Assurance and Advisory Business Services

Consolidated Financial Statements

St. Mary's Health System of America, Inc. –
Member of Ascension Health
For the Years Ended June 30, 2007 and 2006
With Report of Independent Auditors

Ernst & Young

St. Mary's Health System of America, Inc.

Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

Contents

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Report of Independent Auditors

The Board of Directors
St. Mary's Health System of America, Inc.

We have audited the accompanying consolidated balance sheets of St. Mary's Health System of America, Inc. 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 St. Mary's Health System of America, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Mary's Health System of America, Inc. at June 30, 2007 and 2006, and the consolidated results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

August 30, 2007

St. Mary's Health System of America, Inc.

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30 2007	June 30 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 18,716	$ 14,712
Accounts receivable, less allowances for uncollectible accounts ($25,924 and $15,340 in 2007 and 2006, respectively)	52,248	44,608
Inventories	7,188	7,066
Other	10,990	8,503
Total current assets	89,142	74,889
Board-designated investments	294,707	278,789
Other investments	5,304	7,997
Assets limited as to use: temporarily restricted	6,646	6,605
Property and equipment:		
Land and improvements	19,942	18,608
Building and equipment	376,372	336,017
Construction in progress	1,628	14,429
Less accumulated depreciation	250,972	228,954
Total property and equipment, net	146,970	140,100
Other assets:		
Investment in unconsolidated entities	4,225	6,805
Other	12,497	9,997
Total other assets	16,722	16,802
Total assets	$ 559,491	$ 525,182

	June 30	
	2007	2006
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	$ 2,645	$ 1,477
Accounts payable and accrued liabilities	37,806	31,487
Estimated third-party payor settlements	324	958
Other	3,914	2,242
Total current liabilities	44,689	36,164
Noncurrent liabilities:		
Long-term debt, net of current portion	148,303	158,272
Pension and other	26,350	11,175
Total noncurrent liabilities	174,653	169,447
Total liabilities	219,342	205,611
Net assets:		
Unrestricted	333,503	312,966
Temporarily restricted	6,646	6,605
Total net assets	340,149	319,571
Total liabilities and net assets	$ 559,491	$ 525,182

See accompanying notes.

St. Mary's Health System of America, Inc.

Consolidated Statement of Operations
and Changes in Net Assets
(Dollars in Thousands)

	Year Ended June 30	
	2007	**2006**
Operating revenue:		
Net patient service revenue	$ **323,739**	$ 294,863
Other revenue	**17,064**	17,831
Income from unconsolidated entities	**(2)**	432
Net assets released from restrictions for operations	**859**	407
Total operating revenue	**341,660**	313,533
Operating expenses:		
Salaries and wages	**132,959**	123,258
Employee benefits	**33,642**	31,791
Purchased services	**28,014**	16,792
Professional fees	**12,063**	14,224
Supplies	**61,876**	58,327
Insurance	**1,929**	2,873
Bad debts	**28,801**	21,840
Interest	**6,608**	6,546
Depreciation and amortization	**20,638**	17,041
Other	**23,251**	24,790
Operating expenses	**349,781**	317,482
Loss from operations	**(8,121)**	(3,949)
Nonoperating gains (losses):		
Investment income	**42,814**	22,052
Income from unconsolidated entities	**134**	226
Minority Interest	**(3,006)**	–
Other	(489)	(207)
Total nonoperating gains, net	39,453	22,071
Excess of revenue and gains over expenses	31,332	18,122

Continued on next page.

St. Mary's Health System of America, Inc.

Consolidated Statement of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended June 30	
	2007	**2006**
Unrestricted net assets:		
Excess of revenue and gains over expenses	$ **31,332**	$ 18,122
Transfer to sponsor and other affiliates, net	**(11,075)**	(981)
Net assets released from restrictions for property acquisitions	**107**	79
Decrease in additional minimum pension liability	**58**	6,794
Other	**115**	2
Increase in unrestricted net assets	**20,537**	24,016
Temporarily restricted net assets:		
Contributions	**818**	2,648
Investment income	**10**	12
Net assets released from restrictions	**(966)**	(486)
Other	**179**	(351)
Increase in temporarily restricted net assets	**41**	1,823
Increase in net assets	**20,578**	25,839
Net assets at beginning of year	**319,571**	293,732
Net assets at end of year	$ **340,149**	$ 319,571

See accompanying notes.

St. Mary's Health System of America, Inc.

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30	
	2007	2006
Operating activities		
Increase in net assets	$ 20,578	$ 25,839
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	20,638	17,041
Provision for bad debts	28,801	21,840
Change in additional minimum pension liability	(58)	(6,794)
Net realized and change in unrealized gains/losses on investments	(14,834)	(11,809)
Gain on sale of property	(1,625)	(4,266)
Deferred pension costs	9,425	–
Gain on sale of joint venture	(123)	(495)
Net assets released for property restrictions	107	79
Transfers to sponsor and other affiliates, net	1,650	981
(Increase) decrease in:		
Accounts receivable, net	(38,044)	(22,121)
Other current assets	(2,609)	(2,104)
Increase (decrease) in:		
Accounts payable and accrued liabilities	7,922	(3,032)
Estimated third-party payor settlements, net	(634)	(1,452)
Other current liabilities	1,672	471
Net cash provided by operating activities	32,866	14,178
Investing activities		
Property and equipment additions, net	(30,529)	(28,434)
Proceeds from sale of property and equipment	4,646	8,654
Net assets released from property restrictions	(107)	(79)
Increase in Board-designated investments, assets limited as to use, and other investments	1,568	14,953
Proceeds from sale of joint ventures	123	495
Increase in other noncurrent assets	80	(228)
Increase in other noncurrent liabilities	15,233	4,529
Transfers to sponsor and other affiliates, net	(11,075)	(981)
Net cash used in investing activities	(20,061)	(1,091)
Financing activities		
Repayment of long-term debt	(8,801)	(12,192)
Net cash used in financing activities	(8,801)	(12,192)
Net increase in cash and cash equivalents	4,004	895
Cash and cash equivalents at beginning of year	14,712	13,817
Cash and cash equivalents at end of year	$ 18,716	$ 14,712

See accompanying notes.

1. Organization and Mission

Organizational Structure

St. Mary's Health System of America, Inc. (the Health Ministry) is a member of Ascension Health. Ascension Health is a Catholic, national Health Ministry consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 20 of the United States and the District of Columbia. Ascension Health is sponsored by the Northeast, Southeast, East Central and West Central Provinces of the Daughters of Charity of St. Vincent de Paul (Daughters of Charity), the Congregation of the Sisters of St. Joseph of Nazareth (Sisters of St. Joseph) and the Sisters of St. Joseph of Carondelet (CSJ).

St. Mary's Health Ministry located in Evansville, Indiana, is a nonprofit acute care hospital system. The Health Ministry's primary market is an area extending in a 75-mile radius from Evansville. Admitting physicians are primarily practitioners in the local area. The Health Ministry's principal operations consist of two acute care hospitals: St. Mary's Medical Center and St. Mary's Warrick located in Evansville, Indiana and Boonville, Indiana, respectively. The Health Ministry also owns and operates, one home health agency, four medical office buildings, an outpatient imaging center, and an outpatient surgery center. The Health Ministry is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health and its sponsored organizations are related to providing health care services.

Mission

Ascension Health directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with Ascension Health's mission of service to those who are poor and vulnerable, each Health Ministry accepts patients regardless of their ability to pay. Ascension Health uses four categories to identify the resources utilized for the care of persons who are poor and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

(Dollars in Thousands)

1. Organization and Mission (continued)

Mission (continued)

- Unpaid cost of public programs represents the unpaid cost of services provided to persons covered by public programs for the poor.
- Cost of other programs for the poor includes unreimbursed costs of programs intentionally designed to serve the poor and vulnerable of the community, including substance abusers, the homeless, victims of child abuse, and persons with Acquired Immune Deficiency Syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the poor, including health promotion and education, health clinics and screenings, and medical research.

The net cost to the Health Ministry of providing care of persons who are poor and community benefit programs is as follows:

	Year Ended June 30	
	2007	**2006**
	(Unaudited)	
Traditional charity care provided	**$ 11,736**	$ 14,318
Unpaid cost of public programs for the poor	**16,349**	12,478
Other programs for the poor	**959**	841
Community benefit programs	**471**	1,280
Care of persons who are poor and community benefit programs	**$ 29,515**	$ 28,917

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons who are poor and community benefit programs. The cost of providing care of persons who are poor and community benefit programs is estimated using internal cost data. The estimates may continue to be refined subsequent to the balance sheet date.

(Dollars in Thousands)

2. Significant Accounting Policies

Principles of Consolidation

All corporations for which operating control is exercised by the Health Ministry or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where the Health Ministry controls 50% or less of the entity's operations and does not have operational control are recorded under the equity or cost method of accounting. The following represents the Health Ministry's interest in unconsolidated entities recorded under the equity method of accounting:

	Investment Recorded in Consolidated Balance Sheet as of June 30		Effect on Consolidated Excess of Revenue and Gains over Expenses for the Years Ended June 30	
	2007	**2006**	**2007**	**2006**
RKC Jasper	$ 1,115	$ 956	$ 159	$ 182
SM Freestanding Cath Lab	255	365	(15)	178
Sagamore HMO	2,369	2,502	(133)	8
Ambulatory Care Center	–	2,622	–	201
Other	486	360	121	89
	$ 4,225	$ 6,805	$ 132	$ 658

During fiscal year 2007, based on a new management contract and operating agreement, the Ambulatory Care Center was consolidated. In the prior year, it was recorded as an investment in unconsolidated entity.

Use of Estimates

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

2. Significant Accounting Policies (continued)

Fair Values

Carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments are disclosed in their respective notes.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and interest-bearing deposits with maturities of three months or less when acquired, excluding Board-designated investments, assets limited as to use, and other investments.

Investments and Investment Income

Board-designated investments represent investments designated by resolution of the Board of Trustees to put amounts aside primarily for future capital expansion and improvements. Assets limited as to use represent investments restricted under bond indenture agreements for capital use or debt repayment purposes and investments restricted by donors. Investments in equity securities and debt securities are measured at fair value in the consolidated balance sheets. Fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

In previous years, investments in Ascension Health's investment pool (see Note 3) were classified as non-trading. As such, unrealized gains and losses that were considered temporary were excluded from excess of revenue and gains over expenses. During 2007, Ascension Health determined that substantially all its investment portfolio was more accurately classified as trading, with unrealized gains and losses included in excess of revenue and gains over expenses. Therefore, certain amounts in the accompanying 2006 consolidated financial statements have been reclassified to reflect this change in classification. These reclassifications did not impact the increase in net assets previously reported.

Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is reported as nonoperating gains (losses) unless the income is restricted by donor or law. The cost of substantially all securities sold is based on the average cost method.

2. Significant Accounting Policies (continued)

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market value.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives by asset category are as follows: land improvements – 20 to 25 years; buildings – 30 to 40 years; and equipment – 2 to 20 years. Depreciation expense in 2007 and 2006 was $19,964 and $17,041, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Health Ministry has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets and earnings on permanently restricted net assets are used in accordance with the donor's wishes primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

Performance Indicator

The performance indicator is excess of revenue and gains over expenses which includes all changes in unrestricted net assets, changes in the additional minimum pension liability, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, and contributions of property and equipment.

2. Significant Accounting Policies (continued)

Operating and Nonoperating Activities

The Health's Systems primary mission is to meet the health care needs of its local market area through a broad range of general and specialized health care services including inpatient acute care, outpatient services, long-term care and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to Health Ministry's primary mission are considered to be nonoperating, consisting primarily of investment income and minority interest.

Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by approximately $3,839 and $2,667 for the years ended June 30, 2007 and 2006, respectively.

During 2007 and 2006, approximately 30.5% and 29.9% of net patient service revenue were received under the Medicare program, 18.4% and 15.8% under Blue Cross, and 1.5% and 2.1% under various state Medicaid programs, respectively. The Health Ministry grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable at June 30, 2007 and 2006 include Medicare (24.4% and 24.0%) and various states' Medicaid (18.2% and 12.0%) programs, respectively.

2. Significant Accounting Policies (continued)

Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts (continued)

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage and other collection indicators. Periodically throughout the year, management assesses the adequacy of allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance, the Health Ministry follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Health Ministry's policies.

Amortization

Bond issuance costs, bond discounts, and bond premiums are amortized over the term of the bonds using a method approximating the effective interest method. Other intangible assets, which include goodwill is reviewed annually for impairment as prescribed by FAS Statement No. 142, *Goodwill and Other Intangible Assets*.

Income Taxes

The member health care entities of the Health Ministry are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or 501(c)(2), and their related income is exempt from federal income tax under Section 501(a).

Regulatory Compliance

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Health Ministry. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be determined at this time; however, in the opinion of management, the results of these investigations will not have a material adverse impact on the consolidated financial statements of the Health Ministry.

(Dollars in Thousands)

3. Board-Designated Investments, Assets Limited as To Use, and Other Investments

The composition of investments classified as Board-designated investments, assets limited as to use, and other investments is summarized as follows:

	June 30	
	2007	**2006**
Cash and short-term investments	**$ 191**	$ 419
Investments in HSD	**300,026**	288,080
United States government obligations	**1,471**	1,044
Corporate obligations	**705**	805
Marketable equity securities	**3,749**	2,553
Other	**515**	490
Board-designated investments, assets limited as to use, and other investments	**$ 306,657**	$ 293,391

The Health Ministry Depository (HSD) is an investment pool of funds whose participants include certain health-care-related entities sponsored by Ascension Health and other unrelated health care organizations. The HSD uses financial futures and options to adjust portfolio duration, restructure term exposure, change sector exposure, or arbitrage market inefficiencies. Financial futures and options are not used to speculate or leverage the portfolio. Outstanding derivative instruments are recorded at fair market value, and changes in fair market value have been recorded as nonoperating gains in the consolidated statements of operations and changes in net assets.

(Dollars in Thousands)

3. Board-Designated Investments, Assets Limited as To Use, and Other Investments (continued)

Net earnings of the HSD are allocated to investing participants on a pro rata basis. As of June 30, 2007 and 2006, respectively, the total HSD investments consist of marketable equity securities (21.9% and 31.3 %), US government, state, municipal and agency obligations (20.4% and 21.0%), corporate obligations (18.8% and 27.0 %), international securities (16.4% and 15.7%), pooled short-term investment fund (6.4% and 4.4%), and alternative investments consisting of hedging funds, private equity, real estate, commodities etc. (16.1% and 0.6%).

Investment return is summarized as follows:

	Year Ended June 30 2007	2006
Interest and dividends	$ 27,990	$ 10,255
Net gains on investments reported at fair value	14,834	11,809
Total investment return	$ 42,824	$ 22,064
Included in nonoperating gains	42,814	22,052
Reported separately as increase in restricted net assets	10	12
Total investment return	$ 42,824	$ 22,064

(Dollars in Thousands)

4. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2007	**2006**
Intercompany debt with Ascension Health, payable in installments through November 2039; interest (4.3% at June 30, 2007) adjusted based on prevailing blended market interest rate of underlying debt obligations	**$ 150,948**	$ 151,936
Financing obligations related to medical office building	**–**	7,813
	150,948	159,749
Less current portion	**2,645**	1,477
Long-term debt, less current portion	**$ 148,303**	$ 158,272

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

Year Ending June 30:	
2008	$ 2,645
2009	1,834
2010	1,874
2011	1,944
2012	1,994
Thereafter	140,657
Total	$ 150,948

4. Long-Term Debt (continued)

Certain members of Ascension Health participate in the Ascension Health Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member or senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by Ascension Health. Though senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health with stipulated repayment terms and conditions. In addition, Ascension Health may cause each senior designated affiliate to transfer such amounts as are necessary to enable the senior obligated group members to comply with the terms of the Senior MTI, including payment of the outstanding obligations. The Health Ministry is a senior limited designated affiliate under the terms of the Senior MTI.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members which are operating entities pledged and assigned to the Master Trustee a security interest in all of their rights, title and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by Ascension Health. Though subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI, each subordinate limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health with stipulated repayment terms and conditions, each subject to the governing law of the limited designated affiliate's state of incorporation. The Health Ministry is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper and other obligations, the proceeds of which are in turn loaned to the Senior and Subordinate Credit Group members subject to a long-term amortization schedule of 1 to 39 years.

4. Long-Term Debt (continued)

Certain portions of Senior and Subordinate Credit Group borrowings may be periodically subject to interest rate swap arrangements to effectively convert borrowing rates on such obligations from a floating to a fixed interest rate or vice versa based on market conditions. Additionally, Senior and Subordinate Credit Group borrowings may, from time to time, be refinanced or restructured in order to take advantage of favorable market interest rates or other financial opportunities. Any gain or loss on refinancing, as well as any bond premiums or discounts, are allocated to the Senior and Subordinate Credit Group members based on their pro rata share of the Senior and Subordinate Credit Group's obligations. Senior and Subordinate Credit Group refinancing transactions rarely have a significant impact on the outstanding borrowings or intercompany debt amortization schedule of any individual Senior and Subordinate Credit Group member. Members of Ascension Health may also periodically draw from the invested funds of other members of Ascension Health on a relatively short-term basis and subject to certain conditions.

The carrying amounts of intercompany debt with Ascension Health and other debt approximate fair value based on a discounted cash flow analyses that considers current incremental borrowing rates for similar types of borrowing arrangements

The Senior and Subordinate Credit Group financing documents contain certain restrictive covenants, including a debt service coverage ratio.

As of June 30, 2007, the Senior Credit Group has a line of credit of $250 million related to its commercial paper program toward which bank commitments totaling $250 million extend to November 21, 2008. As of June 30, 2007 and 2006, there were no borrowings under the line of credit.

As of June 30, 2007, the Subordinate Credit Group has a $100 million revolving line of credit related to its letters of credit program toward which a bank commitment of $100 million extends to December 31, 2007. As of June 30, 2007, $62 million of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

The outstanding principal amount of all hospital revenue bonds is $4.19 billion which represents 52% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at June 30, 2007.

4. Long-Term Debt (continued)

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt which can be as short as 30 days or as long as 32 years. The maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under its guarantees at June 30, 2007 is $164 million, which includes the $62 million aforementioned letters of credit.

Interest paid on debt during 2007 and 2006 was approximately $6,608 and $6,546, respectively.

5. Pension Plans

The Health Ministry participates in the Ascension Health Pension Plan (Plan) which is a noncontributory defined benefit pension plan covering all eligible employees of certain Ascension Health entities. Benefits are based on each participant's years of service and compensation. Plan assets are invested in a master trust consisting of cash and cash equivalents, equity, and fixed income funds and alternative investments. Contributions to the Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to Plan participants. Net periodic pension cost of $9,279 in 2007 and $9,512 in 2006 was charged to the Health Ministry. The service cost component of net periodic pension cost charged to the Health Ministry is actuarially determined while all other components are allocated based on the Health Ministry's pro rata share of Ascension Health's overall projected benefit obligation.

On June 30, 2007, Ascension Health adopted the recognition provisions of 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), which required Ascension Health to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the Plan in its consolidated balance sheet.

The assets of the Plan are available to pay the benefits of eligible employees of all participating entities. In the event entities participating in the Plan are unable to fulfill their financial obligations under the Plan, the other participating entities are obligated to do so. As of June 30, 2007, the Plan had a net unfunded liability, including the impact of adopting FAS 158, of $315 million.

5. Pension Plans (continued)

The Health Ministry's allocated share of the Plan's net unfunded liability, inclusive of an additional minimum pension liability of $58 at June 30, 2006, reflected in the accompanying consolidated balance sheets at June 30, 2007 and 2006 was $15,857 and $3,074, respectively. As a result of adopting FAS 158, Ascension Health transferred an additional pension liability of $9,425 to the Health Ministry during 2007, which is included in transfer from (to) sponsor and other affiliates, net in the accompanying consolidated financial statements of operations and changes in net assets.

Effective January 1, 2006, the Health Ministry began sponsoring a noncontributory, defined contribution plan covering all eligible associates hired after January 1, 2006. Benefits are determined as a percentage of a participant's salary and increases over specified periods of employee service. Participants become fully vested in the employer contributions after five years. Defined contribution expense was $55 and $0 during 2007 and 2006, respectively. Amounts equal to defined contribution expense are funded annually.

6. Self-Insurance Programs

The Health Ministry participates in self-insurance programs for professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2006 and 2005.

6. Self-Insurance Programs (continued)

General/Professional Liability Programs

The Health Ministry participates in Ascension Health's professional and general liability self-insured program which provides claims-made coverage through a wholly owned on-shore trust (irrevocable trust funds) and captive insurance company. The Health Ministry has a deductible of $100 per claim and the program has a self-insured retention of $10,000 per occurrence with no aggregate. Excess coverage is provided through Ascension Health Insurance Limited (AHIL), a wholly owned captive insurance company with limits up to $120,000. AHIL's excess coverage is reinsured by commercial carriers, with the exception of a $5,000 per occurrence and $5,000 annual aggregate excess insurance layer. Self-insured hospitals in the states of Indiana and Wisconsin are provided professional liability coverage on an occurrence basis with limits up to $1,000 per occurrence and $3,000 in aggregate in compliance with participation in the Patient Compensation Funds. The Patient Compensation Funds apply to claims in excess of the primary self-insured limit.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is general and professional liability expense of $1,114 and $2,071 for the years ended June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, the general and professional liability reserves included in self-insurance liabilities (current and long-term) in the accompanying consolidated balance sheets were approximately $1,759 and $1,622, respectively. In the event that sufficient funds are not available from the self-insurance programs, each participating entity in the respective program will be assessed its pro rata share of the deficiency through prospective premium contribution increases. If contributions exceed the losses eventually paid, the excess will be applied to reduce contributions for future periods.

(Dollars in Thousands)

6. Self-Insurance Programs

Workers' Compensation

The Health Ministry participates in Ascension Health's workers' compensation self-insurance program which provides occurrence coverage through a grantor trust. The self-insured retention of the trust is $1,000 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members through self-insurance and excess insurance against catastrophic loss. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported. In the event that sufficient funds are not available from the program, each participating entity will be assessed its pro rata share of the deficiency through a prospective premium contribution increase. If contributions exceed the losses eventually paid, the excess will be applied to reduce contributions for future periods. Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of $1,024 and $948 for the years ended June 30, 2007 and 2006, respectively.

7. Lease Commitments

Future minimum payments under noncancelable operating leases with terms of one year or more are:

Year Ending June 30:	
2008	$ 7,138
2009	6,688
2010	5,880
2011	4,825
2012	4,159
Thereafter	22,734
Total	$ 51,424

Rental expense under operating leases amounted to $4,982 and $3,538 in 2007 and 2006, respectively.

8. Related-Party Transactions

The Health Ministry utilized various centralized programs and overhead services of Ascension Health or its other sponsored organizations including risk management, retirement services, treasury, debt management, executive management support, administrative services, and information technology services. The charges allocated to the Health Ministry for these services represent both allocations of common costs and specifically identified expenses that are incurred by Ascension Health on behalf of the Health Ministry. Allocations are based on relevant metrics such as the Health Ministry's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of Ascension Health. The amounts charged to the Health Ministry for these services may not necessarily result in the net costs that would be incurred by the Health Ministry on a stand-alone basis. The charges allocated to the Health Ministry were approximately $5,023 and $4,252 for the years ended June 30, 2007 and 2006, respectively.

On July 21, 2006, the Health Ministry transferred cash and investments of $901 in support of Ascension Health's strategic initiatives.

The Health Ministry incurred expenses with various Ascension Health affiliates. These services included internal audit and revenue cycle services. These expenses amounted to $424 and $152 for the years ended June 30, 2007 and 2006, respectively.

9. Contingencies and Commitments

In addition to professional liability claims, the Health Ministry is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on Health Ministry's consolidated financial position.

ERNST & YOUNG