TRINITY HEALTH

Consolidated Financial Statements for
the Years Ended June 30, 2007 and 2006,
Supplemental Schedules for the Year
Ended June 30, 2007
and Independent Auditors' Report

TRINITY HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trinity Health
Novi, Michigan

We have audited the accompanying consolidated balance sheets of Trinity Health and subsidiaries (the "Corporation") as of June 30, 2007 and 2006, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2007 and 2006, and the results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Corporation transferred a majority of its investment portfolio into the trading category on June 30, 2007.

As discussed in Note 2 to the consolidated financial statements, effective June 30, 2007 the Corporation began to recognize the funded status of its benefit plans in its consolidated balance sheet to conform to Financial Accounting Standards Board (FASB) Statement No. 158, *Employers Accounting for defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R).*

Deloitte & Touche LLP

September 28, 2007

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2007 AND 2006
(In Thousands)

ASSETS	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 368,961	$ 315,623
Investments	1,369,443	1,206,846
Security lending collateral	376,982	250,669
Assets limited or restricted as to use, current portion	25,252	2,723
Patient accounts receivable net of allowance for doubtful accounts of $159.2 million and $155.1 million in 2007 and 2006, respectively	681,067	657,130
Assets held for sale	185,792	234,202
Other receivables	69,943	73,635
Inventories	90,467	91,718
Prepaid expenses and other current assets	62,330	57,930
Total current assets	3,230,237	2,890,476
ASSETS LIMITED OR RESTRICTED AS TO USE:		
Held by trustees under bond indenture agreements	194,783	233,798
Self-insurance, benefit plans and other	387,689	393,420
By Board	1,847,896	1,550,334
By donors	124,983	133,627
Total assets limited or restricted as to use, non-current portion	2,555,351	2,311,179
PROPERTY AND EQUIPMENT, NET	2,878,901	2,624,547
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	110,654	104,958
EXCESS OF COST OVER NET ASSETS ACQUIRED	55,818	26,230
PREPAID PENSION AND RETIREE HEALTH COSTS	-	174,658
OTHER ASSETS	101,919	86,541
TOTAL ASSETS	$ 8,932,880	$ 8,218,589

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

LIABILITIES AND NET ASSETS	2007	2006
CURRENT LIABILITIES:		
Line of credit	$ -	$ 409
Commercial paper	-	20,000
Current portion of long-term debt	50,533	53,541
Accounts payable and accrued expenses	340,227	293,658
Salary, wages and related liabilities	254,093	239,243
Payable under security lending agreements	376,982	250,669
Liabilities held for sale	85,120	118,159
Estimated payables to third-party payors, net	65,222	133,608
Total current liabilities	1,172,177	1,109,287
LONG-TERM DEBT, NET OF CURRENT PORTION	2,129,276	2,005,852
SELF-INSURANCE RESERVES	384,162	420,468
ACCRUED PENSION AND RETIREE HEALTH COSTS	134,120	64,787
OTHER LONG-TERM LIABILITIES	136,481	109,931
Total liabilities	3,956,216	3,710,325
EXTERNAL FINANCIAL INTEREST	145,823	121,897
NET ASSETS:		
Unrestricted	4,685,565	4,252,927
Temporarily restricted	117,522	107,773
Permanently restricted	27,754	25,667
Total net assets	4,830,841	4,386,367
TOTAL LIABILITIES AND NET ASSETS	$ 8,932,880	$ 8,218,589

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006
(In Thousands)

	2007	2006
UNRESTRICTED REVENUE:		
Net patient service revenue	$ 5,194,280	$ 4,833,117
Capitation and premium revenue	473,890	519,401
Net assets released from restrictions	13,868	15,418
Other revenue	427,962	404,820
Total unrestricted revenue	6,110,000	5,772,756
EXPENSES:		
Salaries and wages	2,320,527	2,211,373
Employee benefits	536,799	561,793
Contract labor	60,545	54,923
Total labor expenses	2,917,871	2,828,089
Supplies	1,022,631	946,045
Purchased services	479,909	444,506
Depreciation and amortization	322,878	302,831
Medical claims and capitation purchased services	271,984	298,785
Occupancy	259,783	252,667
Provision for bad debts	233,911	206,788
Interest	85,642	74,176
Other	194,117	171,613
Total expenses	5,788,726	5,525,500
OPERATING INCOME BEFORE OTHER ITEMS	321,274	247,256
Reduction in insurance expense	62,461	38,278
Litigation settlements	20,600	34,725
Litigation accrual	(20,000)	-
Sale of joint venture	-	18,859
OPERATING INCOME	384,335	339,118
NONOPERATING ITEMS:		
Investment income - marketable securities	231,350	152,863
Equity earnings, other investments, primarily unrealized gains	141,624	125,664
Net cumulative unrealized gains transferred to trading securities	258,924	-
External financial interest	(19,239)	(9,924)
Other	842	(13,715)
Total nonoperating items	613,501	254,888
EXCESS OF REVENUE OVER EXPENSES	997,836	594,006

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

	2007	2006
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	997,836	594,006
Change in net unrealized gains on marketable securities	131,921	17,014
Change in market value of interest rate swaps	(4,513)	14,252
Net assets released from restrictions for capital acquisitions	22,405	33,134
Net cumulative unrealized gains transferred to trading securities	(270,563)	-
Change in additional minimum pension liability	461	231,854
Adjustment to initially apply FAS 158	(461,720)	-
Other	3,819	(390)
Increase in unrestricted net assets before discontinued operations and cumulative effect of change in accounting principles	419,646	889,870
Discontinued operations:		
Income from operations of Mercy Mount Clemens Corporation	14,023	7,810
Costs associated with sale of Mercy Mount Clemens Corporation	(1,031)	-
Total discontinued operations	12,992	7,810
Cumulative effect of change in accounting principle	-	(15,005)
Increase in unrestricted net assets	432,638	882,675
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	39,811	44,419
Net investment income	6,128	4,324
Net assets released from restrictions	(36,273)	(48,552)
Other	83	(539)
Increase (decrease) in temporarily restricted net assets	9,749	(348)
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions for endowment funds	136	285
Net investment income	2,075	1,275
Other	(124)	(65)
Increase in permanently restricted net assets	2,087	1,495
INCREASE IN NET ASSETS	444,474	883,822
NET ASSETS, BEGINNING OF YEAR	4,386,367	3,502,545
NET ASSETS, END OF YEAR	$ 4,830,841	$ 4,386,367

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006
(In Thousands)

	2007	2006
OPERATING ACTIVITIES:		
Increase in net assets	$ 444,474	$ 883,822
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	-	15,005
Adjustment to initially apply FAS 158	461,720	-
Change in additional minimum pension liability	(461)	(231,854)
Restricted contributions and investment income received	(17,155)	(27,465)
Reduction in insurance expense	(63,100)	(42,620)
Loss (gain) on sale of joint venture	3,845	(18,859)
Loss on sale of Care Choices	3,994	-
Loss from extinguishment of debt	-	5,596
Litigation Accrual	20,000	-
Depreciation and amortization	333,545	316,623
Change in net unrealized gains on investments	(280,440)	(143,407)
Net realized gains on investments and impairment losses	(160,795)	(79,001)
Change in market values of interest rate swaps	81	(46,150)
Equity earnings in unconsolidated affiliates	(28,535)	(20,254)
External financial interest in consolidated subsidiaries	23,926	16,038
Gain on disposal of property and equipment	304	(14,449)
Other adjustments	4,689	8,451
Changes in:		
Patient accounts receivable, net	(17,893)	(47,909)
Other assets	19,221	11,735
Accounts payable and accrued expenses	4,068	17,039
Estimated payables to third-party payors, net	(70,597)	(9,251)
Self-insurance reserves	26,795	17,316
Accrued pension and retiree health costs	(217,820)	(238,248)
Other liabilities	4,221	8,733
Total adjustments	49,613	(502,931)
Net cash provided by operating activities	494,087	380,891

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

	2007	2006
INVESTING ACTIVITIES:		
Purchases of investments - *Restated, See Note 2*	(2,266,621)	(3,355,790)
Proceeds from sales of investments - *Restated, See Note 2*	2,295,132	3,306,860
Purchases of property and equipment	(520,673)	(473,243)
Proceeds from disposal of property and equipment	6,645	29,825
Proceeds from sale of joint venture	738	21,250
Proceeds from sale of Care Choices	5,954	-
Acquisition of joint ventures	(999)	(32,690)
Acquisition of Mount Carmel New Albany	(55,574)	-
Decrease in other investment in affiliates	21,769	14,564
Net cash used in investing activities	(513,629)	(489,224)
FINANCING ACTIVITIES:		
Proceeds from restricted contributions and restricted investment income	17,155	27,465
Proceeds from issuance of long-term debt	134,243	401,496
Repayments of long-term debt	(55,291)	(150,910)
Repayments of commercial paper	(20,000)	-
Decrease in line of credit, net	(409)	(49,938)
Increase in financing costs and other	(2,818)	(9,865)
Net cash provided by financing activities	72,880	218,248
NET INCREASE IN CASH AND CASH EQUIVALENTS	53,338	109,915
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	315,623	205,708
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 368,961	$ 315,623
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest (net of amounts capitalized)	$ 78,318	$ 70,322
Cash received for lawsuit settlement	20,600	34,725
Capital lease obligation entered into	34,605	2,750
Accruals for purchases of property, plant and equipment	41,715	20,070
Unsettled investment trades, purchases	73,997	104,771
Unsettled investment trades, sales	21,642	8,647
(Increase) decrease in security lending collateral - *Restated, See Note 2*	(126,313)	32,543
Increase (decrease) in payable under security lending agreements - *Restated, See Note 2*	126,313	(32,543)

1. ORGANIZATION AND MISSION

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

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

Community Benefit Ministry -Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance because of inadequate resources and/or are uninsured or underinsured, and to enhance the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States' ("CHA"), ***A Guide for Planning and Reporting Community Benefit, released in May 2006***.

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

	2007	2006
	(In Thousands)	
Ministry for the poor and underserved:		
Charity care at cost	$ 91,120	$ 84,347
Unpaid cost of Medicaid and other public programs	111,594	100,890
Programs for the poor and the underserved:		
Community health services	11,440	8,602
Subsidized health services	29,689	24,943
Financial contributions	4,252	2,475
Community building activities	3,811	2,813
Community benefit operations	1,183	300
Total programs for the poor and underserved	50,375	39,133
Ministry for the poor and underserved	253,089	224,370
Ministry for the broader community:		
Community health services	11,055	12,147
Health professions education	37,679	31,410
Subsidized health services	11,120	13,285
Research	1,319	960
Financial contributions	4,958	4,364
Community building activities	3,341	2,146
Community benefit operations	504	418
Ministry for the broader community	69,976	64,730
Community benefit ministry	$ 323,065	$ 289,100

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, which is reported as provision for bad debts and not included in the amounts reported above. During the years ended June 30, 2007 and 2006, the Corporation reported provision for bad debt of $233.9 million and $206.8 million, respectively.

In addition to the amounts reported above, the Corporation committed significant resources in serving the Medicare population, especially in certain communities. During 2007 and 2006, the cost (determined using a cost to charge ratio) of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments was $97.6 million and $117.4 million, respectively.

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

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As further described in Note 12, the Corporation sold substantially all of the assets and liabilities of Mercy Mount Clemens Corporation ("Mt. Clemens") effective July 1, 2007. As a result, at June 30, 2007 and 2006, the assets and liabilities of Mt. Clemens met the criteria for classifying the assets and liabilities as held for sale. The consolidated financial statements have been reclassified to present the operations of Mt. Clemens as a discontinued operation. Notes to these consolidated financial statements exclude the impact of Mt. Clemens. In addition, assets and liabilities were reclassified for Care Choices as held for sale as described in Note 3.

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

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

Investments and Investment Earnings – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investments also include investments in commingled funds structured as limited liability corporations or partnerships and absolute return strategy funds. These investments are accounted for under the equity method, which approximates fair value.

Effective June 30, 2007, the Corporation elected to transfer the majority of its investments in equity securities with readily determinable fair values and investments in debt securities from available-for-sale to trading securities. After reassessment, management determined that transferring investments to the trading securities category is appropriate based on Trinity Health's investment strategy and investment philosophies. Investment managers may execute purchases and sales of investments without prior approval of Trinity Health management. The transfer had the effect of the Corporation recording $8.3 million in other revenue, $258.9 million in non-operating investment income and $3.4 million in discontinued operations with a corresponding reduction in change in net unrealized gains within the statement of operations and changes in net assets of $270.6 million.

Purchases of investments, net, and decrease in assets limited as to use in the 2006 cash flow statement were restated to reflect the gross purchases and sales of investments as shown in the following table. In addition, the 2006 security lending transactions were removed from the statement of cash flows and presented as non-cash items as follows:

	As Originally Reported	As Restated	Difference
		(In Thousands)	
Cash flow from investing activities:			
Decrease in assets limited as to use	$ 257,034	$ -	$ (257,034)
Purchase of investments, net	(305,964)	-	305,964
Decrease in security lending collateral	32,543	-	(32,543)
Purchases of investments	-	(3,355,790)	(3,355,790)
Proceeds from sales of investments	-	3,306,860	3,306,860
Net cash used in investing activities	(456,681)	(489,224)	(32,543)
Cash flow from financing activities:			
Decrease in payable under security lending agreements	(32,543)	-	32,543
Net cash provided by financing activities	185,705	218,248	32,543
Supplemental disclosure of cash flow information:			
Decrease in security lending collateral	-	32,543	32,543
Decrease in payable under security lending agreements	-	(32,543)	(32,543)

Investment earnings (including equity earnings, realized gains and losses on investments, holding gains and losses on trading securities, interest and dividends, and declines in fair value determined to be other than temporary) are included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on commingled funds structured as limited liability corporations and partnerships and absolute return strategy funds are included in nonoperating items. Unrealized gains and losses on marketable debt and equity securities classified as available-for-sale are excluded from excess of revenue over expenses.

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

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

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day the Corporation, through its agent, and the borrower determines the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, the Corporation obtains additional collateral as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. At June 30, 2007 and 2006, the Corporation had securities loaned of $377.0 million and $250.7 million, respectively, and received collateral (cash and noncash) totaling $394.4 million and $262.5 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded as investment income - marketable securities.

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

Donor-Restricted Gifts - Unconditional promises to give cash and other assets to the Corporation's various ministry organizations are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the statements of operations and changes in net assets.

Property and Equipment - Property and equipment are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes capital lease amortization. The useful lives of these assets range from 3 to 40 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

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

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

Excess of Costs over Net Assets Acquired - Excess of costs over net assets acquired are capitalized and amortized using the straight-line method over their estimated useful lives, which range from 5 to 40 years. Amortization of excess of costs over net assets acquired for the years ended June 30, 2007 and 2006 of $3.0 million and $2.3 million, respectively, was included in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

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

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

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

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

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

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

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

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

Adoption of Accounting Pronouncements –

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("FAS 158").* FAS 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (postretirement plans) to recognize the funded status of the postretirement plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position and provide additional disclosures. On June 30, 2007, the Corporation adopted the recognition and disclosure provisions of FAS 158. The effect of adopting FAS 158 on the Corporation's financial condition at June 30, 2007 has been included in the accompanying consolidated financial statements and did not have an effect on the Corporation's consolidated financial position at June 30, 2006. FAS 158's provisions regarding the change in the measurement date of postretirement plans will not be effective until fiscal year 2009 for the Corporation. See Note 9 for further discussion of the effect of adopting FAS 158 on the Corporation's consolidated financial statements.

Asset Retirement Obligations – The Corporation adopted the provisions of FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" ("FIN 47")* effective June 30, 2006. Under FIN 47, companies must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal or abandonment of assets. The Corporation recorded asset retirement obligations in accordance with the interpretation, as further described in Note 10. FIN 47 clarifies that the entity is required to recognize a liability and capitalized costs for the fair value of a conditional asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated or when the entity has sufficient information to reasonably estimate the fair value of the asset retirement obligation. The fair value of the liability is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the life of the asset. The asset retirement obligation is adjusted each year for any liabilities incurred or settled during the period, accretion expense and any revisions made to the estimated cash flows.

As a result, the Corporation recorded a charge in the consolidated statements of operations and changes in net assets as a cumulative effect of change in accounting principle in fiscal year 2006. The following table summarizes the impact the provisions of FIN 47 had on the Corporation's financial statements at June 30, 2006:

	(In Thousands)
Increase in property and equipment, net	$ 725
Increase in accounts payable and accrued expenses	(1,155)
Increase in other long-term liabilities	(14,035)
Total increase in liabilities	(15,190)
Net amount included in assets and liabilities held for sale	(540)
Cumulative effect of change in accounting principle	$ (15,005)

In July 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*" ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprises' statements in accordance with FASB Statement No. 109, *"Accounting for Income Taxes"*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the tax effects of a position be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The Corporation will adopt the provisions of FIN 48 effective July 1, 2007 and has not yet determined the impact of this statement on the consolidated financial statements.

In September 2006, the FASB issued FASB Statement No.157, "*Fair Value Measurements" ("FAS 157")*. FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. The Corporation will adopt the provisions of FAS 157 effective July 1, 2008. The Corporation has not yet determined the impact of this statement on the consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159 *"The Fair Value Option for Financial Assets and Financial Liabilities – including an Amendment of SFAS No. 115"* ("FAS 159 "), which permits an entity to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Non-profit entities that elect the fair value option will report unrealized gains and losses in the excess of revenue over expenses at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. FAS 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. The Statement also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. FAS 159 is effective July 1, 2008. The Corporation has not yet determined the impact of this statement on the consolidated financial statements.

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

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

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

Under the terms of the amended agreement, the Corporation and CHI equally share in additional capital contributions to MHN. Required annual capital contributions of the Corporation are equal to the lesser of 25% of combined MHN free cash flow, as defined, or $1.5 million payable within 120 days after MHN's June 30 year end. For the year ended June 30, 2007, the required capital contribution of $1.5 million was accrued in the consolidated balance sheet. In 2006, the required capital contribution of $1.5 million was accrued in the consolidated balance sheet and subsequently the liability was discharged in 2007. Capital contributions may be returned to the Corporation and CHI once MHN determines capital contributions in excess of those required have been made. Trinity Health – Iowa reported excess of revenue over expenses of $77.2 million and $30.3 million for the years ended June 30, 2007 and 2006, respectively, that is consolidated in these financial statements. As of June 30, 2007 and 2006, consolidated net assets include $424.4 million and $368.0 million, respectively, for Trinity Health – Iowa.

Mt. Clemens - On May 15, 1990, the Corporation entered into a joint venture with Henry Ford Health System ("HFHS") that included the acquisition of and inclusion in the joint venture, Mt. Clemens, a subsidiary of the Corporation. The joint venture agreement allowed for cash distributions. During 2002, the Corporation and HFHS agreed that cash distributions would be deferred while Mt. Clemens is in a building and expansion phase. As of June 30, 2006, Mt. Clemens had $11.0 million recorded as a liability equally payable to the Corporation and HFHS. Payment was made to the Corporation and HFHS during 2007.

As described in Note 2, the consolidated financial statements as of June 30, 2007 and 2006, have been reclassified to present the operations of Mt. Clemens as a discontinued operation. The Corporation reported income from operations, including a 50% provision for external financial interest, of $14.0 million and $7.8 million for the years ended 2007 and 2006, respectively, in discontinued operations in the statements of operations and changes in net assets for Mt. Clemens. As of June 30, 2007 and 2006, assets held for sale include $185.8 million and $174.1 million and liabilities held for sale include $85.1 million and $90.2 million, respectively, for Mt. Clemens prior to a 50% provision for external financial interest.

Excluding costs related to divestiture costs and before the provision for external financial interest, the operating results of Mt. Clemens for June 30, 2007 and 2006 were as follows:

	2007	2006
	(In Thousands)	
Total unrestricted revenue	$ 307,411	$ 277,623
Excess of revenue over expenses	28,046	15,619

Battle Creek Health System **("BCHS")** - On July 1, 1991, BCHS was formed through a joint venture agreement between the Corporation and Community Hospital Association of Battle Creek, Michigan. The Corporation owns 50% of the stock of BCHS. BCHS is effectively controlled by the Corporation, and accordingly, the financial statements of BCHS are included in the consolidated financial statements of the Corporation with a 50% provision for external financial interest. Before the provision for external financial interest, BCHS reported excess of revenue over expenses of $34.7 million and $18.2 million for the years ended June 30, 2007 and 2006, respectively, that is consolidated in these financial statements. As of June 30, 2007 and 2006, consolidated net assets include $156.6 million and $134.6 million, respectively, for BCHS prior to the provision for external financial interest.

Mercy Health Services North ("MHSN") - Effective July 1, 1998, the Corporation and Munson Healthcare ("MHC") entered into an agreement to create an alignment in Northern Michigan. Under the agreement, MHC provides management and other services to MHSN, an operating division of the Corporation with acute care hospitals in Cadillac and Grayling, Michigan. MHSN reported excess of revenue over expenses of $11.3 million and $7.2 million for the years ended June 30, 2007 and 2006, respectively, that is consolidated in these financial statements. As of June 30, 2007 and 2006, consolidated net assets include $53.6 million and $45.8 million, respectively, for MHSN.

The terms of the agreement include financial risk sharing based upon operating performance. For fiscal years 2007 and 2006, risk sharing income of $750,000 and expense of $750,000, respectively, are included in other expenses in the consolidated statement of operations and changes in net assets. Effective July 1, 2007 the management contract and risk sharing were discontinued and replaced with an affiliation agreement that allows for payments to MHC for certain services provided to MHSN.

Investments in unconsolidated affiliates – The Corporation and certain of its ministry organizations have investments in entities that are recorded under the cost and equity methods of accounting. At June 30, 2007, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 2.1% to 50%. The Corporation's share of equity earnings from entities accounted for under the equity method was $26.6 million and $18.7 million for the years ended June 30, 2007 and 2006, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets.

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

2007
(In Thousands)

	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	$ 106,001	$ 100,801	$ 58,245	$ 20,926	$ 102,287	$ 388,260
Total debt	65,722	23,036	22,419	21,909	30,975	164,061
Net assets	36,335	62,736	20,621	(32,676)	54,991	142,007
Revenue, net	36,541	144,438	69,658	50,045	103,434	404,116
Excess of revenue over expenses	2,810	25,246	20,491	1,508	3,598	53,653

2006
(In Thousands)

	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	$ 83,161	$ 108,548	$ 31,687	$ 17,540	$ 116,299	$ 357,235
Total debt	44,385	39,379	16,610	22,405	23,259	146,038
Net assets	33,480	66,100	12,337	(30,664)	67,056	148,309
Revenue, net	32,870	147,012	42,826	53,396	304,475	580,579
Excess of revenue over expenses	2,639	30,267	12,848	1,146	4,371	51,271

Business Acquisitions and Divestitures – The Corporation entered into the following significant acquisition and divestiture activities during 2007 and 2006:

Business Acquisitions:

Mount Carmel New Albany Surgical Hospital ("MCNA") – Effective December 31, 2006, the Corporation, through its subsidiary, Mt. Carmel Health System - Columbus, Ohio acquired 100% ownership of MCNA for approximately $55.6 million in cash and recorded related goodwill of $31.6 million. MCNA has been consolidated in the 2007 financial statements.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

At December 31, 2006 (In Thousands)			
Cash and equivalents	$ 8,891	Current liabilities	$ 6,101
Other current assets	14,017	Capital lease obligation	38,871
Property and equipment	5,941	Other liabilities	100
Capital lease	34,605	Total liabilities acquired	$ 45,072
Non-compete agreements	14,480		
Goodwill	31,604		
Total assets acquired	$ 109,538		

The non-compete agreements have an amortization period of approximately 8 years. Goodwill is being amortized over 40 years on a straight-line basis.

The operating results of MCNA for the six-month period ended June 30, 2007 were as follows:

	2007 (In Thousands)
Total unrestricted revenue	$ 37,283
Excess of revenue over expenses	5,531

Oakland Memorial Hospital ("OMH") – Effective January 1, 2007, the Corporation, through its subsidiary, Mercy Medical Center, Sioux City, acquired 100% ownership of OMH, a 23-bed critical access hospital in Oakland, Nebraska. OMH's assets of $1.7 million were acquired in exchange for debt forgiveness of approximately $1.0 million. OMH has been consolidated in the 2007 financial statements.

Siouxland Surgery Center Limited Partnership, Dakota Dunes, South Dakota (the "Center") – Effective April 28, 2006, the Corporation, through its subsidiary, Mercy Medical Center-Sioux City, Sioux City, Iowa, acquired an additional 34% ownership resulting in total ownership of 40% of the Center for $21.5 million in cash and recorded related goodwill of $17.9 million. The Corporation now accounts for the Center using the equity method of accounting.

Intermountain Medical Imaging, LLC – MRI ("IMI") – Effective April 1, 2006, the Corporation, through its subsidiary, Saint Alphonsus Medical Center, Inc. purchased 50% interest in IMI, a major supplier of medical imaging in southwestern Idaho for $11.2 million in cash and recorded related goodwill of $6.9 million. The Corporation accounts for the IMI using the equity method of accounting.

***Business Divestitures*:**

Care Choices HMO – Michigan – Effective April 1, 2007, the Corporation sold Care Choices HMO, Care Choices PPO and Preferred Choices PPO health plans (collectively "Care Choices") to Priority Health, a Grand Rapids, Michigan-based health plan. As a result of the sale, a loss of $4.0 million was recorded in the fiscal year 2007 consolidated statement of operation and changes in net assets. The agreement calls for Priority Health to make an additional payment to the Corporation in fiscal year 2008 based on membership retained as of April 1, 2008. Such payment will be recorded as a gain, net of any expenses, when received.

Excluding the loss related to the disposal, the operating results of Care Choices for 2007 (to the date of the sale) and 2006 were as follows:

	2007	2006
	(In Thousands)	
Total unrestricted revenue	$ 232,439	$ 309,235
Excess of revenue over expenses	1,905	1,867

In addition, the 2006 consolidated balance sheet was reclassified to reflect cash, cash equivalents and investments of $53.5 million, accounts receivable of $7.2 million, and accounts payable and accrued expenses mainly consisting of incurred but not reported claims, of $27.9 million, as assets and liabilities held for sale, respectively.

Saint Alphonsus Nephrology Center ("SANC") – The Corporation through its subsidiary, Saint Alphonsus Medical Center, Inc. held an aggregate 50% ownership in SANC, an Idaho company providing health services to Southern Idaho. SANC sold substantially all of its operations in March 2006 as approved by the State of Idaho for which the Corporation received $21.3 million in cash. The Corporation accounted for SANC using the equity method of accounting. Divesture of the Corporation's interest resulted in recognition of a gain of $18.9 million during the year ended June 30, 2006.

4. NET PATIENT SERVICE REVENUE

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

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

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

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

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

During 2007 and 2006, 38% and 37%, respectively, of net patient service revenue was received under the Medicare program, 9% and 8%, respectively, under state Medicaid and indigent care programs, and 53% and 55%, respectively, from other payor contracts and patients. A summary of net patient service revenue for the years ended June 30 is as follows:

	2007	2006
	(In Thousands)	
Gross charges:		
Acute inpatient	$ 6,540,928	$ 5,882,006
Outpatient, nonacute inpatient, and other	5,579,626	5,196,422
Gross patient revenue	12,120,554	11,078,428
Less:		
Contractual and other allowances	(6,544,833)	(5,897,920)
Charity care charges	(257,180)	(230,847)
Allowance for self-insured health benefits	(124,261)	(116,544)
Net patient service revenue	$ 5,194,280	$ 4,833,117

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

5. PROPERTY AND EQUIPMENT

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

	2007	2006
	(In Thousands)	
Land	$ 166,141	$ 164,663
Buildings and improvements	3,027,040	2,898,796
Equipment, including capital lease assets	2,395,808	2,183,636
Total	5,588,989	5,247,095
Less accumulated depreciation and amortization	(3,133,921)	(2,912,162)
Construction in progress	423,833	289,614
Property and equipment, net	$ 2,878,901	$ 2,624,547

Equipment includes assets recorded under capital leases of $69.1 million and $31.2 million with accumulated amortization for such assets of $11.3 million and $7.6 million as of June 30, 2007 and 2006, respectively. The associated charges to income are recorded in depreciation and amortization expense.

At June 30, 2007, commitments to purchase property and equipment of approximately $130 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following ministry organizations: Saint Joseph Mercy Health System in Ann Arbor, Michigan - $31.8 million, Saint Alphonsus Regional Medical Center in Boise, Idaho - $30.1 million, Saint Mary's Mercy Medical Center in Grand Rapids, Michigan - $29.4 million, Mt. Carmel Health System in Columbus, Ohio - $18.6 million and Mercy General Health Partners in Muskegon, Michigan - $8.5 million. The costs of these projects are expected to be financed by proceeds from bond issuances, available hospital funds, future operations of the hospitals and contributions.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

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

	2007	2006
	(In Thousands)	
Tax-exempt revenue bonds and refunding bonds:		
Fixed rate term and serial bonds, payable at various dates through 2037. Interest rate ranges from 3.375% to 6.0% at June 30, 2007.	$ 784,670	$ 677,415
Variable rate term bonds payable at various dates through 2040. Interest payable monthly at variable rates from 2.345% to 4.1% at June 30, 2007.	1,314,082	1,333,139
Notes payable to banks, 2.31% to 9.63%, fixed and variable, payable in varying monthly installments, due through 2023.	16,980	24,096
Capital lease obligations (excluding imputed interest of $32.4 million and $24.3 million at June 30, 2007 and 2006).	58,002	21,824
Other	3,871	4,758
Subtotal	2,177,605	2,061,232
Less current portion of long-term debt	(50,533)	(53,541)
Unamortized bond premiums (discounts)	2,204	(1,839)
Long-term debt	$ 2,129,276	$ 2,005,852

Scheduled principal repayments on long-term debt are as follows:

	(In Thousands)
Years ending June 30:	
2008	$ 50,533
2009	55,975
2010	53,048
2011	55,576
2012	57,014
Thereafter	1,905,459
Total	$ 2,177,605

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

	2007	2006
	(In Thousands)	
Interest costs incurred	$ 97,303	$ 79,480
Less capitalized interest	(11,661)	(5,304)
Interest expense included in operations	$ 85,642	$ 74,176

Obligated Group and Other Requirements - The Corporation has debt outstanding under a Master Trust Indenture dated July 1, 1998, as amended and supplemented thereto, the Amended and Restated Master Indenture ("ARMI"). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are general, unsecured, direct obligations of the Corporation and any future members of the Trinity Health Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI, the Corporation is the sole member of the Trinity Health Obligated Group. Certain ministry organizations of the Corporation constitute Designated Affiliates and the Corporation covenants to cause each Designated Affiliate to pay, loan or otherwise transfer to the Corporation such amounts necessary to pay the amounts due on all obligations issued under the ARMI. Trinity Health, the Designated Affiliates and all other controlled affiliates are referred to as the Credit Group. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) were $2,096 million and $2,008 million at June 30, 2007 and 2006, respectively.

There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of Trinity Health or any Material Designated Affiliate (a Designated Affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of the Credit Group for the most recent fiscal year). Long-term debt outstanding as of June 30, 2007 and 2006, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

Issuance and Defeasance of Long-Term Debt – On November 9, 2006, the Corporation issued $130.7 million in tax-exempt, fixed rate hospital revenue bonds (the "Series 2006 Bonds") under the ARMI. The proceeds were used to finance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities and to pay related costs of issuance.

On November 17, 2005, the Corporation issued $295.4 million in tax-exempt, variable rate hospital revenue bonds and $86.8 million in tax-exempt, fixed rate hospital revenue bonds (the "Series 2005 Bonds") under the ARMI. The proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities and to pay related costs of issuance. Proceeds, together with funds held by trustees, were used to retire $83.4 million of the Corporation's then outstanding fixed rate hospital revenue bonds and $49.9 million of the Corporation's borrowings under a line of credit. These transactions resulted in a loss from extinguishment of debt of $5.6 million, which has been included in other non-operating items in the 2006 consolidated statement of operations and changes in net assets.

The outstanding balance of all bonds advance refunded through net defeasance and excluded from the consolidated balance sheets was $293.1 million and $314.5 million at June 30, 2007 and 2006, respectively. The Corporation advanced refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee held escrow accounts are invested in U.S. government securities.

Commercial Paper - The Corporation entered into a commercial paper program authorized for borrowings up to $150 million. Proceeds from this program are to be used to finance certain acquisitions and for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during 2007 ranged from 5.28% to 5.38% and ranged from 3.30% to 5.32% during 2006. The Corporation used cash and investments to pay off the notes for the year ended June 30, 2007.

Liquidity Facilities - The Corporation entered into separate liquidity facilities and standby letters of credit totaling $713.3 million related to variable rate demand bonds of $705.4 million. Accordingly, the variable rate demand bonds have been classified as long term as it is the Corporation's intent to remarket these obligations if presented for redemption. These liquidity facilities are available to the Corporation should the holders of the obligations present such obligations for redemption and the obligations are not remarketed. The termination dates for the various liquidity facility agreements range from January 2008 through December 2015. The Corporation has the intent to renew these liquidity facility agreements. There were no borrowings through these liquidity facilities during 2007 and 2006.

Line of Credit –The Corporation had $4.3 million and $2.3 million available under various lines of credit at June 30, 2007 and 2006. These agreements had a variable interest rate based on LIBOR or the banks' prime rate. The interest rate charged on borrowings outstanding during 2007 ranged from 7.25% to 7.75% and during 2006 ranged from 5.8% to 9.8%.

Standby Letters of Credit –The Corporation entered into various standby letters of credit totaling approximately $16 million and $20 million at June 30, 2007 and 2006, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs. There were no draws on these letters of credit during 2007 and 2006.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2007	2006
	(In Thousands)	
Accounts payable	$ 204,721	$ 180,177
Unsettled investment trades	53,827	40,311
Payable and incurred but not reported claims	14,142	11,676
Interest	7,329	7,212
Deferred revenue	22,905	23,100
Other	37,303	31,182
Total	$ 340,227	$ 293,658

8. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation's insurance company qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to the Corporation's ministry organizations. The Corporation also has domestic trusts for both professional liability and workers' compensation insurance. As a result, the Corporation is self-insured for certain levels of general and professional liability, workers' compensation and certain other claims. The Corporation has limited its liability through the purchase of reinsurance and commercial coverage through unrelated third-party insurers.

For 2007 and 2006, the self-insured limit for the first layers of professional liability was $20 million per occurrence. Additional layers of professional liability insurance are available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is $100 million in aggregate.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid at the balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry wide data. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. Such adjustments are reflected in current operations, and resulted in a reduction in liabilities of $63.1 million and $42.6 million for the years ended June 30, 2007 and 2006, respectively. Of the $63.1 million reduction in 2007, $62.5 million was recorded in operations and $0.6 million was recorded in discontinued operations in the statement of operations and changes in net assets. Of the $42.6 million reduction in 2006, $38.3 million was recorded in operations and $4.3 million was recorded in discontinued operations in the statement of operations and changes in net assets. The amount of the changes to the estimated self-insurance reserves were determined based upon the annual, independent actuarial analyses, which recognized declining frequency and moderating severity of claims trends at the Corporation. The Corporation believes these favorable trends are primarily attributable to tort reforms enacted in key states, and risk management and patient safety initiatives.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2007 that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of Counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations or cash flows of the Corporation.

9. PENSION AND OTHER BENEFIT PLANS

Self-Insured Employee Health Benefits - The Corporation administers self-insured employee health benefits programs for employees. The majority of the Corporation's employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's ministry organizations or other health care providers. Gross patient revenue has been reduced by an allowance for self-insured employee health benefits of $124.3 million and $116.5 million for 2007 and 2006, respectively, which represented revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

Deferred Compensation – The Corporation has nonqualified deferred compensation plans at certain ministry organizations that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. At June 30, 2007 and 2006, the assets and liabilities under these plans totaled $33.9 million and $28.6 million, respectively.

Noncontributory Defined Benefit Pension Plans (Pension Plans) - Substantially all of the Corporation's employees participate in qualified, noncontributory defined benefit pension plans. Benefits are based on years of service and employees' highest five years of compensation. Certain non-qualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. Because the Pension Plans have Church Plan status as defined in the Employee Retirement Income Security Act ("ERISA") of 1974, funding in accordance with ERISA is not required. The Corporation's adopted funding policy for qualified plans, which is reviewed annually and may be adjusted as needed, is to fund the current normal cost based on the accumulated benefit obligation at the plans' December 31st year-end, and amortization of any under or over funding over a ten year period. In March 2007, the Corporation contributed an additional $103 million in excess of net periodic pension costs to the qualified plans, and also contributed $109 million representing advance funding of it's estimated fiscal 2008 contribution. In March 2006, the Corporation contributed an additional $205 million in excess of the stated funding policy to the qualified plans. During 2007 and 2006, contributions were approximately equal to 220% and 256% of service costs for funded plans, respectively.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. The majority of the employer matching contributions contributed by the Corporation of up to 3% of compensation is deposited in a cash balance arrangement in the defined benefit pension plans. For for-profit organizations, employer contributions are self-directed by plan participants in defined contribution plans. Employee contributions in all plans are self-directed by plan participants. Contribution expense under the plans totaled approximately $31.4 million and $32.2 million in 2007 and 2006, respectively, excluding amounts classified as discontinued operations.

Postretirement Health Care and Life Insurance Benefits (Postretirement Plans) - The Corporation sponsors both funded and unfunded, contributory plans to provide health care benefits to certain of its retirees. The Postretirement Plans cover certain hourly and salaried employees who are retired from certain ministry organizations. Medical benefits for these retirees are subject to deductibles and co-payment provisions. During 2006, certain plans were amended to increase retiree contributions, deductibles and co-payments, resulting in a decrease in the accumulated benefit obligation of $4.7 million

Adoption of FAS 158 - On June 30, 2007, the Corporation adopted the recognition and disclosure provisions of FAS 158. The incremental effects of adopting the provisions of FAS 158 in the Corporation's consolidated balance sheet at June 30, 2007 are presented in the following tables:

	At June 30, 2007 (In Thousands)		
	Prior to Adopting FAS 158	Effect of Adopting FAS 158	As Reported at June 30, 2007
Pension Plans:			
Intangible asset	$ 214	$ (214)	$ -
Prepaid pension costs	384,488	(384,488)	-
Accrued pension costs	2,766	74,476	77,242
Unrestricted net assets	-	(459,178)	(459,178)
Retiree Medical Plans:			
Prepaid retiree medical costs	$ 1,377	$ (1,377)	$ -
Accrued retiree medical costs	55,713	1,165	56,878
Unrestricted net assets	-	(2,542)	(2,542)

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

	Pension Plans		Postretirement Plans	
	2007	2006	2007	2006
	(In Thousands)		(In Thousands)	
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 2,989,564	$ 2,729,592	$ 144,152	$ 152,359
Service cost	158,184	149,370	2,701	3,803
Interest cost	176,860	161,185	8,463	8,841
Amendments	-	21	-	(4,714)
Actuarial (gain) loss	(55,223)	26,678	(440)	(10,164)
Benefits paid	(86,224)	(77,282)	(5,689)	(5,973)
Medicare Part D reimbursement	-	-	675	-
Benefit obligation, end of year	3,183,161	2,989,564	149,862	144,152
Change in plan assets:				
Fair value of plan assets, beginning of year	2,528,213	1,959,476	60,031	35,384
Actual return on plan assets	315,486	262,272	7,850	2,305
Employer contributions	348,371	383,747	30,464	28,315
Benefits Paid	(86,224)	(77,282)	(5,689)	(5,973)
Fair value of plan assets, end of year	3,105,846	2,528,213	92,656	60,031
Funded status	(77,315)	(461,351)	(57,206)	(84,121)
Unrecognized net actuarial loss	$ -	$ 646,901	$ -	$ 31,467
Unrecognized prior service cost	-	18,705	-	(38,890)
Unrecognized transition asset	-	(32,910)	-	-
Employer contribution between measurement date and fiscal year end	73	1,750	328	29,236
Net amount recognized	$ (77,242)	$ 173,095	$ (56,878)	$ (62,308)
Amounts recognized in the consolidated balance sheet:				
Intangible asset	$ -	$ 455	$ -	$ -
Prepaid asset	-	173,353	-	1,305
Accrued benefit liability	(77,242)	(1,174)	(56,878)	(63,613)
Cumulative adjustment to unrestricted net assets	-	461	-	-
Total amount recognized	$ (77,242)	$ 173,095	$ (56,878)	$ (62,308)
Amounts recognized in unrestricted net assets under FAS 158 consist of:				
Unrecognized prior service cost	$ 15,776		$ (25,253)	
Unrecognized net actuarial loss	468,119		27,795	
Unamortized transition asset	(24,717)		-	
Total amount recognized	$ 459,178		$ 2,542	

As of June 30, 2007 and 2006, including the additional funding in excess of the stated funding policy, all qualified defined benefit plans have plan assets that exceed the accumulated benefit obligation. The accumulated benefit obligation and plan assets of the non-qualified plan are immaterial to these financial statements. The table below shows the funded status of the plans on an accumulated benefit obligation basis for the years ended June 30, measured as of March 31:

	Pension Plans	
	2007	2006
	(In Thousands)	
Accumulated benefit obligation	$ 2,692,327	$ 2,503,290
Fair value of plan assets	3,105,846	2,528,213
Funded Status	$ 413,519	$ 24,923

Components of net periodic benefit cost for the years ended June 30, 2007 and 2006 consisted of the following:

	Pension Plans		Postretirement Plans	
	2007	2006	2007	2006
Net Period Benefit Cost:	(In Thousands)		(In Thousands)	
Service cost	$ 158,184	$ 149,370	$ 2,701	$ 3,803
Interest cost	176,860	161,185	8,463	8,841
Expected return on assets	(222,667)	(174,615)	(7,401)	(2,969)
Settlement	753	1,455	-	-
Amortization of unrecognized transition asset	(8,193)	(8,193)	-	-
Amortization of prior service cost	2,994	2,926	(13,636)	(12,912)
Recognized net actuarial loss	29,923	40,400	2,890	4,537
Net benefit cost (income)	$ 137,854	$ 172,528	$ (6,983)	$ 1,300

The following are estimated amounts to be amortized from unrecognized net assets into net periodic benefit cost during fiscal 2008:

	Pension Plans	Postretirement Plans
	(In Thousands)	
Amortization of prior service cost	$ 3,033	$ (13,636)
Amortization of transition asset	(8,193)	-
Recognized net actuarial loss	13,020	2,094
	$ 7,860	$ (11,542)

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

	Pension Plans		Postretirement Plans	
	2007	2006	2007	2006
Benefit Obligations:				
Discount rate	6.25%	6.0%	5.5 - 6.0%	6.0%
Rate of compensation increase	4.0%	4.0%	N/A	N/A
Net Periodic Benefit Cost:				
Discount rate	6.0%	6.0%	6.0%	6.0%
Expected long-term return on plan assets	8.75%	8.75%	8.75%	8.75%
Rate of compensation increase	4.0%	4.0%	N/A	N/A

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

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

	2007	2006
Medical and Drugs, pre age 65	11.0%	11.0%
Medical and Drugs, post age 65	13.0%	13.0%
Ultimate Trend Rate	5.0%	5.0%
Year the rate reaches Ultimate Rate	2013	2012

A one-percentage point change in assumed health care cost trend rates would have the following effects as of June 30, 2007:

	1 Percentage Point Increase	1 Percentage Point Decrease
	(In Thousands)	
Effect on total of service cost and interest cost components	$ 710	$ (1,077)
Effect on postretirement benefit obligation	8,354	(10,421)

The Corporation's asset allocations at June 30, 2007 and 2006, by asset category are as follows:

	Pension Plans		Postretirement Plans	
	2007	2006	2007	2006
Asset Category:				
Cash and cash equivalents	4 %	3 %	2 %	1 %
Marketable securities:				
U.S. Government and government agency obligations	2	3	-	-
U.S. and non-U.S. fixed income obligations	4	5	45	49
U.S. equity securities	23	22	53	50
Non-U.S. equity securities and mutual funds	13	13	-	-
Other investments:				
Absolute return strategy, commingled limited partnerships	31	21	-	-
Commingled limited funds directly holding securities	16	26	-	-
Long / short equity	5	5	-	-
Private equity funds	1	1	-	-
Real estate and other	1	1	-	-
Total	100 %	100 %	100 %	100 %

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other assets such as hedge funds and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. The combined target asset allocation at June 30, 2007 was U.S. equity securities 30%; non-U.S. equity securities 20%; fixed income obligations 20%; absolute return strategy, commingled limited partnerships (hedge funds) 20%; long/short equity 5%; private equity 5%.

Expected Contributions - The Corporation expects to contribute an additional $40.9 million to its pension plans and $1.3 million to its postretirement plans in fiscal year 2008 under the Corporation's stated funding policy. The Corporation may elect to make additional contributions.

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

(In Thousands)	Pension Plans	Postretirement Plans	Postretirement Medicare Part D Subsidy
2008	$ 91,291	$ 6,779	$ 744
2009	99,022	7,547	872
2010	109,869	8,479	1,002
2011	122,179	9,390	1,122
2012	137,518	10,082	1,248
Years 2013 - 2017	997,408	57,773	5,093

10. COMMITMENTS AND CONTINGENCIES

Operating Leases - The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, in 2007 and 2006, was $79.1 million and $77.6 million, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2007, that have initial or remaining lease terms in excess of one year.

	(In Thousands)
Years ending June 30:	
2008	$ 54,359
2009	44,199
2010	35,286
2011	28,544
2012	26,159
Thereafter	63,079
Total	$ 251,626

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

Multiple guarantees at the following levels existed at June 30, 2007:

(In Thousands)

Total Principal Amount	Dollars Guaranteed by Corporation	Percent Guaranteed by Corporation	Percent Guaranteed by Others
$ 1,000	$ 1,000	100%	0%
20,930	10,465	50%	50%
4,375	1,750	40%	60%
3,133	940	30%	70%
$ 29,438	$ 14,155		

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

A reconciliation of the asset retirement obligations for 2007 is as follows:

	(In Thousands)
Asset retirement obligation as of June 30, 2006	$ 15,190
Accretion	753
Liabilities incurred	192
Liabilities settled	(336)
Asset retirement obligation as of June 30, 2007	$ 15,799

Lawsuit Settlement – During 2007, the Corporation received $20.6 million in settlement of a lawsuit relating to the settlement of a third party payor contract dispute. This amount is included in litigation settlements in the consolidated statements of operations and change in net assets.

Arbitration Settlement - During 2005, the Corporation and United Healthcare of Ohio, Inc. (United) entered into binding arbitration stemming from payments submitted by United to the Corporation for services provided to patients covered under contracts with United starting in January 2001 at Mt. Carmel Health System in Columbus, Ohio. In August 2005, the arbitrators awarded the Corporation a net amount of $25.8 million, plus $8.9 million in interest, for services rendered to patients through June 30, 2005. These amounts were recorded in operating income during 2006.

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

11. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVES

The Corporation determined the estimated fair value of financial instruments using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Corporation could realize in a current market exchange. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

Cash and cash equivalents, security lending collateral, assets limited as to use, patient accounts receivable and current liabilities - The carrying amounts reported in the consolidated balance sheets approximate their fair value.

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

Other investments – The Corporation invests in various other investments with an absolute return strategy that are structured as limited liability corporations and partnerships, and are included in investments and assets limited or restricted as to use in the consolidated balance sheets. The absolute return strategy funds are designed to produce positive investment returns regardless of market activity. These investments utilize a "fund-of-funds" approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds' year-end. These investments are stated at fair value as determined by the administrators of each underlying fund, in consultation with fund investment managers. Commingled funds that hold securities directly are stated at fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. Generally, redemptions may be made with written notice ranging from one month to one year. Because of the inherent uncertainty of valuations, values may differ from the values that would have been used had a ready market existed.

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

	2007	2006
	(In Thousands)	
Cash and cash equivalents	$ 817,921	$ 775,148
Marketable securities:		
U.S. Government and government agency obligations	238,419	245,291
U.S. corporate obligations	241,989	310,622
U.S. fixed income and mutual funds	20,030	17,759
U.S. equity securities and mutual funds	886,247	744,375
Non-U.S. debt obligations and mutual funds	9,992	14,505
Non-U.S. equity securities and mutual funds	446,054	379,838
Other	38,040	33,777
Total marketable securities	1,880,771	1,746,167
Other investments:		
Absolute return strategy (fund-of-funds)	557,784	495,314
Commingled funds directly holding securities	1,018,081	775,018
Total other investments	1,575,865	1,270,332
Subtotal	4,274,557	3,791,647
Less current portion	(1,741,595)	(1,525,192)
Total non-current investments	$ 2,532,962	$ 2,266,455

In addition to investments, assets restricted as to use include receivables for unconditional promises to give cash and other assets net of allowances for uncollectible promises totaling $45.9 million and $46.9 million at June 30, 2007 and 2006, respectively. The allowance for uncollectible promises was $4.5 million and $3.2 million at June 30, 2007 and 2006, respectively.

Unconditional promises to give consist of the following at June 30, 2007:

	(In Thousands)
Amounts expected to be collected in:	
Less than one year	$ 24,449
One to five years	25,020
More than five years	4,716
	54,185
Discount to present value of future cash flows	(3,704)
Allowance for uncollectible amounts	(4,536)
Total unconditional promises to give, net	$ 45,945

The composition of investment returns, before the transfer to trading securities of $270.6 million, included in the consolidated statement of operations and changes in net assets are as follows:

	2007	2006
	(In Thousands)	
Dividend, interest income and other	$ 123,453	$ 106,741
Realized gains, net	161,970	86,716
Realized losses from impairments	(3,033)	(8,152)
Net gain from change in fair value of interest rate swaps	4,010	24,750
Realized equity earnings, other investments	(6)	2,837
Change in net unrealized gains on investments	277,282	142,588
Total investment return	$ 563,676	$ 355,480
Included in:		
Operating income	$ 50,578	$ 54,340
Nonoperating items	372,974	278,527
Changes in unrestricted net assets	131,921	17,014
Changes in restricted net assets	8,203	5,599
Total investment return	$ 563,676	$ 355,480

At June 30, 2007, Trinity Health transferred the majority of its investment securities from available-for-sale to trading. As a result, there are no securities in which cost basis exceeds fair value at June 30, 2007.

The following tables summarize investments where cost basis exceeds fair value at June 30, 2006, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	(In Thousands)					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 342,877	$ 9,952	$ 16,215	$ 595	$ 359,092	$ 10,547
U.S. corporate obligations	438,028	12,350	97,302	4,072	535,330	16,422
U.S. fixed income, mutual funds	26,345	79	927	57	27,272	136
U.S. equity securities, mutual funds	168,389	18,622	29,568	5,692	197,957	24,314
Non-U.S. equity securities, mutual funds	40,359	5,026	9,355	1,673	49,714	6,699
Other	6,344	131	41	7	6,385	138
Total temporarily impaired securities	$ 1,022,342	$ 46,160	$ 153,408	$ 12,096	$ 1,175,750	$ 58,256

Investments designated as available-for-sale and held to maturity are considered to be impaired when fair value is below cost. The Corporation employs a systematic methodology for reviewing these securities that considers available evidence in evaluating potential impairment of the investments. The review considers the severity and duration of the decline in market value, the volatility of the security's market price, third party analyst reports, credit rating changes, and regulatory or legal action or changes, among other factors. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded as a component of investment income and a new cost basis in the investment is established.

Long-term Debt - The carrying amounts of the Corporation's variable-rate long-term debt and commercial paper approximate their fair values. The fair value of the Corporation's fixed-rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed-rate long-term revenue and refunding bonds was $849.5 million and $738.4 million for 2007 and 2006, respectively. The related carrying value of the fixed-rate long-term revenue and refunding bonds was $784.3 million and $676.9 million for 2007 and 2006, respectively. The fair values of the remaining fixed-rate capital leases, notes payable to banks, and other debt are not materially different from their carrying values.

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

Interest rate swaps – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation's variable interest rate debt, variable rate leases and a fixed income investment portfolio. The following table provides details on changes in the Corporation's estimated fair value of the interest rate swap agreements.

(In Thousands)	Variable to Fixed (1)	Variable to Fixed (2)	Variable to Variable (3)	Fixed to Variable (4)	Total
Asset (Liability) at June 30, 2005	$ (40,900)	$ (4,920)	$ (15,779)	$ 5,937	$ (55,662)
Recognized in:					
Interest expense	7,033	-	-	-	7,033
Occupancy expense	115	-	-	-	115
Operating investment income	-	-	-	(210)	(210)
Non-operating investment income	-	21,574	6,412	(3,026)	24,960
Excess of revenue over expenses	7,148	21,574	6,412	(3,236)	31,898
Unrestricted net assets	14,252	-	-	-	14,252
Asset (Liability) at June 30, 2006	(19,500)	16,654	(9,367)	2,701	(9,512)
Recognized in:					
Interest expense	(41)	-	-	-	(41)
Occupancy expense	219	-	-	-	219
Operating investment income	-	-	-	7	7
Non-operating investment income	-	114	3,895	238	4,247
Excess of revenue over expenses	178	114	3,895	245	4,432
Unrestricted net assets	(4,513)	-	-	-	(4,513)
Asset (Liability) at June 30, 2007	$ (23,835)	$ 16,768	$ (5,472)	$ 2,946	$ (9,593)

(1) The Corporation entered into interest rate swap agreements that meet the accounting requirements for cash flow hedges. Under two agreements with a notional amount of $200 million, floating rate tax-exempt debt is effectively converted to a fixed rate basis. The fixed rate is 5.21% and the floating rate is a variable BMA rate. These agreements mature on August 15, 2030. The ineffective portion of these cashflow hedges is recorded in interest expense in the consolidated statement of operations and changes in net assets. Additionally, the Corporation entered into interest rate swap agreements with a notional amount of $12.8 million that effectively convert variable rate operating leases to fixed rate leases. The floating rate is 65% of 1.25% plus one month LIBOR and the fixed payment rate is 4.295%. The ineffective portion of these cash flow hedges is recorded in occupancy expense in the consolidated statement of operations and changes in net assets. These agreements expire on October 1, 2007. The Corporation also entered into an interest rate swap agreement on September 14, 2001 with a notional amount of $3.1 million that effectively converts variable rate operating leases to fixed rate leases. The floating rate resets weekly but is based on a daily average of one month LIBOR and the fixed payment rate is 4.52%. This agreement expires on March 1, 2013. The change in fair value of the effective portion of the cash flow hedges above is included in other changes in unrestricted net assets.

(2) In September 2005, the Corporation entered into two agreements with a notional amount of $100 million, effectively converting floating rate tax-exempt debt to a fixed rate basis. The fixed rate is 3.303% and the floating rate is 68% of one month LIBOR. These agreements mature on December 1, 2036. In November 2005, the Corporation entered into two agreements with a notional amount of $75 million, effectively converting floating rate tax-exempt debt to a fixed rate basis. The fixed rate is 3.537% and the floating rate is 68% of one month LIBOR. These agreements mature on November 1, 2040. In October 2004, the Corporation entered into two agreements with a notional amount of $86.7 million, effectively converting floating rate tax-exempt debt to a fixed rate basis. The fixed rate is 3.512% and the floating rate is 68% of one month LIBOR. These agreements mature on December 1, 2038. On August 3, 2006, the Corporation also entered into an additional swap agreement with a notional amount of $65 million, effectively converting floating rate tax-exempt debt to a fixed rate basis. The fixed rate is 3.8101% and the floating rate is 68% of one month LIBOR. These agreements mature on December 1, 2032. These agreements do not qualify for hedge accounting resulting in changes in fair value being recorded in non-operating investment income.

(3) The Corporation entered into interest rate swap agreements with a notional amount of $200 million that swap a variable BMA rate to 71% of one month LIBOR. These agreements mature on August 15, 2030. In addition, on March 1, 2007, the Corporation entered into an interest rate swap agreement with a notional amount of $130 million that swaps a variable BMA rate to 67% of one month LIBOR plus 0.312%. This agreement matures on April 1, 2027. These agreements do not qualify for hedge accounting resulting in changes in fair value being recorded in non-operating investment income.

(4) The Corporation entered into interest rate swap agreements whereby the Corporation receives fixed rates ranging from 4.781% through 5.364%, and pays a variable rate based upon a floating BMA index with a remaining notional principal amount of $30 million. The purpose of these swaps is to hedge market price risk on fixed income investment securities. These agreements do not qualify for hedge accounting resulting in changes in fair value being recorded in investment income. These agreements mature at various dates throughout the year 2019. For the period ended June 30, 2007, $20 million of interest rate swaps were cancelled. There are no early cancellation options on the remaining $30 million notional swaps.

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

Index Futures and Other –The Corporation primarily enters into S&P 500 Index Futures used in conjunction with a portfolio of fixed income securities to replicate the S&P 500 index on an unleveraged basis. At June 30, 2007, and 2006, the notional amount of S&P 500 Index futures was $475 million and $445 million, respectively. The market value of these index futures was zero at June 30, 2007 and 2006, with daily changes in net position reflected in investment income in the consolidated statement of operations and changes in net assets. At June 30, 2007 and 2006, the market value amount of mortgage backed forward purchase contracts was $9 million and $63 million, respectively, with the notional amount approximately equal to the market value due to the short-term duration of these securities. In addition, at June 30, 2007 and 2006, the market value of collateralized mortgage obligations was $53 million and $120 million, respectively, with the notional amount approximately equal to the market value. The Corporation records its derivative financial instruments at fair market value in its consolidated balance sheet, and records the changes in fair market value for these derivatives in investment income in the consolidated statement of operations and changes in net assets.

12. SUBSEQUENT EVENTS

Sale of Mt. Clemens – On July 1, 2007, the Corporation, sold its 50% ownership in the assets and liabilities of Mt. Clemens for $105.5 million to HFHS. As a result of the sale, an estimated gain on disposal of approximately $47 million will be recognized in fiscal year 2008. As of June 30, 2007, the $1.0 million disposition costs consisted of legal and other divestiture costs.

Sale of Joint Venture – The Corporation through its subsidiary, Saint Joseph Regional Medical Center ("SJRMC") held an aggregate 33% ownership in Sagamore PPO. On August 1, 2007, SJRMC sold its interest in Sagamore PPO for $10.0 million. The Corporation accounted for Sagamore PPO using the equity method of accounting. The divestiture resulted in a gain of $8.9 million to be recognized in fiscal year 2008.

Litigation Accrual – On September 21, 2007, in Boise, Idaho a judgment was awarded in the amount $58.9 million in damages against Saint Alphonsus Regional Medical Center and its subsidiary Saint Alphonsus Diversified Care, Inc. (together, "Saint Alphonsus"). The lawsuit involved Saint Alphonsus's withdrawal from MRI Associates, LLP, an Idaho limited partnership providing MRI services. The judge in the case had determined that the withdrawal constituted a "wrongful disassociation," and the jury was asked to determine damages, if any, for the withdrawal and certain other claims against Saint Alphonsus. Saint Alphonsus is considering a variety of remedies, including a motion for a "judgment notwithstanding the verdict" and a motion for a new trial. Saint Alphonsus intends to vigorously appeal any unfavorable decision in this case. The Corporation recorded a liability in the amount of $20 million that is included in other long-term liabilities on the consolidated balance sheet in the event of an unfavorable resolution of this matter.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

To the Board of Directors of
Trinity Health
Novi, Michigan

We have audited the consolidated financial statements of the Corporation for the years ended June 30, 2007 and 2006, and our report thereon appears on page 1. Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules on pages 38 - 46 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities and are not a required part of the basic consolidated financial statements. These supplemental schedules are the responsibility of the Corporation's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

September 28, 2007

Member of
Deloitte Touche Tohmatsu

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS
June 30, 2007
(In Thousands)

	Hospital Entities	Non-Hospital Entities	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash, cash equivalents and investments	$ 1,575,643	$ 292,249	$ (129,488)	$ 1,738,404
Assets limited or restricted as to use, current portion	17,409	2,370	5,473	25,252
Patient and other receivables, net	738,860	88,022	(75,872)	751,010
Assets held for sale	201,645	-	(15,853)	185,792
Other current assets	122,772	406,569	438	529,779
Total current assets	2,656,329	789,210	(215,302)	3,230,237
ASSETS LIMITED OR RESTRICTED AS TO USE:				
Held by trustees	18,897	563,575	-	582,472
By Board	1,227,496	620,320	80	1,847,896
By donors	129,895	581	(5,493)	124,983
Total assets limited or restricted as to use, noncurrent portion	1,376,288	1,184,476	(5,413)	2,555,351
PROPERTY AND EQUIPMENT, NET	2,481,287	397,614	-	2,878,901
OTHER ASSETS	483,480	1,932,501	(2,147,590)	268,391
TOTAL ASSETS	$ 6,997,384	$ 4,303,801	$ (2,368,305)	$ 8,932,880
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES	$ 668,014	$ 719,694	$ (215,531)	$ 1,172,177
LONG-TERM DEBT, NONCURRENT PORTION	1,940,209	2,058,347	(1,869,280)	2,129,276
OTHER LIABILITIES	100,435	857,738	(157,587)	800,586
NET ASSETS:				
Unrestricted	4,140,227	667,121	(121,783)	4,685,565
Restricted	148,499	901	(4,124)	145,276
TOTAL LIABILITIES AND NET ASSETS	$ 6,997,384	$ 4,303,801	$ (2,368,305)	$ 8,932,880

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS
June 30, 2007
(In Thousands)

ASSETS	Saint Agnes Medical Center, Fresno	Saint Alphonsus Regional Medical Center, Boise	Mercy Medical Center, Clinton	Mercy Medical Center, Dubuque	North Iowa Mercy Medical Center, Mason City	Mercy Medical Center, Sioux City	Saint Joseph Regional Medical Center, South Bend	Saint Joseph Mercy Health System, Ann Arbor	Battle Creek Health System	Saint Mary's Health Services, Grand Rapids	Subtotal Hospital
CURRENT ASSETS:											
Cash, cash equivalents and investments	$ 104,811	$ 126,445	$ 16,712	$ 21,248	$ 104,629	$ 37,894	$ 99,983	$ 225,509	$ 77,360	$ 48,732	$ 863,323
Assets limited or restricted as to use, current portion	-	-	-	-	-	20	2,597	7,727	428	4,252	15,024
Patient and other receivables, net	61,943	70,158	9,274	14,619	41,197	31,047	62,546	96,753	24,518	43,378	455,433
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-
Other current assets	6,797	8,215	1,529	4,952	7,465	3,888	9,853	10,688	3,635	13,869	70,891
Total current assets	173,551	204,818	27,515	40,819	153,291	72,849	174,979	340,677	105,941	110,231	1,404,671
ASSETS LIMITED OR RESTRICTED AS TO USE:											
Held by trustees under bond indenture agreements	-	456	15	-	8,186	-	5,718	631	137	789	15,932
By Board	227,915	86,391	33,012	28,842	38,150	18,617	20,009	165,623	8,338	131,501	758,398
By donors	18,890	12,175	757	3,284	1,996	1,574	21,268	31,582	4,795	11,385	107,706
Total assets limited or restricted as to use, noncurrent portion	246,805	99,022	33,784	32,126	48,332	20,191	46,995	197,836	13,270	143,675	882,036
PROPERTY AND EQUIPMENT, NET	223,041	277,550	37,365	41,755	83,702	44,565	132,524	420,363	110,066	189,728	1,560,659
OTHER ASSETS	23,298	39,485	5,673	12,645	24,187	41,393	28,952	59,757	16,074	26,486	277,950
TOTAL ASSETS	$ 666,695	$ 620,875	$ 104,337	$ 127,345	$ 309,512	$ 178,998	$ 383,450	$ 1,018,633	$ 245,351	$ 470,120	$ 4,125,316
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES	$ 33,744	$ 45,898	$ 8,874	$ 13,581	$ 24,333	$ 22,331	$ 29,520	$ 67,183	$ 19,896	$ 29,778	$ 295,138
LONG-TERM DEBT, NONCURRENT PORTION	115,475	171,188	18,553	26,705	77,761	77,345	125,475	319,604	65,850	133,309	1,131,265
OTHER LIABILITIES	1,293	21,836	1,128	837	14,842	9,507	8,105	8,959	3,040	2,248	71,795
NET ASSETS:											
Unrestricted	497,293	369,778	75,025	82,938	190,580	68,241	196,484	584,278	151,342	289,148	2,505,107
Restricted	18,890	12,175	757	3,284	1,996	1,574	23,866	38,609	5,223	15,637	122,011
TOTAL LIABILITIES AND NET ASSETS	$ 666,695	$ 620,875	$ 104,337	$ 127,345	$ 309,512	$ 178,998	$ 383,450	$ 1,018,633	$ 245,351	$ 470,120	$ 4,125,316

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS
June 30, 2007
(In Thousands)

ASSETS	Balance Forward	St. Mary Mercy Hospital, Livonia	St. Joseph Mercy Macomb	Mercy General Health Partners, Muskegon	Mercy Health Services, North	St. Joseph Mercy Oakland	Mercy Hospital, Port Huron	Mount Carmel Health System, Columbus	Holy Cross Health Corporation, Silver Spring	Eliminations	Total Hospitals
CURRENT ASSETS:											
Cash, cash equivalents and investments	$ 863,323	$ 42,920	$ -	$ 47,890	$ 28,404	$ 114,808	$ 12,193	$ 365,023	$ 101,082	$ -	$ 1,575,643
Assets limited or restricted as to use, current portion	15,024	724	-	-	413	1,147	-	101	-	-	17,409
Patient and other receivables, net	455,433	22,537	-	26,366	14,506	23,811	9,164	134,337	53,387	(681)	738,860
Assets held for sale	-	-	201,648	-	-	-	-	-	-	(3)	201,645
Other current assets	70,891	2,318	-	4,320	2,103	7,680	2,165	24,881	8,420	(6)	122,772
Total current assets	1,404,671	68,499	201,648	78,576	45,426	147,446	23,522	524,342	162,889	(690)	2,656,329
ASSETS LIMITED OR RESTRICTED AS TO USE:											
Held by trustees	15,932	105	-	132	793	139	936	820	40	-	18,897
By Board	758,398	-	-	5,287	12,885	56,612	12,513	381,801	-	-	1,227,496
By donors	107,706	653	-	3,642	661	5,827	1,133	7,661	2,612	-	129,895
Total assets limited or restricted as to use, noncurrent portion	882,036	758	-	9,061	14,339	62,578	14,582	390,282	2,652	-	1,376,288
PROPERTY AND EQUIPMENT, NET	1,560,659	61,289	-	46,873	39,131	138,478	39,354	461,803	133,700	-	2,481,287
OTHER ASSETS	277,950	30,133	-	15,382	3,567	24,087	8,968	102,241	21,152	-	483,480
TOTAL ASSETS	$ 4,125,316	$ 160,679	$ 201,648	$ 149,892	$ 102,463	$ 372,589	$ 86,426	$ 1,478,668	$ 320,393	$ (690)	$ 6,997,384
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES	$ 295,138	$ 17,077	$ 86,937	$ 18,411	$ 15,436	$ 35,261	$ 8,376	$ 148,136	$ 43,932	$ (690)	$ 668,014
LONG-TERM DEBT, NONCURRENT PORTION	1,131,265	86,354	-	37,997	32,054	97,754	35,774	423,269	95,742	-	1,940,209
OTHER LIABILITIES	71,795	6,409	-	3,811	1,368	5,362	567	8,496	2,627	-	100,435
NET ASSETS:											
Unrestricted	2,505,107	49,463	112,696	86,030	52,532	227,237	40,576	891,106	175,480	-	4,140,227
Restricted	122,011	1,376	2,015	3,643	1,073	6,975	1,133	7,661	2,612	-	148,499
TOTAL LIABILITIES AND NET ASSETS	$ 4,125,316	$ 160,679	$ 201,648	$ 149,892	$ 102,463	$ 372,589	$ 86,426	$ 1,478,668	$ 320,393	$ (690)	$ 6,997,384

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS
June 30, 2007
(In Thousands)

ASSETS	Trinity Continuing Care Services	Trinity Home Health Services	Trinity Health Consolidated Labs	Trinity Health International	Mercy Health Foundation	Mercy Primary Care Center, Detroit	Venzke Insurance Company	Trinity Information Systems	Home Office	Eliminations	Total Non-Hospital
CURRENT ASSETS:											
Cash, cash equivalents and investments	$ 42,007	$ 9,437	$ 2,190	$ 175	$ -	$ 181	$ 196	$ 29,693	$ 208,370	$ -	$ 292,249
Assets limited or restricted as to use, current portion	-	-	-	-	-	-	-	-	2,370	-	2,370
Patient and other receivables, net	13,188	3,655	3,936	449	-	4	4,724	7,019	59,690	(4,643)	88,022
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-
Other current assets	1,597	53	1,757	(2)	1	-	30,123	12,927	389,340	(29,227)	406,569
Total current assets	56,792	13,145	7,883	622	1	185	35,043	49,639	659,770	(33,870)	789,210
ASSETS LIMITED OR RESTRICTED AS TO USE:											
Held by trustees	-	-	-	-	-	-	244,656	335	318,584	-	563,575
By Board	2,081	-	-	-	377	-	-	-	617,862	-	620,320
By donors	-	53	-	-	528	-	-	-	-	-	581
Total assets limited or restricted as to use, noncurrent portion	2,081	53	-	-	905	-	244,656	335	936,446	-	1,184,476
PROPERTY AND EQUIPMENT, NET	97,487	380	3,911	-	-	4	-	271,342	24,490	-	397,614
OTHER ASSETS	3,408	1,809	-	-	-	-	-	-	2,060,214	(132,930)	1,932,501
TOTAL ASSETS	$ 159,768	$ 15,387	$ 11,794	$ 622	$ 906	$ 189	$ 279,699	$ 321,316	$3,680,920	$ (166,800)	$ 4,303,801
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES	$ 19,730	$ 3,300	$ 5,359	$ 1,033	$ -	$ 266	$ 108,788	$ 32,448	$ 582,640	$ (33,870)	$ 719,694
LONG-TERM DEBT, NONCURRENT PORTION	99,887	-	2,733	-	-	-	-	-	2,054,644	(98,917)	2,058,347
OTHER LIABILITIES	-	-	1,622	-	-	-	169,841	306,094	414,194	(34,013)	857,738
NET ASSETS:											
Unrestricted	39,829	12,034	2,080	(411)	378	(77)	1,070	(17,226)	629,442	2	667,121
Restricted	322	53	-	-	528	-	-	-	-	(2)	901
TOTAL LIABILITIES AND NET ASSETS	$ 159,768	$ 15,387	$ 11,794	$ 622	$ 906	$ 189	$ 279,699	$ 321,316	$3,680,920	$ (166,800)	$ 4,303,801

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
June 30, 2007
(In Thousands)

STATEMENTS OF OPERATIONS	Hospital Entities	Non-Hospital Entities	Eliminations	Total
UNRESTRICTED REVENUE:				
Net patient service revenue	$ 5,085,272	$ 162,267	$ (53,259)	$ 5,194,280
Other	640,944	791,592	(516,816)	915,720
Total revenue	5,726,216	953,859	(570,075)	6,110,000
EXPENSES:				
Employment costs	2,674,440	294,258	(50,827)	2,917,871
Medical claims & purchased services	731,867	301,846	(281,820)	751,893
Depreciation, amortization and interest	381,817	155,370	(128,667)	408,520
Provision for bad debt	232,397	1,514	-	233,911
Other	1,394,107	187,924	(105,500)	1,476,531
Total expenses	5,414,628	940,912	(566,814)	5,788,726
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	311,588	12,947	(3,261)	321,274
Reduction in insurance expense	60,136	2,325	-	62,461
Litigation settlement	20,600	-	-	20,600
Litigation accrual	(20,000)	-	-	(20,000)
OPERATING INCOME (LOSS)	372,324	15,272	(3,261)	384,335
NONOPERATING ITEMS:				
Investment earnings	436,024	192,650	3,224	631,898
Other	(962)	-	(17,435)	(18,397)
Total	435,062	192,650	(14,211)	613,501
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	807,386	207,922	(17,472)	997,836
CHANGES IN NET ASSETS				
Increase (decrease) in unrestricted net assets	611,950	(155,620)	(23,692)	432,638
Increase in restricted net assets	10,848	50	938	11,836
Increase (decrease) in net assets	622,798	(155,570)	(22,754)	444,474
NET ASSETS, BEGINNING OF YEAR	3,665,928	823,592	(103,153)	4,386,367
NET ASSETS, END OF YEAR	$ 4,288,726	$ 668,022	$ (125,907)	$ 4,830,841

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
June 30, 2007
(In Thousands)

STATEMENTS OF OPERATIONS	Saint Agnes Medical Center, Fresno	Saint Alphonsus Regional Medical Center, Boise	Mercy Medical Center, Clinton	Mercy Medical Center, Dubuque	North Iowa Mercy Medical Center, Mason City	Mercy Medical Center, Sioux City	Saint Joseph Regional Medical Center, South Bend	Saint Joseph Mercy Health System, Ann Arbor	Battle Creek Health System	Saint Mary's Health Services, Grand Rapids	Subtotal Hospital
UNRESTRICTED REVENUE:											
Net patient service revenue	$ 387,635	$ 385,151	$ 81,364	$ 102,151	$ 263,566	$ 197,316	$ 353,987	$ 699,479	$ 208,964	$ 316,588	$ 2,996,201
Other	8,545	12,109	2,014	29,164	47,790	17,381	14,620	60,218	7,698	91,626	291,165
Total revenue	396,180	397,260	83,378	131,315	311,356	214,697	368,607	759,697	216,662	408,214	3,287,366
EXPENSES:											
Employment costs	196,009	175,228	41,359	56,618	158,973	105,623	168,413	372,623	100,441	178,365	1,553,652
Medical claims & purchased services	39,292	64,212	10,052	14,378	29,501	22,976	52,767	87,512	23,932	48,859	393,481
Depreciation, amortization and interest	32,055	19,375	7,165	8,639	19,097	13,196	23,674	53,541	16,530	27,229	220,501
Provision for bad debt	8,099	15,080	2,789	3,120	12,548	16,146	23,382	18,894	12,955	12,902	125,915
Other	91,358	91,896	17,687	43,510	79,297	50,277	87,016	180,352	51,251	119,049	811,693
Total expenses	366,813	365,791	79,052	126,265	299,416	208,218	355,252	712,922	205,109	386,404	3,105,242
OPERATING INCOME BEFORE OTHER ITEMS	29,367	31,469	4,326	5,050	11,940	6,479	13,355	46,775	11,553	21,810	182,124
Reduction in insurance expense	4,022	-	1,038	1,258	3,992	1,867	3,071	6,846	4,871	7,334	34,299
Litigation settlement	20,600	-	-	-	-	-	-	-	-	-	20,600
Litigation accrual	-	(20,000)	-	-	-	-	-	-	-	-	(20,000)
OPERATING INCOME	53,989	11,469	5,364	6,308	15,932	8,346	16,426	53,621	16,424	29,144	217,023
NONOPERATING ITEMS:											
Investment earnings	56,610	38,165	5,810	8,221	22,186	7,712	19,409	68,130	18,429	20,035	264,707
Other	(1)	23	(182)	-	(2,500)	-	-	121	(157)	804	(1,892)
Total	56,609	38,188	5,628	8,221	19,686	7,712	19,409	68,251	18,272	20,839	262,815
EXCESS OF REVENUE OVER EXPENSES	110,598	49,657	10,992	14,529	35,618	16,058	35,835	121,872	34,696	49,983	479,838
CHANGES IN NET ASSETS											
Increase in unrestricted net assets	90,004	27,844	9,040	9,314	22,653	13,414	24,436	91,138	21,187	46,725	355,755
Increase (decrease) in restricted net assets	996	1,190	168	454	482	849	9,403	(272)	776	273	14,319
Increase in net assets	91,000	29,034	9,208	9,768	23,135	14,263	33,839	90,866	21,963	46,998	370,074
NET ASSETS, BEGINNING OF YEAR	425,183	352,919	66,574	76,454	169,441	55,552	186,511	532,021	134,602	257,787	2,257,044
NET ASSETS, END OF YEAR	$ 516,183	$ 381,953	$ 75,782	$ 86,222	$ 192,576	$ 69,815	$ 220,350	$ 622,887	$ 156,565	$ 304,785	$ 2,627,118

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
June 30, 2007
(In Thousands)

STATEMENTS OF OPERATIONS	Balance Forward	St. Mary Mercy Hospital, Livonia	St. Joseph Mercy Macomb	Mercy General Health Partners, Muskegon	Mercy Health Services, North	St. Joseph Mercy Oakland	Mercy Hospital, Port Huron	Mount Carmel Health System, Columbus	Holy Cross Health Corporation, Silver Spring	Eliminations	Total Hospitals
UNRESTRICTED REVENUE:											
Net patient service revenue	$ 2,996,201	$ 181,810	$ -	$ 222,487	$ 116,731	$ 327,031	$ 77,150	$ 827,492	$ 336,370	$ -	$ 5,085,272
Other	291,165	6,293	-	17,000	4,582	18,771	8,108	288,070	8,446	(1,491)	640,944
Total revenue	3,287,366	188,103	-	239,487	121,313	345,802	85,258	1,115,562	344,816	(1,491)	5,726,216
EXPENSES:											
Employment costs	1,553,652	101,631	-	116,872	64,706	160,672	41,237	460,579	175,250	(159)	2,674,440
Medical claims & purchased services	393,481	18,171	-	24,600	14,297	36,365	9,413	202,902	33,933	(1,295)	731,867
Depreciation, amortization and interest	220,501	15,184	-	12,480	6,711	21,717	7,502	74,199	23,523	-	381,817
Provision for bad debt	125,915	7,514	-	10,174	3,976	14,400	3,750	49,601	17,067	-	232,397
Other	811,693	41,417	-	65,095	29,078	92,646	24,113	251,161	78,941	(37)	1,394,107
Total expenses	3,105,242	183,917	-	229,221	118,768	325,800	86,015	1,038,442	328,714	(1,491)	5,414,628
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	182,124	4,186	-	10,266	2,545	20,002	(757)	77,120	16,102	-	311,588
Reduction in insurance expense	34,299	5,037	-	7,228	786	10,641	444	1,702	(1)	-	60,136
Litigation settlement	20,600	-	-	-	-	-	-	-	-	-	20,600
Litigation accrual	(20,000)	-	-	-	-	-	-	-	-	-	(20,000)
OPERATING INCOME (LOSS)	217,023	9,223	-	17,494	3,331	30,643	(313)	78,822	16,101	-	372,324
NONOPERATING ITEMS:											
Investment earnings	264,707	7,181	-	8,776	7,993	34,853	5,293	96,356	10,865	-	436,024
Other	(1,892)	-	-	12	-	-	(79)	997	-	-	(962)
Total	262,815	7,181	-	8,788	7,993	34,853	5,214	97,353	10,865	-	435,062
EXCESS OF REVENUE OVER EXPENSES	479,838	16,404	-	26,282	11,324	65,496	4,901	176,175	26,966	-	807,386
CHANGES IN NET ASSETS											
Increase in unrestricted net assets	355,755	10,687	25,301	19,197	8,589	49,190	1,349	124,399	17,483	-	611,950
Increase (decrease) in restricted net assets	14,319	(223)	(2,585)	1,582	(802)	(917)	75	(429)	(172)	-	10,848
Increase in net assets	370,074	10,464	22,716	20,779	7,787	48,273	1,424	123,970	17,311	-	622,798
NET ASSETS, BEGINNING OF YEAR	2,257,044	40,375	91,995	68,894	45,818	185,939	40,285	774,797	160,781	-	3,665,928
NET ASSETS, END OF YEAR	$ 2,627,118	$ 50,839	$ 114,711	$ 89,673	$ 53,605	$ 234,212	$ 41,709	$ 898,767	$ 178,092	$ -	$ 4,288,726

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
June 30, 2007
(In Thousands)

STATEMENTS OF OPERATIONS	Care Choices - HMO	Trinity Health Plans	Trinity Continuing Care Services	Trinity Home Health Services	Trinity Health Consolidated Labs	Trinity Design	Trinity Health International	Subtotal Non-Hospital
UNRESTRICTED REVENUE:								
Net patient service revenue	$ -	$ -	$ 125,407	$ 32,121	$ -	$ -	$ -	$ 157,528
Other	231,923	21,781	32,182	712	33,103	1,872	1,686	323,259
Total revenue	231,923	21,781	157,589	32,833	33,103	1,872	1,686	480,787
EXPENSES:								
Employment costs	-	11,783	89,724	21,736	8,575	994	1,353	134,165
Medical claims & purchased services	229,445	5,934	14,947	3,015	9,821	767	366	264,295
Depreciation, amortization and interest	2	1,547	13,345	539	1,204	6	-	16,643
Provision for bad debt	24	-	1,239	90	40	-	121	1,514
Other	1,146	5,912	30,297	4,401	13,823	151	578	56,308
Total expenses	230,617	25,176	149,552	29,781	33,463	1,918	2,418	472,925
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	1,306	(3,395)	8,037	3,052	(360)	(46)	(732)	7,862
Reduction in insurance expense	-	-	1,748	-	225	-	-	1,973
OPERATING INCOME (LOSS)	1,306	(3,395)	9,785	3,052	(135)	(46)	(732)	9,835
NONOPERATING ITEMS:								
Investment earnings	-	-	6,473	1,463	1,009	68	159	9,172
Other	-	-	-	-	-	-	-	-
Total	-	-	6,473	1,463	1,009	68	159	9,172
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	1,306	(3,395)	16,258	4,515	874	22	(573)	19,007
CHANGES IN NET ASSETS								
Increase (decrease) in unrestricted	(40,237)	7,689	13,538	3,722	354	(2,513)	(724)	(18,171)
Increase (decrease) in restricted net assets	-	-	(19)	5	-	-	-	(14)
Increase (decrease) in net assets	(40,237)	7,689	13,519	3,727	354	(2,513)	(724)	(18,185)
NET ASSETS, BEGINNING OF YEAR	40,237	(7,689)	26,632	8,360	1,726	2,513	313	72,092
NET ASSETS, END OF YEAR	$ -	$ -	$ 40,151	$ 12,087	$ 2,080	$ -	$ (411)	$ 53,907

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
June 30, 2007
(In Thousands)

STATEMENTS OF OPERATIONS	Balance Forward	Mercy Health Foundation	Mercy Primary Care Center, Detroit	Venzke Insurance Company	Trinity Information Systems	Home Office	Eliminations	Total Non-Hospital
UNRESTRICTED REVENUE:								
Net patient service revenue	$ 157,528	$ -	$ -	$ -	$ -	$ 4,755	$ (16)	$ 162,267
Other	323,259	90	219	8,794	214,027	298,721	(53,518)	791,592
Total revenue	480,787	90	219	8,794	214,027	303,476	(53,534)	953,859
EXPENSES:								
Employment costs	134,165	-	1,013	-	88,975	75,413	(5,308)	294,258
Medical claims & purchased services	264,295	55	595	422	44,654	22,171	(30,346)	301,846
Depreciation, amortization and interest	16,643	-	1	-	51,646	93,807	(6,727)	155,370
Provision for bad debt	1,514	-	-	-	-	-	-	1,514
Other	56,308	4	572	8,372	29,541	104,164	(11,037)	187,924
Total expenses	472,925	59	2,181	8,794	214,816	295,555	(53,418)	940,912
OPERATING INCOME (LOSS) BEFORE OTHER ITEMS	7,862	31	(1,962)	-	(789)	7,921	(116)	12,947
Reduction in insurance expense	1,973	-	-	-	-	352	-	2,325
OPERATING INCOME (LOSS)	9,835	31	(1,962)	-	(789)	8,273	(116)	15,272
NONOPERATING ITEMS:								
Investment earnings	9,172	18	85	-	5,021	178,238	116	192,650
Other	-	-	-	-	-	-	-	-
Total	9,172	18	85	-	5,021	178,238	116	192,650
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	19,007	49	(1,877)	-	4,232	186,511	-	207,922
CHANGES IN NET ASSETS								
Increase (decrease) in unrestricted net assets	(18,171)	12	326	4,949	1,319	(144,055)	-	(155,620)
Increase (decrease) in restricted net assets	(14)	64	-	-	-	-	-	50
Increase (decrease) in net assets	(18,185)	76	326	4,949	1,319	(144,055)	-	(155,570)
NET ASSETS, BEGINNING OF YEAR	72,092	830	(403)	(3,879)	(18,545)	773,497	-	823,592
NET ASSETS, END OF YEAR	$ 53,907	$ 906	$ (77)	$ 1,070	$ (17,226)	$ 629,442	$ -	$ 668,022