and a variety of other social services. These programs may also seek justice for the vulnerable and work to bring about changes in political and economic systems.

Examples of CHRISTUS Health Community Benefits accounted for under Community Services for the Poor and Underserved include-

The CHRISTUS Community Direct Investment Program (CDI) was established to support community-driven initiatives primarily for affordable housing and economic development by providing financing at below-market interest rates. The majority of the support is provided to programs in the CHRISTUS operating regions. The amount the System would have earned on these monies is the forgone income that is considered a community benefit.

The CHRISTUS Fund was established for the purpose of providing grants to support community planning, healthy community initiatives, and community-based programs with a focus on the poor and underserved areas where CHRISTUS Health ministries and sponsoring congregations are involved.

Community Services provided for the Broader Community- represents the unpaid cost of services provided for the benefit of the entire community. The majority of these expenditures are for graduate medical education programs either through CHRISTUS-sponsored or affiliated programs. Other benefits for the broader community include health promotion and wellness programs, health screenings, newsletters, and radio or television programs intended for health education. These programs are not intended to be financially self-supporting.

Education and Research- represents the direct costs associated with medical education and other health professional educational programs in excess of governmental payments.

Other Community Services- represent leadership activities, community planning, and advocacy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation- The consolidated financial statements include the accounts of all entities of the System (see Note 1). All significant inter-entity transactions and accounts have been eliminated in consolidation.

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

Cash and Cash Equivalents- Cash equivalents include short-term, highly liquid investments with maturities of three months or less.

Investments and Derivative Financial Instruments- The System's investment portfolio is classified as trading, with unrealized gains and losses included in revenues in deficit of expenses. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include equity investments in managed funds structured as limited liability corporations or partnerships. These investments are accounted for under the equity method.

Investment income or loss (including equity investment earnings on managed funds; realized and unrealized gains and losses, computed on the average-cost basis of the security at the time of sale; and interest and dividends) is included in revenues in deficit of expenses unless the income or loss is restricted by donor or law.

Investment income earned on assets held by trustees under bond indenture agreements, assets held by foundations, assets deposited in trust funds for self-insurance purposes, and funds held by insurance subsidiaries in accordance with industry practices is included in other revenue in the consolidated statements of operations and changes in net assets.

Additionally, the System periodically utilizes various derivative financial instruments (e.g., interest rate swaps) to hedge interest rate and other exposures. Changes in the fair value of the System's interest rate swaps are recorded as a separate component of nonoperating investment loss in the consolidated statements of operations and changes in net assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories- The System values inventories, which consist principally of medical supplies and pharmaceuticals, at the lower of cost (first-in, first-out, or weighted-average cost valuation method) or market basis.

Property, Plant, and Equipment- Property, plant, and equipment acquisitions are recorded at cost or fair market value at the time of donation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged against operations.

Depreciation is calculated and recorded over the estimated useful life of each class of depreciable assets using the straight-line method. The *American Hospital Association-Estimated Useful Lives of Depreciable Hospital Assets* is used as a general guide in establishing depreciable lives. Amortization of capital leases is included in depreciation expense.

Asset Impairment- The System periodically evaluates the carrying value of its long-lived assets for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value.

Investments in Unconsolidated Organizations- The System has investments in certain organizations, of which the System does not have a majority-ownership interest, that do not require consolidation. These investments are recorded using the equity method of accounting.

Securities Lending- The System participates in securities lending transactions facilitated by the lending agent. Such loans are secured by collateral of 102% of the market value of domestic securities and 105% of the market value of foreign securities. Such collateral will typically be cash or debt securities issued by the U.S. government or any of its agencies. Cash collateral received in connection with these loans is currently invested in a pooled fund of securities, which mature in no more than 13 months, and is maintained by the lending agent.

Goodwill- The cost over the fair value of net assets acquired is amortized on a straight-line basis over 5 to 40 years. The System reviews goodwill when indicators suggest an impairment has occurred. An impairment is deemed to have occurred if the expected cash flows from continuing to use the asset are less than the carrying value of the asset. Any such impairment is recorded in operations. No goodwill impairment was recorded in fiscal years 2009 or 2008. Goodwill is recorded net of accumulated amortization of \$30,266,000 and \$25,070,000 at June 30, 2009 and 2008, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Financing Costs- Deferred financing costs, net of accumulated amortization, included in other assets at June 30, 2009 and 2008, are \$20,412,000 and \$24,396,000, respectively, which are being amortized, using the interest method, over the terms of the indebtedness to which they relate. During fiscal year 2009, the System refinanced a portion of the outstanding Series 2005 and Series 2007 bonds. The write-off of the related deferred financing costs resulted in a loss on the early extinguishment of debt of \$13,062,000.

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

Patient Accounts Receivable, Estimated Payables to Third-Party Payors, and Net Patient Service Revenue- The System has agreements with third-party payors that provide for payments to the System at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from third-party payors and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated payables to third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The System has adopted an uncompensated care policy whereby revenue from services provided to the uninsured is recognized at the time of payment rather than the time of service. This policy is a result of the lack of reasonable assurance of collection for services provided to the uninsured due to the System's historically low collection rate. Management has estimated that the difference between recording this revenue on the cash basis versus the accrual basis to be immaterial to net patient service revenue for fiscal years 2009 and 2008. Accordingly, all accounts receivable from the uninsured have been fully reserved in the allowance for uncompensated care. The resulting adjustment is recorded as revenue deductions from gross charges to arrive at net patient service revenue.

Policy on Accounts Receivable Allowance Methodology- The System's recorded allowance for uncompensated care is based on expected net collections, after contractual adjustments, primarily from patients. Management routinely assesses these recorded allowances relative to changes in payor mix, cash collections, write-offs, recoveries, and market dynamics. An adjustment of approximately \$11,500,000 was recorded in the fourth quarter to increase the allowances based on management's most recent assessment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premium Revenue and Associated Costs- Premium revenue represents revenues derived under capitated arrangements with third parties. In return for these premiums, the contracting entity is responsible for providing essentially all health care services to enrolled participants. Costs for providing these services, including services provided by other health care providers, are included as operating expenses in the consolidated financial statements. At June 30, 2009 and 2008, the respective contracting entities have accrued expenses for incurred but not reported claims based upon claims experience. The contracting entities maintain stop-loss insurance coverage to limit exposure for certain catastrophic claims.

Other Revenue- Other revenue is derived from services other than providing health care services or coverage to patients, residents, or enrollees. These typically include investment income from all funds held by a trustee, malpractice funds, or other miscellaneous investment activities; rental of health care facility space; sales of medical and pharmaceutical supplies to employees, physicians, and others; proceeds from sale of cafeteria meals and guest trays to employees, medical staff, and visitors; and proceeds from sales at gift shops, snack bars, newsstands, parking lots, vending machines, or other service facilities operated by the health care organization.

Donor-Restricted Gifts- 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. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

International Operations- The System owns a 54.4% interest in CHRISTUS Mugerza, S.A. de C.V. (CHRISTUS Mugerza), headquartered in Monterrey, Mexico. CHRISTUS Mugerza is a private health care system and is subject to taxes in accordance with the regulations of the country of Mexico. The financial statements of CHRISTUS Mugerza are presented in accordance with accounting principles generally accepted in the United States and are consolidated in the CHRISTUS Health financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Minimum Revenue Guarantees- CHRISTUS enters into agreements with nonemployed physicians that include minimum revenue guarantees. These guarantees primarily arise through physician recruiting efforts and vary by physician specialty. Generally, the term of these guarantees ranges from one to two years with the majority including a forgiveness period that begins during the second year of the guarantees. The estimated amount of the liability for CHRISTUS' obligation under these guarantees was \$7,463,000 and \$6,635,000 at June 30, 2009 and 2008, respectively, and is included in other current liabilities in the accompanying consolidated balance sheets.

The maximum amount of future payments that the System could be required to make under existing guarantees is approximately \$24,324,000, which also includes the remaining amount of guarantees that were entered into prior to the adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) FIN 45-3, *Application of Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or its Owners*.

Asset Retirement Obligations- CHRISTUS estimates the conditional asset retirement obligation primarily associated with asbestos abatement to be \$7,583,000 and \$7,576,000 as of June 30, 2009 and 2008, respectively.

Uncertainty in Income Taxes- FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48), creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of FIN 48, tax-exempt organizations could now be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. Prior to FIN 48, tax liabilities were recorded as incurred. On July 1, 2007, CHRISTUS Health adopted FIN 48 and the adoption had no impact on its consolidated financial statements. There are no material unrecorded tax liabilities as of June 30, 2009 and 2008.

New Accounting Pronouncements- In May 2009, the FASB issued Statement of Financial Standards (SFAS) No. 165, *Subsequent Events*. SFAS No. 165 defines subsequent events as events or transactions that occur after the balance sheet date, but before the financial statements are issued or available to be issued. It defines two types of subsequent events: recognized subsequent events, which provide additional evidence about conditions that existed at the balance sheet date, and non-recognized subsequent events, which provide evidence about conditions that did not exist as of the balance sheet date, but arose after that date. Recognized subsequent events are required to be recognized in the financial statements, and certain non-recognized subsequent events are required to be disclosed. SFAS No. 165 requires entities to disclose the date through which the subsequent events have been evaluated, and the basis for that date. The System adopted SFAS No. 165 as required (Note 19).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective July 1, 2008, the System adopted SFAS No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value of certain assets and liabilities and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. See Note 6 for the disclosures required by SFAS No. 157.

Effective July 1, 2008, the System adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value. The System has not elected to measure any financial assets or financial liabilities at fair value that were not previously required to be measured at fair value.

Effective January 1, 2009, the System adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities*. This statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of derivatives and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features and concentrations of credit risk in derivative agreements. See Note 10 for the disclosures required by SFAS No. 161.

Effective July 1, 2008, the System adopted FSP 117-1, *Endowments of Not-for-profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and also requires enhanced disclosures for all endowment funds, including funds designated as endowments by the Board of Directors. The adoption of this FSP did not have a material effect on the System's consolidated financial position as of June 30, 2009, or on the statement of operations and changes in net assets or cash flows for the year then ended.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications- Certain amounts have been reclassified in the prior year's financial statements to conform to the classifications used in the current year.

Approximately \$22,861,000 of liabilities representing the fair value of the swap agreements that was included in long-term debt in the prior year financial statements has been reclassified to derivative instruments to conform to the current-year presentation.

In accordance with SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, approximately \$2,801,000 of expense representing the net of the payments made and received under the swap agreements that was included in interest expense and other revenue in the prior year financial statements has been reclassified to nonoperating investment loss to conform to the current-year presentation.

4. NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Amounts subject to retroactive adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. The estimated settlements recorded at June 30, 2009 and 2008 could differ from actual settlements. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient diagnosis related group classification system that is based on clinical, diagnostic, and other factors.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid under cost reimbursement methodologies, prospectively determined rates per discharge, and prospectively determined or negotiated rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 28.9% and 5.3%, respectively, of the System's net patient revenue for the fiscal year ended 2009 and 29.4% and 7.3%, respectively, of the System's net patient revenue for the fiscal year ended 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

4. NET PATIENT SERVICE REVENUE (Continued)

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and negotiated daily rates.

In July 1991, the Texas Legislature passed a bill authorizing a state program (Medicaid Dispro), whereby all hospitals in the state of Texas that qualified as a disproportionate share health care provider would receive Medicaid Dispro funds. This program, with certain revisions, was extended through August 31, 2009, and is administered by the Texas Department of Health. In 1993, the Texas Legislature expanded the number of hospitals qualifying to receive Medicaid Dispro funds to include rural facilities. The source of these funds is assessments from qualifying hospitals that are matched at a specific percentage by the federal government.

Additionally, the federal Medicaid rules allow for hospitals to be reimbursed for some of the uncompensated cost of treating Medicaid and uninsured patients up to an Upper Payment Limit (UPL). UPL programs act as mechanisms to draw federal Medicaid dollars into local communities. The Texas Medicaid program has chosen a county-specific UPL strategy to receive supplemental federal matching funds. Under these programs, various hospital participants in the respective counties have elected to provide health care services to the indigent population in the county as charity services and, as such, no third party has an obligation to pay for these services. Separately, and with no legal obligation or link to the hospitals' provision of charity services, the tax-supported governmental entity may choose, entirely at its discretion, to contribute a portion of its tax revenues into the state's Medicaid program. The amounts transferred by the governmental entity to the state Medicaid program are then matched at the federal level, and the total amount (the amount transferred to the state Medicaid program by the governmental entity and the related federal match) is then paid to the hospital participants based upon each hospital's individual applicable funding entitlement. In addition to the allocations received by the Medicaid program, hospital participants in some communities may make charity community benefit transfers to each other throughout the year to reach a previously agreed-upon sharing ratio.

Medicaid supplemental payments, which include Medicaid Dispro and UPL payments, net of assessments and amounts transferred between program participants, of approximately \$230,939,000 and \$202,860,000 were recorded in 2009 and 2008, respectively. Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets includes all Medicaid supplemental funds. The amounts of future reimbursements under these programs cannot be assured beyond August 31, 2009.

4. NET PATIENT SERVICE REVENUE (Continued)

Fiscal years 2009 and 2008 net patient service revenue increased approximately \$14,602,000 and \$14,417,000, respectively, related to changes in estimates for cost report re-openings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional re-opening, and/or appeal. This includes fourth quarter adjustments of approximately \$6,488,000 that increased operating loss.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements of government health care programs, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. There are matters currently under audit and/or review by regulatory and government officials. These reviews and audits may or may not result in revisions to cost reports, resubmitted billings, unasserted possible claims that are probable of assertion, or loss contingencies. Compliance with such laws and regulations may be subject to future government review and interpretation, as well as regulatory actions.

5. CASH AND INVESTMENTS

Total cash and investments for the System at June 30, 2009 and 2008, including assets whose use is limited, are:

	In Thousands	
	2009	2008
Cash and cash equivalents	\$ 596,220	\$ 476,439
United States government obligations	103,019	154,611
Corporate obligations	198,697	156,530
Marketable equity securities	228,603	338,760
Equity in managed funds	121,499	352,337
Other investments	73,708	71,263
	<u>\$ 1,321,746</u>	<u>\$ 1,549,940</u>

Cash and cash equivalents include cash, money-market bank accounts, interest-bearing bank accounts, and debt securities with maturities less than three months. United States government obligations include debt securities issued by the United States government or a United States government agency. Corporate obligations include debt securities and certificates of deposit greater than three months. Marketable equity securities include domestic and foreign stocks. Equity in managed funds includes investments in limited liability partnerships or corporations

5. CASH AND INVESTMENTS (Continued)

and other alternative investments. Other investments include municipal and foreign fixed income instruments and restricted investments held by the System's philanthropic foundations.

The System's equity investments in managed funds are recorded based on the System's share of the underlying value of marketable securities held by these funds, as reported to the System. Equity method investments include reported changes in value as reported to the System by the fund custodians. These investments are recorded at amounts confirmed by fund custodians. These amounts cannot be validated by the management of the System, and there can be no assurance such reported amounts will be ultimately realized.

The System's investments are subject to various types of risks, as explained below.

Fixed income – This investment class includes investments in various fixed income instruments that include investment-grade and high-yield domestic and international bonds, preferred stocks, mortgage pools, master limited partnership units, and bonds issued by U.S. government agencies. This investment class also includes investments in common trust funds, mutual funds, and exchange-traded funds that hold investments in fixed income securities. The fixed income investments are exposed to various kinds and levels of risk including interest rate risk, credit risk, foreign exchange risk, and liquidity risk.

Equities – This investment class is comprised primarily of common equity securities of domestic companies. These securities trade through the major public domestic and international exchanges. This investment class also includes investments in common trust funds, mutual funds, and exchange-traded funds that hold investments in equity securities. The equity securities investments are exposed to various risks including market risk, individual security risk, foreign exchange risk, and, for common equity of companies with a small market capitalization, liquidity risk.

Equity investments in managed funds – These funds are invested with external investment managers who invest primarily in various alternative categories, including long and short equity positions, managed futures, emerging markets, distressed enterprises, and arbitrage positions. These investments are domestic and international in nature, are illiquid, and may not be realized for a period of several years after the investments are made. The risks associated with these investments are numerous, resulting in a greater likelihood of losing invested capital. The risks include the following:

Nonregulation risk – They are not required to register with the Securities and Exchange Commission (SEC) and are not subject to regulatory controls.

5. CASH AND INVESTMENTS (Continued)

Managerial risk – Fund managers may fail to produce the intended returns and are not subject to oversight.

Minimal liquidity – Many funds impose lock-up periods that prevent investors from redeeming their shares or impose penalties to redeem.

Limited transparency – As unregistered investment vehicles, funds are not required to disclose the holdings in their portfolios to investors.

Investment strategy risk – The funds often employ sophisticated, risky investment strategies, are speculative, and may use leverage, which could result in volatile returns.

The System has no commitments for funding to equity investments in managed funds as of June 30, 2009.

Assets whose use is limited or restricted consisted of the following at June 30, 2009 and 2008 (in thousands):

	2009	2008
Assets whose use is limited or restricted, required for current liabilities	\$ 51,216	\$ 55,245
Other investments, internally designated for capital expansion and other purposes	193,816	297,942
Under bond indenture agreement-held by trustee	135,524	232,438
Under liability retention and self-insurance funding arrangement-held by trustee	6,147	215
Under Emerald Assurance funding arrangements	97,696	120,280
Restricted cash and investments	45,318	39,844
	<hr/>	<hr/>
Total assets whose use is limited or restricted	\$ 529,717	\$ 745,964
	<hr/>	<hr/>

5. CASH AND INVESTMENTS (Continued)

Investment return and gains for assets limited as to use, cash equivalents, and other unrestricted investments consisted of the following for the years ended June 30, 2009 and 2008 (in thousands):

	2009	2008
Operating interest and dividend income	\$ 7,356	\$ 17,613
Operating realized (loss) gain	(5,622)	2,713
Equity investment earnings on managed funds, unrealized	(3,040)	259
Equity investment earnings on managed funds, realized	83	1,153
Net change in unrealized (loss) gain on investment	(901)	16
Total operating investment (loss) income	<u>(2,124)</u>	<u>21,754</u>
Nonoperating interest and dividend income	10,539	23,539
Nonoperating realized (losses) gains	(80,574)	25,188
Equity investment (losses) earnings on managed funds, unrealized	(84,917)	15,706
Equity investment earnings on managed funds, realized	28,038	7,026
Net change in unrealized loss on investment	(29,850)	(116,107)
Change in value of swap agreements	(66,496)	(56,629)
Total nonoperating investment loss	<u>(223,260)</u>	<u>(101,277)</u>
Total investment loss	<u>\$ (225,384)</u>	<u>\$ (79,523)</u>

6. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities, provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable among entities. SFAS No. 157 also expands the required disclosures concerning the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measure on changes in net assets. The adoption of SFAS No. 157, effective July 1, 2008, did not have a material impact on the System's consolidated financial position or results of operations.

SFAS No. 157 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets.

6. FAIR VALUE MEASUREMENTS (Continued)

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2009 (in thousands) by the SFAS No. 157 valuation hierarchy (as described above):

	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Cash and cash equivalents	\$ 596,220	\$ -	\$ -	\$ 596,220
Fixed income funds	-	140,167	-	140,167
Certificates of Deposit	15,000	-	-	15,000
Domestic Common stocks	172,633	-	-	172,633
Preferred stocks	352	-	-	352
Debt securities	-	71,885	-	71,885
International equities	55,617	-	-	55,617
U.S. government securities	-	103,019	-	103,019
Other investments	-	45,354	-	45,354
Total investments	<u>839,822</u>	<u>360,425</u>	<u>-</u>	<u>1,200,247</u>
Total assets at fair value	<u>\$ 839,822</u>	<u>\$ 360,425</u>	<u>\$ -</u>	<u>\$ 1,200,247</u>
Liabilities				
Interest rate swap agreements	\$ -	\$ 70,823	\$ -	\$ 70,823
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 70,823</u>	<u>\$ -</u>	<u>\$ 70,823</u>

6. FAIR VALUE MEASUREMENTS (Continued)

The valuation methodologies used for instruments measured at fair value as presented in the table above are as follows:

Investments - Investments are valued at quoted prices available in an active market and are classified within Level 1 of the valuation hierarchy.

Investments valued based on evaluated bid prices provided by third-party pricing services where quoted market prices are not available are classified within Level 2 of the valuation hierarchy.

Interest rate swap agreements - Interest rate swap agreements are valued using third-party models that use as their input observable market conditions and are classified within Level 2 of the valuation hierarchy.

At June 30, 2009 and 2008, the System's financial instruments included cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments except for long-term debt approximate their fair value.

The System's fixed rate debt is enhanced with bond insurance. The estimated fair value of the fixed rate debt if it was not enhanced by insurance approximates \$267,164,000 at June 30, 2009, as compared to its carrying value of \$245,727,000.

At June 30, 2009, the System has several issues of variable rate demand and auction-rate bonds outstanding. The System's continued participation in these debt programs depends on its ability to extend or replace the existing credit facilities supporting the respective standby purchase agreements. If these credit facilities are not available, the System will likely refund these outstanding series with available funds or funds derived from fixed rate series proceeds. It is not practicable to estimate the fair value of the variable rate demand and auction-rate bonds separate from the value supported by the credit facilities.

7. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2009 and 2008, consisted of the following (in thousands):

	2009	2008
Land	\$ 195,504	\$ 226,287
Land improvements	63,762	70,429
Buildings and fixed equipment	2,073,355	1,988,481
Major movable equipment	1,664,051	1,636,631
Less accumulated depreciation	<u>(2,346,367)</u>	<u>(2,170,162)</u>
	1,650,305	1,751,666
Construction-in-progress (estimated cost to complete is \$117 million and \$324 million at June 30, 2009 and 2008, respectively)	<u>222,349</u>	<u>169,730</u>
Total	<u>\$ 1,872,654</u>	<u>\$ 1,921,396</u>

Depreciation expense for the System for fiscal years 2009 and 2008 totaled \$225,533,000 and \$208,873,000, respectively.

8. INVESTMENTS IN UNCONSOLIDATED ORGANIZATIONS

The System has unrestricted investments in unconsolidated organizations of \$159,501,000 and \$181,337,000 at June 30, 2009 and 2008, respectively. The following investments account for 92% and 87% of the System's total investments in unconsolidated organizations in 2009 and 2008, respectively.

Baptist St. Anthony's Health System- CHRISTUS Health has a 50% membership interest in Baptist St. Anthony's Health System (BSAHS), a Texas nonprofit corporation. BSAHS is a market leader in the Amarillo area. CHRISTUS Health's recorded investment in BSAHS was \$123,903,000 and \$135,157,000 at June 30, 2009 and 2008, respectively. The 2009 balance includes \$8,791,000 of restricted net assets that are included in other restricted assets. CHRISTUS Health recorded its share of BSAHS's loss from operations of \$11,328,000 and gains from operations of \$14,783,000 in 2009 and 2008, respectively. The System also recorded its share of the change in unrealized losses on investments of \$4,000 and \$5,826,000 at June 30, 2009 and 2008, respectively, as changes in unrestricted net assets. Additionally, the System has a note receivable from BSAHS resulting from the formation of the joint venture. At June 30, 2009 and 2008, the principal amount of the note receivable was \$10,316,000 and \$10,660,000, respectively, and is included in notes and other receivables in the consolidated balance sheets. Principal and interest payments are made on a quarterly basis. The annual interest rate is 6.1%.

8. INVESTMENTS IN UNCONSOLIDATED ORGANIZATIONS (Continued)

Preferred Professional Insurance Company- CHRISTUS Health has an 11.8% ownership interest in Preferred Providers Insurance Company (PPIC), a taxable Nebraska corporation. This corporation, formed in 1988, was established to provide excess professional and general liability insurance. CHRISTUS Health's recorded investment in PPIC was \$17,059,000 and \$16,739,000 at June 30, 2009 and 2008, respectively. The System recorded its share of PPIC's income from operations in fiscal years 2009 and 2008 of \$1,920,000 and \$3,957,000, respectively.

CS/USP Surgery Centers, L.P.- CHRISTUS Spohn Health System Corporation has a 50% ownership interest with a Texas limited liability partnership with United Surgical Partners International, Inc. for the purpose of owning and operating ambulatory surgery centers in Corpus Christi, Texas. The venture is two surgery centers near the campus of Spohn Shoreline, specifically Corpus Christi Outpatient Surgery and SurgiCare. CHRISTUS Health's recorded investment was \$6,012,000 and \$6,077,000 at June 30, 2009 and 2008, respectively. The System recorded its share of income from operations in fiscal years 2009 and 2008 of \$967,000 and \$882,000, respectively.

Consolidated Catholic Casualty Risk Retention Group- CHRISTUS Health has a 23.3% ownership interest in Consolidated Catholic Casualty Risk Retention Group (CCCRRG), a tax-exempt Vermont corporation. This corporation, formed in 1987, was established to provide excess professional and general liability insurance. At June 30, 2009 and 2008, the System's recorded investment in CCCRRG was \$4,809,000 and \$5,164,000, respectively. The System recorded its share of CCCRRG's income from operations in fiscal years 2009 and 2008 of \$384,000 and \$591,000, respectively.

Omega Lab Joint Venture- CHRISTUS Health has a 40.0% ownership interest in Omega Lab Joint Venture. At June 30, 2009 and 2008, the System's recorded investment in Omega Lab Joint Venture was \$3,201,000 and \$2,873,000, respectively. The System recorded its share of Omega Lab Joint Venture income from operations in fiscal years 2009 and 2008 of \$767,000 and \$724,000, respectively.

9. LONG-TERM DEBT

Long-term debt at June 30, 2009 and 2008 consisted of the following (in thousands):

	2009	2008
Revenue bonds, in variable rate demand mode, with weighted-average trading rates of 5.54% and 3.89% in fiscal 2009 and 2008, respectively, due beginning in 2022 through 2047	\$ 409,175	\$ 195,715
Revenue bonds, in variable rate demand mode, that were unmarketed and purchased by banks under liquidity agreements. The rates for bank bonds range between LIBOR and prime. The agreements provide for a five year amortization with full payment due in 2013.	75,960	514,070
Revenue bonds, in auction mode, with weighted-average interest rates of 4.16% and 4.20% in fiscal 2009 and 2008, respectively, due in 2031 and in 2041	379,300	379,300
Revenue bonds, in fixed rate mode, bearing interest from 4.3% to 6.5%	245,727	29,743
Capital lease payable to Nueces County Hospital District, bearing interest at a fixed rate of 6.9%, with annual principal payments through 2026, secured by the assets of CHRISTUS Spohn Hospital Memorial	50,277	51,798
Capital lease payable to Bee County, bearing interest at a fixed rate of 6.0%, with annual principal payments through 2030, secured by the assets of CHRISTUS Spohn Hospital Beeville	10,076	10,400
Other note and capital lease note obligations	66,450	62,335
	<u>1,236,965</u>	<u>1,243,361</u>
<u>Less current maturities on long term obligations:</u>		
Long-term obligations subject to remarketing agreements	-	(138,535)
Less current portion	<u>(42,222)</u>	<u>(30,306)</u>
Total	<u>\$ 1,194,743</u>	<u>\$ 1,074,520</u>

9. LONG-TERM DEBT (Continued)

According to the terms of the CHRISTUS Health Master Trust Indenture, the Obligated Group consists of eight CHRISTUS Health regions as follows: CHRISTUS Spohn Health System, CHRISTUS Health Gulf Coast, CHRISTUS Health Southeast Texas, CHRISTUS Santa Rosa Health Care Corporation, CHRISTUS Health Ark-La-Tex, CHRISTUS Health Northern Louisiana, CHRISTUS Health Central Louisiana, and CHRISTUS Health Southwestern Louisiana. CHRISTUS Health is the Obligated Group Agent.

Under the provisions of the Master Trust Indenture, the obligations of CHRISTUS Health and the other members of the Obligated Group are secured by a pledge of gross revenues. Additionally, each member of the Obligated Group has undertaken certain covenants, including the following: to ensure the payment of debt service, to ensure the payment of taxes and other claims, to deliver compliance statement(s), to preserve corporate existence, to maintain books and records subject to inspection by the Master Trustee, to maintain insurance, to conform to defined lien limitations, to establish adequate service rates, to maintain a sufficient debt service coverage and indebtedness ratio, to maintain the required aggregate amount of unrestricted cash and investments, and to adhere to certain defined conditions with respect to consolidation, merger, conveyance or transfer, and admission or withdrawal of Obligated Group members pursuant to the Master Trust Indenture and insurer and letter-of-credit bank agreements.

In November 2008, CHRISTUS Health issued \$242,870,000 of fixed rate bonds (Series 2008A and 2008B) to refinance the outstanding variable rate demand bonds (VRDBs) Series 2005A-1, 2005B-1, 2005B-3 and 2005C-1. The issue also funded a debt service reserve fund for the Series 2008 fixed rate bonds and funded the costs of issuance.

In December 2008, the System issued \$398,975,000 of VRDBs (Series 2008C and 2008D). The issue refinanced the outstanding VRDBs Series 2005C-2, the outstanding Series 2007A and 2007B, and funded the costs of issuance. The Series 2008C and 2008D bonds are supported by letters of credit issued by Bank of America, Compass Bank, and the Bank of Nova Scotia. The letters of credit expire on December 18, 2009, December 17, 2010, and December 19, 2011, respectively. As of June 30, 2009, there have been no draws on the letters of credit. The Series 2008D Bonds supported by the letter of credit expiring on December 18, 2009, were refunded by the Series 2009A Bonds. The System recorded a loss on the early extinguishment of debt of \$13,062,000 related to the Series 2008 issuances, which is included in nonoperating investment loss on the consolidated statement of operations and changes in net assets.

As of June 30, 2009, CHRISTUS Health had a standby bond purchase agreement on the Series 2007C Bonds pursuant to which Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, provided liquidity support for \$86,160,000 with an expiration date of November 20, 2014. As of June 30, 2009, bonds purchased under the agreement totaled \$75,960,000. In August 2009, upon issuance of the Series 2009A Bonds and the Series 2009B Bonds, the Series 2007C Bonds were refunded and the related standby purchase agreement was terminated.

9. LONG-TERM DEBT (Continued)

In August 2009, CHRISTUS Health issued debt in the amount of \$231,005,000, comprised of \$156,005,000 in fixed rate bonds (Series 2009A) and \$75,000,000 in VRDBs (Series 2009B). The issues were used to refund the outstanding Series 2007C and Series 2008D bonds as noted above and to fund a debt service reserve fund for the Series 2009A bonds. The VRDBs are supported by a letter of credit issued by The Bank of New York Mellon that expires on August 13, 2010. The System will record a loss on the early extinguishment of debt of \$3,567,000 in fiscal year 2010.

In addition, CHRISTUS Health was obligated on approximately \$126,803,000 and \$124,533,000 of additional long-term debt, which included capitalized leases and notes payable to others as of June 30, 2009 and 2008, respectively.

Principal payments for all long-term debt for the next five years and thereafter are as follows:

2010	\$	42,222
2011		57,072
2012		45,692
2013		44,431
2014		36,278
Thereafter		1,011,270
Total debt	\$	<u>1,236,965</u>

10. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swap contracts between the System and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and expose the System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the System's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain certain collateral provisions applicable to both parties to mitigate credit risk. CHRISTUS has complied with these provisions as required. No collateral was posted at June 30, 2009. The System does not offset the fair value of the derivative financial instruments and fair value of any collateral posted. The System does not anticipate nonperformance by its counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing

10. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of its blended cost of capital. As of June 2009, CHRISTUS Health has interest rate swap agreements to manage interest rate risk exposure, not designated as hedging instruments under SFAS No. 133, with a total notional amount of \$1,228,605,000.

At June 30, 2009, the fair value of these swap agreements was a liability of \$70,823,000 recorded as a derivative instrument liability on the consolidated balance sheet. At June 30, 2008, the fair value of these swap agreements was a net liability of \$19,920,000, with \$22,861,000 recorded as a derivative instrument liability and \$2,941,000 recorded as a derivative instrument asset on the consolidated balance sheet. This decrease in value of \$50,903,000 and \$53,828,000 for the year ending June 30, 2009 and 2008, respectively, is combined with the payments net of receipts made under the agreements of \$15,593,000 and \$2,801,000 for the year ending June 30, 2009 and 2008, respectively. This total is included in nonoperating investment loss in the consolidated statements of operations and changes in net assets.

In accordance with SFAS No. 161, the following tables summarize the fair value at June 30, 2009 and 2008, and the income (loss) recorded related to the interest rate swap agreements as of and for the year ended June 30, 2009 and 2008, in thousands.

Counterparty	Description	Termination Date	Notional Amount	Fair Value		Change in Fair Value		Paid/(Received)	
				6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Merrill Lynch	Variable Basis	2021-2023	\$470,000	(\$15,327)	(\$298)	(\$15,030)	(\$11,896)	\$1,027	(\$1,612)
*Citigroup	Fixed Payer	2022 and 2031	279,345	(17,970)	(4,882)	(13,088)	(28,167)	10,403	2,288
Citigroup	Constant Maturity	2022	200,000	(117)	2,941	(3,058)	3,916	(2,836)	(150)
Citigroup	Fixed Payer	2047	166,100	(22,578)	(10,906)	(11,672)	(10,906)	4,186	1,368
Citigroup	Fixed Payer	2047	113,160	(14,831)	(6,775)	(8,055)	(6,775)	2,813	907
			<u>\$1,228,605</u>	<u>(\$70,823)</u>	<u>(\$19,920)</u>	<u>(\$50,903)</u>	<u>(\$53,828)</u>	<u>\$15,593</u>	<u>\$2,801</u>

*Notional of \$474,380 from July 1, 2007 to June 4, 2009, sold \$195,035 on June 5, 2009.

On July 1, 2008, CHRISTUS adopted SFAS No. 157. The fair value of the swap agreements as of June 30, 2009 has been calculated in accordance with SFAS No. 157 guidance. The adoption of SFAS No. 157 did not have a material impact on the value calculated under the previous methodology used to value the agreements as of June 30, 2008.

In June 2009, CHRISTUS terminated one of the 2005 Fixed Payor Swaps with a notional amount of \$195,035,000 and a termination date of July 1, 2031. In addition, CHRISTUS amended and restated the Constant Maturity Swap, which was modified to include a suspension of cash flows from June 5, 2009 through September 1, 2012.

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS

Cash Balance Plan- The System has established a noncontributory, defined-benefit retirement plan that operates as a cash balance plan and covers substantially all CHRISTUS Health employees who meet age and service requirements. The plan benefits are calculated based on a cash balance formula where participants earn an annual accrual of 6% of compensation, and participant account balances accrue interest at a rate that tracks ten-year treasury notes; the maximum rate is 8% and the minimum rate is 4%.

Postretirement Health Care Benefits- Comprehensive medical benefits are provided to eligible active employees who, immediately upon retirement and attainment of age 55, will receive a pension under the CHRISTUS Health retirement plan. Postretirement benefits are also provided to former employees who are currently receiving pension benefits. The comprehensive medical program, which is self-insured, provides reimbursement benefits until the participant attains age 65. The program also covers dependents of retirees, in addition to former employees. Contributions are required. Retirees may choose one of two self-insured indemnity plan options. Effective February 1, 1999, the CHRISTUS Health postretirement benefit plan was curtailed prospectively. As of the effective date, new employees or employees that had not vested as of that date are not eligible for the postretirement health care benefits. The liability associated with the postretirement plan will be reduced as employee participation decreases.

Simplified Early Retirement Plan (SERP)- Prior to the formation of CHRISTUS, a plan for executives was curtailed prospectively. Under this plan, eligible participants receive a cash benefit payment until death and participate in the System's retiree health, dental, and group-term life program. Fewer than two dozen participating retirees currently maintain benefit payment status. Benefits are recalculated when participants attain age 65 and remain constant thereafter. At June 30, 2009 and 2008, the total liability recorded pertaining to this SERP plan was \$5,250,000 and \$5,351,000, respectively.

Restoration Plan- The restoration plan, a nonqualified, deferred compensation plan, was designed to restore benefits that are lost under the cash balance plan due to the statutory limit on recognizable compensation. Eligibility is limited to designated executives. The plan provides benefits upon termination of employment to qualifying participants. Plan benefits are calculated using the same methodology for the cash balance plan; vesting requirements are also the same. The restoration plan is unfunded.

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS
(Continued)

The measurement date for all plans is June 30. Components of net periodic benefit cost, recorded as a component of employee compensation and benefits, for the years ended June 30, 2009 and 2008, consisted of the following (in thousands):

	Cash Balance Plan		Postretirement		SERP		Restoration Plan	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	\$ 44,582	\$ 40,353	\$ 628	\$ 958	\$ -	\$ -	\$ 357	\$ 278
Interest cost	42,338	40,252	1,288	1,145	-	-	237	227
Expected return on assets	(46,434)	(47,860)	-	-	-	-	-	-
Amortization of prior service cost	(850)	(850)	-	-	-	-	103	103
Recognized net actuarial loss (gain)	<u>5,881</u>	<u>1,280</u>	<u>-</u>	<u>(105)</u>	<u>(101)</u>	<u>(27)</u>	<u>145</u>	<u>211</u>
Net benefit cost	<u>\$ 45,517</u>	<u>\$ 33,175</u>	<u>\$ 1,916</u>	<u>\$ 1,998</u>	<u>\$ (101)</u>	<u>\$ (27)</u>	<u>\$ 842</u>	<u>\$ 819</u>

At June 30, 2009 and 2008, unrestricted net assets include \$244,370,000 and \$114,587,000, respectively, of amounts arising from defined benefit plans that have not yet been recognized in net periodic benefit cost. Amounts recognized in unrestricted net assets expected to be recognized in net periodic benefit cost during fiscal 2010 are \$21,005,000.

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

The following table sets forth the changes in benefit obligations, changes in plan assets, and funded status of the plans measured as of June 30, respectively (in thousands):

	Cash Balance Plan		Postretirement		SERP		Restoration Plan	
	2009	2008	2009	2008	2009	2008	2009	2008
Changes in benefit obligation:								
Benefit obligations—								
beginning of year	\$ 699,378	\$ 691,274	\$ 20,382	\$ 19,628	\$ 5,351	\$ 5,378	\$ 3,940	\$ 3,924
Service cost	44,582	40,353	628	958	-	-	357	278
Interest cost	42,338	40,252	1,288	1,145	-	-	236	227
Actuarial (gain) loss	(18,520)	(32,411)	219	(547)	(101)	(27)	(988)	(311)
Benefits paid	(35,540)	(40,090)	(819)	(802)	-	-	(167)	(178)
Benefit obligation—								
end of year	<u>\$ 732,238</u>	<u>\$ 699,378</u>	<u>\$ 21,698</u>	<u>\$ 20,382</u>	<u>\$ 5,250</u>	<u>\$ 5,351</u>	<u>\$ 3,378</u>	<u>\$ 3,940</u>
Change in plan assets:								
Fair value of plan assets—								
beginning of year	\$ 616,425	\$ 635,440	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual return on plan assets	(108,136)	(23,447)	-	-	-	-	-	-
Employer contributions	49,000	44,523	819	802	-	-	167	178
Benefits paid	(35,540)	(40,091)	(819)	(802)	-	-	(167)	(178)
Fair value of plan assets—end of year	<u>\$ 521,749</u>	<u>\$ 616,425</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status of the plans:								
Under funded	\$ (210,489)	\$ (82,953)	\$ (21,698)	\$ (20,382)	\$ (5,250)	\$ (5,351)	\$ (3,378)	\$ (3,940)
Unrecognized net actuarial loss (gain)	247,152	116,982	(782)	(1,000)	-	-	422	1,555
Unrecognized prior service cost	(3,872)	(4,721)	-	-	-	-	668	771
Prepaid (accrued) benefit cost	<u>\$ 32,791</u>	<u>\$ 29,308</u>	<u>\$ (22,480)</u>	<u>\$ (21,382)</u>	<u>\$ (5,250)</u>	<u>\$ (5,351)</u>	<u>\$ (2,288)</u>	<u>\$ (1,614)</u>

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

As of June 30, 2009 and 2008, the CHRISTUS cash balance plan, only, had accumulated benefit obligations of \$687,854,000 and \$649,667,000, respectively. Assumptions used to determine benefit obligations and net periodic benefit cost for the fiscal years were as follows:

	<u>Cash Balance Plan</u>		<u>Postretirement</u>		<u>SERP</u>		<u>Restoration Plan</u>	
	2009	2008	2009	2008	2009	2008	2009	2008
Benefit obligations:								
Discount rate	5.84 %	6.23 %	6.20 %	6.50 %	5.84 %	6.23 %	5.84 %	6.23 %
Rate of compensation increase	5.00	5.74	N/A	N/A	5.00	5.74	5.00	5.74
Net periodic benefit cost:								
Discount rate	6.23	6.00	6.20	6.50	6.23	6.00	6.23	6.00
Expected long-term return on plan assets	7.50	7.50	N/A	N/A	N/A	N/A	N/A	N/A
Rate of compensation increase	5.74	5.74	N/A	N/A	5.74	5.74	5.74	5.74

The investment objective with regard to the plan assets is one of long-term capital appreciation and generation of a stream of current income. This balanced approach is expected to earn long-term total returns comprised of capital appreciation and current income that are commensurate with the expected rate of return used by the plans.

The following information pertains only to the CHRISTUS Health postretirement plan. The first chart details information pertaining to assumed health care cost trend rates. The second chart depicts the effect of a one-percentage-point change in assumed health care cost trend rates:

	<u>Postretirement</u>			<u>Postretirement</u>	
	2009	2008		<u>1% Point Increase</u>	<u>1% Point Decrease</u>
Assumed health care cost trend rates at June 30	9.0%	9.0%			
Health care cost trend rate assumed for next year	8.0	8.0	Effect on total of service cost and interest cost components	\$ 198	\$ (176)
Ratio to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0	5.0			
Year that the rate reaches the ultimate trend rate	2014	2013	Effect on postretirement benefit obligation	1,847	(1,653)

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS
(Continued)

Investment Policy and Asset Allocations- The investment policies and strategies for the assets of the cash balance plan incorporate a well-diversified approach that is expected to generate long-term returns from capital appreciation and a growing stream of current income. This approach recognizes that assets are exposed to risk and the market value of the plan assets may fluctuate from year to year. Risk tolerance is determined based on the plan's financial stability and the ability to withstand return volatility. In developing the expected return on plan assets, the System evaluates the historical performance of total plan assets, the relative weighting of plan assets, interest rates, economic indicators, and industry forecasts. In line with the investment return objective and risk parameters, the mix of assets includes a diversified portfolio of equity and fixed income investments. Equity investments include international stocks and a blend of domestic growth and value stocks of various sizes of capitalization. The aggregate asset allocation is rebalanced as needed, but not less than on an annual basis.

The asset allocations for the cash balance plan at June 30, 2009 and 2008, by asset category, are detailed below. The postretirement plan, SERP, and restoration plan are unfunded.

	2009	2008
Asset category:		
Cash and cash equivalents	\$ 62,610	\$ 49,314
Equity investments in managed funds (as discussed in Note 5)	177,394	240,406
Fixed income securities	125,220	80,135
Equity securities	<u>156,525</u>	<u>246,570</u>
Total	<u>\$ 521,749</u>	<u>\$ 616,425</u>

The allocation of plan assets by asset category for the cash balance plan as of June 30 is as follows:

	2009	2008
Allocation of plan assets by asset category:		
Cash and cash equivalents	12.0 %	8.0 %
Equity investments in managed funds (as discussed in Note 5)	34.0	39.0
Fixed income securities	24.0	13.0
Equity securities	<u>30.0</u>	<u>40.0</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS
(Continued)

Contributions- In fiscal year 2010, CHRISTUS expects to contribute \$49,000,000 to the cash balance plan based on asset values for the plan year beginning January 1, 2009. Contributions to the cash balance plan of \$49,000,000 and \$44,523,000 have been made for plan years beginning January 1, 2008 and 2007, respectively. Since the postretirement plan, SERP, and restoration plan are unfunded, no cash contributions are expected.

Benefit Payments- The following benefit payments, which reflect expected future service relative to the cash balance plan and expected benefit payments for services previously rendered relative to the postretirement plan and the SERP, are expected to be paid as follows (in thousands):

	Cash Balance Plan	Post- Retirement	SERP	Restoration Plan
2010	\$ 43,115	\$ 1,148	\$ 593	\$ 200
2011	46,431	1,306	566	261
2012	49,325	1,525	537	288
2013	51,837	1,701	508	273
2014	54,054	1,783	478	285
Years 2015–2019	309,404	2,102	1,940	1,680

Defined Contribution Plans- The System has a defined-contribution plan (the Matched Savings Plan) covering substantially all CHRISTUS Health employees. Annual employee contributions are limited to 50% of compensation up to the IRS dollar limits. The System will match 50% of employee contributions, not to exceed 4% of annual compensation. Employer contributions vest to the employee over a five-year period. For the years ended June 30, 2009 and 2008, expenses attributable to the Matched Savings Plan amounted to \$8,969,136 and \$7,998,576, respectively.

CHRISTUS St. Vincent Regional Medical Center (St. Vincent) has two 403(b) defined-contribution plans for union and nonunion employees. St. Vincent makes a set lump-sum contribution per year for nurse union employees and a contribution of 3.5% of gross salaries for nonunion employees, as defined by the plans' agreements. For fiscal year 2009, St. Vincent has incurred approximately \$3,444,000 in expenses related to the plans.

ExecuFLEX Benefit Plan

The System established an ExecuFLEX plan (ExecuFLEX), which is limited to designated executives. Plan participants receive an ExecuFLEX allowance to be allocated among four different components: CHRISTUS Health ExecuFLEX Individual Long-Term Disability Plan,

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

CHRISTUS Health ExecuFLEX Supplemental Survivor Plan, CHRISTUS Health ExecuFLEX Spouse Survivor Plan, and CHRISTUS Health ExecuFLEX Deferred Income Account (DIA) Plan.

CHRISTUS Health maintains a collateral interest in the individual life insurance policies under the supplemental survivor plan and the spouse survivor plan to the extent of the cumulative advanced premiums paid on behalf of the participant(s). Upon termination of employment, a participant is required to surrender any policy with a cash surrender value less than the advanced premiums.

The DIA Plan is a nonqualified, deferred compensation plan; eligibility is limited to designated executives. Benefits vest based on certain qualifying events and are paid to participants when fully vested. The funds contributed by participants to this component of the ExecuFLEX Plan are held in a Rabbi Trust until vesting requirements have been satisfied. The System has an asset recorded for the investments in the Rabbi Trust with a corresponding liability. As of June 30, 2009 and 2008, the total asset and the corresponding liability were \$5,495,000 and \$6,872,000, respectively.

12. SELF-FUNDED LIABILITIES

The System self-funds and insures for primary professional and general liability, workers' compensation, and employee medical benefits. A wholly owned, captive insurance company is used to fund primary professional and general liability. Additionally, the System internally sets aside funds for workers' compensation and employee medical benefits. Funding amounts are based on actuarial recommendations.

The assets of the captive insurance company, internally designated funds, and the estimated liability for losses are reported in the consolidated balance sheets. Investment income from the assets and the provision for estimated self-funded losses and administrative costs are reported in the consolidated statements of operations and changes in net assets. The estimated self-funded losses include expected claim payments, including settlement costs, for reported claims and an actuarial determination of expected losses related to claims that have been incurred but not reported.

Emerald Assurance Cayman, Ltd. (Emerald), a wholly owned subsidiary of CHRISTUS Health, was incorporated in the Cayman Islands on June 27, 2003, and operates subject to the provisions of the Companies Law (2003 Revision) of the Cayman Islands. Emerald was granted an Unrestricted Class "B" Insurer's license on June 30, 2003, which it holds subject to the provisions of the Insurance Law (2003 Revision) of the Cayman Islands. Emerald has received an undertaking from the Cayman Islands government exempting it from local income, profits, and capital gains taxes until July 29, 2023. No such taxes are currently levied in the Cayman Islands.

13. CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of whom are local residents of the geographies of the various System health care centers and are insured under third-party payor agreements. The mix of gross accounts receivables from patients and third-party payors at June 30, 2009 and 2008, was as follows:

	2009	2008
Medicare	26.0 %	27.7 %
Medicaid	8.8	11.6
Managed care organizations	36.0	30.9
Commercial insurance	4.4	4.9
Self pay	13.0	12.0
Others	<u>11.8</u>	<u>12.9</u>
	<u>100.0 %</u>	<u>100.0 %</u>

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The System leases various equipment and facilities under noncancelable operating leases expiring at various dates through May 19, 2045. Total rental expense in 2009 and 2008 for all operating leases was approximately \$36,693,000 and \$29,852,000, respectively.

The System's leases have varying terms that may include renewal or purchase options and escalation clauses that are factored into determining minimum lease payments. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2009, that have initial or remaining lease terms in excess of one year (in thousands):

2010	\$ 21,665
2011	17,620
2012	16,089
2013	12,476
2014	10,845
Thereafter	<u>36,773</u>
Total	<u>\$ 115,468</u>

From time to time, the System is subject to litigation in the ordinary course of operations. In management's opinion, any future settlements or judgments on asserted or unasserted claims will not have a material effect on the System's consolidated financial statements.

15. FUNCTIONAL EXPENSES

The System provides general health care services to residents throughout various geographic locations. Expenses related to providing these services at June 30, 2009 and 2008, are as follows (in thousands):

	2009	2008
Health care services	\$2,494,051	\$2,296,947
Physician services	156,612	100,323
General and administrative	<u>848,778</u>	<u>774,844</u>
Total	<u>\$3,499,441</u>	<u>\$3,172,114</u>

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2009 and 2008, are available for the following purposes or periods:

	2009	2008
Purchase of equipment/capital improvement	\$ 22,197	\$ 23,094
Indigent care	2,104	2,426
Health education	1,625	2,042
Health care services	8,838	9,279
Community Outreach	11,147	11,767
Other	<u>13,962</u>	<u>4,331</u>
Total	<u>\$ 59,873</u>	<u>\$ 52,939</u>

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Permanently restricted net assets at June 30, 2009 and 2008, are restricted as follows (in thousands):

	2009	2008
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income)	\$ 7,450	\$ 7,214
Endowment requiring income to be added to original gift	3,452	3,347
Other	<u>2,311</u>	<u>2,556</u>
Total	<u>\$ 13,213</u>	<u>\$ 13,117</u>

17. ASSETS HELD FOR SALE

In accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, the System classified certain long-lived assets as held for sale in fiscal year 2009. The System has classified \$29,617,000 and \$2,021,000 as assets held for sale at June 30, 2009 and 2008, respectively.

During fiscal year 2009, the System implemented a plan to monetize non-operational assets where appropriate. As a result, several properties were identified and marketing plans developed. Approximately \$24,606,000 of the June 30, 2009 assets held for sale balance is undeveloped land in the Gulf Coast and Southwest Louisiana regions. The remaining \$5,012,000 represents non-operational buildings in several regions. The assets are recorded at the lower of the book or estimated fair value at June 30, 2009.

18. SIGNIFICANT EVENT

On September 13, 2008, hospitals and other physical structures in the CHRISTUS Health Gulf Coast Region, the CHRISTUS Health Southeast Texas Region and other non-hospital facilities in the CHRISTUS Health System sustained damages from Hurricane Ike resulting in business interruption and property damage. CHRISTUS Health maintains property and business interruption insurance coverage through independent property and casualty companies. Additionally, CHRISTUS Health has self-insured property and casualty losses through the wholly owned captive insurance company, Emerald Assurance Cayman, Ltd. The System has received confirmation from the insurance companies that the claim has been received and the damages to the effected properties are covered by policies. Estimates of losses resulting from the storm approximate \$36,700,000 for property damage and \$19,700,000 for business interruption. The System recorded approximately \$18,056,000 in expenses related to property repairs,

18. SIGNIFICANT EVENT (continued)

\$10,900,000 in business interruption revenue, and \$3,845,000 related to gain on the disposal of assets. At June 30, 2009, the System had received approximately \$19,060,000 in proceeds from third-party insurers and had a net receivable of \$6,140,000, which does not exceed the amounts offered for settlement by the insurers.

19. SUBSEQUENT EVENTS

In July 2009, the CHRISTUS Santa Rosa Region bought a 38% ownership interest in the Foundation Surgery Affiliates of New Braunfels, LLC (FSA) for cash consideration of \$2,417,000. In addition to the cash purchase price, CHRISTUS Santa Rosa paid cash consideration of \$558,000 to FSA to assume the management agreement of the facility. The FSA facility is located in New Braunfels, Texas. Subsequent to the acquisition, FSA merged with CHRISTUS Santa Rosa Outpatient Surgery - New Braunfels, LP. CHRISTUS Santa Rosa has an ownership interest of 55.95% in the merged entity.

In September 2009, CHRISTUS Santa Rosa purchased a 51% ownership interest in the Foundation Surgery Center of San Antonio for an estimated cash consideration of \$15,100,000. Foundation Surgery Center of San Antonio has four locations in San Antonio and performs approximately 33,000 procedures annually. CHRISTUS Santa Rosa also paid cash consideration of approximately \$4,600,000 to assume the management agreement.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which provides guidance to establish general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement also requires disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The System has evaluated subsequent events through October 20, 2009, which is the date the financial statements were issued. The System's adoption of SFAS No. 165 on June 30, 2009 did not have an effect on its financial position or results of operations.

Other Financial Information

Independent Auditors' Report on Other Financial Information

To the Board of Directors of CHRISTUS Health

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of CHRISTUS Health as of June 30, 2009, and for the year then ended, and have issued our unqualified opinion thereon dated October 20, 2009. The accompanying consolidating information is not intended to present the financial position, results of operations, and cash flows of the individual companies, as would complete financial statements including necessary disclosures, and should be read in conjunction with the consolidated financial statements and our report thereon. The scope of our auditing procedures was not designed to provide a basis for expressing opinions on the presentations of the accounts of the individual companies on a stand-alone basis and, accordingly, we do not express such opinions. The accompanying community benefit information is presented for purposes of additional analysis and is not a required part of the basic financial statements taken as a whole. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

October 20, 2009

Ernst & Young LLP

COMMUNITY BENEFIT (UNAUDITED)

CHRISTUS complies with the state of Texas requirements for reporting and adheres to the Catholic Health Association's (CHA), *A Guide for Planning and Reporting Community Benefits*, Copyright 2008.

Following is a summary of the System's quantifiable costs of community benefits provided for the years ended June 30, 2009 and 2008 (in thousands):

	2009	2008
	UNAUDITED	
Programs and services for the poor and underserved:		
Charity care at unpaid cost	\$ 149,738	\$ 101,589
Unpaid cost of Medicaid and other public programs	101,312	93,216
Community services for the poor and underserved	<u>33,088</u>	<u>27,215</u>
Total for the poor and the underserved	284,138	222,020
Community services for the broader community:		
Education and research	9,967	10,158
Other community services	<u>13,554</u>	<u>6,453</u>
Total for the broader community	<u>23,521</u>	<u>16,611</u>
Total community benefits	<u>\$ 307,659</u>	<u>\$ 238,631</u>

This amount is calculated following CHA guidelines. There are multiple reporting requirements to various organizations of charity care and community benefit. The reported benefit varies based on the definitional and timing requirements of the requesting organization.

In addition to the community benefits reported above, the state of Texas requires that the unpaid costs of Medicare and other government-sponsored programs be reported. For the fiscal years ended 2009 and 2008, the unpaid costs of these programs were \$340,969,000 and \$249,999,000, respectively. The unpaid costs of the Medicare program represent the cost of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments. The unpaid costs of other government-sponsored programs represent the cost for providing health care services to the beneficiaries of the Department of Defense (DOD) civilian care, included as per the State of Texas guidelines.

As noted, the CHRISTUS Community Direct Investment Program (CDI) was established to support community-driven initiatives primarily for affordable housing and economic development by providing financing at below market interest rates. At June 30, 2009 and 2008, the CDI program had \$9,281,000 and \$10,634,000, respectively, in outstanding loans; approximately 81% and 83%, respectively, of these loans relate to projects in CHRISTUS Health regions. The difference between the interest rates charged on the loans and the amount that the System would have earned on these monies is the foregone interest that is considered a community benefit. In fiscal year 2009 and 2008, the amount recognized as a community benefit related to this program was \$281,455 and \$288,029, respectively.

COMMUNITY BENEFIT (UNAUDITED) (continued)

As noted, the CHRISTUS Fund was established for the purpose of providing grants to support community planning, healthy community initiatives, and community-based programs with a focus on the poor and underserved areas where CHRISTUS Health ministries and sponsoring congregations are involved. During fiscal years 2009 and 2008, the CHRISTUS Fund provided grants of \$2,564,618 and \$2,795,599, respectively; approximately 81% and 95% of the grants relate to programs in CHRISTUS regions in 2009 and 2008, respectively.