CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

Consolidated Financial Statements as of and for the Years Ended June 30, 2011 and 2010 and Independent Auditors' Report

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Catholic Healthcare West and Subordinate Corporations ("Catholic Healthcare West") as of June 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Catholic Healthcare West's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Catholic Healthcare West and Subordinate Corporations as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Deloitte & Touche LLP

September 16, 2011

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2011 and 2010 (in thousands)

Assets	**2011**	**2010**
Current assets:		
Cash and cash equivalents	$ 704,044	$ 796,034
Short-term investments	825,849	596,307
Collateral held under securities lending program	290,526	272,986
Assets limited as to use	828,632	692,704
Patient accounts receivable, net of allowance for doubtful accounts of $297,294 and $266,997 in 2011 and 2010, respectively	1,257,296	1,203,344
Other current assets	743,086	501,782
Total current assets	4,649,433	4,063,157
Assets limited as to use:		
Board-designated assets (including $308,202 and $305,472 of assets loaned under securities lending program in 2011 and 2010, respectively) for:		
Capital projects	3,139,101	2,676,537
Workers' compensation	367,554	335,511
Hospital professional and general liability	162,091	166,050
Under bond indenture agreements for:		
Capital projects	51,679	147,671
Debt service	190,975	136,641
Bond reserves	26,387	26,423
Donor-restricted	439,932	394,168
Other	68,213	62,476
Less amount required to meet current obligations	(828,632)	(692,704)
Net assets limited as to use	3,617,300	3,252,773
Property and equipment, net	4,102,551	3,894,111
Ownership interests in health-related activities	558,178	422,546
Other long-term assets, net	196,163	200,060
Total assets	$ 13,123,625	$ 11,832,647

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED BALANCE SHEETS
June 30, 2011 and 2010 (in thousands)

Liabilities and Net Assets	**2011**	**2010**
Current liabilities:		
Current portion of long-term debt	$ 107,381	$ 69,910
Demand bonds subject to short-term liquidity arrangements	574,000	483,000
Accounts payable	418,155	392,720
Payable under securities lending program	291,148	273,945
Accrued salaries and benefits	507,915	485,510
Accrued workers' compensation	31,647	29,971
Accrued hospital professional and general liability	61,304	42,659
Pension and other postretirement liabilities	278,369	279,805
Other accrued liabilities	871,042	791,691
Total current liabilities	3,140,961	2,849,211
Other liabilities:		
Workers' compensation	234,938	219,927
Hospital professional and general liability	228,559	141,532
Pension and other postretirement liabilities	598,697	906,232
Other	115,823	118,469
Total other liabilities	1,178,017	1,386,160
Long-term debt, net of current portion	3,556,817	3,691,469
Total liabilities	7,875,795	7,926,840
Net assets:		
Unrestricted - attributable to CHW	4,715,076	3,426,489
Unrestricted - noncontrolling interest	98,304	89,205
Temporarily restricted	326,503	291,040
Permanently restricted	107,947	99,073
Total net assets	5,247,830	3,905,807
Total liabilities and net assets	$ 13,123,625	$ 11,832,647

(Concluded)

See notes to consolidated financial statements.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED June 30, 2011 and 2010 (in thousands)

	2011	2010
Unrestricted revenues and other support:		
Net patient revenue	$ 9,600,663	$ 8,599,950
Premium revenue	558,103	514,699
Revenue from health-related activities, net	135,341	93,514
Other operating revenue	255,941	204,114
Contributions	15,320	18,137
Total unrestricted revenues and other support	10,565,368	9,430,414
Expenses:		
Salaries and benefits	5,127,564	4,809,065
Supplies	1,425,271	1,372,573
Provision for bad debts	848,883	745,303
Purchased services and other	2,366,077	1,751,731
Depreciation	432,438	421,774
Interest expense, net	167,571	244,006
Loss on early extinguishment of debt	-	2,734
Total expenses	10,367,804	9,347,186
Operating income	197,564	83,228
Other income:		
Investment income, net	719,611	402,474
Excess of revenues over expenses	$ 917,175	$ 485,702

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED June 30, 2011 and 2010 (in thousands)

	2011	2010
Unrestricted net assets:		
Excess of revenues over expenses	$ 917,175	$ 485,702
Change in net unrealized gains on available-for-sale investments	5,528	2,425
Net assets released from restrictions used for purchase of property and equipment	14,479	12,855
Change in funded status of pension and other postretirement benefit plans	324,174	(256,538)
Gain from discontinued operations	1,593	4,007
Change in noncontrolling interest in health-related activities	9,099	(917)
Change in accumulated unrealized derivative gains, net	9,055	4,952
Donated property and equipment	14,207	19,623
Other	2,379	(2,137)
Increase in unrestricted net assets	1,297,689	269,972
Temporarily restricted net assets:		
Contributions	39,025	35,329
Net realized and unrealized gains on investments	7,166	4,432
Net assets released from restrictions	(37,829)	(38,047)
Change in interest in net assets of unconsolidated foundations	29,093	2,802
Other	(1,993)	654
Increase in temporarily restricted net assets	35,462	5,170
Permanently restricted net assets:		
Contributions	2,289	5,576
Net realized and unrealized gains on investments	62	68
Change in interest in net assets of unconsolidated foundations	5,961	4,140
Other	560	(973)
Increase in permanently restricted net assets	8,872	8,811
Increase in net assets	1,342,023	283,953
Net assets, beginning of year	3,905,807	3,621,854
Net assets, end of year	$ 5,247,830	$ 3,905,807

(Concluded)

See notes to consolidated financial statements.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED June 30, 2011 and 2010 (in thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 1,342,023	$ 283,953
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Loss on early extinguishment of debt	-	2,734
Depreciation	432,438	421,774
Amortization	1,693	4,337
Equity in earnings of health-related activities	(118,427)	(78,007)
Gain, net, on disposal of assets	(43,082)	(539)
Restricted contributions and investment income, net	(44,553)	(45,405)
Change in funded status of pension and other postretirement benefit plans	(324,174)	256,538
Undistributed portion of change in net assets of unconsolidated foundations	(35,054)	(6,942)
Change in net realized and unrealized gains on investments	(632,368)	(312,973)
Change in fair value of swaps	(50,038)	52,183
Changes in certain assets and liabilities:		
Accounts receivable, net	(53,621)	44,513
Accounts payable	23,963	5,779
Workers' compensation and hospital professional and general liabilities	122,359	22,180
Accrued salaries and benefits	22,299	31,224
Pension and other postretirement liabilities	15,203	(4,385)
Other accrued liabilities	(2,261)	1,709
Other, net	(96,052)	80,898
Cash provided by operating activities	560,348	759,571

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED June 30, 2011 and 2010 (in thousands)

	2011	2010
Cash flows from investing activities:		
Purchase of investments	(6,969,137)	(4,475,584)
Proceeds from sale of investments	6,922,672	4,196,842
Cash proceeds on disposal of assets	447	1,289
Investments in health-related activities	(8,629)	(39,593)
Cash distributions from health-related activities	30,000	-
Additions to operating property and equipment	(595,871)	(499,623)
Decrease (increase) in securities lending collateral	(17,203)	30,836
Other, net	(2,692)	(1,367)
Cash used in investing activities	(640,413)	(787,200)
Cash flows from financing activities:		
Borrowings	133,509	592,738
Repayments	(204,322)	(645,994)
Increase (decrease) in payable under securities lending program	17,203	(30,836)
Restricted contributions and investment income	44,553	45,405
Deferred financing costs	(2,868)	(6,614)
Cash used in financing activities	(11,925)	(45,301)
Net decrease in cash and cash equivalents	(91,990)	(72,930)
Cash and cash equivalents at beginning of year	796,034	868,964
Cash and cash equivalents at end of year	$ 704,044	$ 796,034
Components of cash and cash equivalents and investments at end of year:		
Cash and cash equivalents	704,044	796,034
Short-term investments	825,849	596,307
Board-designated assets for capital projects	3,139,101	2,676,537
Total	$ 4,668,994	$ 4,068,878
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 210,555	$ 168,636
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease or note payable	$ 20,284	$ 2,418
Donated property and equipment	$ 14,207	$ 19,623
Accrued purchases of property and equipment	$ 61,107	$ 66,364

(Concluded)

See notes to consolidated financial statements.

1. ORGANIZATION

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

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

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

As part of a system-wide corporate financing plan, Catholic Healthcare West established an Obligated Group to access the capital markets and make loans to its members. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Master Trust Indenture. None of the other CHW subordinate corporations have assumed any financial obligation related to payment of debt service on obligations issued under the Master Trust Indenture. A list of Obligated Group members and other subordinate corporations is included in Note 17. The Obligated Group's unrestricted net assets represent approximately 97% and 96% of the consolidated unrestricted net assets of CHW and subordinate corporations at June 30, 2011 and 2010, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for Presentation – The accompanying consolidated financial statements include the accounts of CHW after elimination of intercompany transactions and balances. These financial statements do not include the accounts of the six co-sponsors and their nonhealthcare activities. Certain prior year amounts have been reclassified to conform to current year presentation.

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

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

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

The securities on loan under this program are recorded in Board-designated assets in the accompanying consolidated balance sheets. CHW receives both cash and non-cash collateral. Cash collateral is recorded as an asset of the organization. The market value of collateral held for loaned securities is reported as collateral held under securities lending program, and an obligation is recorded for repayment of collateral upon settlement of the lending transaction.

Patient Accounts Receivable – CHW has agreements with third-party payors that provide for payments at amounts different from each hospital's established rates. CHW regularly reviews accounts and contracts and provides appropriate contractual allowances that are netted against patient accounts receivable in the consolidated balance sheet. Management periodically reviews the adequacy of the allowance for uncollectible accounts based on historical experience, trends in health care coverage, and other collection indicators. Reserves for charity and uncollectible amounts have been established and are netted against patient accounts receivable in the consolidated balance sheet.

As part of CHW's mission to serve the community, CHW provides care to patients even though they may lack adequate insurance or may participate in programs with negotiated or regulated amounts. CHW makes every effort to determine if a patient qualifies for charity care upon admission, though determination may also be made at a later time. After satisfaction of amounts due from insurance, the application of any financial, uninsured or other discounts or payments received on the account, and reasonable efforts to collect from the patient have been exhausted, CHW 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 CHW.

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

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

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

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

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

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

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

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

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

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

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

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

Asset Impairment – CHW routinely evaluates the carrying value of its long-lived assets for impairment or whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds the estimated recoverability, an asset impairment charge is recognized. No asset impairment charges were recorded in 2011 or 2010.

Fair Value of Financial Instruments – The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to their short maturities. The fair value of investments is disclosed in Note 7 and the fair value of debt is disclosed in Note 13.

Derivative Instruments – It is CHW's policy to provide sound stewardship of fiscal resources by effectively managing both the level of outstanding debt and the proportion of variable to fixed rate debt. Accordingly, CHW periodically enters into derivative arrangements to manage interest rate risk related to variable rate debt. CHW records derivative instruments on the consolidated balance sheet as either an asset or liability measured at its fair value (Notes 7 and 14).

For derivative instruments designated as cash flow hedges, the effective portion of the change in fair value is included in change in accumulated unrealized derivative gains and losses in unrestricted net assets in the consolidated statements of operations and changes in net assets. Amounts recorded in unrestricted net assets are reclassified into earnings in the same period or periods during which the hedged transaction affects excess of revenues over expenses. The portion of the change in fair value of derivative instruments deemed ineffective is recorded within interest expense, net, in the consolidated statements of operations and changes in net assets. As of January 1, 2010, no interest rate swaps were designated as cash flow hedges.

For derivative instruments that discontinue hedge accounting treatment, the cumulative amount that has been charged or credited to net assets is reclassified to interest expense, net, in the consolidated statements of operations and changes in net assets in the same period or periods during which the previously hedged transaction affects excess of revenues over expenses.

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

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

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

- *Workers' Compensation and Hospital Professional and General Liabilities* – Annual self-insurance expense under these programs is based on past claims experience and projected losses. Actuarial estimates of uninsured losses for each program, using a 70% confidence level and discounted at 4.25% at June 30, 2011 and 2010, have been accrued as liabilities and include an actuarial estimate for claims incurred but not reported. Insurance coverage in excess of the per-occurrence self-insured retention has been secured with insurers or reinsurers for specified amounts for workers' compensation and professional and general liabilities. CHW maintains separate trusts for these programs from which claims and related expenses and costs of administering the plans are paid. CHW's policy is to fund the trusts such that over time, assets held equal liabilities for claims incurred for workers' compensation and claims made for professional liability risks.

  Liabilities consist of the following as of June 30, 2011 and 2010 (in thousands):

	2011	2010
Liabilities, undiscounted	$ 622,566	$ 489,697
Less discount	(66,118)	(55,608)
Liabilities, current and noncurrent	$ 556,448	$ 434,089

  An additional expense of $3.7 million was recorded during 2010 related to changes in the discount rate. Self-insurance expense was increased by $63.5 million in 2011 and decreased by $25.3 million in 2010, related to revisions to prior years' actuarially estimated liabilities. The expenses and related adjustments are recorded in salaries and benefits for workers' compensation benefits and in purchased services and other for hospital professional and general liability risks in the accompanying consolidated statements of operations and changes in net assets.

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

Net Patient Revenue – Gross patient revenue is recorded on the basis of usual and customary charges. Gross patient revenue was $37.7 billion and $35.0 billion in 2011 and 2010, respectively. The percentage of inpatient and outpatient services is as follows:

	2011	**2010**
Inpatient services	65%	66%
Outpatient services	35%	34%

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

	2011	**2010**
Medicare fee for service	31%	31%
Medicare capitated	1%	1%
Medicare managed care fee for service	9%	9%
Medicaid fee for service	15%	15%
Medicaid managed care fee for service	6%	5%
Contracted rate payors	28%	29%
Commercial capitated	2%	2%
Self pay	4%	4%
Other	4%	4%
Total	100%	100%

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

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

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

In 2011 and 2010, net patient revenue included $39.1 million and $42.2 million, respectively, relating to prior years' settlements from Medicare, Medicaid and other programs.

Certain CHW hospitals qualified for and received Medi-Cal funding as disproportionate-share hospitals from the State of California in 2011 and 2010. The amount received was $74.1 million and $96.9 million, respectively, and is included in net patient revenue.

In January 2010, the State of California enacted legislation that provided for supplemental Medi-Cal payments to certain hospitals funded by a quality assurance fee paid by participating hospitals and matching federal funds ("the 2010 Hospital Fee Program"). The legislation covered the period of April 1, 2009 through December 31, 2010. The Centers for Medicare & Medicaid Services ("CMS") approved the 2010 Hospital Fee Program in its entirety in December 2010, and therefore all activity of the program was recognized during the year ended June 30, 2011, resulting in net additional income of $198.8 million. The supplemental payments received during the year ended June 30, 2011, encompassed fee-for-service payments to CHW directly from the California Department of Health Care Services as well as payments routed through managed care plans, amounting in total to approximately $583.7 million. These payments were recorded in net patient revenue in the consolidated statements of operations and changes in net assets. Quality assurance fees assessed to and paid by CHW during the year ended June 30, 2011, were $359.1 million and were recorded in purchased services and other in the consolidated statements of operations and changes in net assets.

The California Hospital Association created a private program, the California Health Foundation and Trust ("CHFT"), established for several purposes, including aggregating and distributing financial resources to support charitable activities at various hospitals and health systems in California (together with the supplemental payments and the quality assurance fee discussed above, the "2010 Provider Fee Program"). Upon approval of the legislation noted above in December 2010, CHW recorded a pledge to a grant fund established by CHFT in the amount $25.8 million, which was paid during the year ended June 30, 2011, and recorded in purchased services and other in the consolidated statements of operations and changes in net assets.

In April 2011, the State of California enacted legislation that continues the provider fee program covering the period of January 1, 2011, through June 30, 2011, subject to review and approval by CMS (the "2011 Provider Fee Program", together with the CHFT pledge discussed below). The legislation was implemented beginning in May 2011, and, as such, CHW received $185.3 million in supplemental payments and paid fees of $121.2 million, prior to June 30, 2011. As final approval from CMS was not obtained prior to June 30, 2011, recognition of these amounts in the consolidated statement of operations and changes in net assets has been deferred and the amounts are recorded in other current liabilities and other current assets, respectively.

An additional pledge agreement was executed in May 2011 between CHW and CHFT whereby CHW anticipates paying $8.7 million into a grant fund established by CHFT, of which $5.2 million was paid prior to June 30, 2011. The recognition of these expenditures has also been deferred pending final approval of the legislation noted above.

Remaining supplemental payments anticipated to be received under the program of $42.9 million and remaining amounts to be paid pursuant to the CHFT agreement of $3.5 million have not been recorded as of June 30, 2011, pending final approval of the 2011 Provider Fee Program by CMS. The total net income of the 2011 Provider Fee Program of approximately $98.3 million is anticipated to be recognized in the fall of 2011.

Payments related to Medicaid provider fee programs are matched through the Federal Medical Assistance Program. Twenty-two states, including California, have a provider fee program. On August 31, 2011, the California legislature passed an additional 30-month program that, upon final approval by CMS, will cover the period from July 1, 2011 through December 31, 2013.

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

Traditional Charity Care – Charity care is free or discounted health services provided to persons who cannot afford to pay and who meet CHW's criteria for financial assistance. The amount of services quantified at customary charges was $713.8 million and $705.6 million, for 2011 and 2010, respectively, as discussed in Note 4.

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

Contributions and Restricted Net Assets – Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets related to capital purchases are reclassified as unrestricted and reflected as net assets released from restrictions used for the purchase of property and equipment on the statements of changes in net assets, whereas temporarily restricted net assets related to other gifts are reclassified as unrestricted and recorded as other operating revenue in unrestricted revenues and other support. Gifts received with no restrictions are recorded as contributions in unrestricted revenues and other support. Gifts of long-lived operating assets, such as property and equipment, are reported as unrestricted net assets unless specified by the donor.

Unconditional promises to give cash and other assets to CHW are recorded at fair value at the date the promise is received. Conditional promises to give are recorded when the conditions have been substantially met. Indications of intentions to give are not recorded; such gifts are recorded at fair value only upon actual receipt of the gift. Investment income on temporarily or permanently restricted net assets is classified pursuant to the intent or requirement of the donor.

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

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

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

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

Community Benefits – As part of its mission, CHW provides services to the poor and benefits for the broader community. The costs incurred to provide such services are included in excess of revenues over expenses in the consolidated statements of operations and changes in net assets. CHW prepares a summary of unsponsored community benefit expense in accordance with Internal Revenue Service Form 990, Schedule H, and the Catholic Health Association of the United States ("CHA") publication, *A Guide for Planning and Reporting Community Benefit* (Note 4).

Interest Expense – Interest expense on debt issued for construction projects is capitalized until the projects are placed in service. The components of interest expense, net, include the following (in thousands):

	2011	2010
Interest and fees on debt and swap cash settlements	$ 228,763	$ 222,700
Market adjustment on swaps and amortization of amounts in unrestricted net assets	(40,983)	57,135
Total interest expense	187,780	279,835
Capitalized interest expense	(20,209)	(35,829)
Interest expense, net	$ 167,571	$ 244,006

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

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

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

Recent Accounting Pronouncements – In July 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07") which amended Accounting Standards Codification ("ASC") No. 954, *Health Care Entities* ("ASC 954") to provide greater transparency regarding a health care entity's net patient revenue and the related allowance for doubtful accounts. ASU 2011-07 requires certain health care entities to change the presentation of the provision for bad debts associated with patient service revenue by reclassifying the provision from operating expenses to a deduction from net patient revenue and requires enhanced disclosures about net patient revenue and the policies for recognizing revenue and assessing bad debts. The adoption of ASU 2011-07 is effective for CHW beginning July 1, 2012. The adoption of ASU 2011-07 is not expected to have a material impact on CHW's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"), which amended ASC No. 820, *Fair Value Measurement* ("ASC 820") to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The adoption of ASU 2011-04 is effective for CHW beginning January 1, 2012. The adoption of ASU 2011-04 is not expected to have a material impact on CHW's consolidated financial statements.

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

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

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"), which amended ASC 820 to require new disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, including reasons for the transfers, and to require new disclosures related to activity in Level 3 fair value measurements. CHW adopted the provisions of ASU 2010-06 relating to activity in Level 3 fair value measurements beginning July 1, 2010. The adoption of ASU 2010-06 did not have a material impact on CHW's consolidated financial statements.

In June 2009, the FASB issued ASU No. 2009-16, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* ("ASU 2009-16"). The objective of ASU 2009-16 is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. The provisions of ASU 2009-16 were adopted by CHW effective July 1, 2010, and did not have a material impact on the consolidated financial statements.

In April 2009, the FASB issued ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142* ("ASU 2010-07"). This statement provides guidance on accounting for a combination of not-for-profit entities and applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity. This statement amends both Statement of Financial Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* to make their provisions fully applicable to not-for-profit entities. The provisions of ASU 2010-07, which are to be applied prospectively for business combinations, were effective for CHW January 1, 2010, and had no impact on CHW's financial statements. CHW adopted the provisions relating to noncontrolling interests as of July 1, 2010, and reclassified the noncontrolling interest from other liabilities to unrestricted net assets for all periods presented on the condensed consolidated balance sheets and has separately reported the change in the noncontrolling interest in unrestricted net assets in the statements of changes in net assets for all periods presented. CHW adopted the provisions related to goodwill and other intangible assets as of July 1, 2010, and ceased amortization of goodwill. The adoption did not have a material impact on CHW's financial statements.

Subsequent Events - CHW has evaluated subsequent events occurring between the end of the most recent fiscal year and September 16, 2011, the date the financial statements were available to be issued. See Note 2 (provider fee), Note 13, Note 14 and Note 16.

3. MERGERS, ACQUISITIONS AND DIVESTITURES

The accompanying consolidated statements of operations and changes in net assets reflect the results of the operations of facilities sold, closed or held for sale as discontinued operations for all periods presented, including revenues of $5.3 million and $4.6 million for 2011 and 2010, respectively.

4. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

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

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

Benefits for the Broader Community refer to persons in the general communities that CHW serves, beyond and including those in a target population. Most services for the broader community are aimed at improving the health and welfare of the overall community. Such services include the interest rate differential on below market rate loans that CHW makes to nonprofit community-based organizations that promote the total health of their communities, including the development of affordable housing for low-income persons and families, increasing opportunities for jobs and job training, and expanding access to healthcare for uninsured and underinsured persons. As of June 30, 2011 and 2010, CHW's community investment loan portfolio totaled $38.7 million and $35.5 million, respectively, which is included in other assets limited as to use.

Traditional Charity Care is free or discounted health services provided to persons who cannot afford to pay and who meet CHW's criteria for financial assistance. The amount of services quantified at customary charges was $713.8 million and $705.6 million, for 2011 and 2010, respectively.

Net Community Benefit, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government programs, patients, and other sources of payment or reimbursement for services provided to program patients. The comparable amount of net community benefit was $985.1 million for 2010. Net Community Benefit including the unpaid cost of Medicare was $1.3 billion for 2010.

The following is a summary of CHW's community benefits for 2011, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with Internal Revenue Service Form 990, Schedule H and the CHA publication, *A Guide for Planning and Reporting Community Benefit* (dollars in thousands):

	Unaudited				
	Persons Served	**Total Benefit Expense**	**Direct Offsetting Revenue**	**Net Community Benefit**	**% of Total Expenses Excluding Bad Debt Expense**
Benefits for the poor:					
Traditional charity care	97,422	$ 158,787	$ (6,224)	$ 152,563	1.6%
Unpaid costs of Medicaid / Medi-Cal	1,035,601	2,219,970	(1,774,997)	444,973	4.7%
Other means-tested programs	253,140	109,368	(45,390)	63,978	0.7%
Community services:					
Community health services	552,089	52,143	(2,858)	49,285	0.5%
Health professions education	21,637	10,998	-	10,998	0.1%
Subsidized health services	219,756	44,417	(7,029)	37,388	0.4%
Donations	233,077	37,214	(234)	36,980	0.4%
Community building activities	15,081	3,219	(1,577)	1,642	0.0%
Community benefit operations	19,210	6,984	-	6,984	0.1%
Total community services for the poor	1,060,850	154,975	(11,698)	143,277	1.5%
Total benefits for the poor	2,447,013	2,643,100	(1,838,309)	804,791	8.5%
Benefits for the broader community:					
Community services:					
Community health services	2,004,902	29,301	(6,298)	23,003	0.2%
Health professions education	52,255	74,413	(9,284)	65,129	0.7%
Subsidized health services	124,290	12,010	(984)	11,026	0.1%
Research	5,057	24,507	(341)	24,166	0.3%
Donations	202,417	7,935	(29)	7,906	0.1%
Community building activities	63,555	8,152	(4)	8,148	0.1%
Community benefit operations	937	2,908	(25)	2,883	0.0%
Total benefits for the broader community	2,453,413	159,226	(16,965)	142,261	1.5%
Total Community Benefits	4,900,426	$ 2,802,326	$(1,855,274)	$ 947,052	10.0%
Unpaid costs of Medicare	1,109,062	2,448,998	(2,019,641)	429,357	4.5%
Total Community Benefits including unpaid costs of Medicare	6,009,488	$ 5,251,324	$(3,874,915)	$ 1,376,409	14.5%

5. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2011 and 2010 (in thousands):

	2011	2010
Inventories	$ 159,362	$ 153,327
Receivables, other than patient accounts receivable	168,713	101,218
Other prepaid expenses	60,552	51,732
Due from brokers for unsettled investment trades and prepaid fund subscriptions	200,150	156,244
Deferred provider fee expense	126,363	-
Deposits	2,789	19,668
Other	25,157	19,593
Total other current assets	$ 743,086	$ 501,782

Amounts reported in 2010 have been changed to reflect the breakout of amounts due from brokers for unsettled investment trades previously reported as other.

6. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments and assets limited as to use, including assets loaned under securities lending program, consist of the following at June 30, 2011 and 2010 (in thousands):

	2011	2010
Cash and cash equivalents	$ 579,206	$ 585,701
U.S. government securities	903,488	789,927
U.S. corporate bonds	636,035	577,337
U.S. equity securities	1,666,690	1,275,687
Foreign government securities	243,329	204,841
Foreign corporate bonds	7,369	9,703
Foreign equity securities	400,339	309,359
Asset-backed securities	36,938	40,705
Structured debt	105,106	106,722
Private equity investments	102,944	83,344
Multi-strategy hedge fund investments	107,889	152,272
Real estate	162,624	133,674
Other	96,881	84,508
Interest in net assets of unconsolidated foundations	222,943	188,004
Total	$ 5,271,781	$ 4,541,784
Assets limited as to use:		
Current	$ 828,632	$ 692,704
Long-term	3,617,300	3,252,773
Short-term investments	825,849	596,307
Total	$ 5,271,781	$ 4,541,784

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

Investment income and losses on assets limited as to use, cash equivalents, collateral held under securities lending program, notes receivable, and investments are comprised of the following for 2011 and 2010 (in thousands):

	2011	2010
Interest and dividend income	$ 116,293	$ 113,674
Net realized gains on sales of securities	182,773	92,715
Net unrealized gains on securities	442,354	215,758
Other, net of capitalized investment income	(21,809)	(19,673)
Total investment income, net	$ 719,611	$ 402,474

7. FAIR VALUE MEASUREMENTS

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

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

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

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

The following represents assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method as of June 30, 2011 and 2010 (in thousands):

	Fair Value Measurements at June 30, 2011 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance at June 30, 2011**
Assets				
Cash and cash equivalents	$ 579,206	$ -	$ -	$ 579,206
U.S. government securities	392,981	510,507	-	903,488
U.S. corporate bonds	62,061	573,974	-	636,035
U.S. equity securities	1,461,940	204,750	-	1,666,690
Foreign government securities	5,896	237,433	-	243,329
Foreign corporate bonds	-	7,369	-	7,369
Foreign equity securities	400,339	-	-	400,339
Asset-backed securities	-	36,938	-	36,938
Structured debt	-	105,106	-	105,106
Private equity investments	-	-	102,944	102,944
Multi-strategy hedge fund investments	-	-	107,889	107,889
Real estate	6,805	-	155,819	162,624
Collateral held under securities lending program	-	290,526	-	290,526
Other fund investments	8,724	-	-	8,724
Total assets	$ 2,917,952	$ 1,966,603	$ 366,652	$ 5,251,207
Liabilities				
Interest rate swap instruments	$ -	$ 110,694	$ -	$ 110,694

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

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

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

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

For marketable securities such as U.S. and foreign government securities, U.S. and foreign corporate bonds, U.S. and foreign equity securities, asset-backed securities, and structured debt, in the instances where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques such as the income or market approach. CHW classifies all such investments as Level 2.

For investments such as private equity funds, multi-strategy hedge funds, or certain real estate fund investments whose fair value is based on pricing not readily determinable, fair value is determined using the calculated net asset value ("NAV"). The value of underlying investments of private equity or hedge funds includes estimates determined based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. For Level 3 real estate investments, valuation techniques including the income, sales comparison (market), and cost approaches are used. Significant inputs include contract and market rents, operating expenses, capitalization rates, discount rates, sales of comparable properties, market rent growth trends, as well as the use of the value of the property plus the cost of building a similar structure of equal utility. Due to the significant unobservable inputs present in these valuations, CHW classifies all such investments as Level 3.

The fair value of collateral held under securities lending program classified as Level 2 is determined using the calculated NAV. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of $23.7 million and $42.8 million as of June 30, 2011 and 2010, respectively.

The fair value of interest rate swap instruments classified as Level 2 is determined using an industry standard valuation model, which is based on a market approach. A credit risk spread (in basis points) is added as a flat spread to the discount curve used in the valuation model. Each leg is discounted and the difference between the present value of each leg's cash flows equals the market value of the swap. The fair value also considers the risk of each counterparty by including a "credit valuation adjustment" determined by taking into account the nonperformance risk of each counterparty to the swap.

The following table presents the change in the balance of financial assets and liabilities using significant unobservable inputs (Level 3) measured on a recurring basis and certain assets accounted for under the equity method in 2011 and 2010 (in thousands):

	2011			
	Private Equity Investments	**Multi-Strategy Hedge Fund Investments**	**Real Estate**	**Total**
Balance at beginning of period	$ 83,344	$ 152,272	$ 128,509	$ 364,125
Total realized and unrealized gains, net, included in excess of revenues over expenses	11,678	12,751	27,310	51,739
Purchases, issuances, sales and settlements				
Purchases	18,068	89,563	-	107,631
Sales	(10,146)	(146,697)	-	(156,843)
Balance at end of period	$ 102,944	$ 107,889	$ 155,819	$ 366,652
Change in unrealized gains included in investment income, net as of June 30, 2011	$ 10,702	$ 1,881	$ 27,310	$ 39,893

	2010			
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Total
Balance at beginning of period	$ 63,619	$ 103,780	$ 101,634	$ 269,033
Total realized and unrealized gains (losses), net, included in excess of revenues over expenses	7,192	15,206	(19,082)	3,316
Purchases, issuances, sales and settlements:				
Purchases	14,279	28,817	46,000	89,096
Sales	(1,746)	(552)	(43)	(2,341)
Transfers into Level 3	-	5,021	-	5,021
Balance at end of period	$ 83,344	$ 152,272	$ 128,509	$ 364,125
Change in unrealized gains (losses) included in investment income, net as of June 30, 2010	$ 7,159	$ 15,475	$ (19,082)	$ 3,552

Included within the assets above are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments as of June 30, 2011 and 2010 (in thousands):

		As of June 30, 2011			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Commingled funds - debt securities	(1)	$ 202,794	$ -	Daily, Semi-Monthly	1 - 5 days
Commingled funds - equity securities	(2)	203,352	-	Daily, Semi-Monthly, Monthly	1 - 30 days
Collateral held under securities lending program	(3)	290,526	-	Daily	10 days
Total Level 2		$ 696,672	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 107,889	$ -	Quarterly, Semi-Annually, Annually	60 - 370 days
Private equity	(5)	102,944	116,595	-	-
Real estate	(6)	155,819	-	Quarterly	90 days
Total Level 3		$ 366,652	$ 116,595		
Total Level 2 and Level 3		$ 1,063,324	$ 116,595		

		As of June 30, 2010			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Level 2					
Commingled funds - debt securities	(1)	$ 166,950	$ -	Daily, Semi-Monthly	1 - 5 days
Commingled funds - equity securities	(2)	160,932	-	Daily, Semi-Monthly, Monthly	1 - 30 days
Collateral held under securities lending program	(3)	272,986	-	Daily	10 days
Total Level 2		$ 600,868	$ -		
Level 3					
Multi-strategy hedge funds	(4)	$ 152,272	$ -	Quarterly, Semi-Annually, Annually	65 - 370 days
Private equity	(5)	83,344	129,310	-	-
Real estate	(6)	128,509	-	-	-
Total Level 3		$ 364,125	$ 129,310		
Total Level 2 and Level 3		$ 964,993	$ 129,310		

(1) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets.

(2) This category includes investments in commingled funds that invest primarily in domestic or foreign equity securities with multiple investment strategies. A majority of the funds attempt to match the returns of specific equity indices.

(3) This category includes investments of collateral held under securities lending program. CHW participates in a securities lending program administered by its custodian as a means to augment income from its portfolio. Securities are loaned to select brokerage firms who in turn post collateral. The collateral is placed in commingled funds that invest primarily in cash and cash equivalents, and domestic and foreign debt securities. In December 2010, the custodian allocated the collateral pool into two separate pools. While CHW can fully withdraw from the program with its custodian at any time, the redemption conditions differ. For the "duration pool", which represents approximately 5.7% of the value of this category at June 30, 2011, CHW can fully withdraw from the program with its custodian, and in return receive proportional distributions of the investments held by the collateral lending fund. For the "liquidity pool", which represents approximately 94.3% of the value of this category at June 30, 2011, no such redemption restrictions are applicable. The cash flow maturity schedule provided by the custodian anticipates that the cash collateral in the duration pool will fully mature and become available through December 2012, with the majority maturing by September 30, 2011. Earlier redemption from the duration pool would result in CHW receiving a proportional share of the in-kind underlying cash collateral.

(4) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term risk-adjusted absolute returns. A redemption limitation imposed for certain investments representing approximately 1% of the value of this category lapsed on October 1, 2010, at which time liquidity is limited to semi-annual withdrawals with 60 days written notice. A redemption limitation imposed for certain investments representing approximately 3% of the value of this category lapsed on March 30, 2011, at which time liquidity is limited to annual withdrawals with 75 days written notice. A redemption limitation imposed for certain investments representing approximately 1% of the value of this category will lapse on March

30, 2013, at which time liquidity is limited to annual withdrawals with 75 days written notice. A redemption limitation imposed for certain investments representing approximately 28% of the value of this category will lapse on July 1, 2012, at which time liquidity is limited to quarterly withdrawals up to one-third of the investor's shares with 60 days written notice. Approximately 8% of the value of this category requires a notice period of 90 days for redemption. Other investments representing approximately 56% of the value of this category require a notice period of 95 days for redemptions of up to 50% of the investor's shares and 370 days written notice for redemptions greater than 50%. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. Such restrictions were not applicable at June 30, 2011.

(5) This category includes several private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at June 30, 2011, to be over the next 2-12 years.

(6) This category includes an open-ended real estate fund that invests primarily in institutional quality commercial and residential real estate assets within the United States.

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

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following at June 30, 2011 and 2010 (in thousands):

	2011	**2010**
Land	$ 223,873	$ 208,624
Land improvements	114,379	105,485
Buildings	4,371,353	4,239,322
Equipment	3,265,014	3,103,405
Construction in progress	619,223	440,971
Total	8,593,842	8,097,807
Less: Accumulated depreciation	(4,491,291)	(4,203,696)
Property and equipment, net	$ 4,102,551	$ 3,894,111

9. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net, consist of the following at June 30, 2011 and 2010 (in thousands):

	2011	**2010**
Notes receivable, primarily secured	$ 42,371	$ 50,612
Deferred financing costs, net	27,924	32,120
Goodwill	95,549	82,254
Other	30,319	35,074
Total other long-term assets, net	$ 196,163	$ 200,060

10. OWNERSHIP INTERESTS IN HEALTH-RELATED ACTIVITIES

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

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

CHW accounts for the affiliation with Scripps under the equity method. Its investment at June 30, 2011 and 2010, is $334.2 million and $254.5 million, respectively, and is reflected on the accompanying consolidated balance sheets in ownership interests in health-related activities. CHW recorded income of $79.7 million and $50.6 million in revenue from health-related activities, net, for 2011 and 2010, respectively, related to its interest in the unrestricted net assets of Scripps.

In June 1985, CHW and Carondelet Health Network (now a member of Ascension Health) entered into an affiliation agreement by which each affiliate made an investment in Southwest Catholic Healthcare Network, dba Mercy Care Plan. Mercy Care Plan operates a health plan for Arizona's Medicaid program, Arizona Health Care Cost Containment System, with approximately 361,300 enrollees.

CHW accounts for the affiliation with Mercy Care Plan under the equity method. Its investment at June 30, 2011 and 2010, is $94.1 million and $89.4 million, respectively, and is reflected on the accompanying consolidated balance sheets in ownership interests in health-related activities. CHW recorded income of $29.1 million and $24.5 million in revenue from health-related activities, net, for 2011 and 2010, respectively, in the accompanying consolidated statements of operations and changes in net assets related to its interest in the excess of revenues over expenses of Mercy Care Plan. Mercy Care Plan classifies its investment portfolio as available-for-sale. As such, CHW recorded its 50% interest in the net unrealized gains of Mercy Care Plan of $5.5 million and $2.4 million for 2011 and 2010, respectively, in unrestricted net assets.

The following table summarizes the financial position and results of operations for the health-related organizations discussed above which are accounted for under the equity method, as of and for the 12 months ended June 30, 2011 and 2010 (in thousands):

	Scripps Health		**Mercy Care Plan**	
	2011	**2010**	**2011**	**2010**
Total assets	$ 2,898,114	$ 2,471,030	$ 434,750	$ 406,040
Total liabilities	1,018,806	998,773	246,637	227,251
Total net assets	1,879,308	1,472,257	188,113	178,789
Total revenues, net	2,681,688	2,339,508	1,930,479	1,896,159
Excess of revenues over expenses	$ 377,269	$ 210,473	$ 57,688	$ 51,260

In June 2011, CHW transferred and contributed to Phoenix Children's Hospital, Inc., ("PCH"), an Arizona nonprofit corporation, substantially all of the pediatric program services and related assets of its facility in Phoenix, Arizona. Pursuant to the transaction, CHW obtained 20% of the outstanding membership interests of PCH. CHW accounts for the affiliation with PCH under the equity method. Its investment at June 30, 2011, is $48.2 million and is reflected on the accompanying consolidated balance sheets in ownership interests in health-related activities. CHW recorded a gain on the transaction of $47.3 million, which is recorded in other operating revenue in the accompanying consolidated statements of operations and changes in net assets. The total assets, liabilities and net assets of PCH as of June 30, 2011, were $980.0 million, $666.4 million and $313.6 million, respectively.

Changes in the noncontrolling interests related to revenues, expenses, gains, and losses of consolidated investments in health-related activities of $24.1 million and $19.9 million are included in purchased services and other in the consolidated statements of operations and changes in net assets for 2011 and 2010, respectively. Additional goodwill of $13.3 million (see Note 9) was recorded in 2011 related to the acquisition of interests in health-related organizations. No goodwill impairment was recorded during 2011.

11. OTHER ACCRUED LIABILITIES

Other accrued liabilities, net, consist of the following at June 30, 2011 and 2010 (in thousands):

	2011	2010
Accrued interest expense	$ 82,690	$ 84,691
Deferred provider fee revenue	185,280	-
Due to brokers for unsettled investment trades	293,063	340,179
Derivative liabilities	110,694	160,732
Other	199,315	206,089
Total other accrued liabilities	$ 871,042	$ 791,691

12. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

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

Contributions to the defined benefit retirement plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. These plans qualify under a Church Plan Exemption, and as such are not subject to Employee Retirement Income Security Act (“ERISA”) funding requirements. CHW’s funding policy requires that, at a minimum, contributions equal the unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these plans are anticipated at $266.5 million in 2012.

During 2011, CHW amended the retirement plans resulting in a lower benefit obligation as of June 30, 2011, and also lower expense in future years. The most significant provisions include freezing certain ongoing final average pay formulas and replacing them with cash balance formulas, freezing certain past service benefits for employees already in cash balance formulas, modifying the cash balance interest crediting rate to comply with proposed IRS guidelines, and updating the actuarial equivalence definitions and methodology.

The accumulated benefit obligation exceeds plan assets for each of the defined benefit plans and other postretirement plans for the years ended June 30, 2011 and 2010. The following summarizes the benefit obligations and funded status for the defined benefit pension and other postretirement plans for 2011 and 2010 (in thousands):

	2011		2010	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 2,757,644	$ 102,270	$ 2,183,762	$ 81,694
Service cost	183,712	6,031	145,726	4,784
Interest cost	163,438	5,497	141,984	5,402
Plan changes/amendments	(169,648)	1,190	3,059	1,894
Actuarial loss	191,822	5,870	355,078	13,002
Acquisitions and other	(5,856)	-	(84)	-
Administrative expenses	(14,930)	-	(12,728)	-
Benefits paid	(71,739)	(5,164)	(59,153)	(4,506)
Benefit obligation at end of year	$ 3,034,443	$ 115,694	$ 2,757,644	$ 102,270
Accumulated benefit obligation	$ 2,644,136	$ 115,694	$ 2,332,274	$ 102,270
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 1,677,799	$ -	$ 1,334,519	$ -
Actual return on plan assets	419,022	-	172,739	-
Employer contributions	270,228	5,164	242,422	4,506
Benefits paid	(71,739)	(5,164)	(59,153)	(4,506)
Acquisitions and other	(4,056)	-	-	-
Administrative expenses	(14,930)	-	(12,728)	-
Fair value of plan assets at end of year, net	$ 2,276,324	$ -	$ 1,677,799	$ -
Funded status	$ (758,119)	$ (115,694)	$(1,079,845)	$ (102,270)

The following table summarizes the amounts recognized in unrestricted net assets as of June 30, 2011 and 2010 (in thousands):

	2011		2010	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Net actuarial loss	$ 853,992	$ 6,456	$ 1,011,752	$ 796
Prior service cost (credit)	(178,228)	45,272	(10,899)	50,017
Amounts in unrestricted net assets	$ 675,764	$ 51,728	$ 1,000,853	$ 50,813

The estimated net loss and prior service credit for the retirement plans and postretirement plans that will be amortized from unrestricted net assets into net periodic benefit cost in 2012 are $47.3 million and $10.7 million, respectively.

The following table summarizes the amounts recognized in the consolidated balance sheets as of June 30, 2011 and 2010 (in thousands):

	2011		2010	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Current liabilities	$ (267,374)	$ (7,718)	$ (270,465)	$ (5,401)
Long-term liabilities	(490,745)	(107,976)	(809,380)	(96,869)
Accrued benefit cost	$ (758,119)	$ (115,694)	$(1,079,845)	$ (102,270)

The following table summarizes the weighted-average assumptions used to determine benefit obligations as of June 30, 2011 and 2010 (dollars in thousands):

	2011		2010	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
To determine benefit obligations:				
Discount rate	5.90%	5.70%	6.00%	5.50%
Rate of compensation increase	5.25%	5.25%	5.25%	5.25%
To determine net periodic benefit cost:				
Discount rate	6.00%	5.50%	6.60%	6.80%
Expected return on plan assets	7.50%	N/A	7.50%	N/A
Rate of compensation increase	5.25%	5.25%	5.32%	5.32%

The following table summarizes the components of net periodic cost recognized in the consolidated statements of operations and changes in net assets for 2011 and 2010 (in thousands):

	2011		2010	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Service cost	$ 183,712	$ 6,031	$ 145,726	$ 4,784
Interest cost	163,438	5,497	141,984	5,402
Expected return on plan assets	(133,205)	-	(105,407)	-
Net prior service cost (credit) amortization	(2,319)	5,935	(2,574)	5,898
Net loss (gain) amortization	61,965	210	46,311	(556)
Net periodic benefit cost	$ 273,591	$ 17,673	$ 226,040	$ 15,528

The following represents the fair value of plan assets, net, measured on a recurring basis as of June 30, 2011 and 2010 (in thousands). See Note 7 for the definition of Levels 1, 2 and 3 in the fair value hierarchy.

	Fair Value Measurements at June 30, 2011 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at June 30, 2011
Assets				
Cash and cash equivalents	$ 249,136	$ -	$ -	$ 249,136
U.S. government securities	40,585	97,683	-	138,268
U.S. corporate bonds	-	94,554	-	94,554
U.S. equity securities	868,368	122,508	-	990,876
Foreign government securities	-	89,000	-	89,000
Foreign corporate bonds	-	3,702	-	3,702
Foreign equity securities	320,516	-	-	320,516
Asset-backed securities	-	5,808	-	5,808
Structured debt	-	18,386	-	18,386
Private equity investments	-	-	96,321	96,321
Multi-strategy hedge fund investments	-	-	84,782	84,782
Real estate	6,919	-	101,539	108,458
Collateral held under securities lending program	-	204,466	-	204,466
Other, including due from brokers for unsettled investment trades and prepaid fund subscriptions	-	151,705	112,000	263,705
Total assets	$ 1,485,524	$ 787,812	$ 394,642	$ 2,667,978
Liabilities				
Payable under securities lending program	$ -	$ 204,466	$ -	$ 204,466
Other, including due to brokers for unsettled investment trades	-	187,188	-	187,188
Total liabilities	$ -	$ 391,654	$ -	$ 391,654
Fair value of plan assets, net	$ 1,485,524	$ 396,158	$ 394,642	$ 2,276,324

	Fair Value Measurements at June 30, 2010 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance at June 30, 2010**
Assets				
Cash and cash equivalents	$ 117,371	$ -	$ -	$ 117,371
U.S. government securities	60,730	90,286	-	151,016
U.S. corporate bonds	-	95,955	-	95,955
U.S. equity securities	637,226	87,430	-	724,656
Foreign government securities	-	94,003	-	94,003
Foreign corporate bonds	-	5,196	-	5,196
Foreign equity securities	223,705	-	-	223,705
Asset backed securities	-	6,455	-	6,455
Structured debt	-	18,924	-	18,924
Private equity investments	-	-	69,193	69,193
Multi-strategy hedge fund investments	-	-	133,452	133,452
Real estate	3,019	-	85,992	89,011
Collateral held under securities lending program	-	203,306	-	203,306
Other, including due from brokers for unsettled investment trades	-	25,703	-	25,703
Total assets	$ 1,042,051	$ 627,258	$ 288,637	$ 1,957,946
Liabilities				
Payable under securities lending program	$ -	$ 203,306	$ -	$ 203,306
Other, including due to brokers for unsettled investment trades	-	76,841	-	76,841
Total liabilities	$ -	$ 280,147	$ -	$ 280,147
Fair value of plan assets, net	$ 1,042,051	$ 347,111	$ 288,637	$ 1,677,799

Amounts payable under the securities lending program of $203.3 million, and amounts due to and due from brokers for unsettled investment trades of $76.8 million and $25.7 million, respectively, at June 30, 2010, were previously omitted in the fair value measurements table above. The weighted-average allocation disclosure by asset category for 2010 reflects the percentage change impact of these balances.

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

The following table presents the change in the plan assets using significant unobservable inputs (Level 3) measured on a recurring basis in 2011 and 2010 (in thousands):

	2011				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Other	Total
Balance at beginning of period	$ 69,193	$ 133,452	$ 85,992	$ -	$ 288,637
Total realized and unrealized gains, net	14,034	10,881	18,271	-	43,186
Purchases, issuances, sales and settlements					
Purchases	17,175	75,362	-	112,000	204,537
Sales	(4,081)	(134,913)	(2,724)	-	(141,718)
Balance at June 30	$ 96,321	$ 84,782	$101,539	$112,000	$ 394,642
Change in unrealized gains, net as of June 30	$ 13,813	$ 2,677	$ 18,770	$ -	$ 35,260

	2010				
	Private Equity Investments	Multi-Strategy Hedge Fund Investments	Real Estate	Other	Total
Balance at beginning of period	$ 52,053	$ 88,684	$ 69,616	$ -	$ 210,353
Total realized and unrealized gains, (losses), net	6,087	12,068	(18,542)	-	(387)
Purchases, issuances, sales and settlements					
Purchases	12,169	32,777	35,981	-	80,927
Sales	(1,116)	(77)	(1,063)	-	(2,256)
Balance at June 30	$ 69,193	$ 133,452	$ 85,992	$ -	$ 288,637
Change in unrealized gains (losses), net as of June 30	$ 6,021	$ 12,191	$ (18,222)	$ -	$ (10)

The following table summarizes the weighted-average asset allocations by asset category for the retirement plans for 2011 and 2010:

	Plan Assets at June 30	
	2011	2010
Cash and cash equivalents	11%	7%
U.S. government securities	6%	9%
U.S. corporate bonds	4%	6%
U.S. equity securities	44%	43%
Foreign government securities	4%	6%
Foreign equity securities	14%	14%
Structured debt	1%	1%
Private equity investments	4%	4%
Multi-strategy hedge fund investments	4%	8%
Real estate	5%	5%
Other, net	3%	-3%
Total	100%	100%

The asset allocation policy for the retirement plans for 2011 is as follows: domestic fixed income, 20% (which may include U.S. government securities, U.S. corporate bonds, asset-backed securities and/or structured debt); domestic equity 30% (including U.S. equity securities); international equity, 27% (including foreign equity securities); private equity, 10% (which may include private equity investments and/or structured debt); hedge funds, 11% (which may include hedge fund investments, asset-backed securities and/or structured debt); and real estate, 2%.

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

CHW's retirement plan portfolio return assumptions of 7.5% for 2011 and 2010, were based on the long-term weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for retirement plan expenses, and expectations about future returns.

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

	Retirement Benefits	**Other Benefits**
2012	$ 85,320	$ 7,718
2013	107,003	8,563
2014	124,050	9,057
2015	142,463	9,415
2016	162,888	10,864
2017 - 2021	1,169,945	62,605
Total	$ 1,791,669	$ 108,222

CHW maintains defined contribution retirement plans for most employees. Employer contributions to those plans of $42.3 million and $39.2 million for 2011 and 2010, respectively, are primarily based on a percentage of a participant's contribution.

Total pension and other postretirement expense under all plans was $341.2 million and $290.0 million for 2011 and 2010, respectively, and is included in salaries and benefits in the consolidated statements of operations and changes in net assets.

13. DEBT

Debt consists of the following at June 30, 2011 and 2010 (in thousands):

	2011	2010
Under Master Trust Indenture:		
Fixed rate debt:		
Fixed rate revenue bonds payable in installments through 2042; interest at 3.5% to 6.0%	$ 2,176,089	$ 2,221,771
Put bonds payable in installments through 2039; interest at 4.5% to 5.0%	456,996	460,354
Senior secured notes payable from 2013 through 2018; interest at 5.7% to 6.5%	374,192	374,075
Total fixed rate debt	3,007,277	3,056,200
Variable rate debt:		
Variable rate demand bonds payable in installments through 2036; interest set at prevailing market rates (0.1% at June 30, 2011)	640,700	645,200
Auction rate certificates payable in installments through 2042; interest set at prevailing market rates (0.2% to 0.9% at June 30, 2011)	324,400	327,900
Notes payable to banks under credit agreement payable in 2014; interest set at prevailing market rates (1.2% at June 30, 2011)	133,509	133,602
Total variable rate debt	1,098,609	1,106,702
Total debt under Master Trust Indenture	4,105,886	4,162,902
Other		
Various notes payable and other debt payable in installments through 2042; interest ranging up to 8.0%	37,526	26,301
Capitalized lease obligations	94,786	55,176
Total debt	4,238,198	4,244,379
Less current portion of long-term debt	(107,381)	(69,910)
Less demand bonds subject to short-term liquidity arrangements	(574,000)	(483,000)
Total long-term debt	$ 3,556,817	$ 3,691,469

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

Long-term principal debt payments:	2011
2012	$ 107,381
2013	245,395
2014	305,936
2015	150,577
2016	99,846
Thereafter	3,329,063
Total	$ 4,238,198

Master Trust Indenture – CHW issues debt under a Master Trust Indenture of the Obligated Group which requires, among other things, gross revenue pledged as collateral, certain limitations on additional indebtedness, liens on property, and disposition or transfers of assets, and the maintenance of certain cash balances and other financial ratios. CHW is in compliance with these requirements at June 30, 2011.

***Debt Arrangements* - Fixed Rate Revenue Bonds** – CHW has fixed rate revenue bonds outstanding that may be redeemed, in whole or in part, prior to the stated maturities without a premium.

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

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

Variable Rate Demand Bonds – Variable rate demand bonds ("VRDBs") are remarketed weekly and the VRDBs may be put at the option of the holders. CHW maintains bank letters of credit to support $640.7 million of VRDBs. The letters of credit serve as credit enhancement to ensure the availability of funds to purchase any bonds tendered that the remarketing agent is unable to remarket.

The bank letters of credit supporting $317.0 million of VRDBs were renewed in August 2010. The renewed letters of credit are set to expire in August 2013. The bank letter of credit supporting $66.7 million was renewed in July 2010 and is set to expire in July 2013. In January 2010, CHW negotiated new bank letters of credit, supporting $91.0 million of VRDBs, that expire in June 2012. CHW also has bank letters of credit supporting $166.0 million of VRDBs that mature in November 2012. In the event that the remarketing agent is unable to remarket the VRDBs, the bond trustee will make a draw on the bank letters of credit and the tendered VRDBs will become bank bonds.

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

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

Auction Rate Certificates – CHW has $240.0 million of auction rate certificates ("ARCs") that are remarketed weekly and $84.4 million of ARCs that are remarketed every 35 days. The certificates are insured by various bond insurers. Holders of ARCs are required to hold the certificates until the remarketing agent can find a new buyer for any tendered certificates.

Notes Payable to Bank Under Credit Agreement – CHW maintained a $350.0 million syndicated line of credit facility during 2010 for working capital, letters of credit, capital expenditures and other general corporate purposes. In August 2010, the facility was renegotiated at an increased amount of $480.0 million. During 2011 and 2010, the maximum amount outstanding under the syndicated credit facility was $133.5 million and $133.6 million, respectively. There were no letters of credit issued under this facility as of June 30, 2011 and 2010.

CHW has a $20.0 million single bank line of credit facility for letters of credit. Letters of credit issued under this facility were $12.9 million and $16.7 million as of June 30, 2011 and 2010, respectively, but no amounts have been drawn.

Both credit facilities were renewed in August 2010 with credit facilities that expire August 2013.

2011 Financing Activity – During 2011, CHW renewed several letters of credit and the lines of credit as described above (see "Variable Rate Demand Bonds" and "Notes Payable to Bank Under Credit Agreement").

Subsequent to June 30, 2011, CHW issued $106.5 million of tax-exempt fixed rate bonds with a premium of $8.5 million to repay $115.0 million of previously outstanding bonds. CHW also repaid $30.5 million of outstanding bonds and the $45.9 million put bond with a draw on its syndicated line of credit.

No loss on early extinguishment of debt was recorded related to these transactions.

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

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

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

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

Fair Values of Debt - The fair value of CHW's debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to CHW for debt of the same remaining maturities. The carrying value of CHW's debt is reported within the current portion of long-term debt, demand bonds subject to short-term liquidity arrangements and long-term debt, net of current portion, on the statement of financial position. The estimated fair values of CHW's long-term debt instruments as of June 30, 2011 are as follows (in thousands):

	Carrying Value	Fair Value
Debt issued under Master Trust Indenture:		
Fixed rate revenue bonds	$ 2,176,089	$ 2,200,701
Put bonds	456,996	477,683
Senior secured notes payable	374,192	426,234
Variable rate demand bonds	640,700	640,700
Auction rate certificates	324,400	324,400
Notes payable to bank under credit agreement	133,509	133,509
Total debt under Master Trust Indenture	4,105,886	4,203,227
Other	132,312	132,312
Total debt	$ 4,238,198	$ 4,335,539

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

14. DERIVATIVE INSTRUMENTS

As of June 30, 2011, CHW has 16 floating-to-fixed interest rate swaps. CHW uses floating-to-fixed interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under these swaps, CHW receives a percentage of LIBOR ranging from 57.00% to 58.96% plus a spread ranging from 0.13% to 0.32% and pays a fixed rate. Counterparties to these swaps are JPMorgan and Citibank for $369.8 million and $574.7 million, respectively, of the notional amounts outstanding.

In August 2011, CHW novated swaps with a notional amount of $343.1 million from Citibank to Deutsche Bank.

In December 2010, CHW terminated four floating-to-fixed interest rate swaps prior to their scheduled maturities in the aggregate notional amount of $201.3 million. The termination payment included the market value of the swaps of negative $12.0 million which was recorded as a swap cash settlement in interest expense, net. Since swaps are recorded at market value, no gain or loss was recognized on this transaction.

Effective January 1, 2010, all remaining interest rate swaps in qualifying cash flow hedging relationships were dedesignated and discontinued hedge accounting treatment. From the date of dedesignation forward, the changes in fair value of these swaps are recorded in interest expense, net. As of June 30, 2011 and 2010, there were no interest rate swaps designated as cash flow hedging instruments.

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

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in other accrued liabilities in the consolidated balance sheet as of June 30, 2011 and 2010 (in thousands):

	Maturity Date of Derivatives	Fixed Rate	Notional Amount Outstanding	Fair Value
			June 30, 2011	
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	$ 944,525	$ (110,694)
			June 30, 2010	
Derivatives not designated as hedges				
Interest rate swaps	2023 - 2042	3.0% - 3.4%	$ 1,161,075	$ (160,732)

Changes in fair value of derivative instruments have been recorded for 2011 and 2010 as follows (in thousands):

	2011	2010
Loss recognized in unrestricted net assets (effective portion of hedges):		
Interest rate swaps	$ -	$ (2,002)
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - net settlements	-	(5,187)
Interest rate swaps - amortization	(9,055)	(6,954)
Total	$ (9,055)	$ (12,141)
Gain (loss) recognized in interest expense, net:		
Changes in fair value		
Ineffective portion of hedges - interest rate swaps	$ -	$ 111
Non-hedged derivatives - interest rate swaps	50,038	(50,292)
Total changes in fair value	50,038	(50,181)
Amortization of amounts in unrestricted net assets - interest rate swaps	(9,055)	(6,954)
Total	$ 40,983	$ (57,135)

Of the amounts classified in unrestricted net assets as of June 30, 2011, CHW anticipates reclassifying approximately $2.7 million of additional non-cash losses from unrestricted net assets into interest expense, net, in the next twelve months. Amounts in unrestricted net assets will be amortized into earnings as the interest payments being economically hedged are made.

Of the $944.5 million notional amount of interest rate swaps held by CHW, $240.0 million are insured and have a negative fair value of $30.6 million at June 30, 2011. In the event the insurer (FSA) is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if CHW does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and CHW is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps. In August 2011, at the request of CHW and Deutsche Bank, the counterparty to the swaps, the insurance was removed from swaps with a notional amount of $80.0 million.

CHW has $704.5 million of interest rate swaps that are not insured. While CHW has the right to terminate the swaps prior to maturity for any reason, the counterparties have the right to terminate the swaps at each five-year anniversary date commencing in 2013. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps with a negative fair value of $80.1 million at June 30, 2011, have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payments when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard and Poor's) by either party and CHW's cash on hand dropping below 85 days. In August 2011, the counterparty's right to terminate the swaps at each five-year anniversary was removed on swaps with a notional amount of $263.1 million. These swaps retain the certain early termination triggers caused by an event of default or termination event as described above.

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

15. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2011 and 2010, consist of donor-restricted contributions and grants, which are to be used as follows (in thousands):

	2011	2010
Equipment and expansion	$ 146,704	$ 134,331
Research and education	39,155	41,408
Charity and other	140,644	115,301
Total temporarily restricted net assets	$ 326,503	$ 291,040
Permanently restricted net assets	107,947	99,073
Total restricted net assets	$ 434,450	$ 390,113

The composition of endowment net assets by type of fund as of June 30, 2011 and 2010, is as follows (in thousands):

	June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment net assets	$ -	$ 22,235	$ 107,947	$ 130,182
Board-designated endowment net assets	17,856	-	-	17,856
Total endowment net assets	$ 17,856	$ 22,235	$ 107,947	$ 148,038

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

Changes in endowment net assets during 2011 and 2010 are as follows (in thousands):

	June 30, 2011 Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of period	$ 11,781	$ 14,833	$ 99,073	$ 125,687
Investment returns	418	2,079	56	2,553
Unrealized gains	3,706	3,444	7	7,157
Contributions	-	2	2,292	2,294
Change in interest in unconsolidated foundations	-	3,596	5,961	9,557
Appropriation of endowment assets for expenditure	(362)	(672)	-	(1,034)
Transfers to remove or add to board-designated endowment funds	1,474	-	672	2,146
Other	839	(1,047)	(114)	(322)
Endowment net assets, end of period	$ 17,856	$ 22,235	$ 107,947	$ 148,038

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

Included in donor-restricted assets limited as to use are unconditional promises to give which are recorded using discount rates ranging from 3.0 % to 6.0% and are due as follows as of June 30, 2011 and 2010 (in thousands):

	2011	2010
Less than one year	$ 4,607	$ 12,782
One to five years	14,962	10,850
More than five years	818	452
Less: allowance for uncollectible contributions receivable	(1,250)	(3,169)
Total contributions receivable, net	$ 19,137	$ 20,915

16. COMMITMENTS, CONTINGENT LIABILITIES, GUARANTEES AND OTHER

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

Department of Justice and OIG Investigations – Since 2001, CHW facilities have been under investigation by the Department of Justice and Office of Inspector General of the U.S. Department of Health and Human Services ("OIG") for false or otherwise improper claims in connection with Medicare cost reporting, as well as claims for reimbursement of hospital and administrative services. In February 2011, CHW and the government entered into a settlement agreement in this matter which resulted in a payment to the government of $9.2 million.

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

Medicare Certification – In August 2011, CMS informed Saint Francis Memorial Hospital ("SFMH") that it would take steps to terminate SFMH's Medicare provider agreement unless SFMH undertook certain corrective actions related to qualification for Medicare participation. The issues relate to three conditions of participation in Medicare, as well as an alleged violation of the Emergency Medical Treatment and Active Labor Act ("EMTALA"). SFMH submitted to CMS its plans of corrective action which are typically followed by CMS validation surveys. The survey for the conditions of participation occurred in mid-September 2011. SFMH is awaiting the results. The validation survey for the EMTALA violation is expected to take place prior to November 2011.

In addition, in September 2011, CMS informed Mercy Hospital (Bakersfield) that it would take steps to terminate Mercy Hospital's Medicare provider agreement unless Mercy Hospital achieves compliance with eight conditions of participation. Mercy Hospital submitted its plan of correction in mid-September 2011 and expects to be surveyed by CMS within ninety days of that submission.

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

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

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

Operating Leases – CHW leases various equipment and facilities under operating leases. Gross rental expense for 2011 and 2010 was $111.1 million and $112.6 million, respectively, which is offset by sublease income of $2.3 million and $3.9 million for 2011 and 2010, respectively. These amounts are recorded in purchased services and other on the accompanying statements of operations and changes in net assets.

Net future minimum lease payments under non-cancelable operating leases as of June 30, 2011, are as follows (in thousands):

	Lease Payments	Sublease Income	Net Future Minimum Lease Payments
2012	$ 70,052	$ (2,474)	$ 67,578
2013	56,060	(1,692)	54,368
2014	42,028	(1,141)	40,887
2015	34,510	(940)	33,570
2016	29,446	(951)	28,495
Thereafter	130,144	(13,094)	117,050
Total	$ 362,240	$ (20,292)	$ 341,948

Long-term Contracts and Agreements – In October 2008, CHW renegotiated a contract for information technology management services which specifies the types and levels of services, which can be modified by mutual agreement, and provides for monthly usage-based adjustments to fees. The agreement contains a mechanism for price adjustments should there be new affiliations or disaffiliations. The base fee under the contract is $48.1 million per year which increases annually by inflation through October 2015, the term of the agreement. CHW may cancel the agreement without cause subject to significant penalties during the first five years of the contract, and without penalty during the last two years of the contract. Under the terms of this agreement, CHW expensed $52.7 million and $49.7 million in 2011 and 2010, respectively, in purchased services and other on the accompanying statements of operations and changes in net assets.

Effective in April 2007, CHW entered into an eight-year agreement for remote hosting and hot site hosting for certain electronic medical record technology for certain CHW facilities. The agreement specifies the types and levels of services, with additional schedules for additional services available for future consideration. Under the terms of the agreement, CHW paid $12.1 million and $11.1 million in 2011 and 2010, respectively, and has committed to pay $40.8 million over the remainder of the contract term. The agreement may be terminated for material breach including significant failure of service levels but may not be cancelled without cause.

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

Capital and Purchase Commitments – CHW has undertaken various construction and expansion projects. At June 30, 2011 and 2010, remaining capital commitments related to these projects were approximately $254.6 million and $362.6 million, respectively. Excluding the capital and long-term contract commitments discussed above, outstanding purchase commitments were approximately $105.9 million and $61.3 million at June 30, 2011 and 2010, respectively.

Guarantees – CHW has guaranteed the indebtedness of other organizations in the amount of $33.8 million and $40.3 million as of June 30, 2011 and 2010, respectively.

CHW enters into physician recruitment agreements with certain physicians who agree to relocate to its communities to fill a need in the hospitals' service areas and commit to remain in practice there. Under these agreements, CHW makes loans available to the physicians that are earned over the period the physicians fulfill their commitment to the community, which is typically three years, or are repayable by the physicians. The maximum potential amount of future undiscounted payments CHW could be required to make under these guarantees is $19.8 million and $20.8 million as of June 30, 2011 and 2010, respectively. CHW recorded $13.2 million and $13.0 million in other current liabilities as of June 30, 2011 and 2010, respectively, and $6.6 million and $7.7 million in other long-term liabilities as of June 30, 2011 and 2010, respectively, related to these guarantees.

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

CHW estimates that the remediation costs required to meet the standards for projects specific to structural and non-structural performance in effect until 2030 is approximately $420.0 million. Management has initiated planning and design efforts at all facilities to meet the deadlines. California law currently imposes a separate more rigorous set of seismic standards for acute care facilities effective in 2030.

17. CATHOLIC HEALTHCARE WEST, SUBORDINATE CORPORATIONS AND SUBSIDIARIES

Following is a list of corporations and subsidiaries that are included in the accompanying consolidated financial statements for 2011. Unless otherwise indicated, such entities are nonprofit corporations. The Obligated Group Members are denoted by an asterisk (*). Unless otherwise indicated, subsidiaries are not Obligated Group Members.

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

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

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