CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

Consolidated Financial Statements as of and for the Years Ended June 30, 2010, 2009 and 2008 and Independent Auditors' Report

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Catholic Healthcare West
San Francisco, California

We have audited the accompanying consolidated balance sheets of Catholic Healthcare West and Subordinate Corporations ("Catholic Healthcare West" or "CHW") as of June 30, 2010, 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 Catholic Healthcare West's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Catholic Healthcare West's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Catholic Healthcare West and Subordinate Corporations as of June 30, 2010, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the consolidated financial statements, in 2009, Catholic Healthcare West adopted the provisions of accounting guidance that changed the method of accounting for its defined benefit pension plans.

The unsponsored community benefit expense information in Note 4, which is the responsibility of Catholic Healthcare West's management, is not a required part of the basic financial statements, and we did not audit or apply limited procedures to such information and we do not express any assurances on such information.

Deloitte & Touche LLP

October 11, 2010

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2010, 2009 and 2008 (in thousands)

Assets	2010	Pro Forma 2010	2009	2008
Current assets:				
Cash and cash equivalents	$ 796,034	$ 796,034	$ 868,964	$ 611,110
Short-term investments	596,307	596,307	397,011	537,405
Collateral held under securities lending program	272,986	272,986	298,091	386,851
Assets limited as to use	692,704	692,704	1,067,718	1,364,830
Patient accounts receivable, net of allowance for doubtful accounts of $266,997, $262,454 and $224,286 in 2010, 2009 and 2008, respectively	1,203,344	1,203,344	1,243,837	1,197,384
Estimated third party payor settlements, net		148,282		
Other current assets	501,782	501,782	433,339	321,335
Total current assets	4,063,157	4,211,439	4,308,960	4,418,915
Assets limited as to use:				
Board-designated assets (including $305,472, $299,870 and $376,464 of assets loaned under securities lending program in 2010, 2009 and 2008, respectively) for:				
Capital projects	2,676,537	2,676,537	2,141,324	2,259,275
Workers' compensation	335,511	335,511	296,054	285,223
Hospital professional and general liability	166,050	166,050	172,426	203,482
Under bond indenture agreements for:				
Capital projects	147,671	147,671	353,940	511,094
Debt service	136,641	136,641	111,862	142,818
Bond reserves	26,423	26,423	26,539	45,093
Donor-restricted	394,168	394,168	381,580	431,899
Other	62,476	62,476	59,295	59,806
Less amount required to meet current obligations	(692,704)	(692,704)	(1,067,718)	(1,364,830)
Net assets limited as to use	3,252,773	3,252,773	2,475,302	2,573,860
Property and equipment, net	3,894,111	3,894,111	3,782,449	3,404,351
Ownership interests in health-related activities	422,546	422,546	311,996	324,091
Other long-term assets, net	200,060	200,060	197,349	160,857
Total assets	$ 11,832,647	$ 11,980,929	$ 11,076,056	$ 10,882,074

(Continued)

Note: The Pro Forma 2010 column represents the financial impact of the Provider Fee Program that was signed by the Governor of California in September 2010, and was substantially approved by the Centers for Medicare & Medicaid Services in October 2010, as further described in Note 16.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2010, 2009 and 2008 (in thousands)

Liabilities and Net Assets	**2010**	**Pro Forma 2010**	**2009**	**2008**
Current liabilities:				
Current portion of long-term debt	$ 69,910	$ 69,910	$ 61,581	$ 106,591
Demand bonds subject to short-term liquidity arrangements	483,000	483,000	880,275	1,129,900
Accounts payable	392,720	392,720	370,852	329,664
Payable under securities lending program	273,945	273,945	304,781	386,851
Estimated third party payor settlements, net	14,711	-	18,756	24,334
Accrued salaries and benefits	485,510	485,510	454,286	403,914
Accrued workers' compensation	29,971	29,971	40,255	41,584
Accrued hospital professional and general liability	42,659	42,659	34,608	45,485
Pension and other postretirement liabilities	279,805	279,805	210,766	156,949
Other accrued liabilities	776,980	795,819	543,728	365,237
Total current liabilities	2,849,211	2,853,339	2,919,888	2,990,509
Other liabilities:				
Workers' compensation	219,927	219,927	209,321	198,311
Hospital professional and general liability	141,532	141,532	127,725	150,838
Pension and other postretirement liabilities	906,232	906,232	723,110	176,760
Other	207,674	207,674	205,029	161,828
Total other liabilities	1,475,365	1,475,365	1,265,185	687,737
Long-term debt, net of current portion	3,691,469	3,691,469	3,359,251	2,872,965
Total liabilities	8,016,045	8,020,173	7,544,324	6,551,211
Net assets:				
Unrestricted	3,426,489	3,570,643	3,155,600	3,905,187
Temporarily restricted	291,040	291,040	285,870	337,170
Permanently restricted	99,073	99,073	90,262	88,506
Total net assets	3,816,602	3,960,756	3,531,732	4,330,863
Total liabilities and net assets	$ 11,832,647	$ 11,980,929	$ 11,076,056	$ 10,882,074

(Concluded)

See notes to consolidated financial statements.

Note: The Pro Forma 2010 column represents the financial impact of the Provider Fee Program that was signed by the Governor of California in September 2010, and was substantially approved by the Centers for Medicare & Medicaid Services in October 2010, as further described in Note 16.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED June 30, 2010, 2009 and 2008 (in thousands)

	2010	Pro Forma 2010	2009	2008
Unrestricted revenues and other support:				
Net patient revenue	$ 8,599,950	$ 9,019,429	$ 8,234,194	$ 7,596,186
Premium revenue	514,699	514,699	485,255	505,759
Revenue from health-related activities, net	93,514	93,514	12,241	66,824
Other operating revenue	204,114	204,114	204,196	208,380
Contributions	18,137	18,137	22,018	24,346
Total unrestricted revenues and other support	9,430,414	9,849,893	8,957,904	8,401,495
Expenses:				
Salaries and benefits	4,809,065	4,809,065	4,511,516	4,175,946
Supplies	1,372,573	1,372,573	1,307,267	1,217,708
Provision for bad debts	745,303	745,303	680,585	649,276
Purchased services and other	1,751,731	2,027,056	1,636,322	1,582,153
Depreciation	421,774	421,774	386,643	345,207
Interest expense, net	244,006	244,006	171,601	181,532
Loss on early extinguishment of debt	2,734	2,734	2,844	68,213
Special charges	-	-	-	21,424
Total expenses	9,347,186	9,622,511	8,696,778	8,241,459
Operating income	83,228	227,382	261,126	160,036
Other income:				
Investment income (loss), net	402,474	402,474	(387,471)	9,922
Excess (deficit) of revenues over expenses	$ 485,702	$ 629,856	$ (126,345)	$ 169,958

(Continued)

Note: The Pro Forma 2010 column represents the financial impact of the Provider Fee Program that was signed by the Governor of California in September 2010, and was substantially approved by the Centers for Medicare & Medicaid Services in October 2010, as further described in Note 16.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED June 30, 2010, 2009 and 2008 (in thousands)

	2010	2009	2008
Unrestricted net assets:			
Excess (deficit) of revenues over expenses	$ 485,702	$ (126,345)	$ 169,958
Effect of changes in accounting principles for pension and postretirement plans	-	(37,648)	-
Change in net unrealized gains (losses) on available-for-sale investments	2,425	(3,045)	-
Net assets released from restrictions used for purchase of property and equipment	12,855	15,005	18,470
Change in funded status of pension and other postretirement benefit plans	(256,538)	(557,321)	197,072
Gain from discontinued operations	4,007	437	34,461
Change in accumulated unrealized derivative gains (losses)	4,952	(56,871)	(42,658)
Donated property and equipment	19,623	16,712	30,016
Other	(2,137)	(511)	5,349
Increase (decrease) in unrestricted net assets	270,889	(749,587)	412,668
Temporarily restricted net assets:			
Contributions	35,329	39,114	99,620
Net realized and unrealized gains (losses) on investments	4,432	(5,173)	(2,693)
Net assets released from restrictions	(38,047)	(46,220)	(53,257)
Change in interest in net assets of unconsolidated foundations	2,802	(40,016)	(7,407)
Other	654	995	345
Increase (decrease) in temporarily restricted net assets	5,170	(51,300)	36,608
Permanently restricted net assets:			
Contributions	5,576	546	1,477
Net realized and unrealized gains on investments	68	122	96
Change in interest in net assets of unconsolidated foundations	4,140	1,089	1,359
Other	(973)	(1)	(52)
Increase in permanently restricted net assets	8,811	1,756	2,880
Increase (decrease) in net assets	284,870	(799,131)	452,156
Net assets, beginning of year	3,531,732	4,330,863	3,878,707
Net assets, end of year	$ 3,816,602	$ 3,531,732	$ 4,330,863

(Concluded)

See notes to consolidated financial statements.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED June 30, 2010, 2009 and 2008 (in thousands)

	2010	2009	2008
Cash flows from operating activities:			
Change in net assets	$ 284,870	$ (799,131)	$ 452,156
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Loss on early extinguishment of debt	2,734	2,844	68,213
Depreciation	421,774	386,643	345,207
Amortization	4,337	4,013	10,829
Equity in earnings of health-related activities	(78,007)	(9,426)	(15,861)
Gain, net, on disposal of assets	(539)	(4,755)	(15,597)
Restricted contributions and investment income, net	(45,405)	(34,609)	(98,500)
Change in funded status of pension and other postretirement benefit plans	256,538	557,321	(197,072)
Undistributed portion of change in net assets of unconsolidated foundations	(6,942)	38,927	6,048
Change in net realized and unrealized (gains) losses on investments	(312,973)	490,146	103,676
Effect of changes in accounting principles for pension and postretirement plans	-	37,648	-
Change in fair value of swaps	52,183	65,535	60,587
Changes in certain assets and liabilities:			
Accounts receivable, net	44,513	(36,998)	(113,724)
Accounts payable	5,779	40,046	4,489
Workers' compensation and hospital professional and general liabilities	22,180	(24,309)	(23,852)
Accrued salaries and benefits	31,224	49,012	39,734
Pension and other postretirement liabilities	(4,385)	5,198	(64,097)
Other accrued liabilities	1,709	143,435	57,533
Other, net	79,981	(97,649)	(2,507)
Cash provided by operating activities	759,571	813,891	617,262

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED June 30, 2010, 2009 and 2008 (in thousands)

	2010	2009	2008
Cash flows from investing activities:			
Purchase of investments	(4,475,584)	(3,901,711)	(3,018,638)
Proceeds from sale of investments	4,196,842	3,903,489	3,168,908
Cash proceeds on disposal of assets	1,289	1,205	15,283
Investments in health-related activities	(39,593)	-	-
Proceeds from disposal of discontinued operations	-	-	60,100
Additions to operating property and equipment	(499,623)	(703,876)	(796,084)
Decrease in securities lending collateral	30,836	82,070	37,945
Other, net	(1,367)	11,077	(47,989)
Cash used in investing activities	(787,200)	(607,746)	(580,475)
Cash flows from financing activities:			
Borrowings	592,738	1,145,304	1,815,976
Repayments	(645,994)	(1,034,160)	(1,784,593)
Decrease in payable under securities lending program	(30,836)	(82,070)	(37,945)
Restricted contributions and investment income	45,405	34,609	98,500
Deferred financing costs	(6,614)	(11,974)	(13,927)
Cash provided by (used in) financing activities	(45,301)	51,709	78,011
Net increase (decrease) in cash and cash equivalents	(72,930)	257,854	114,798
Cash and cash equivalents at beginning of year	868,964	611,110	496,312
Cash and cash equivalents at end of year	$ 796,034	$ 868,964	$ 611,110
Components of cash and cash equivalents and investments at end of year:			
Cash and cash equivalents	796,034	868,964	$ 611,110
Short-term investments	596,307	397,011	537,405
Board-designated assets for capital projects	2,676,537	2,141,324	2,259,275
Total	$ 4,068,878	$ 3,407,299	$ 3,407,790
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of capitalized interest	$ 168,636	$ 144,513	$ 154,235
Supplemental schedule of noncash investing and financing activities:			
Assets acquired through capital lease or note payable	$ 2,418	$ 22,580	$ 1,441
Donated property and equipment	$ 19,623	$ 16,712	$ 30,016

(Concluded)

See notes to consolidated financial statements.

1. ORGANIZATION

Catholic Healthcare West is a California nonprofit public benefit corporation exempt from federal and state income taxes. References herein to Catholic Healthcare West or CHW refer to Catholic Healthcare West and its subordinate corporations (as disclosed in Note 17). CHW is co-sponsored by six congregations that have specific governance rights and responsibilities, including the appointment of CHW's corporate members. The co-sponsors are as follows:

- Sisters of Mercy of the Americas, West Midwest Community, Omaha, Nebraska
- Sisters of St. Dominic, Congregation of the Most Holy Rosary, Adrian, Michigan
- Sisters of the Third Order of St. Dominic, Congregation of the Most Holy Name, San Rafael, California
- Congregation of the Sisters of Charity of the Incarnate Word, Houston, Texas
- Congregation of the Dominican Sisters of St. Catherine of Siena of Kenosha, Kenosha, Wisconsin
- Sisters of St. Francis of Penance and Christian Charity, St. Francis Province, Redwood City, California

CHW owns and operates hospitals in California, Arizona and Nevada, and is the sole corporate member (parent corporation) of other primarily nonprofit healthcare corporations in California, Arizona and Nevada, which are exempt from federal and state income taxes. CHW provides a variety of healthcare, education and other benefits to the communities in which it operates. Healthcare services include inpatient, outpatient, subacute and home healthcare services, as well as physician services through CHW Medical Foundation and other affiliated medical groups.

As part of a system-wide corporate financing plan, CHW established an Obligated Group to access the capital markets and make loans to its members. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Master Trust Indenture. None of the other CHW subordinate corporations have assumed any financial obligation related to payment of debt service on obligations issued under the Master Trust Indenture. A list of Obligated Group members and other subordinate corporations is included in Note 17. The Obligated Group's unrestricted net assets represent approximately 96% of the consolidated unrestricted net assets of CHW and subordinate corporations at June 30, 2010, 2009, and 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation – The accompanying consolidated financial statements include the accounts of CHW and all subordinate corporations after elimination of intercompany transactions and balances. These financial statements do not include the accounts of the six co-sponsors and their nonhealthcare activities.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the consolidated financial statements, cash and cash equivalents consist primarily of cash and highly liquid marketable securities with an original maturity of three months or less when purchased by CHW.

Securities Lending Program - CHW participates in securities lending transactions with its custodian whereby CHW lends a portion of its investments to various brokers in exchange for collateral for the securities loaned, usually on a short-term basis. CHW maintains effective control of the loaned securities through its custodian during the term of the arrangement in that they may be recalled at any time. Collateral is provided by brokers at an amount equal to at least 100% of the original value of the securities on loan, and is subsequently adjusted for market fluctuations. CHW must return to the borrower the original value of collateral received regardless of the impact of market fluctuations. The collateral is invested in a pool maintained by the custodian. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed.

The securities on loan under this program are recorded in Board-designated assets in the accompanying consolidated balance sheets. CHW accounts for cash and non-cash collateral received, to the extent non-cash collateral may be sold or re-pledged, as an asset of the organization. The market value of collateral held for loaned securities is reported as collateral held under securities lending program, and an obligation is recorded for repayment of collateral upon settlement of the lending transaction.

Patient Accounts Receivable – CHW has agreements with third-party payors that provide for payments at amounts different from each hospital's established rates. Patient accounts receivable and net patient service revenue are reported at the net realizable amount from patients, third-party payors, and others for services rendered.

As part of CHW's mission to serve the community, CHW provides care to patients even though they may lack adequate insurance or may participate in programs with negotiated or regulated amounts. CHW manages its collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances. Reserves for charity and uncollectible amounts have been established and are netted against patient accounts receivable in the consolidated balance sheet.

Inventory - Inventories are stated at the lower of cost or market value, determined using the first-in, first-out method.

Investments and Investment Income – The CHW Board of Directors Investment Committee establishes guidelines for investment decisions. Within those guidelines, CHW invests in equity and debt securities which are measured at fair value and are classified as trading securities.

CHW also invests in alternative investments through limited partnerships. Alternative investments are comprised of private equity, real estate, and hedge fund-of-funds vehicles. CHW receives a proportionate share of the investment gains and losses of the partnerships. The limited partnerships generally contract with managers who have full discretionary authority over the investment decisions, within CHW guidelines. These alternative investment vehicles invest in equity securities, fixed income securities, currencies, real estate, and derivatives.

CHW accounts for its ownership interests in these alternative investments under the equity method, whose value is based on the net asset value ("NAV"), which approximates fair value, and is determined using investment valuations provided by the external investment managers and fund managers or the general partners. CHW reviews and evaluates the valuations received from third parties. Fair value is the estimated net realizable value of holdings priced at quoted market value (where market quotations are available), historical cost or other estimates including appraisals.

Alternative investments generally are not marketable and many alternative investments have underlying investments which may not have quoted market values. The estimated value of such investments is subject to uncertainty and could differ had a ready market existed. Such differences could be material. CHW's risk is limited to its capital investment in each investment and capital call commitments as discussed in Note 7.

CHW accounts for its investments on a trade date basis. Amounts due to/from brokers for investment activity for transactions that have been initiated prior to the consolidated balance sheet date that are formally settled subsequent to the consolidated balance sheet date are recorded in other current assets for sales and in other current liabilities for purchases.

Investment income or loss is included in excess (deficit) of revenues over expenses unless the income or loss is restricted by donor or law. Income earned on tax-exempt borrowings for specific construction projects is offset against interest expense capitalized for such projects.

Board-Designated Assets for Capital Projects – The Board of Directors has a policy of funding depreciation, to the extent that funds are available, to be used for replacement, expansion and improvement of operating property and equipment.

Deferred Financing Costs and Original Issue Discounts/Premiums on Bond Indebtedness – CHW amortizes deferred financing costs and original issue discounts/premiums on bond indebtedness over the estimated average period the related bonds will be outstanding. Deferred financing costs are included in other long-term assets. Original issue discounts/premiums are recorded with the related debt.

Property and Equipment – Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Depreciation of property and equipment is provided using the straight-line method for financial statement purposes. Amortization of capital leases is included in depreciation expense. Estimated useful lives by classification are as follows:

Land improvements	2 to 40 years
Buildings	3 to 65 years
Equipment	2 to 40 years
Software development	5 to 10 years

Asset Retirement Obligations – CHW recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, CHW capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations and changes in net assets.

Asset Impairment – CHW routinely evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted net cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. No asset impairment charges were recorded in 2010, 2009 or 2008.

Fair Value of Financial Instruments – The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and estimated third-party payor settlements, net, approximate fair value due to their short maturities. The fair value of investments is disclosed in Note 7 and the fair value of debt is disclosed in Note 12.

Derivative Instruments – It is CHW's policy to provide sound stewardship of fiscal resources by effectively managing both the level of outstanding debt and the proportion of variable to fixed rate debt. Accordingly, CHW periodically enters into derivative arrangements to manage interest rate risk related to variable rate debt. CHW records derivative instruments on the consolidated balance sheet as either an asset or liability measured at its fair value (Notes 7 and 13).

For derivative instruments designated as cash flow hedges, the effective portion of the change in fair value is included in change in accumulated unrealized derivative gains and losses in unrestricted net assets in the consolidated statements of operations and changes in net assets. Amounts recorded in unrestricted net assets are reclassified into earnings in the same period or periods during which the hedged transaction affects excess (deficit) of revenues over expenses. The portion of the change in fair value of derivative instruments deemed ineffective is recorded within interest expense, net, in the consolidated statements of operations and changes in net assets.

For derivative instruments that discontinued hedge accounting treatment, the cumulative amount that has been charged or credited to net assets is reclassified to interest expense, net, in the consolidated statements of operations and changes in net assets. This reclassification occurs either immediately or over the remaining life of the swap, depending on the specifics of the transaction.

For derivative instruments that have not been designated as hedges, changes in fair value are included in interest expense, net, in the consolidated statements of operations and changes in net assets.

Ownership Interests in Health-Related Activities – Generally, when the ownership interest in health-related activities is more than 50% and CHW has a controlling interest, the ownership interests are consolidated and a noncontrolling interest is recorded in other long-term liabilities. The expense related to the liability for noncontrolling interest is recognized in purchased services and other expense. When the ownership interest is at least 20%, but not more than 50%, or CHW has the ability to exercise significant influence over operating and financial policies of the investee, it is accounted for under the equity method and the income or loss is reflected in revenue from health-related activities, net. Ownership interests for which CHW's ownership is less than 20% or for which CHW does not have the ability to exercise significant influence are carried at the lower of cost or estimated net realizable value. Other than the investments in Scripps Health and Mercy Care Plan (Note 10), these ownership interests are not material to the consolidated financial statements.

Self-Insurance Plans – CHW has established self-insurance programs for workers' compensation benefits for employees and for hospital professional and general liability risks. CHW is also self-insured for certain employee medical benefits.

- *Workers' Compensation and Hospital Professional and General Liabilities* – Annual self-insurance expense under these programs is based on past claims experience and projected losses. Actuarial estimates of uninsured losses for each program, using a 70% confidence level and discounted at 4.25% at June 30, 2010, 4.5% at June 30, 2009 and 5.0% at June 30, 2008, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported. Insurance coverage in excess of the per-occurrence self-insured retention has been secured with insurers or reinsurers for specified amounts for workers' compensation and professional and general liabilities. CHW maintains separate trusts for these programs from which claims and related expenses and costs of administering the plans are paid. CHW's policy is to fund the trusts such that over time, assets held equal liabilities for claims incurred for workers' compensation and claims made for professional liability risks.

  Liabilities consist of the following as of June 30, 2010, 2009 and 2008 (in thousands):

	2010	**2009**	**2008**
Liabilities, undiscounted	$ 489,697	$ 466,941	$ 505,660
Less discount	(55,608)	(55,032)	(69,442)
Liabilities, current and noncurrent	$ 434,089	$ 411,909	$ 436,218

  An additional expense of $3.7 million, $7.5 million and $7.4 million was recorded during 2010, 2009 and 2008, respectively, related to changes in the discount rate. Self-insurance expense was decreased by $25.3 million, $55.9 million and $61.3 million in 2010, 2009 and 2008, respectively, related to revisions to prior years' actuarially estimated liabilities. These expenses are recorded in salaries and benefits for workers' compensation benefits and in purchased services and other for hospital professional and general liability risks in the accompanying consolidated statements of operations and changes in net assets.

- *Medical Benefits* – The liability for payment of incurred and unpaid claims is included in other accrued liabilities on the accompanying consolidated balance sheets.

Net Patient Revenue – Gross patient revenue is recorded on the basis of usual and customary charges. Gross patient revenue was $35.0 billion, $32.5 billion and $29.5 billion in 2010, 2009 and 2008, respectively. The percentage of inpatient and outpatient services is as follows:

	2010	**2009**	**2008**
Inpatient services	66%	68%	70%
Outpatient services	34%	32%	30%

The following table reflects the estimated percentage of gross patient revenues by major payor groups:

	2010	**2009**	**2008**
Medicare fee for service	31%	30%	31%
Medicare capitated	1%	1%	1%
Medicare managed care fee for service	9%	8%	8%
Medicaid fee for service	15%	15%	16%
Medicaid capitated	0%	0%	1%
Medicaid managed care fee for service	5%	4%	4%
Contracted rate payors	29%	32%	30%
Commercial capitated	2%	2%	2%
Self pay	4%	4%	4%
Other	4%	4%	3%
Total	100%	100%	100%

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

Inpatient acute care services, outpatient services and skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost settlement methodology.

Medicaid and contracted-rate payors are paid on a per diem, per discharge, modified cost or capitated basis, or a combination of these.

In 2010, 2009 and 2008, net patient revenue included $42.2 million, $35.4 million and $63.8 million, respectively, relating to prior years’ settlements from Medicare, Medicaid and other programs.

Certain CHW hospitals qualified for and received Medi-Cal funding as disproportionate-share hospitals from the State of California in 2010, 2009 and 2008. The amount received was $96.9 million, $109.9 million and $72.9 million, respectively, and is included in net patient revenue.

Premium Revenue – CHW has at-risk agreements with various payors to provide medical services to enrollees. Under these agreements, CHW receives monthly payments based on the number of enrollees, regardless of services actually performed by CHW. CHW accrues costs when services are rendered under these contracts, including estimates of incurred but not reported (“IBNR”) claims and amounts receivable/payable under risk-sharing arrangements. The IBNR accrual includes an estimate of the costs of services for which CHW is responsible, including out-of-network services.

Traditional Charity Care **–** Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet CHW's criteria for financial assistance. The amount of services quantified at customary charges was $705.6 million, $627.0 million and $569.3 million, for 2010, 2009 and 2008, respectively, as discussed in Note 4.

Other Operating Revenue **–** Other operating revenue includes net gains and losses on the sale of assets, cafeteria revenues, rental revenues, contributions released from restrictions and other nonpatient-care revenues.

Contributions and Restricted Net Assets **–** 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 met, temporarily restricted net assets are reclassified as unrestricted and recorded as other operating revenue in unrestricted revenues and other support. Gifts received with no restrictions are recorded as contributions in unrestricted revenues and other support. Gifts of long-lived operating assets, such as property and equipment, are reported as unrestricted net assets unless specified by the donor. Unconditional promises to give cash and other assets to CHW are recorded at fair value at the date the promise is received. Conditional promises to give are recorded when the conditions have been substantially met. Indications of intentions to give are not recorded; such gifts are recorded at fair value only upon actual receipt of the gift. Investment income on temporarily or permanently restricted net assets is classified pursuant to the intent or requirement of the donor.

Endowment assets include donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. CHW preserves the fair value of these gifts as of the date of donation unless otherwise stipulated by the donor. The portion of donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure. CHW considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of CHW.

CHW has investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Endowment assets are invested in a manner that is intended to produce results that achieve the respective benchmark while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, CHW relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CHW targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that CHW is required to retain as a fund of perpetual duration. Deficits of this nature are reported in unrestricted net assets, unless otherwise specified by the donor.

Community Benefits **–** As part of its mission, CHW provides services to the poor and benefits for the broader community. The costs incurred to provide such services are included in excess (deficit) of revenue over expenses in the consolidated statements of operations and changes in net assets. CHW prepares a summary of unsponsored community benefit expense in accordance with Internal Revenue Service Form

990, Schedule H, and the Catholic Health Association of the United States ("CHA") publication, *A Guide for Planning and Reporting Community Benefit* (Note 4).

Special Charges - Special charges from continuing operations of $21.4 million during the year ended June 30, 2008, relate to the planned and implemented closure of one of CHW's hospitals for mold remediation for 10 days in August 2007. These charges consist primarily of legal, consulting, insurance, moving, fumigation, staffing, and repair and maintenance costs. In addition, the hospital estimates approximately $13.0 million in net patient revenues were lost resulting in the total closure related impact of approximately $34.4 million during the year ended June 30, 2008.

Interest Expense **–** Interest expense on debt issued for construction projects is capitalized until the projects are placed in service.

The components of interest expense, net, include the following (in thousands):

	2010	2009	2008
Interest and fees on debt and swap cash settlements	$ 222,700	$ 202,909	$ 208,287
Market adjustment on swaps and amortization of amounts in unrestricted net assets	57,135	8,664	17,929
Total interest expense	279,835	211,573	226,216
Capitalized interest expense	(35,829)	(39,972)	(44,684)
Interest expense, net	$ 244,006	$ 171,601	$ 181,532

Income Taxes **–** CHW has established its status as an organization exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the states in which it operates. Certain subsidiaries are subject to income taxes; such amounts are not significant to the consolidated financial statements.

Performance Indicator – Management considers excess (deficit) of revenues over expenses to be CHW's performance indicator. Excess (deficit) of revenues over expenses includes all changes in unrestricted net assets except for the effect of changes in accounting principles, gain from discontinued operations, changes in net unrealized gains and losses on available-for-sale investments, net assets released from restrictions used for purchase of property and equipment, change in funded status of pension and other postretirement benefit plans, change in accumulated unrealized derivative gains and losses, and donated property and equipment.

Transactions between Related Organizations **–** Certain Obligated Group members have a policy whereby assets are periodically transferred as charitable distributions to nonprofit corporations that are subordinate corporations of CHW but are not members of the Obligated Group. The subordinate corporations conduct charitable healthcare, educational and religious activities and support subordinate nonprofit healthcare organizations. These transfers are accounted for as direct charges to the Obligated Group members' unrestricted net assets and direct credits to the subordinate corporations' unrestricted net assets. It is anticipated that Obligated Group members will continue to make asset transfers to the subordinate corporations.

Elder Care Alliance and its subordinate corporations (collectively "ECA") are nonprofit corporations providing assisted living, skilled nursing, rehabilitation and social services to the aged. The Sisters of Mercy of the Americas, West Midwest Community is a co-sponsor of both CHW and ECA. CHW has made certain loans to ECA and guarantees outstanding debt of certain ECA projects. Total guarantees as of June 30, 2010, 2009 and 2008 are $20.9 million, $20.9 million and $21.0 million, respectively. No amount has been included in total liabilities on the accompanying consolidated balance sheets related to these guarantees. Notes receivable from ECA as of June 30, 2010, total $18.5 million, and $24.4 million as of June 2009 and 2008, and are included in other long-term assets on the accompanying consolidated balance sheets. Principal and interest payments are receivable in monthly installments through 2030. Interest rates ranged from 3.0% to 6.5% in 2010, 2009 and 2008.

Recent Accounting Pronouncements – In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries* ("ASU 2010-24), which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 is effective for CHW beginning July 1, 2011. The adoption of ASU No. 2010-24 is not expected to have a material impact on CHW's consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954), Measuring Charity Care for Disclosure* ("ASU 2010-23), which requires that cost be used as a measurement for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. It also requires disclosure of the method used to identify or determine such costs. The adoption of ASU No. 2010-23 is effective for CHW beginning July 1, 2011. The adoption of ASU 2010-23 is not expected to have a material impact on CHW's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements,* which amended Accounting Standards Codification ("ASC") No. 855, *Subsequent Events,* requiring the evaluation of subsequent events through the date that the financial statements are issued. CHW adopted ASU 2010-09 effective March 31, 2010. The adoption of ASU 2010-09 did not have an impact on CHW's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"), which amended ASC No. 820, *Fair Value Measurements and Disclosures* ("ASC 820") to require new disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, including reasons for the transfers, and to require new disclosures related to activity in Level 3 fair value measurements. In addition, ASU 2010-06 clarifies existing disclosure requirements related to the level of disaggregation of classes of assets and liabilities and provides further detail about inputs and valuation techniques used for fair value measurement. CHW adopted ASU 2010-06 effective March 31, 2010. The adoption of ASU 2010-06 did not have a material impact on CHW's consolidated financial statements.

In September 2009, the FASB issued ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2009-12"), which amended ASC 820 to permit, as a practical expedient, the measurement of fair value of an investment on the basis of the net asset value per share (or its equivalent) if the net asset value of the investment is calculated in a manner consistent with the measurement principles of ASC No. 946, *Financial Services – Investment Companies* ("ASC 946"). In addition, disclosure requirements were expanded to ensure users can understand the nature and risks of these investments. CHW adopted ASU 2009-12 effective December 31, 2009. The adoption of ASU 2009-12 did not have a material impact on CHW's consolidated financial statements.

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value* ("ASU 2009-05") which amended ASC 820 to provide clarification in circumstances in which a quoted price in an active market for an identical liability is not available at the measurement date. Such clarification includes the requirement to use a valuation technique that uses the quoted price of an identical liability or a similar liability when traded as an asset, or a valuation technique that is consistent with an income approach such as a present value technique or a market approach such as one based on an amount at the measurement date that would be paid to transfer the identical liability or would be received to enter into the identical liability. CHW adopted ASU 2009-05 effective October 1, 2009. The adoption of ASU 2009-05 did not have a material impact on CHW's consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140,* as codified by ASU 2009-16. The objective of ASU 2009-16 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. The provisions of ASU 2009-16 are to be applied by

CHW effective July 1, 2010, and are not expected to have a material impact on the consolidated financial statements.

In April 2009, the FASB issued SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142*, as codified by ASU 2010-07. This statement provides guidance on accounting for a combination of not-for-profit entities and applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity. ASU 2010-07 establishes principles and requirements for how a not-for-profit entity (a) determines whether a combination is a merger or an acquisition, (b) applies the carryover method in accounting for a merger, (c) applies the acquisition method in accounting for an acquisition, and (d) determines what information to disclose with respect to the nature and financial effects of a merger or an acquisition. This statement also amends both SFAS No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* to make their provisions fully applicable to not-for-profit entities. The provisions of ASU 2010-07, which are to be applied prospectively, were effective for CHW January 1, 2010, for mergers and had no impact on CHW's financial statements. The provisions for acquisitions, which are effective for CHW beginning July 1, 2010, are not anticipated to have a material impact on CHW's financial statements.

Subsequent Events - CHW has evaluated subsequent events occurring between the end of the most recent fiscal year and October 11, 2010, the date the financial statements were issued.

3. MERGERS, ACQUISITIONS AND DIVESTITURES

In December 2007, CHW sold substantially all land, buildings and equipment of San Gabriel Valley Medical Center, a 273-bed facility located in San Gabriel, California, to an unrelated party. Aggregate proceeds were $60.1 million. A gain on the sale of approximately $30.0 million was recorded in discontinued operations in the statement of operations and changes in net assets at the date of the sale.

The accompanying consolidated statements of operations and changes in net assets reflect the results of the operations of facilities sold, closed or held for sale as discontinued operations for all periods presented, including operating revenues of $4.6 million, $1.8 million and $97.5 million for 2010, 2009 and 2008, respectively.

4. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

Unsponsored community benefits are programs or activities that provide treatment and/or promote health and healing as a response to identified community needs. These benefits (a) generate a low or negative margin, (b) respond to the needs of special populations, such as persons living in poverty and other disenfranchised persons, (c) supply services or programs that would likely be discontinued, or would need to be provided by another nonprofit or government provider, if the decision was made on a purely financial basis, (d) respond to public health needs, and/or (e) involve education or research that improves overall community health.

Benefits for the Poor include services provided to persons who are economically poor or are medically indigent and cannot afford to pay for healthcare services because they have inadequate resources and/or are uninsured or underinsured.

Benefits for the Broader Community refer to persons in the general communities that CHW serves, beyond and including those in a target population. Most services for the broader community are aimed at improving the health and welfare of the overall community. Such services include the interest rate differential on below market rate loans that CHW makes to nonprofit community-based organizations that promote the total health of their communities, including the development of affordable housing for low-income persons and families, increasing opportunities for jobs and job training, and expanding access to healthcare for uninsured and underinsured persons. As of June 30, 2010, 2009 and 2008, CHW's community investment loan portfolio totaled $35.5 million, $35.3 million and $29.6 million, respectively, which is included in other assets limited as to use.

Traditional Charity Care is free or discounted health services provided to persons who cannot afford to pay and who meet CHW's criteria for financial assistance. The amount of services quantified at customary charges was $705.6 million, $627.0 million and $569.3 million, for 2010, 2009 and 2008, respectively.

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, and other sources of payment or reimbursement for services provided to program patients. Comparable amounts of net community benefit were $672.1 million and $508.4 million for 2009 and 2008, respectively. Net Community Benefit including the unpaid cost of Medicare was $1.2 billion and $966.9 million for 2009 and 2008, respectively.

The following is a summary of CHW's community benefits for 2010, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with Internal Revenue Service Form 990, Schedule H and the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in thousands):

	Unaudited				
	Persons Served	**Total Benefit Expense**	**Direct Offsetting Revenue**	**Net Community Benefit**	**% of Total Expenses Excluding Bad Debt Expense**
Benefits for the poor:					
Traditional charity care	110,381	$ 146,670	$ (3,923)	$ 142,747	1.7%
Unpaid costs of Medicaid / Medi-Cal	944,650	1,694,926	(1,136,541)	558,385	6.5%
Other means-tested programs	269,294	98,303	(41,439)	56,864	0.7%
Community services:					
Community health services	553,419	51,746	(2,858)	48,888	0.5%
Health professions education	21,746	6,432	-	6,432	0.1%
Subsidized health services	212,434	38,844	(2,683)	36,161	0.4%
Donations	256,564	8,730	(220)	8,510	0.1%
Community building activities	69,194	3,259	(1,453)	1,806	0.0%
Community benefit operations	11,547	5,645	-	5,645	0.1%
Total community services for the poor	1,124,904	114,656	(7,214)	107,442	1.2%
Total benefits for the poor	2,449,229	2,054,555	(1,189,117)	865,438	10.1%
Benefits for the broader community:					
Community services:					
Community health services	2,464,586	25,896	(6,180)	19,716	0.2%
Health professions education	49,929	59,338	(12,720)	46,618	0.5%
Subsidized health services	114,349	14,738	(1,088)	13,650	0.2%
Research	23,285	28,419	(1,229)	27,190	0.3%
Donations	158,111	3,810	(47)	3,763	0.1%
Community building activities	77,077	6,782	(8)	6,774	0.1%
Community benefit operations	95,948	2,025	(25)	2,000	0.0%
Total benefits for the broader community	2,983,285	141,008	(21,297)	119,711	1.4%
Total Community Benefits	5,432,514	$2,195,563	$(1,210,414)	$ 985,149	11.5%
Unpaid costs of Medicare	995,245	2,320,133	(1,974,513)	345,620	4.0%
Total Community Benefits including unpaid costs of Medicare	6,427,759	$4,515,696	$(3,184,927)	$1,330,769	15.5%

5. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Inventories	$ 153,327	$ 143,829	$ 133,891
Receivables, other than patient accounts receivable	101,218	117,225	97,663
Other prepaid expenses	51,732	51,129	40,048
Deposits	19,668	18,937	18,947
Other	175,837	102,219	30,786
Total other current assets	$ 501,782	$ 433,339	$ 321,335

6. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use, including assets loaned under securities lending program, consist of the following at June 30, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Cash and cash equivalents	$ 585,701	$ 751,588	$ 723,674
U.S. government securities	789,927	677,633	685,302
U.S. corporate bonds	577,337	427,805	616,648
U.S. equity securities	1,275,687	1,037,429	1,033,367
Foreign government securities	204,841	142,387	232,129
Foreign corporate bonds	9,703	6,621	21,841
Foreign equity securities	309,359	226,572	392,396
Asset-backed securities	40,705	42,063	26,103
Structured debt	106,722	91,359	64,585
Private equity investments	83,344	63,619	66,133
Multi-strategy hedge fund investments	152,272	103,780	121,006
Real estate	133,674	105,056	174,502
Other	84,508	83,085	98,448
Interest in net assets of unconsolidated foundations	188,004	181,034	219,961
Total	$ 4,541,784	$ 3,940,031	$ 4,476,095
Assets limited as to use:			
Current	$ 692,704	$ 1,067,718	$ 1,364,830
Long-term	3,252,773	2,475,302	2,573,860
Short-term investments	596,307	397,011	537,405
Total	$ 4,541,784	$ 3,940,031	$ 4,476,095

The current portion of assets limited as to use includes the amount of assets available to meet current obligations for debt service and claims payments under the self-insured programs for workers' compensation benefits for employees and hospital professional and general liability risks.

Investment income and losses on assets limited as to use, cash equivalents, collateral held under securities lending program, notes receivable, and investments are comprised of the following for 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Interest and dividend income	$ 113,674	$ 117,344	$ 157,230
Realized gains (losses) on sales of securities	92,715	(115,606)	90,528
Net unrealized gains (losses) on securities	215,758	(369,490)	(194,204)
Other, net of capitalized investment income	(19,673)	(19,719)	(43,632)
Total investment income (loss)	$ 402,474	$ (387,471)	$ 9,922

7. FAIR VALUE MEASUREMENTS

CHW accounts for certain assets and liabilities at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in Level 1 include U.S. Treasury securities and listed equities.

Level 2: Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds and interest rate swaps.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management’s judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Financial assets in this category include alternative investments.

The following represents assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method as of June 30, 2010 and 2009 (in thousands):

	Fair Value Measurements at June 30, 2010 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance at June 30, 2010**
Assets				
Cash and cash equivalents	$ 585,701	$ -	$ -	$ 585,701
U.S. government securities	340,926	449,001	-	789,927
U.S. corporate bonds	72,896	504,441	-	577,337
U.S. equity securities	1,113,859	161,828	-	1,275,687
Foreign government securities	23	204,818	-	204,841
Foreign corporate bonds	-	9,703	-	9,703
Foreign equity securities	309,136	223	-	309,359
Asset-backed securities	-	40,705	-	40,705
Structured debt	-	106,722	-	106,722
Private equity investments	-	-	83,344	83,344
Multi-strategy hedge fund investments	-	-	152,272	152,272
Real estate	5,165	-	128,509	133,674
Collateral held under securities lending program	-	272,986	-	272,986
Other fund investments	6,250	-	-	6,250
Total assets	$ 2,433,956	$ 1,750,427	$ 364,125	$ 4,548,508
Liabilities				
Interest rate swap instruments	$ -	$ 160,732	$ -	$ 160,732

	Fair Value Measurements at June 30, 2009 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance at June 30, 2009**
Assets				
Cash and cash equivalents	$ 751,588	$ -	$ -	$ 751,588
U.S. government securities	199,035	478,598	-	677,633
U.S. corporate bonds	30,779	397,026	-	427,805
U.S. equity securities	913,704	123,725	-	1,037,429
Foreign government securities	531	141,856	-	142,387
Foreign corporate bonds	698	5,923	-	6,621
Foreign equity securities	226,572	-	-	226,572
Asset-backed securities	-	42,063	-	42,063
Structured debt	-	91,359	-	91,359
Private equity investments	-	-	63,619	63,619
Multi-strategy hedge fund investments	-	-	103,780	103,780
Real estate	3,422	-	101,634	105,056
Collateral held under securities lending program	-	298,091	-	298,091
Other fund investments	5,843	2,747	-	8,590
Total assets	$ 2,132,172	$ 1,581,388	$ 269,033	$ 3,982,593
Liabilities				
Interest rate swap instruments	$ -	$ 108,549	$ -	$ 108,549

Assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method are reported in short-term investments, assets limited as to use, and other accrued liabilities in the consolidated balance sheet. Such amounts do not include donor-restricted funds or interests in unconsolidated foundations.

There were no significant transfers to or from Levels 1 or 2 during the periods presented.

The Level 2 and 3 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

U.S. and Foreign Government Securities - The fair value of investments in U.S. and foreign government securities, including mutual and commingled funds investing primarily in such securities, classified as Level 2 was primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

U.S. and Foreign Corporate Bonds - The fair value of investments in U.S. and foreign corporate bonds, including mutual and commingled funds that invest primarily in such bonds, classified as Level 2 was primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics (such as early redemption options).

U.S. and Foreign Equity Securities - The fair value of U.S. and foreign equity securities classified as Level 2 was primarily determined using the calculated NAV. This includes investments in mutual funds or commingled funds that invest primarily in domestic and foreign equity securities whose underlying values are based on Level 1 inputs. The fund managers receive prices from nationally recognized pricing services based on observable market transactions. Certain common and preferred stocks held by CHW under this classification do not have available current market quotes and are primarily valued using techniques consistent with the market approach utilizing significant observable inputs such as bid/ask/offer quotes.

Asset-Backed Securities - The fair value of asset-backed securities classified as Level 2 was primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Structured Debt - The fair value of structured debt classified as Level 2 was determined using techniques consistent with the income approach. This category is mainly comprised of collateralized mortgage obligations and is valued using significant observable market inputs such as spread quotes, volatility, benchmark yields, deal files, prepayment speeds, bids/offers, treasury curves, and swap curves.

Private Equity and Hedge Fund Investments - The fair value of private equity and hedge fund investments was determined using the calculated NAV. The values for underlying investments are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. Due to the significant unobservable inputs present in these valuations, CHW classifies all such investments as Level 3.

Real Estate - The fair value of Level 3 real estate investments was determined using the calculated NAV. The underlying investments within the NAV calculation were valued using the income, sales comparison (market), and cost approaches. Significant inputs to the income approach include contract and market rents, operating expenses, capitalization rates, and discount rates. Key inputs of the sales comparison approach are sales of comparable properties, market rents, and market rent growth trends. The cost approach, which uses the value of the property plus the cost of building a similar structure of equal utility, applies to a limited set of properties and its overall impact on the fair value measurements is immaterial. Due to the significant unobservable inputs present in these valuations, CHW classifies all such investments as Level 3.

Collateral Held under Securities Lending Program - The fair value of collateral held under securities lending program classified as Level 2 was determined using the calculated NAV. The collateral held under this program is placed in commingled funds that invest primarily in certificates of deposit, bank notes, repurchase agreements, commercial paper, corporate debt, asset-backed commercial paper, and asset-backed securities. Amounts reported do not include non-cash collateral of $42.8 million, $5.5 million and $0.0 million as of June 30, 2010, 2009 and 2008, respectively. The underlying investments were valued using techniques consistent with the market approach which utilizes significant observable market inputs such as available trades, quotes, benchmark curves, sector groupings, and matrix pricing.

Interest Rate Swap Instruments - The fair value of interest rate swap instruments classified as Level 2 was determined using an industry standard valuation model, which is based on a market approach. The model values the known fixed leg future cash flows using a discount factor curve constructed from the USD Swap Curve Semi 30/360. The model then extrapolates a forecast of future interest rates to establish the amount of each future floating rate cash flow. The base data used to forecast future interest rates is the USD Swap Curve Semi 30/360 adjusted by the USD Basis Swap One Month vs. Three Month Curve. The model then values the forecasted future cash flows of the variable leg using a discount factor curve constructed from the USD Swap Curve Semi 30/360. In order to adjust the market value for credit risk, a credit risk spread (in basis points) is added as a flat spread to the discount curve. Each leg is discounted and the difference between the present value of each leg’s cash flows equals the market value of the swap.

The following table presents the change in the balance of financial assets and liabilities using significant unobservable inputs (Level 3) measured on a recurring basis and certain assets accounted for under the equity method in 2010 and 2009 (in thousands):

	2010	2009
Balance at beginning of year	$ 269,033	$ 357,269
Total realized and unrealized gains (losses), net, included in excess (deficit) of revenues over expenses	3,316	(110,574)
Purchases, issuances and settlements	86,755	22,338
Transfers in and/or out of Level 3	5,021	-
Balance at June 30	$ 364,125	$ 269,033
Change in unrealized gains (losses) included in investment income (loss) related to assets held and included in interest expense, net, related to liabilities held as of June 30	$ 3,552	$ (110,514)

Included within the assets above are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments as of June 30, 2010 (in thousands):

		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Commingled funds - debt securities	(1)	$ 166,950	$ -	Daily, Semi-Monthly	1 - 5 days
Commingled funds - equity securities	(2)	160,932	-	Daily, Semi-Monthly, Monthly	1 - 30 days
Collateral held under securities lending	(3)	272,986	-	Daily	10 days
Total Level 2		$ 600,868	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 152,272	$ -	Quarterly, Semi-Annually, Annually	65 - 370 days
Private equity	(5)	83,344	129,310	-	-
Real estate	(6)	128,509	-	-	-
Total Level 3		$ 364,125	$ 129,310		
Total Level 2 and Level 3		$ 964,993	$ 129,310		

(1) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets and priced using a variety of valuation techniques. Investments representing approximately 35% of the value of this category have withdrawal limitations with two separate options. The first option limits a per month withdrawal to a maximum of 4% of the investment's NAV. Redemption rights accumulate during months when maximum withdrawals are not requested. At June 30, 2010, CHW had accumulated withdrawal rights of approximately 4% of the investment's NAV. The second option provides the ability to redeem or liquidate 94% of the investment's NAV which is comprised of securities maturing within 90 days or less, and the remainder of the securities that mature beyond 90 days are held in a liquidating fund or sold at the discretion of the portfolio manager.

(2) This category includes investments in commingled funds that invest primarily in domestic or foreign equity securities with multiple investment strategies. A majority of the funds attempt to match the returns of specific equity indices. Investments representing approximately 25% of the value of this category have withdrawal limitations with two separate options. The first option limits a per month withdrawal to a maximum of 4% of the investment's NAV. Redemption rights accumulate during months when maximum withdrawals are not requested. At June 30, 2010, CHW had accumulated withdrawal rights of approximately 54% of the investment's NAV. The second option provides the ability to redeem or liquidate 96% of the investment's NAV which is comprised of securities maturing within 90 days or less, and the remainder of the securities which mature beyond 90 days are held in a liquidating fund or are sold at the discretion of the portfolio manager.

(3) This category includes investments of collateral held under securities lending program. CHW participates in a securities lending program administered by its custodian as a means to augment income from its portfolio. Securities are loaned to select brokerage firms who in turn post collateral. The collateral is placed in commingled funds that invest primarily in cash and cash equivalents, and domestic and foreign debt securities. CHW can fully withdraw from the program with its custodian, and in return receive proportional distributions of the investments held by the collateral lending fund.

(4) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term risk-adjusted absolute returns. A redemption limitation has been imposed for investments representing approximately 1% of the value of this category and no withdrawals are currently permitted. The redemption limitation lapses on October 1, 2010, at which time liquidity will be limited to semi-annual withdrawals with 60 days written notice. A redemption limitation has been imposed for investments representing approximately 2% of the value of this category and no withdrawals are currently permitted. The redemption limitation for these investments lapses on March 30, 2011, at which time liquidity will be limited to annual withdrawals with 75 days written notice. Approximately 59% of the value of this category requires a notice period of 90 days for redemption. Other investments representing approximately 36% of the value of this category require a notice period of 95 days for redemptions of up to 50% of the investor's shares and 370 days written notice for redemptions greater than 50%. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. Such restrictions were not applicable at June 30, 2010.

(5) This category includes several private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2010, to be over the next 2-12 years.

(6) This category includes a real estate fund that invests primarily in institutional quality commercial and residential real estate assets within the United States. A redemption limitation has been imposed for the fund and no withdrawals are currently permitted. The time at which the redemption limitation might lapse cannot be estimated.

The investments included above are not expected to be sold at amounts that are different from NAV.

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following at June 30, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Land	$ 208,624	$ 206,725	$ 177,179
Land improvements	105,485	102,450	98,568
Buildings	4,239,322	3,703,341	3,317,881
Equipment	3,103,405	3,005,257	2,693,716
Construction in progress	440,971	732,161	734,437
Total	8,097,807	7,749,934	7,021,781
Less: Accumulated depreciation	(4,203,696)	(3,967,485)	(3,617,430)
Property and equipment, net	$ 3,894,111	$ 3,782,449	$ 3,404,351

9. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net, consist of the following at June 30, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Notes receivable, primarily secured	$ 50,612	$ 58,072	$ 57,246
Deferred financing costs, net	32,120	38,467	35,386
Goodwill	82,254	73,228	41,485
Other	35,074	27,582	26,740
Total other long-term assets, net	$ 200,060	$ 197,349	$ 160,857

10. OWNERSHIP INTERESTS IN HEALTH-RELATED ACTIVITIES

In August 1995, CHW and Scripps Health ("Scripps") entered into an affiliation agreement to enhance their mutual ability to serve the San Diego community. Through the affiliation, CHW transferred the sole voting membership of one of its subordinate corporations, Mercy Healthcare San Diego ("MHSD") to Scripps, along with the responsibility for its operation and governance. MHSD's principal activity is the operation of a hospital and a network of clinics.

Pursuant to the affiliation agreement, among other things, CHW obtained the right to receive a 20% interest in the annual change in unrestricted net assets of Scripps and the right to 20% of the net proceeds, with certain restrictions, upon the liquidation of Scripps. Scripps has the right to receive from CHW an amount equal to CHW's percentage interest in (i) the annual capital expenditures of Scripps and (ii) the annual amortization of debt principal of Scripps. CHW and Scripps may make an election annually to receive all or a portion of the accumulated but not previously paid amounts under the affiliation agreement, subject to certain conditions. No payments have ever been paid by either party under these provisions. Twenty percent of the members of the Scripps Board of Directors are elected from nominees proposed by CHW.

CHW accounts for the affiliation with Scripps under the equity method. Its investment at June 30, 2010, 2009 and 2008, is $254.5 million, $203.9 million and $210.5 million, respectively, and is reflected on the accompanying consolidated balance sheets in ownership interests in health-related activities. CHW recorded income of $50.6 million, a loss of $6.7 million and income of $22.9 million in revenue from health-related activities, net, for 2010, 2009 and 2008, respectively, related to its interest in the unrestricted net assets of Scripps.

In June 1985, CHW and Carondelet Health Network (now a member of Ascension Health) entered into an affiliation agreement by which each affiliate made an investment in Southwest Catholic Healthcare

Network, dba Mercy Care Plan. Mercy Care Plan operates a health plan for Arizona's Medicaid program, Arizona Health Care Cost Containment System ("AHCCCS"), with approximately 368,000 enrollees.

CHW accounts for the affiliation with Mercy Care Plan under the equity method. Its investment at June 30, 2010, 2009 and 2008, is $89.4 million, $62.5 million and $65.0 million, respectively, and is reflected on the accompanying consolidated balance sheets in ownership interests in health-related activities. CHW recorded income of $24.5 million, $2.5 million and $22.3 million in revenue from health-related activities, net, for 2010, 2009 and 2008, respectively, in the accompanying consolidated statements of operations and changes in net assets related to its interest in the excess of revenues over expenses of Mercy Care Plan. Mercy Care Plan classifies its investment portfolio as available-for-sale. As such, CHW recorded its 50% interest in the unrealized gains and losses of Mercy Care Plan of $2.4 million in net gains for 2010, and $3.0 million in net losses for 2009 and $0.0 million for 2008, in unrestricted net assets.

The following table summarizes the financial position and results of operations for the health-related organizations discussed above which are accounted for under the equity method, as of and for the 12 months ended June 30, 2010, 2009, and 2008 (in thousands):

	2010		2009		2008	
	Scripps Health	**Mercy Care Plan**	**Scripps Health**	**Mercy Care Plan**	**Scripps Health**	**Mercy Care Plan**
Total assets	$ 2,471,030	$ 406,040	$ 2,008,588	$ 351,153	$ 2,199,068	$ 395,393
Total liabilities	998,773	227,251	765,777	226,246	921,016	269,380
Total net assets	1,472,257	178,789	1,242,811	124,907	1,278,052	126,013
Total revenues, net	2,339,508	1,896,159	1,871,875	1,806,582	2,071,722	1,805,372
Excess (deficit) of revenue over expenses	$ 210,473	$ 51,260	$ (44,101)	$ 13,726	$ 168,976	$ 40,632

11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

CHW maintains defined benefit retirement plans that cover substantially all eligible employees of CHW. Benefits are generally based on age, years of service and employee compensation. CHW also offers postretirement healthcare benefits to most of its employees. For the majority of covered employees, the benefits are determined based on age, years of service and compensation up to specified amounts.

The plans are actuarially evaluated and involve various assumptions. These assumptions include the discount rate and the expected rate of return on plan assets (for pension), which are important elements of expense and liability measurement. Other assumptions involve demographic factors such as retirement, mortality, turnover and the rate of compensation increases. CHW evaluates assumptions annually and modifies them as appropriate. The model allocates pension cost and postretirement costs over the service period of the employees in the plans. The principle underlying this accounting is that employees render service ratably over the period and, therefore, the effects in the consolidated statements of operations and changes in net assets follow the same pattern.

Contributions to the defined benefit retirement plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. These plans qualify under a Church Plan Exemption, and as such are not subject to Employee Retirement Income Security Act ("ERISA") funding requirements. CHW's funding policy requires that, at a minimum, each participating hospital makes contributions equal to its unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these plans are anticipated at $269.9 million in 2011.

CHW adopted the measurement provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* in 2009, as codified by ASC 715, which required CHW to measure pension and other postretirement benefit plan assets and obligations as of the date of the fiscal year end statement of financial position. The effect of changing the measurement date from March 31, which CHW had used previously, to June 30, resulted in a decrease to unrestricted net assets of $37.6 million on June 30, 2009.

The accumulated benefit obligation exceeds plan assets for each of the defined benefit plans and other postretirement plans for the years ended June 30, 2010, 2009 and 2008. The following summarizes the benefit obligations and funded status for the defined benefit pension and other postretirement plans for 2010, 2009 and 2008 (in thousands):

	2010		**2009**		**2008**	
	Retirement Plans	**Other Benefit Plans**	**Retirement Plans**	**Other Benefit Plans**	**Retirement Plans**	**Other Benefit Plans**
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 2,183,762	$ 81,694	$ 1,801,506	$ 78,079	$ 1,881,203	$ 76,522
Service cost	145,726	4,784	151,896	5,820	136,526	4,867
Interest cost	141,984	5,402	158,230	6,855	115,126	4,605
Plan changes/amendments	3,059	1,894	2,712	-	146	2,584
Actuarial (gain) loss	355,078	13,002	151,438	(4,966)	(267,572)	(5,554)
Acquisitions and other	(84)	-	4,500	-	-	-
Administrative expenses	(12,728)	-	(15,713)	-	(16,051)	-
Benefits paid	(59,153)	(4,506)	(70,807)	(4,094)	(47,872)	(4,945)
Benefit obligation at end of year	$ 2,757,644	$ 102,270	$ 2,183,762	$ 81,694	$ 1,801,506	$ 78,079
Accumulated benefit obligation	$ 2,332,274	$ 102,270	$ 1,847,632	$ 81,694	$ 1,514,726	$ 78,079
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 1,334,519	$ -	$ 1,506,973	$ -	$ 1,377,422	$ -
Actual return on plan assets	172,739	-	(276,673)	-	16,609	-
Employer contributions	242,422	4,506	186,634	4,094	176,865	4,945
Benefits paid	(59,153)	(4,506)	(70,807)	(4,094)	(47,872)	(4,945)
Acquisitions and other	-	-	4,105	-	-	-
Administrative expenses	(12,728)	-	(15,713)	-	(16,051)	-
Fair value of plan assets at end of year, net	$ 1,677,799	$ -	$ 1,334,519	$ -	$ 1,506,973	$ -
Funded status	$(1,079,845)	$ (102,270)	$ (849,243)	$ (81,694)	$ (294,533)	$ (78,079)
Contributions after measurement date	-	-	-	-	40,944	-
Accrued benefit cost	$(1,079,845)	$ (102,270)	$ (849,243)	$ (81,694)	$ (253,589)	$ (78,079)

The activity for 2009 above reflects the 15-month period from April 1, 2008, through June 30, 2009, due to the change in measurement date from March 31 to June 30.

The following table summarizes the amounts recognized in unrestricted net assets as of June 30, 2010, 2009 and 2008 (in thousands):

	2010		2009		2008	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Net actuarial loss (gain)	$ 1,011,752	$ 796	$ 765,200	$ (12,762)	$ 207,095	$ (8,341)
Prior service cost (credit)	(10,899)	$ 50,017	(16,532)	54,021	(22,956)	61,501
Amounts in unrestricted net assets	$ 1,000,853	$ 50,813	$ 748,668	$ 41,259	$ 184,139	$ 53,160

The estimated net loss and prior service credit for the retirement plans and postretirement plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2011 are $62.0 million and $3.6 million, respectively.

The following table summarizes the amounts recognized in the consolidated balance sheets as of June 30, 2010, 2009 and 2008 (in thousands):

	2010		2009		2008	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Current liabilities	$ (270,465)	$ (5,401)	$ (202,510)	$ (5,512)	$ (148,443)	$ (6,528)
Long-term liabilities	(809,380)	(96,869)	(646,733)	(76,182)	(105,146)	(71,551)
Accrued benefit cost	$(1,079,845)	$ (102,270)	$ (849,243)	$ (81,694)	$ (253,589)	$ (78,079)

The following table summarizes the weighted-average assumptions used to determine benefit obligations as of June 30, 2010, 2009 and 2008 (dollars in thousands):

	2010		2009		2008	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
To determine benefit obligations:						
Discount rate	6.00%	5.50%	6.60%	6.80%	7.15%	7.15%
Rate of compensation increase	5.25%	5.25%	5.35%	5.35%	5.10%	5.10%
To determine net periodic benefit cost:						
Discount rate	6.60%	6.80%	7.15%	7.15%	6.25%	6.15%
Expected return on plan assets	7.50%	N/A	7.50%	N/A	8.00%	N/A
Rate of compensation increase	5.32%	5.32%	5.14%	5.14%	5.20%	5.20%

The following table summarizes the components of net periodic cost recognized in the consolidated statements of operations and changes in net assets for 2010, 2009 and 2008 (in thousands):

	2010		2009		2008	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Service cost	$ 145,726	$ 4,784	$ 121,538	$ 4,648	$ 136,526	$ 4,867
Interest cost	141,984	5,402	126,576	5,478	115,126	4,605
Expected return on plan assets	(105,407)	-	(116,476)	-	(113,206)	-
Net prior service cost (credit) amortization	(2,574)	5,898	(2,967)	5,976	(2,833)	5,839
Net loss (gain) amortization	46,311	(556)	8,699	(435)	19,031	(176)
Net periodic benefit cost	$ 226,040	$ 15,528	$ 137,370	$ 15,667	$ 154,644	$ 15,135

The following represents the plan assets measured at fair value on a recurring basis and certain plan assets accounted for under the equity method as of June 30, 2010 (in thousands):

	Fair Value Measurements at June 30, 2010 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at June 30, 2010
Assets				
Cash and cash equivalents	$ 117,371	$ -	$ -	$ 117,371
U.S. government securities	60,730	90,286	-	151,016
U.S. corporate bonds	-	95,955	-	95,955
U.S. equity securities	637,226	87,430	-	724,656
Foreign government securities	-	94,003	-	94,003
Foreign corporate bonds	-	5,196	-	5,196
Foreign equity securities	223,705	-	-	223,705
Asset backed securities	-	6,455	-	6,455
Structured debt	-	18,924	-	18,924
Private equity investments	-	-	69,193	69,193
Hedge fund investments	-	-	133,452	133,452
Real estate	3,019	-	85,992	89,011
Collateral held under securities lending program	-	203,306	-	203,306
Other fund investments	-	-	-	-
Total assets	$ 1,042,051	$ 601,555	$ 288,637	$ 1,932,243

The following table presents the change in the plan assets using significant unobservable inputs (Level 3) measured on a recurring basis and certain assets accounted for under the equity method in 2010 (in thousands):

	2010
Balance at beginning of year	$ 210,353
Total realized and unrealized losses, net, included in actual return on plan assets	(387)
Purchases, issuances and settlements	78,671
Transfers in and/or out of Level 3	-
Balance at June 30	$ 288,637
Change in unrealized gains (losses) included in actual return on plan assets related to plan assets	$ (10)

For information about the valuation techniques and inputs used to measure fair value of the plan assets, see discussion included in the fair value measurement at Note 7.

The following table summarizes the weighted-average asset allocations by asset category for the retirement plans for 2010, 2009 and 2008:

	Plan Assets at June 30		
	2010	2009	2008
Cash and cash equivalents	7%	7%	4%
U.S. government securities	9%	9%	7%
U.S. corporate bonds	6%	6%	14%
U.S. equity securities	42%	43%	44%
Foreign government securities	5%	5%	0%
Foreign corporate bonds	0%	0%	0%
Foreign equity securities	13%	12%	12%
Asset-backed securities	0%	1%	0%
Structured debt	1%	1%	1%
Private equity investments	4%	4%	3%
Hedge fund investments	8%	6%	7%
Real estate	5%	6%	8%
Other fund investments	0%	0%	0%
Total	100%	100%	100%

The asset allocation policy for the retirement plans for 2010 is as follows: Domestic fixed income, 14% (which may include U.S. government securities, U.S. corporate bonds, asset-backed securities and/or structured debt); domestic equity 40% (including U.S. equity securities); international equity, 20% (including foreign equity securities); international fixed income, 6% (which may include foreign government securities, foreign government bonds, asset-backed securities and/or structured debt); private equity, 5% (which may include private equity investments and/or structured debt); absolute return strategies, 8% (which may include hedge fund investments, asset-backed securities and/or structured debt); and real estate, 7%.

CHW's investment strategy for the assets of the retirement plans is designed to preserve principal while earning returns relative to the overall market consistent with a prudent level of risk. The strategy balances the liquidity needs of the retirement plans with the long-term return goals necessary to satisfy future obligations. The target asset allocation is diversified across traditional and non-traditional asset classes. Diversification is also achieved through participation in U.S. and non-U.S. markets, investment manager style, philosophy, and capitalization. The complimentary investment styles and approaches used by both traditional and alternative investment managers is aimed at reducing volatility while capturing the equity premium from the capital markets over the long term. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. Consistent with CHW's fiduciary responsibilities, the fixed income allocation generally provides for security of principal to meet near term expenses and obligations. Periodic reviews of the market values and corresponding asset allocation percentages are performed to determine whether a rebalancing of the portfolio is necessary.

CHW's retirement plan portfolio return assumption of 7.5% for 2010 and 2009 and 8.0% for 2008, was based on the long-term weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for retirement plan expenses, and expectations about future returns.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Retirement Benefits	**Other Benefits**
2011	$ 71,842	$ 5,401
2012	90,945	6,553
2013	104,969	7,270
2014	120,717	7,907
2015	138,519	8,680
2016 - 2020	1,018,859	55,105
Total	$1,545,851	$ 90,916

CHW participates in a multi-employer retirement plan covering certain employees at three facilities, and contributes to separate union plans for certain other employees. For the multi-employer plan as a whole, the actuarially computed value of vested benefits as of January 1, 2010, the most recent actuarial valuation, exceeded the net assets available for benefits. The participating CHW hospitals funded the minimum funding requirement in accordance with ERISA, which was $3.9 million for 2010 and zero for 2009 and 2008.

CHW maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $39.2 million, $35.7 million, and $32.8 million for 2010, 2009 and 2008, respectively, are primarily based on a percentage of a participant's contribution.

Total pension and other postretirement expense under all plans was $290.0 million, $195.3 million and $202.6 million for 2010, 2009 and 2008, respectively, and is included in salaries and benefits in the consolidated statements of operations and changes in net assets.

12. DEBT

Debt consists of the following at June 30, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Under Master Trust Indenture:			
Fixed rate debt:			
Fixed rate revenue bonds payable in installments through 2042; interest at 4.0% to 6.0%	$ 2,221,771	$ 2,126,764	$ 1,784,147
Put bonds payable in installments through 2039; interest at 4.5% to 5.0%	460,354	294,038	95,800
Senior secured notes payable from 2013 through 2018; interest at 5.7% to 6.5%	374,075	373,958	428,840
Total fixed rate debt	3,056,200	2,794,760	2,308,787
Variable rate debt:			
Variable rate demand bonds payable in installments through 2036; interest set at prevailing market rates (0.2% to 0.3% at June 30, 2010)	645,200	954,550	1,153,615
Variable rate demand bonds held as bank bonds, payable from 2018 through 2025	-	25	52,185
Variable rate revenue bonds (refinanced in March 2009)	-	-	175,000
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (0.5% to 1.0% at June 30, 2010)	327,900	328,300	328,700
Notes payable to banks under credit agreement payable in 2014; interest set at prevailing market rates (1.2% at June 30, 2010)	133,602	80,685	29,400
Total variable rate debt	1,106,702	1,363,560	1,738,900
Total debt under Master Trust Indenture	4,162,902	4,158,320	4,047,687
Other			
Various notes payable and other debt payable in installments through 2042; interest ranging up to 8.25%	26,301	92,209	12,456
Capitalized lease obligations	55,176	50,578	49,313
Total debt	4,244,379	4,301,107	4,109,456
Less current portion of long-term debt	(69,910)	(61,581)	(106,591)
Less demand bonds subject to short-term liquidity arrangements	(483,000)	(880,275)	(1,129,900)
Total long-term debt	$ 3,691,469	$ 3,359,251	$ 2,872,965

Scheduled principal debt payments, net of discounts and considering obligations subject to short-term liquidity arrangements as due according to their long-term amortization schedule, for the next five years and thereafter are as follows (in thousands):

2011	69,910
2012	91,341
2013	238,846
2014	229,813
2015	150,303
Thereafter	3,464,166
Total	$ 4,244,379

***Master Trust Indenture* –** CHW issues debt under a Master Trust Indenture of the Obligated Group which requires, among other things, gross revenue pledged as collateral, certain limitations on additional indebtedness, liens on property, and disposition or transfers of assets, and the maintenance of certain cash balances and other financial ratios. CHW is in compliance with these requirements at June 30, 2010.

***Debt Arrangements* - Fixed Rate Revenue Bonds –** CHW has fixed rate revenue bonds outstanding that may be redeemed, in whole or in part, prior to the stated maturities. Redemption of fixed rate revenue bonds may require a premium of up to 2.0%.

Put Bonds - CHW has put bonds outstanding with interest rates that were fixed at issuance for 3, 5, 7 and 10-year periods, with bond maturities that extend over longer terms. The bonds are not subject to optional redemption during the fixed rate period but are subject to a mandatory purchase on the respective put redemption date. Prior to a put redemption date, CHW will appoint a remarketing agent to convert the bonds to another fixed rate put period or to a short-term interest rate mode, or CHW will repay the par amount of the mandatory purchase. Put bonds have mandatory purchase dates of July 2011, July 2012 and July 2014 in the amounts of $45.9 million, $210.5 million and $195.0 million, respectively.

Senior Secured Notes Payable – CHW has taxable, senior secured notes outstanding at a fixed interest rate that are due at their stated maturity from 2013 to 2018. Early redemption of the debt, in whole or in part, may require a premium depending on market rates.

Variable Rate Demand Bonds – Variable rate demand bonds (“VRDBs”) are remarketed weekly and the VRDBs may be put at the option of the holders. CHW maintains bank letters of credit to support $645.2 million of VRDBs. The letters of credit serve as credit enhancement to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket.

The bank letters of credit supporting $317.0 million of VRDBs scheduled to expire in October 2010 were renewed in August 2010. The renewed letters of credit are set to expire in August 2013. The bank letter of credit supporting $71.2 million of VRDBs expiring July 2010 was replaced subsequent to year end with a new bank letter of credit expiring July 2013. Additional bank letters of credit supporting $91.0 million and $166.0 million of VRDBs expire June 2012 and November 2012, respectively. In the event that the remarketing agent is unable to remarket the VRDBs, the bond trustee will make a draw on the bank letter of credit and the tendered VRDBs will become bank bonds.

Certain bank bonds are subject to various repayment provisions ranging from two to five years with further accelerations upon successful bond remarketing, early redemptions, bond cancellations, conversion to a different interest rate mode, defaults, substitution of letter of credit providers or under certain other conditions.

VRDBs that are not remarketed and are subsequently funded by amounts drawn under the bank letters of credit and held as bank bonds are reported as extinguishments of debt and new borrowings, respectively, in the consolidated statement of cash flows. Repayments of these draws from proceeds of remarketed VRDBs are reported as extinguishments of debt and new borrowings, respectively, in the consolidated statement of cash flows.

Auction Rate Certificates – CHW has $240.0 million of auction rate certificates (“ARCs”) that are remarketed weekly and $87.9 million of ARCs that are remarketed every 35 days. The certificates are insured by various bond insurers. Holders of ARC are required to hold the certificates until the remarketing agent can find a new buyer for any tendered certificates.

Notes Payable to Bank Under Credit Agreement – CHW maintained a $350.0 million syndicated line of credit facility during 2010, 2009 and 2008, for working capital, letters of credit, capital expenditures and other general corporate purposes. In August 2010, the amount was increased to $480.0 million. During 2010, 2009 and 2008, the maximum amount outstanding under the syndicated credit facility was $133.6

million, $235.7 million and $29.4 million, respectively. Letters of credit issued under this facility were $0, $6.0 million and $6.0 million as of June 30, 2010, 2009 and 2008.

CHW has a $20.0 million single bank line of credit facility for letters of credit. Letters of credit issued under this facility were $16.7 million, $10.8 million and $11.3 million as of June 30, 2010, 2009 and 2008, respectively, but no amounts have been drawn.

Both credit facilities were scheduled to expire in October 2010, but were renewed in August 2010 with credit facilities that expire August 2013.

2010 Financing Activity - In November 2009, CHW issued $139.5 million of fixed rate bonds and $160.6 million of 3 and 5-year put bonds to refund $306.3 million of previously outstanding bonds. The put bonds mature in installments through July 2029 and have mandatory purchase dates of 2012 and 2014. The proceeds used to refund previously outstanding VRDBs were placed in an irrevocable trust and the bonds were legally defeased.

In November 2009, CHW exchanged $166.0 million of VRDBs for new VRDBs with identical terms to replace two letters of credit from a bank syndicate with two letters of credit from a single bank. The new letters of credit expire in November 2012.

CHW recorded a loss of $2.7 million on the early extinguishment of debt related to these transactions.

In January 2010, CHW replaced two letters of credit from a bank syndicate with two new letters of credit from a single bank. The new letters of credit, which expire in June 2012, provide liquidity for $91.0 million of VRDBs.

2009 Financing Activity - In March 2009, CHW refinanced $175.0 million of variable rate revenue bonds with a draw on its syndicated line of credit facility and recorded a $0.7 million loss on early extinguishment of debt related to this transaction. As discussed in Note 13, CHW also terminated the related $175.0 million total return swap associated with these bonds. In May 2009, CHW issued $390.0 million of fixed rate revenue bonds which mature in installments through 2040 and $195.0 million of 3 and 5-year put bonds which mature in installments through 2039 and have mandatory purchase dates of July 2012 and July 2014. These bonds were used to finance capital expenditures, to refund $249.6 million of previously outstanding VRDBs, and to partially repay $125.0 million on the syndicated line of credit facility which had been drawn to retire $175.0 million of variable rate revenue bonds, as described above. The proceeds used to refund previously outstanding bonds were placed with the bond trustee and the outstanding bonds were retired and cancelled. CHW recorded $1.9 million of loss on early extinguishment of debt related to this transaction.

2008 Financing Activity - In response to the ARCs market disruption, CHW restructured $1.4 billion of ARCs. As part of this restructuring, $745.9 million of ARCs were exchanged for VRDBs supported by letters of credit, $525.0 million of ARCs were exchanged for fixed rate revenue bonds, $90.0 million of ARCs had an interest mode conversion to insured fixed rate, and $26.5 million were retired and cancelled with proceeds from a draw on CHW’s syndicated line of credit facility. The maturities on the restructured bonds remained unchanged. Since the original ARCs were retired and cancelled, this restructuring was accounted for as an extinguishment of debt. CHW recorded a loss on early extinguishment of debt of $68.2 million which included a $14.5 million loss related to interest rate swaps that lost hedge accounting treatment when the underlying bonds being hedged were restructured.

CHW amended its syndicated line of credit facility and increased it in order to issue letters of credit to provide credit enhancement and liquidity support for $745.9 million of VRDBs discussed above. This facility was scheduled to expire in October 2010, but was renewed in August 2010 with a credit facility that expires in August 2013.

CHW issued $375.0 million of senior secured notes in May 2008 to refinance senior secured notes of $55.0 million maturing in July 2008 and $320.0 million maturing in October 2008. The $320.0 million senior secured notes were repaid in May 2008.

***Fair Values of Debt* -** The fair value of CHW's debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to CHW for debt of the same remaining maturities. The estimated fair values of CHW's long-term debt instruments as of June 30, 2010, are as follows (in thousands):

	Carrying Value	Fair Value
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,221,771	$ 2,275,578
Put bonds	460,354	481,031
Senior secured notes payable	374,075	424,976
Variable rate demand bonds	645,200	645,200
Auction rate certificates	327,900	327,900
Notes payable to bank under credit agreement	133,602	133,602
Total debt under Master Trust Indenture	4,162,902	4,288,287
Other	81,477	81,477
Total debt	$ 4,244,379	$ 4,369,764

The fair value amounts do not represent the amount CHW would be required to expend to retire the indebtedness.

13. DERIVATIVE INSTRUMENTS

As of June 30, 2010, CHW has 20 floating-to-fixed interest rate swaps. CHW uses floating-to-fixed interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under these swaps, CHW receives a percentage of LIBOR ranging from 57.00% to 58.96% plus a spread ranging from 0.13% to 0.32% and pays a fixed rate. Counterparties to these swaps are JPMorgan and Citibank for $464.5 million and $696.6 million, respectively, of the notional amounts outstanding.

In July 2009, certain interest rate swaps with an outstanding notional amount of $306.3 million discontinued hedge accounting in anticipation of the related hedged bonds being refinanced in November 2009 with fixed rate debt and put bonds. As a result, changes in fair value of these swaps are recorded in interest expense, net.

Effective January 1, 2010, all remaining interest rate swaps in qualifying cash flow hedging relationships were dedesignated and discontinued hedge accounting treatment. From the date of dedesignation forward, the changes in fair value of these swaps are recorded in interest expense, net. As of June 30, 2010, there were no interest rate swaps designated as cash flow hedging instruments.

During 2009, CHW terminated early a $175.0 million notional amount total return swap in connection with the early retirement of the related debt, as discussed in Note 12. CHW also terminated early two total return swaps with a combined outstanding notional amount of $32.6 million. All total return swaps were terminated at par and no gain or loss was realized in connection with the early terminations.

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in other accrued liabilities in the consolidated balance sheet as of June 30, 2010 and 2009 (in thousands):

	Maturity Date of Derivatives	Fixed Rate	Notional Amount Outstanding	Fair Value
			June 30, 2010	
Derivatives not designated as hedges				
Interest rate swaps	2023 - 2042	3.0% - 3.4%	$ 1,161,075	$ (160,732)
			June 30, 2009	
Derivatives designated as hedges				
Interest rate swaps	2023 - 2042	3.0% - 3.4%	$ 671,450	$ (52,371)
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.3% - 3.4%	$ 489,625	$ (56,178)
Total			$ 1,161,075	$ (108,549)

Changes in fair value of derivative instruments have been recorded for 2010 and 2009 as follows (in thousands):

	2010	2009
Loss recognized in unrestricted net assets (effective portion of hedges):		
Interest rate swaps	$ (2,002)	$ (57,419)
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - net settlements	(5,187)	(16,335)
Interest rate swaps - amortization	(6,954)	(548)
Total	$ (12,141)	$ (16,883)
Gain (loss) recognized in interest expense, net:		
Changes in fair value		
Ineffective portion of hedges - interest rate swaps	$ 111	$ (920)
Non-hedged derivatives:		
Interest rate swaps	(50,292)	(7,196)
Total changes in fair value	(50,181)	(8,116)
Amortization of amounts in unrestricted net assets - interest rate swaps	(6,954)	(548)
Total	$ (57,135)	$ (8,664)

Of the amounts classified in unrestricted net assets as of June 30, 2010, CHW anticipates reclassifying approximately $3.2 million of additional non-cash losses from unrestricted net assets into interest expense, net, in the next twelve months. Amounts in unrestricted net assets will be amortized into earnings as the interest payments being economically hedged are made.

Of the $1.2 billion notional amount of interest rate swaps held by CHW, $240.0 million are insured and have a negative fair value of $46.4 million at June 30, 2010. In the event the insurer (FSA) is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if CHW does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and CHW is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

As part of the 2008 restructuring of ARCs, CHW renegotiated $921.1 million of interest rate swaps to reflect the cancellation of insurance. While CHW retained the right to terminate the swaps prior to maturity for any reason, the counterparties obtained the right to terminate the swaps at each five-year anniversary date commencing in 2013. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with a negative fair value of $114.3 million at June 30, 2010, have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payments when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard and Poor's) by either party and CHW's cash on hand dropping below 85 days.

CHW, under the terms of its Master Trust Indenture, is prohibited from posting collateral on derivative instruments.

14. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2010, 2009 and 2008, consist of donor-restricted contributions and grants, which are to be used as follows (in thousands):

	2010	**2009**	**2008**
Equipment and expansion	$ 134,331	$ 130,279	$ 147,015
Research and education	41,408	35,785	59,463
Charity and other	115,301	119,806	130,692
Total temporarily restricted net assets	$ 291,040	$ 285,870	$ 337,170
Permanently restricted net assets	99,073	90,262	88,506
Total restricted net assets	$ 390,113	$ 376,132	$ 425,676

The composition of endowment net assets by type of fund as of June 30, 2010 and 2009, is as follows (in thousands):

	June 30, 2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment net assets	$ -	$ 14,833	$ 99,073	$ 113,906
Board-designated endowment net assets	11,781	-	-	11,781
Total endowment net assets	$ 11,781	$ 14,833	$ 99,073	$ 125,687

	June 30, 2009			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment net assets	$ -	$ 5,200	$ 90,262	$ 95,462
Board-designated endowment net assets	9,204	-	-	9,204
Total endowment net assets	$ 9,204	$ 5,200	$ 90,262	$ 104,666

Changes in endowment net assets during 2010 and 2009 are as follows (in thousands):

	June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 9,204	$ 5,200	$ 90,262	$ 104,666
Investment returns	420	1,488	40	1,948
Unrealized gains	1,048	2,038	28	3,114
Contributions	-	-	5,576	5,576
Change in interest in unconsolidated foundations	0	2,251	4,140	6,391
Appropriation of endowment assets for expenditure	(124)	(381)	-	(505)
Transfers to remove or add to board-designated endowment funds	-	-	194	194
Other	1,233	4,237	(1,167)	4,303
Endowment net assets, end of year	$ 11,781	$ 14,833	$ 99,073	$ 125,687

	June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 8,394	$ 10,029	$ 88,506	$ 106,929
Investment returns	(1,960)	(3,464)	91	(5,333)
Unrealized gains/(losses)	-	(672)	31	(641)
Contributions	-	-	546	546
Change in interest in unconsolidated foundations			1,089	1,089
Appropriation of endowment assets for expenditure	(183)	(747)	-	(930)
Transfers to remove or add to board-designated endowment funds	2,953	(177)	-	2,776
Other	-	231	(1)	230
Endowment net assets, end of year	$ 9,204	$ 5,200	$ 90,262	$ 104,666

Included in donor-restricted assets limited as to use are unconditional promises to give which are recorded using discount rates ranging from 3.0 % to 6.0 % and are due as follows as of June 30, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Less than one year	$ 12,782	$ 14,102	$ 9,105
One to five years	10,850	7,774	13,966
More than five years	452	613	12,138
Less: allowance for uncollectible contributions receivable	(3,169)	(1,573)	(1,994)
Total contributions receivable, net	$ 20,915	$ 20,916	$ 33,215

15. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

Litigation, Regulatory and Compliance Matters **- General –**The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations, and quality of care provided to patients. In addition, during the course of business, CHW becomes involved in litigation. Management assesses the probable outcome of unresolved litigation and investigations and records contingent liabilities reflecting estimated liability exposure. Following is a discussion of matters of note.

Department of Justice and OIG Investigations – Since 2001, CHW facilities have been under investigation by the Department of Justice and Office of Inspector General of the U.S. Department of Health and Human Services ("OIG") for false or otherwise improper claims in connection with Medicare cost reporting, as well as claims for reimbursement of hospital and administrative services. CHW and the government have commenced settlement discussions on this matter, though resolution cannot be assured at this time.

Additionally, CHW and/or its facilities periodically receive notices from governmental agencies, such as the Department of Justice or the OIG, requesting information regarding billing, payment, or other reimbursement matters. The health care industry in general is experiencing an increase in these activities, as the federal government increases enforcement resources and institutes new programs designed to identify areas of potential reimbursement irregularities. Based on the information received to date from the government, CHW does not presently have information indicating that these investigations or their resolution will have a material adverse effect on CHW. Nevertheless, investigations of this type and scope could lead to civil and/or criminal charges and material penalties or settlements. Consequently, there can be no assurance that the resolution of these matters will not adversely affect the financial condition or operations of CHW.

Wage and Hour Class Actions and Litigation – Federal law and many states, including California, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years, there has been a proliferation of lawsuits over these "wage and hour" issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements.

In February 2008, a lawsuit was filed against CHW alleging violations of California state wage and hour laws and regulations. The lawsuit is fashioned as a class action on behalf of nurses and medical technicians employed at CHW's California facilities during the previous four years. CHW is evaluating the lawsuit and its implications. It is too early to assess any liability exposure from the lawsuit, but lawsuits of this nature have the potential for a material adverse impact on the financial condition or operations of CHW.

Medicare Certification – In December 2009 and in April 2010, the Centers for Medicare & Medicaid Services ("CMS") informed Community Hospital of San Bernardino ("CHSB") that it would take steps to terminate CHSB's Medicare provider agreement unless CHSB undertook certain corrective actions related to qualification for Medicare participation. CMS accepted CHSB's plans of correction and conducted validation surveys and found no deficiencies. Accordingly, CHSB's Medicare status is no longer at issue from these two statements of deficiencies.

Health Care Reform – In March 2010, President Obama signed the Patient Protection and Affordable Care Act ("PPACA") into law. PPACA will result in sweeping changes across the health care industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Given that the final regulations and interpretive guidelines have yet to be published, CHW is unable to fully predict the impact of PPACA on its operations and financial results. There are multiple lawsuits challenging the constitutionality of major portions of PPACA; to the extent that any significant elements of the law are overturned, additional uncertainty is introduced into the prediction of operational and financial impacts. However, if the law is implemented as adopted, CHW management expects that in the coming years patients that were previously uninsured and unable to pay for care will have basic insurance coverage, and amounts for reimbursement for services from both public and private payers will be reduced and made conditional on various quality measures. Management of CHW is studying and evaluating the anticipated impacts and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other constituents to optimize available reimbursement.

Operating Leases – CHW leases various equipment and facilities under operating leases. Gross rental expense for 2010, 2009 and 2008, was $112.6 million, $111.8 million and $107.4 million, respectively, which is offset by sublease income of $3.9 million, $3.6 million and $3.6 million for 2010, 2009 and 2008, respectively. These amounts are recorded in purchased services and other on the accompanying statements of operations and changes in net assets.

Net future minimum lease payments under non-cancelable operating leases as of June 30, 2010, are as follows (in thousands):

	Lease Payments	**Sublease Income**	**Net Future Minimum Lease Payments**
2011	$ 60,199	$ (2,879)	$ 57,320
2012	49,458	(1,856)	47,602
2013	39,687	(1,406)	38,281
2014	30,402	(854)	29,548
2015	24,168	(870)	23,298
Thereafter	81,140	(17,256)	63,884
Total	$ 285,054	$ (25,121)	$ 259,933

Long-term Contracts and Agreements – Effective in July 2001, CHW entered into a ten-year agreement for information technology management services. The agreement specified the types and levels of services, which could be modified by mutual agreement, and provided for annual inflation adjustments. In October 2008, this contract was replaced by a new contract with the same party covering a narrower scope of services. The new agreement specifies the types and levels of services, which may be modified by mutual agreement, and provides for monthly usage-based adjustments to fees. The agreement contains a mechanism for price adjustments should there be new affiliations or disaffiliations. The base fee under the contract is $48.1 million per year which increases annually by inflation through October 2015, the term of the agreement. CHW may cancel the agreement without cause subject to significant penalties during the first five years of the contract, and without penalty during the last two years of the contract. Under the terms of this agreement, CHW expensed $49.7 million, $60.3 million and $81.8 million in 2010, 2009 and 2008, respectively, in purchased services and other on the accompanying statement of operations and changes in net assets.

Effective in April 2007, CHW entered into an eight-year agreement for remote hosting and hot site hosting for certain electronic medical record technology for certain CHW facilities. The agreement specifies the types and levels of services, with additional schedules for additional services available for future consideration. Under the terms of the agreement, CHW paid $11.1 million, $10.1 million and $7.3 million in 2010, 2009 and 2008, respectively, and has committed to pay $52.5 million over the remainder of the contract term. The agreement may be terminated for material breach including significant failure of service levels but may not be cancelled without cause.

In December 2007, CHW entered into a development agreement with the Sequoia Healthcare District ("District") whereby the District relinquished all control over Sequoia Health Services ("SHS") and agreed to provide funding of $75.0 million toward the modernization, upgrading and seismic retrofitting of Sequoia Hospital. In return for the funding commitment, the District is entitled to 50% of Sequoia Hospital's annual Operating EBIDA exceeding a 9.3% annual Operating EBIDA Margin for 40 years. Operating EBIDA is defined as operating income adjusted for certain excluded items. CHW has committed to funding $150.0 million toward the construction project and approximately $15.0 million in additional funding is anticipated from philanthropic gifts. This transaction is subject to certain reporting requirements to the District as well as certain oversight and enforcement rights by the District. If the construction does not conform to certain agreed-upon specifications or is not completed consistent with the terms of the development agreement related to project timing, the District has the right to require the return of its $75.0 million contribution. The construction project broke ground in September 2007, and CHW expects to meet the required construction specifications and time requirements.

Capital and Purchase Commitments – CHW has undertaken various construction and expansion projects. At June 30, 2010, 2009 and 2008, remaining capital commitments related to these projects were approximately $362.6 million, $226.4 million and $388.6 million, respectively. Excluding the capital and long-term contract commitments discussed above, at June 30, 2010, remaining purchase commitments were approximately $61.3 million.

Guarantees – CHW has guaranteed the indebtedness of other organizations in the amount of $40.3 million as of June 30, 2010, which includes amounts discussed under Transactions between Related Organizations in Note 2.

CHW enters into physician recruitment agreements with certain physicians who agree to relocate to its communities to fill a need in the hospitals' service areas and commit to remain in practice there. Under these agreements, CHW makes loans available to the physicians that are earned over the period the physicians fulfill their commitment to the community, which is typically three years, or are repayable by the physicians. The maximum potential amount of future undiscounted payments CHW could be required to make under these guarantees is $20.8 million as of June 30, 2010. CHW recorded $13.0 million, $13.6 million, and $11.8 million in other current liabilities as of June 30, 2010, 2009 and 2008, respectively, and $7.7 million, $7.3 million and $6.4 million in other long-term liabilities as of June 30, 2010, 2009 and 2008, respectively, related to these guarantees.

Seismic Standards – The State of California issued seismic safety standards in 1994 which have been amended on several occasions since then. The regulations call for more stringent structural building standards to be in place by 2013 for buildings remaining in acute care service beyond that date, with a possible two-year extension in certain circumstances. These standards affect 14 of CHW's facilities in California. All of CHW's other California facilities already meet the standards, are not subject to the standards, or will not be used for acute care services beyond 2013.

As a result of SB499, which was passed in the Fall of 2009 and for which implementation instructions were issued in January 2010, CHW currently estimates that the remediation costs required to meet the standards for projects specific to structural and non-structural performance in effect until 2030 is approximately $450.0 million. Management has initiated planning and design efforts at all facilities to meet the deadlines. California law currently imposes a separate more rigorous set of seismic standards for acute care facilities effective in 2030.

16. SUBSEQUENT EVENTS

In January 2010, the State of California enacted legislation that provides for supplemental Medi-Cal payments to certain hospitals funded by a quality assurance fee paid by participating hospitals as well as matching federal funds ("the Hospital Fee Program"). In September 2010, this legislation was amended at the request of CMS. In October 2010, CMS substantially approved the program and the State of California began its implementation. The supplemental payments encompass fee-for-service payments directly from the California Department of Health Care Services as well as payments routed through managed care plans.

Supplemental payments and fees related to the Hospital Fee Program in the amounts of $587.3 million and $359.1 million, respectively, for the period of April 1, 2009 through December 31, 2010, are anticipated to be recorded in the fiscal year ended June 30, 2011.

The California Hospital Association created a private program, the California Health Foundation and Trust ("CHFT"), established for several purposes, including aggregating and distributing financial resources to support charitable activities at various hospitals and health systems in California. A pledge agreement was executed in March 2010 between CHW and CHFT whereby CHW anticipates paying $26.4 million prior to December 31, 2010, into a grant fund established by CHFT, pending approval of the legislation noted above.

The payments and fees under the Hospital Fee Program are retroactive to April 1, 2009, and are expected to continue through December 31, 2010 or longer if further legislation is passed. However, as the amended legislation and subsequent approval by CMS occurred after the balance sheet date, the activity under this program will be recorded in CHW's consolidated financial statements during the year ended June 30, 2011. As the supplemental payments in excess of fees paid by CHW related to periods prior to June 30, 2010, are material to CHW's financial results for that period, pro forma statements have been included in the accompanying consolidated financial statements to reflect that activity had the amended legislation and final CMS approval been obtained prior to June 30, 2010. Following is a reconciliation of the historical condensed consolidated balance sheets as of June 30, 2010, and the historical condensed consolidated statement of operations for the year ended June 30, 2010, to pro forma statements for the same periods had the legislation been approved on or prior to June 30, 2010:

	Historical 2010	Pro Forma Adjustments		Pro Forma 2010
Assets				
Current assets	$ 4,063,157	$ 148,282	(a)	$ 4,211,439
Assets limited as to use	3,252,773	-		3,252,773
Property and equipment, net	3,894,111	-		3,894,111
Ownership interests in health-related activities	422,546	-		422,546
Other long-term assets, net	200,060	-		200,060
Total assets	$ 11,832,647	$ 148,282		$ 11,980,929
Liabilities and Net Assets				
Current liabilities	$ 2,849,211	$ 4,128	(b)	$ 2,853,339
Other liabilities	1,475,365	-		1,475,365
Long-term debt, net of current portion	3,691,469	-		3,691,469
Total liabilities	8,016,045	4,128		8,020,173
Net assets	3,816,602	144,154		3,960,756
Total liabilities and net assets	$ 11,832,647	$ 148,282		$ 11,980,929
Excess of Revenues over Expenses				
Unrestricted revenues and other support	$ 9,430,414	$ 419,479	(c)	$ 9,849,893
Expenses	9,347,186	275,325	(d)	9,622,511
Operating income	83,228	144,154		227,382
Other income - investment income, net	402,474	-		402,474
Excess of revenues over expenses	$ 485,702	$ 144,154		$ 629,856

(a) Reflects net estimated supplemental payments receivable in excess of quality assurance fees payable from third party payors of $163.0 million for supplemental Medi-Cal payments for the period of April 1, 2009 through June 30, 2010, related to the Hospital Fee Program, and the reclassification of an existing liability of $14.7 million for estimated third party payor settlements, net.

(b) Reflects the reclassification of an existing liability of $14.7 million for estimated third party payor settlements, net, to offset the receivable for estimated third party payor settlements, net, generated from the Hospital Fee Program, and a liability of $18.8 million pursuant to the pledge agreement with CHFT.

(c) Net patient revenue of $419.5 million related to the supplemental payments under the Hospital Fee Program for the period April 1, 2009 through June 30, 2010.

(d) Purchased services expense of $275.3 million related to the quality assurance fee of $256.5 million for the period April 1, 2009 through June 30, 2010 and $18.8 million related to the pledge agreement with CHFT.

17. CHW, SUBORDINATE CORPORATIONS AND SUBSIDIARIES

Following is a list of corporations and subsidiaries that are included in the accompanying consolidated financial statements for 2010. Unless otherwise indicated, such entities are nonprofit corporations. The Obligated Group Members are denoted by an asterisk (*). Unless otherwise indicated, subsidiaries are not Obligated Group Members.

Catholic Healthcare West*
- Operating dba's of Catholic Healthcare West
  - Arroyo Grande Community Hospital
  - California Hospital Medical Center – Los Angeles
  - Chandler Regional Medical Center
  - Dominican Hospital
  - French Hospital Medical Center
  - Glendale Memorial Hospital and Health Center
  - Marian Medical Center
  - Mercy General Hospital
  - Mercy Gilbert Medical Center
  - Mercy Hospital (Bakersfield)
  - Mercy Hospital of Folsom
  - Mercy Medical Center (Merced)
  - Mercy Medical Center Mt. Shasta
  - Mercy Medical Center Redding
  - Mercy San Juan Medical Center
  - Mercy Southwest Hospital
  - Methodist Hospital of Sacramento
  - Northridge Hospital Medical Center
  - Saint Mary's Regional Medical Center
  - Sequoia Hospital
  - St. Bernardine Medical Center
  - St. Elizabeth Community Hospital
  - St. John's Pleasant Valley Hospital
  - St. John's Regional Medical Center
  - St. Joseph's Behavioral Health Center
  - St. Joseph's Hospital and Medical Center
  - St. Joseph's Medical Center of Stockton
  - St. Mary Medical Center
  - St. Mary's Medical Center
  - St. Rose Dominican Hospital Rose de Lima Campus
  - St. Rose Dominican Hospital Siena Campus
  - St. Rose Dominican Hospital San Martin Campus
  - Woodland Memorial Hospital

Catholic Healthcare West Hospital and Professional Liability Self-Insurance Trust (California trust)
Catholic Healthcare West Workers' Compensation Self-Insurance Trust (California trust)
CHW Insurance Ltd. (Cayman Island corporation)
Bakersfield Memorial Hospital*
CHW Medical Foundation*
Community Hospital of San Bernardino*
Mercy Senior Housing, Inc.*
Saint Francis Memorial Hospital*
Sierra Nevada Memorial-Miners Hospital*
Arroyo Grande Community Hospital Foundation
California Hospital Medical Center Foundation
CHW Foundation East Valley
Community Hospital of San Bernardino Foundation
Dominican Hospital Foundation
French Hospital Medical Center Foundation
Glendale Memorial Health Foundation
Marian Medical Center Foundation
Mercy Foundation, Bakersfield
Mercy Medical Center Merced Foundation
Northridge Hospital Foundation
Saint Mary's Foundation
San Gabriel Valley Medical Center Foundation
St. Bernardine Medical Center Foundation
St. Francis Foundation of Santa Barbara
St. John's Healthcare Foundation (Oxnard and Pleasant Valley)
St. Joseph's Foundation (Phoenix)
St. Joseph's Foundation of San Joaquin
St. Mary Medical Center Foundation
St. Mary's Medical Center Foundation
St. Rose Dominican Health Foundation
The Congenital Heart Foundation
CDS of Nevada, Inc. (taxable)
Dominican Health Services
Dominican Oaks Corporation
Glendale Memorial Services Corporation (taxable)
Golden Umbrella
Inland Health Organization of Southern California (taxable)
Management Services Organization of Santa Maria, Inc. (taxable)
Marian Community Clinics, Inc.
Marian Health Services, Inc. (taxable)
Mark Twain St. Joseph's Healthcare Corporation
Primary Care Plus (taxable)
Saint Mary's Healthfirst (taxable)
Saint Mary's Outpatient Surgery Center at Galena
Saint Mary's Preferred Health Insurance Company, Inc. (taxable)
Shasta Senior Nutrition Program
SJH Holdings, Inc. (taxable)
St. Francis Foundation, LLC
St. Francis Hospital Support Corporation
St. Mary Catholic Housing Corporation
St. Mary Health Ventures, Inc. (taxable)
St. Mary Professional Building, Inc.
St. John's Regional Imaging Center, LLC
TrinityCare, LLC
TrinityCare Infusion Services (taxable)

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