

SSM Health Care

Consolidated Financial Statements as of and for the
Years Ended December 31, 2009 and 2008,
Additional Information as of and for the
Year Ended December 31, 2009, and
Independent Auditors' Report for the Year Ended
December 31, 2009

SSM HEALTH CARE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
SSM Health Care
St. Louis, Missouri:

We have audited the accompanying consolidated balance sheet of SSM Health Care Corporation and subsidiaries (the "Organization") as of December 31, 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Organization for the year ended December 31, 2008, were audited by other auditors whose report, dated May 7, 2009, expressed an unqualified opinion on those statements and included an explanatory paragraph that described the adoption of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of Financial Accounting Standards Board (FASB) Statement No. 115*, and FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Acts, and Enhanced Disclosures for All Endowment Funds* discussed in Note 2 to the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SSM Health Care Corporation and subsidiaries as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional information on pages 40 and 41 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and are not a required part of the basic consolidated financial statements. This information is the responsibility of the Organization's management. Such information has have been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.



April 5, 2010

SSM HEALTH CARE

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008 (In thousands)

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,574	\$ 6,427
Short-term investments	138,537	97,231
Current portion of assets limited as to use	194,628	164,810
Patient accounts receivable, less allowance for uncollectible accounts of \$78,593 in 2009 and \$83,745 in 2008	321,551	341,350
Other receivables	15,125	17,475
Inventories, prepaid expenses, and other	63,871	66,426
Estimated third-party payor settlements	6,945	22,664
Assets held for sale	698	6,027
Total current assets	<u>748,929</u>	<u>722,410</u>
ASSETS LIMITED AS TO USE OR RESTRICTED — Excluding current portion	<u>1,570,946</u>	<u>1,235,137</u>
PROPERTY AND EQUIPMENT — Net	<u>1,261,375</u>	<u>1,234,917</u>
OTHER ASSETS:		
Deferred financing costs — net	6,988	8,616
Intangibles — net	10,754	18,822
Investments in unconsolidated entities	158,810	136,737
Other	5,922	65,061
Total other assets	<u>182,474</u>	<u>229,236</u>
TOTAL	<u>\$3,763,724</u>	<u>\$3,421,700</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Revolving line of credit	\$ 53,437	\$ 58,059
Current portion of long-term debt	160,769	65,665
Accounts payable and accrued expenses	240,197	233,540
Payable under securities lending agreements	157,119	136,298
Total current liabilities	611,522	493,562
LONG-TERM DEBT — Excluding current portion	985,740	1,083,014
ESTIMATED SELF-INSURANCE OBLIGATIONS	113,135	129,374
OTHER LIABILITIES	<u>754,296</u>	<u>782,896</u>
Total liabilities	<u>2,464,693</u>	<u>2,488,846</u>
NET ASSETS:		
Unrestricted	1,247,761	882,881
Temporarily restricted	36,035	35,965
Permanently restricted	15,235	14,008
Total net assets	<u>1,299,031</u>	<u>932,854</u>
TOTAL	<u>\$3,763,724</u>	<u>\$3,421,700</u>

See notes to consolidated financial statements.

SSM HEALTH CARE

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (In thousands)

	2009	2008
OPERATING REVENUES AND OTHER SUPPORT:		
Net patient service revenues	\$2,681,236	\$2,515,865
Investment income (loss)	41,763	(53,384)
Other revenue	155,280	115,917
Net assets released from restrictions	<u>11,449</u>	<u>9,042</u>
Total operating revenues and other support	<u>2,889,728</u>	<u>2,587,440</u>
OPERATING EXPENSES:		
Salaries and benefits	1,422,025	1,380,669
Supplies	467,679	440,079
Professional fees and other	583,834	530,271
Interest	23,841	29,420
Depreciation and amortization	142,575	129,966
Bad debts	<u>105,070</u>	<u>88,514</u>
Total operating expenses	<u>2,745,024</u>	<u>2,598,919</u>
INCOME (LOSS) FROM OPERATIONS	<u>144,704</u>	<u>(11,479)</u>
NONOPERATING GAINS AND (LOSSES):		
Investment income (loss)	147,181	(313,031)
Loss from early extinguishment of debt	(910)	(7,786)
Other — net	<u>(3,579)</u>	<u>(2,097)</u>
Total nonoperating gains and (losses) — net	<u>142,692</u>	<u>(322,914)</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CHANGE IN MARKET VALUE OF INTEREST RATE SWAPS	287,396	(334,393)
CHANGE IN MARKET VALUE OF INTEREST RATE SWAPS	<u>66,534</u>	<u>(94,385)</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	353,930	(428,778)
Change in unrealized gains and losses on investments — net	2,641	(1,426)
Pension-related changes other than net periodic pension cost	(760)	(286,291)
Net assets released from restrictions for property acquisitions	1,754	1,852
Gain (loss) on discontinued operations	2,098	(42,725)
Other — net	<u>5,217</u>	<u>5,698</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 364,880</u>	<u>\$ (751,670)</u>

See notes to consolidated financial statements.

SSM HEALTH CARE

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (In thousands)

	2009	2008
UNRESTRICTED NET ASSETS:		
Excess (deficit) of revenues over expenses	\$ 353,930	\$ (428,778)
Unrealized gains and losses on investments — net	2,641	(1,426)
Pension-related changes other than net periodic pension cost	(760)	(286,291)
Net assets released from restrictions for property acquisitions	1,754	1,852
Gain (loss) on discontinued operations	2,098	(42,725)
Other — net	<u>5,217</u>	<u>5,698</u>
Increase (decrease) in unrestricted net assets	<u>364,880</u>	<u>(751,670)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions for charity care and other programs	12,473	11,302
Realized gains (losses) on investments — net	(861)	93
Unrealized gains and losses on investments — net	1,759	(4,841)
Net assets released from restrictions for operations	(11,449)	(9,042)
Net assets released from restrictions for property acquisitions	(1,754)	(1,852)
Other — net	<u>(98)</u>	<u>(625)</u>
Increase (decrease) in temporarily restricted net assets	<u>70</u>	<u>(4,965)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions for charity care and other programs	294	103
Realized gains on investments — net		29
Unrealized gains and losses on investments — net	4	(368)
Other — net	<u>929</u>	<u>(1,640)</u>
Increase (decrease) in permanently restricted net assets	<u>1,227</u>	<u>(1,876)</u>
CHANGE IN NET ASSETS	366,177	(758,511)
NET ASSETS — Beginning of year	<u>932,854</u>	<u>1,691,365</u>
NET ASSETS — End of year	<u>\$ 1,299,031</u>	<u>\$ 932,854</u>

See notes to consolidated financial statements.

SSM HEALTH CARE

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (In thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 366,177	\$(758,511)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	760	286,291
(Gain) loss on sale of discontinued operations	(474)	31,277
Depreciation and amortization	142,987	131,239
Noncash interest expense		142
Loss on early extinguishment of debt	910	7,786
Bad debts	105,070	99,284
Restricted contributions	(294)	(11,405)
Realized gains and losses on investments — net	69,431	49,786
Equity in earnings of unconsolidated entities	(7,966)	574
Change in valuation of investments in unconsolidated entities	4,437	5,109
Change in market value of interest rate swaps	(66,534)	94,385
Changes in unrealized gains and losses on investments — net	(232,902)	371,052
Gain on sale of rehabilitation division	(19,652)	
Gain on disposal of assets	(18,189)	(219)
Changes in assets and liabilities:		
Short-term investments	(55,857)	(3,810)
Patient accounts receivable	(89,547)	(103,337)
Other receivables, inventories, prepaid expenses, estimated third-party payor settlements, and other	20,892	2,188
Accounts payable, accrued expenses, and other liabilities	43,900	(28,262)
Estimated self-insurance obligations	(16,239)	(19,754)
Net cash provided by operating activities	<u>246,910</u>	<u>153,815</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(138,498)	(261,045)
Proceeds from disposal of property and equipment	21,484	775
Proceeds from sale of rehabilitation division	21,000	
Purchase of assets limited as to use or restricted	(5,201,054)	
Sales of assets limited as to use or restricted	5,099,562	
Net change in assets limited as to use or restricted		71,121
Net contributions to unconsolidated entities	(12,286)	(12,940)
Net change in payable under securities lending agreements		(35,544)
Cash paid on sale of discontinued operations		(13,531)
Net change in other assets	(1,838)	23,104
Net cash used in investing activities	<u>(211,630)</u>	<u>(228,060)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	152,782	680,380
Payments on long-term debt	(182,506)	(672,963)
Increase in discount/premium	(81)	
Restricted contributions	294	11,405
Proceeds from revolving line-of-credit	53,437	58,059
Payment on revolving line-of-credit	(58,059)	
Net cash (used in) provided by financing activities	<u>(34,133)</u>	<u>76,881</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,147	2,636
CASH AND CASH EQUIVALENTS — Beginning of year	<u>6,427</u>	<u>3,791</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 7,574</u>	<u>\$ 6,427</u>

See notes to consolidated financial statements.

SSM HEALTH CARE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (Dollars in thousands)

1. ORGANIZATION AND PURPOSE

SSM Health Care (SSMHC) is a multi-institutional provider of health services comprised of SSM Health Care Corporation (SSMHCC) as the principal not-for-profit corporation which holds membership or stock ownership in other affiliated corporations. SSMHCC has been established as the parent corporation. Through its affiliated corporations, SSMHC owns and operates 16 acute care hospitals (including one currently under construction), one children's hospital, two long-term care facilities, and other health care businesses located primarily in Missouri, Oklahoma, Wisconsin, and Illinois. SSMHC also has exclusive affiliation agreements with four acute care hospitals. SSMHCC and most of its affiliated subsidiary corporations are organizations described in Section 501(c)(3) of the Internal Revenue Code (IRC). As such, they are exempt from federal income tax on income from activities related to their exempt purposes under IRC Section 501(a).

SSMHC is sponsored by the Franciscan Sisters of Mary. The President and Councilors of the Congregational Council of the Franciscan Sisters of Mary serve as the members of SSMHCC, which hold certain reserved powers over SSMHCC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of SSMHC's significant accounting policies is as follows:

Presentation — The consolidated financial statements include the accounts of SSMHCC and all wholly owned, majority owned, and controlled entities, including the consolidated statements of SSMHC Liability Trust I and SSMHC Liability Trust II as described in Note 13. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents — Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased.

Short-Term Investments — Short-term investments are measured at fair value and include liquid investments with original maturities at time of purchase of greater than three months and less than three years.

Financial Instruments — The carrying amounts of cash equivalents and short-term investments approximate fair value. Management's estimates of the fair value of other financial instruments are described elsewhere in the notes to consolidated financial statements. Assets that are designated as limited as to use or restricted are measured at fair value in the consolidated balance sheets as described in Note 8. Due to the volatility of the U.S. economy and the financial markets, there is uncertainty regarding the long-term impact market conditions will have on SSMHC's investment portfolio.

Patient Accounts Receivable — Patient accounts receivable are stated at estimated net realizable amounts from patients, third-party payors, and other insurers for services provided.

Inventories — Inventories are stated at the lower of cost or market. Cost is determined principally using the first-in, first-out method.

Assets Limited as to Use or Restricted — Assets limited as to use include investments and other assets set aside by the Board of Directors at their discretion for future capital improvements or for other purposes, assets held in trust under bond indentures and self-insurance agreements. Assets restricted as to use include investments and other assets whose use is restricted by donors (temporarily or permanently).

Pooled Investments — SSMHC holds the majority of its investments in a pooled investment program which also includes the investments of its defined benefit plans as well as other smaller nonconsolidated entities. The earnings are allocated proportionately according to ownership percentages as defined in pooled investment agreements. The combined investments of SSMHC and its defined benefit plans account for 99% of the pooled investments.

SSMHC has elected the fair value option for financial investments in limited partnerships and limited liability corporations made through its centralized investment program that would otherwise be recorded using either the cost or equity methods. SSMHC made this election in order to ensure that the accounting treatment of these investments was comparable between categories, regardless of the current organizational structure of the various investments.

Derivative Instruments – It is SSMHC’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, SSMHC periodically enters into derivative arrangements to manage interest rate risk related to variable rate debt.

SSMHC records derivative instruments on the consolidated balance sheet as either an asset or liability measured at its fair value (Note 8). The estimated fair value of interest rate swap instruments has been determined using available market information and valuation methodologies, primarily discounted cash flows.

The net change in the fair value is recorded as a nonoperating gain or loss in the consolidated statements of operations. The difference between the actual amount paid and the actual amount received on all interest rate swaps is accrued and recognized as an adjustment to interest expense.

Securities Lending Program – SSMHC participates in securities lending transactions with its custodian whereby SSMHC lends a portion of its investments to various brokers in exchange for collateral for the securities loaned, usually on a short-term basis. SSMHC 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. SSMHC must return to the borrower the original value of collateral received regardless of the impact of market fluctuations. The collateral is invested in a pool maintained by the custodian. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed.

The securities on loan under this program are recorded as assets whose use is limited in the accompanying consolidated balance sheets. 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.

Property and Equipment — Property and equipment acquisitions are recorded at cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation expense is determined using the straight-line method over the estimated useful life of the asset: 5 to 25 years for land improvements, 5 to 40 years for buildings, and 3 to 20 years for equipment. Equipment under capital leases is amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense. Interest costs incurred on borrowed funds during construction periods are capitalized as a component of the asset cost.

SSMHC periodically evaluates property and equipment to determine whether assets may have been impaired. The evaluations address the estimated recoverability of the assets' carrying value. Such analyses require various valuation techniques using management assumptions, including estimates of future cash flows. As a result, there is at least a reasonable possibility that recorded estimates of fair value and impairment will change by a material amount.

Deferred Financing Costs — Deferred financing costs are amortized using the effective interest rate method over the term of the related obligation.

Intangibles — Intangibles include goodwill and a trade name. They are capitalized and amortized on a straight-line basis over their estimated useful lives, which range from 10 to 25 years. Amortization of intangibles is included in depreciation and amortization expense.

Investments in Unconsolidated Entities — Investments in unconsolidated entities, except for real estate funds and multi-strategy hedge funds, are accounted for under the cost or equity method of accounting, as appropriate. SSMHC utilizes the equity method of accounting for its investments in unconsolidated entities over which it exercises significant influence. SSMHC's equity income or loss on these investments is recorded as other revenue.

Other Liabilities — Other liabilities include various deferred compensation plans and the underfunded status of SSMHC's pension plans which represents the value of the projected benefit obligation over the fair value of plan assets. The pension plan obligations and plan assets are measured as of December 31.

In 2009 and 2008, SSMHC recorded \$760 and \$286,291, respectively, to increase other liabilities and decrease unrestricted net assets due to recognition of the change in the underfunded status of the plan caused by the decrease in plan assets.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by SSMHC has been limited by donors to a specific time period or purpose. These assets are restricted for funding a specific program, capital projects, and other purposes. Permanently restricted net assets have been restricted by donors to be maintained by SSMHC in perpetuity. They are generally restricted to provide ongoing income for a specific program.

Net Patient Service Revenues — SSMHC has agreements with payors that provide for payments at amounts different from established charges. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, and negotiated discounts from established charges.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. The differences between the estimated and actual adjustments are recorded as part of net patient service revenues in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews, and investigations.

Capitated Contracts — SSMHC has capitated contracts with health maintenance organizations in Wisconsin and Oklahoma. Under these arrangements, SSMHC receives capitation premiums based on the demographic characteristics of covered members in exchange for providing comprehensive medical services for those members. Capitation revenues are included in net patient service revenues.

The following table summarizes these amounts for the fiscal years ended December 31, 2009 and 2008:

	2009	2008
Capitated revenues	\$ 10,602	\$ 27,620

The capitated contract in Oklahoma was terminated in 2009.

SSMHC and Dean Health Systems, Inc. participate in a risk sharing arrangement for certain health care services provided to members of Dean Health Insurance, Inc. and Dean Health Plan, Inc. Under the risk sharing arrangement, a percentage of the Dean Health Insurance, Inc. and Dean Health Plan, Inc. premiums is paid into a pool which is jointly owned by Dean Health Systems, Inc. and SSMHC. Payments are made from the pool for certain covered services which generally are all covered services except physician services. Any accumulated amounts in the pool in excess of obligations for the specified covered services are disbursed equally to Dean Health Systems, Inc. and SSMHC as incentive and risk share compensation (service incentive fees). Total service incentive fees received by SSMHC, including adjustments to prior year estimates, during the years ended December 31, 2009 and 2008 were \$62,591 and \$62,687, respectively, which is included within net patient service revenues in the accompanying consolidated statements of operations. Service incentive fees for the years ended December 31, 2009 and 2008 included retroactive adjustments of \$4,540 and \$5,850, respectively.

Investment Income — Most investment income is reported as nonoperating gains or losses in the accompanying consolidated statements of operations. Investment income on funds held in trust for self-insurance purposes and unrestricted funds held by foundations is included in other operating revenue. The cost of investments sold is based on the specific-identification method.

Reimbursement funds are proceeds from bond issues which have not yet been disbursed. Interest expense related to reimbursement funds is netted against the investment income on the reimbursement funds in the investment income line item in the nonoperating section of the consolidated statements of operations. Interest expense related to reimbursement funds was \$10,945 and \$18,144 for the years ended December 31, 2009 and 2008, respectively. Investment income (loss) on the reimbursement funds was \$25,506 and (\$42,572) for the years ended December 31, 2009 and 2008, respectively.

Investment income on investments of donor-restricted funds, other than endowments, is included in excess of revenues over expenses unless the income or loss is restricted by donors. Investment income that is restricted by the donor is recorded directly to temporarily or permanently restricted net assets, in accordance with the donor-imposed restrictions.

SSMHC values multi-strategy hedge funds at fair value. Gains and losses on these investments are included in investment income unless it is restricted by donors.

SSMHC classifies its debt and equity securities as trading securities. Changes in the fair values of trading securities are recorded in the excess revenues over expenses.

The change in unrealized gains and losses on investments recorded as a change in unrestricted net assets includes amounts necessary to maintain the fair value of permanently restricted net assets and the unrealized gains or losses related to investments held for sale at equity method investees.

Contributions — Contributions, including unconditional promises to give, are recognized at their fair value at the time of receipt. For financial reporting purposes, SSMHC distinguishes between contributions that are unrestricted, temporarily restricted, or permanently restricted based on the restrictions placed on their use by the donors. Contributions restricted for additions to property and equipment are recorded as temporarily restricted assets. When the restrictions have been met, these temporarily restricted contributions are recorded as net assets released from restrictions for property acquisitions. Contributions temporarily restricted for other purposes are reported as temporarily restricted contributions if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, they are reported as net assets released from restrictions and are added to unrestricted net assets. Contributions of assets that donors have stipulated must be maintained permanently, with only the income earned thereon available for use, are classified as permanently restricted assets. Contributions for which donors have not stipulated restrictions are reported as other revenue.

SSMHC adopted ASC 958-205 (FASB Staff Position FAS 117-1), *Endowments of Not-for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act approved by the Uniform Law Commission that serves as a guideline for states to use in enacting legislation. It also enhances disclosures about an organization's donor-restricted endowment funds and board-designated endowment funds, whether or not the organization is subject to UPMIFA. At December 31, 2008, only those SSMHC entities located in Oklahoma were subject to a state law based on UPMIFA (SPMIFA). At December 31, 2009, all SSMHC entities were subject to state laws based on UPMIFA.

SSMHC preserves the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. SSMHC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable, (c) accumulations to the permanent endowment made in accordance with specific donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the SSMHC entity that received the donation. SSMHC considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

- a. State law
- b. The duration and preservation of the fund
- c. The purposes of the donor-restricted endowment funds and how they relate to SSMHC's priorities for carrying out its mission within the communities it serves
- d. General economic conditions
- e. The possible effects of inflation and deflation

- f. The expected total return from income and the appreciation of investments
- g. Other resources available to the entity and its beneficiary, if applicable
- h. The investment policies of the entity

Discontinued Operations – On July 29, 2008, SSMHC sold St. Francis Hospital located in Blue Island, Illinois to an unrelated party. In the consolidated financial statements for the year ended December 31, 2008, the operations of St. Francis and the related home health services are treated as discontinued operations. On June 30, 2009, SSMHC ceased operations of its Home Medical Equipment Company (HME). In the consolidated financial statements for the year ended December 31, 2009, the operations of HME and residual activity from the sale of St. Francis are treated as discontinued operations. These transactions are described further in Note 9.

Performance Indicator — The consolidated statements of operations include excess of revenues over expenses as SSMHC’s performance indicator. Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include discontinued operations, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets), and pension related changes other than net periodic pension cost.

Income Taxes — SSMHC evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. There have been no uncertain tax positions recorded in 2009 or 2008.

SSMHC has net operating loss (NOL) carryforwards available related to unrelated business income and to its for-profit subsidiaries. SSMHC fully reserves these carryforwards because it does not anticipate earning future profits. The amount of the carryforwards available for 2009 was \$286,986.

Use of Estimates — The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Non-Cash Transactions — During the year ended December 31, 2009, SSMHC had the following non-cash transactions:

Collateral received under securities lending program	\$ 20,821
Capital leases	30,105
Property and equipment purchases included in accounts payable	464

Subsequent Events — For the year ended December 31, 2009, SSMHC has evaluated subsequent events for potential recognition and disclosure through April 5, 2010, the date of financial statement issuance.

New Accounting Pronouncements — In June 2009, the Financial Accounting Standards Board (FASB) issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted*

Accounting Principles (Codification). The Codification is the single official source of authoritative U.S. accounting and reporting standards applicable for all non-governmental entities. The Codification did not change generally accepted accounting principles, but organized it into an online research system sorted by individual accounting topics, which are further divided into subtopics. The FASB now issues new standards in the form of Accounting Standards Updates (ASUs). The Codification is effective for financial statements issued for periods ending after September 15, 2009. SSMHC adopted this guidance for the year ended December 31, 2009. The adoption did not have a material impact on SSMHC's consolidated financial statements.

In May 2009, the FASB issued Accounting Standards Codification 855, *Subsequent Events* (ASC-855), to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles. ASC-855 introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance sheet date. SSMHC adopted ASC-855 as of December 31, 2009, which was the required effective date.

In 2009, FASB issued ASC-958-810 (SFAS No. 164), *Not for Profit Entities: Mergers and Acquisition*, including an amendment of FASB Statement No. 142. This guidance establishes that goodwill be tested annually for impairment and an impairment loss be recognized if it is determined that the carrying amount of the net assets exceeds the fair value. SSMHC will adopt this guidance in 2010 and will discontinue amortization of goodwill as of January 1, 2010. Upon adoption of this guidance, SSMHC will conduct annual goodwill impairment tests as described above as well as record its noncontrolling interest in consolidated entities as part of net assets on the consolidated balance sheet. This adoption is not expected to have a material effect on SSMHC's consolidated financial statements.

In 2006, the FASB issued ASC-820-10 (SFAS No. 157), *Fair Value Measurements*, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance applies to the accounting for assets and liabilities required or permitted to be measured at fair value. ASC-820-10 prioritizes the inputs used to measure fair value as follows: quoted prices in active markets for identical assets or liabilities (level 1), significant other observable inputs (level 2), and significant unobservable inputs (level 3). The fair value measurement is assigned an overall input level based on the lowest level input that is significant to the fair value measurement in its entirety. SSMHC adopted SFAS No. 157 effective January 1, 2008. It did not have a material effect on consolidated financial statements of SSMHC upon adoption. The effect on future consolidated financial statements will depend upon the future circumstances in which fair value measurement will be required.

In 2006, FASB issued ASC-825 (SFAS No. 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. This guidance permits entities to choose to measure many financial instruments and certain other items at fair value mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Effective January 1, 2008, SSMHC adopted this guidance and elected the fair value option for financial investments in limited partnerships and limited liability corporations made through its centralized investment program that would otherwise be recorded using either the cost or equity methods. This election applies to all such investments owned at January 1, 2008. SSMHC made this election in order to ensure that the accounting treatment of these investments was comparable between categories, regardless of the current organizational structure of the various investments. This election did not have a material effect on the consolidated financial statements of SSMHC.

In December 2008, the FASB issued ASC-715 (FSP No. 132(R)-1), *Employers' Disclosures about Postretirement Benefit Plan Assets*, on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This guidance expands disclosures to include additional

information about the investment allocation decisions in connection with investment policies and strategies, fair values of each major category of plan assets, inputs and valuation techniques used to develop fair value measurements as well as the effects of level 3 inputs on changes in plan assets for the period. SSMHC adopted this guidance effective December 31, 2009. The adoption did not have a material effect on SSMHC's consolidated financial statements.

In March 2008, FASB issued ASC-815 (SFAS No. 161), *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133*, which requires additional disclosures about an entity's derivatives instruments and hedging activities, including how they are used and their effects on the balance sheet, financial performance and cash flow. SSMHC adopted ASC-815 in 2009. It did not change the accounting for derivative instruments and hedging activities and did not have a material impact on SSMHC's consolidated financial statements.

3. AFFILIATIONS

Prior to January 1, 2009 SSMHC owned 51% of Bone & Joint Hospital LLC (BJH), a joint venture with Healthcare Partners Investments, LLC (HPI) to operate Bone & Joint Hospital, an orthopedic hospital in Oklahoma City. SSMHC owns the hospital building and garage, which were leased to BJH under a 20-year agreement.

As of and for the year December 31, 2008, the financial statements of BJH are included in the consolidated financial statements of SSMHC, with provision for the minority financial interest of HPI up to the amount of HPI's investment. The loss from operations for BJH after provision for HPI's financial interest was \$2,073, for the year ended December 31, 2008.

Effective January 1, 2009, SSMHC purchased HPI's interests in BJH, and BJH was dissolved. On January 1, 2009, SSMHC began operating the orthopedic hospital as Bone & Joint Hospital at St. Anthony.

4. UNCOMPENSATED CARE

In line with its mission, SSMHC provides services to patients without regard to their ability to pay for those services. For some of its patient services, SSMHC receives no payment or payment that is less than the full cost of providing the services.

SSMHC voluntarily provides free care to patients who are unable to pay for all or part of their health care expenses as determined by SSMHC's criteria for financial assistance. Because SSMHC does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenues.

In some cases, SSMHC does not receive the amount billed for patient services even though it did not receive information necessary to determine if the patients met the criteria for financial assistance. Bad debts expense is the estimated amount of patient service revenues that SSMHC will not collect.

The estimated cost of charity care and the cost of bad debts are as follows. Costs are estimated using the ratio of each facility's costs of providing patient care to its charges.

	2009	2008
Cost of charity care	\$ 65,817	\$ 61,700
Cost of bad debts	47,518	42,716

SSMHC also commits significant time and resources to activities and critical services that meet unmet community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, prenatal education and care, hospice, support for residences for homeless persons, trauma care, community health education and various support groups.

5. NET PATIENT SERVICE REVENUES

A significant portion of SSMHC's revenue is generated under agreements with Medicare and Medicaid. Payments for services covered by Medicare are based on federal regulations specific to the type of service provided. Medicare pays for most services at a prospective rate. Hospital facilities that meet certain requirements receive additional funds in partial payment for the cost of medical education and caring for the indigent. The rates for services covered by Medicaid are determined by the regulations of the state in which the beneficiary is a resident. Medicare and Medicaid regulations are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

In addition, SSMHC has negotiated contracts with certain other third-party payors.

SSMHC provides discounts on charges for hospital services to all patients without insurance and who do not receive their health care services under Medicare, Medicaid or a public aid program. The discount varies by geographical location, primarily based on the discounts negotiated with SSMHC private third-party payors in that location. The total discounts provided to uninsured patients under this policy were \$113,600 and \$109,664 for the years ended December 31, 2009 and 2008, respectively, and are included as a reduction in net patient service revenues. If it is determined that an uninsured patient is eligible for a charity discount for hospital services, the charity discount will be taken after the discount for uninsured patients has been applied.

SSMHC participates in tax assessment programs in Missouri, Wisconsin, and Illinois. For the year ended December 31, 2009, SSMHC recognized \$166,187 in revenue and \$111,244 in expenses relating to these programs. For the year ended December 31, 2008, SSMHC recognized \$135,380 in revenue and \$89,767 in expenses. The revenue is included in net patient service revenues and the expenses are included in professional fees and other expenses in the consolidated financial statements.

A summary of SSMHC's Medicare, Medicaid and managed care utilization percentages, based upon gross patient service revenues was as follows:

	2009	2008
Medicare	34 %	35 %
Medicaid	11	11
Managed care	46	44
Other	<u>9</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

In 2009 and 2008, net patient service revenues included \$11,587 and \$15,349, respectively relating to prior years' settlements from Medicare, Medicaid and other programs.

6. CONCENTRATION OF CREDIT RISK

SSMHC provides health care services through its inpatient and outpatient care facilities located in their respective communities. SSMHC grants credit to patients, substantially all of whom are local residents. SSMHC generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, health maintenance organizations, and commercial insurance policies).

The mix of net receivables from patients and third-party payors as of December 31, 2009 and 2008, was as follows:

	2009	2008
Medicare	26 %	24 %
Medicaid	9	11
Managed care	46	49
Other	<u>19</u>	<u>16</u>
	<u>100 %</u>	<u>100 %</u>

7. ASSETS LIMITED AS TO USE OR RESTRICTED

The SSMHC Board of Directors has designated the accumulation of certain funds for future replacement of property and equipment, other capital improvements, debt retirement, and other purposes. Additionally, under the terms of the indentures for various bond issues, funds held by trustees have been established and legally designated for debt service.

A summary of assets limited as to use or restricted as of December 31, 2009 and 2008, is as follows:

	2009	2008
Assets limited as to use:		
Board designated for property and equipment, long-term employee benefit programs, and other	<u>\$ 1,323,069</u>	<u>\$ 1,022,951</u>
Held by trustee:		
Project funds	2,277	
Bond funds	4,129	4,115
Self-insurance (See Note 13)	227,710	192,039
Collateral held under securities lending agreements	<u>157,119</u>	<u>136,298</u>
	<u>391,235</u>	<u>332,452</u>
Assets restricted by donor as to use:		
Temporarily restricted	36,035	35,965
Permanently restricted	<u>15,235</u>	<u>8,579</u>
	<u>51,270</u>	<u>44,544</u>
Total assets limited as to use or restricted	1,765,574	1,399,947
Less current portion	<u>194,628</u>	<u>164,810</u>
Noncurrent portion	<u>\$ 1,570,946</u>	<u>\$ 1,235,137</u>

Assets limited as to use or restricted comprise the following asset classifications which include securities on loan:

	2009	2008
Cash, cash equivalents	\$ 97,628	\$ 84,410
Equity securities	422,217	371,858
Government securities	212,715	180,945
Corporate obligations	193,977	173,478
Mutual funds	564,143	322,425
Real estate investments	101,847	123,654
Guaranteed fixed funds	2,303	
Pooled separate accounts	2,859	
Other	<u>10,766</u>	<u>6,879</u>
	1,608,455	1,263,649
Collateral held under securities lending agreements	<u>157,119</u>	<u>136,298</u>
Total	<u>\$ 1,765,574</u>	<u>\$ 1,399,947</u>

In addition to investments in equity securities, fixed income securities and mutual funds, SSMHC holds investments in real estate funds and multi-strategy hedge funds. The real estate funds invest in real estate investment trusts and commercial real estate, diversified by geographical location and use. The multi-strategy hedge funds invest in funds that hold various types of debt and equity securities.

A summary of investment income, excluding interest expense related to reimbursement funds, for the years ended December 31, 2009 and 2008, is as follows:

	2009	2008
Interest and dividends	\$ 37,320	\$ 64,534
Realized gains (losses) on sale or redemption of investments, net	(68,570)	(49,786)
Mark to market adjustments	231,139	(364,417)

Excess (deficit) of revenues over expenses includes investment income as follows:

	2009	2008
Operating investment income (losses)	\$ 41,763	\$ (53,384)
Nonoperating investment income (losses)	158,126	(294,887)

For the year ended December 31, 2009, SSMHC recorded nonoperating investment losses of \$963, related to its discontinued operations. For the year ended December 31, 2008, SSMHC recorded operating and nonoperating investment losses of \$832 and \$688, respectively, related to its discontinued operations.

SSMHC participates in securities lending transactions whereby a portion of the assets limited as to use are loaned to various brokers in return for cash and securities from the brokers as collateral for the securities loaned. Pursuant to these arrangements, the collateral received must always equal at least 100% of the market value of the securities loaned, which is determined at the end of each business day. The collateral held for the securities loaned and related payable of equal value at December 31, 2009 and 2008, were \$157,119 and \$136,298, respectively, and have been reflected in the accompanying consolidated balance sheets.

The securities on loan are included in the following classifications:

	2009	2008
Equity securities	\$ 117,959	\$ 115,843
Government securities	28,655	11,699
Corporate obligations	<u>5,504</u>	<u>7,770</u>
Total	<u>\$ 152,118</u>	<u>\$ 135,312</u>

SSMHC recorded net investment income of \$875 and \$1,631 on these transactions for the years ended December 31, 2009 and 2008, respectively. Net investment income represents the amount received as investment income on the securities received as collateral, offset by the fees paid to the various brokers and the investment earnings on the securities loaned to the brokers.

8. FAIR VALUE MEASUREMENTS

SSMHC defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including SSMHC's own credit risk.

The fair values of all assets and liabilities recognized or disclosed at fair value are classified based on the lowest level significant inputs. SSMHC used the following methods to determine fair value:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that SSMHC has the ability to access on the report date.

Level 2 — Inputs (financial matrices, models, valuation techniques) other than quoted market prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs (such as professional appraisals, quoted prices from inactive markets that require adjustment based on significant assumptions or data that is not current, data from independent sources) that are unobservable for the asset or liability.

Following is a summary of assets and liabilities measured at fair value on a recurring basis by the level of significant input.

2009	Level 1	Level 2	Level 3	Total
ASSETS:				
Cash and cash equivalents — restricted	\$ 97,628	\$ -	\$ -	\$ 97,628
Equity securities	422,217			422,217
Government securities		212,715		212,715
Corporate obligations		174,001	19,976	193,977
Mutual funds	302,017	272,970	127,693	702,680
Real estate investments	9,215		92,632	101,847
Guaranteed fixed funds		2,303		2,303
Pooled separate accounts		2,083	776	2,859
Securities lending:				
Equity securities	122,188			122,188
Government securities		29,303		29,303
Corporate obligations		5,628		5,628
Cash and cash equivalents	7,574			7,574
Total assets	<u>\$ 960,839</u>	<u>\$ 699,003</u>	<u>\$ 241,077</u>	<u>\$ 1,900,919</u>
LIABILITIES:				
Interest rate swaps	\$ -	\$ 44,069	\$ -	\$ 44,069
Asset retirement obligations			11,530	11,530
Total liabilities	<u>\$ -</u>	<u>\$ 44,069</u>	<u>\$ 11,530</u>	<u>\$ 55,599</u>

2008	Level 1	Level 2	Level 3	Total
ASSETS:				
Cash and cash equivalents — restricted	\$ 43,898	\$ -	\$ -	\$ 43,898
Short-term investments	40,512			40,512
Equity securities	371,858			371,858
Government securities		180,945		180,945
Corporate obligations		173,478		173,478
Mutual funds	88,030	43,129	182,687	313,846
Real estate investments			123,654	123,654
Securities lending	116,829	19,469		136,298
Perpetual trust			14,008	14,008
Pledges			5,349	5,349
Other		1,530		1,530
Cash and cash equivalents	6,427			6,427
Short-term investments	97,231			97,231
Deferred compensation assets	47,143			47,143
Pension restoration assets	8,514	2,142	3,778	14,434
Total assets	\$ 820,442	\$ 420,693	\$ 329,476	\$ 1,570,611
LIABILITIES:				
Securities lending	\$ 116,829	\$ 19,469	\$ -	\$ 136,298
Deferred compensation liability	47,143			47,143
Interest rate swaps		110,603		110,603
Total liabilities	\$ 163,972	\$ 130,072	\$ -	\$ 294,044

Changes related to the fair values based on level 3 inputs for the year ended December 31, 2009, are summarized as follows.

2009	Total
ASSETS:	
Beginning balance	\$ 329,476
Total gains (losses) realized/unrealized	(1,687)
Purchases	60,831
Sales	(101,489)
Transfers in/(out)	(46,054)
Ending balance	\$ 241,077
LIABILITIES:	
Beginning balance	\$ -
Transfers in/(out)	11,530
Ending balance	\$ 11,530

Transfers out of Level 3 represent existing assets that were previously categorized as higher level for which the lowest significant input became observable during the period. Transfers in of Level 3 represent the inclusion of liabilities previously not categorized as Level 3.

Changes related to the fair values based on Level 3 inputs for the year ended December 31, 2008, are summarized as follows:

2008	Total
ASSETS:	
Beginning balance	\$ 364,099
Total gains (losses) realized/unrealized — net included in:	
Other operating income	193
Investment income	(53,194)
Changes in net assets	(368)
Purchases/additions	24,962
Sales/payments	(4,049)
Change in allowance	(512)
Change in discount	(15)
Change in beneficial interest	(1,303)
Transfer in/(out)	<u>(337)</u>
Ending balance	<u>\$ 329,476</u>

For the years ended December 31, 2009 and 2008, a majority of the multi-strategy hedge funds and real estate trust investment are recorded at the net asset value (NAV), which is the estimated fair value of the investments.

The multi-strategy hedge funds and real estate trust investments are redeemable at NAV under the original terms of the agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of SSMHC's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if SSMHC were to sell these investments in the secondary market a buyer may require a discount to the reported net asset value, and the discount could be significant. As such, SSMHC has classified these as level 3 investments. In addition, the unfunded commitments to these funds are \$18,500 and \$21,090 at December 31, 2009 and 2008, respectively.

9. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2009 and 2008, is as follows:

	2009	2008
Land and improvements	\$ 96,803	\$ 94,584
Buildings	1,553,199	1,299,436
Equipment	<u>977,252</u>	<u>914,916</u>
	2,627,254	2,308,936
Less accumulated depreciation	<u>1,440,493</u>	<u>1,335,226</u>
	1,186,761	973,710
Real estate held for future development	9,490	9,278
Construction in process	<u>65,124</u>	<u>251,929</u>
Total	<u>\$1,261,375</u>	<u>\$1,234,917</u>

Operating depreciation expense for the years ended December 31, 2009 and 2008, totaled \$137,522 and \$124,955, respectively. Nonoperating depreciation or amortization expense related to real estate held for future development for the years ended December 31, 2009 and 2008, totaled \$68 and \$72, respectively.

The book value of equipment under capital lease obligations at December 31, 2009 and 2008, totaled \$70,062 and \$41,495, respectively. The related accumulated depreciation totaled \$33,086 and \$25,266, respectively, at December 31, 2009 and 2008. These amounts are included in the above summary of property and equipment.

Assets Held for Sale and Impairment Costs — SSMHC periodically performs reviews of its properties based on strategic criteria to determine the best use of its resources. Based on the results of such reviews, management decided to dispose of certain properties.

In 2005, SSMHC received Certificate of Need approval to build a new hospital near Fenton, Missouri, to replace its facility in Kirkwood, Missouri. SSMHC opened the hospital in late March 2009 and the existing facility was closed in early 2009 and sold to an unrelated party in February of 2010 resulting in a \$7,000 gain on sale. The assets, which were impaired in 2006, were all placed in held for sale status as of June 2008.

The net book value of all of the properties held for sale at December 31, 2009, was \$698. The net book value of all of the properties held for sale at December 31, 2008, was \$6,027. These properties consisted of undeveloped land, medical office buildings, and a former hospital site.

On July 29, 2008, SSMHC sold its hospital in Blue Island, Illinois and related home health operations also located in Blue Island, Illinois, and transferred \$9,600 in cash to an unrelated party and incurred other costs amounting to \$3,931. SSMHC has no continuing interest in the operations of this hospital and related home health operation. For the period from January 1, 2008 to July 29, 2008, the hospital and related home health operations recorded revenue of \$66,306 and net loss of \$42,725 (which includes loss on sale of \$31,277). For the year ended December 31, 2009, the hospital and related home health operations recorded net revenue of \$3,707 as a result of collections of accounts receivable that had previously been fully reserved. SSMHC retained ownership of the receivables, accounts payable, and certain other assets and liabilities incurred prior to July 29, 2008. For reporting purposes in 2008 and

2009, the operations of the hospital and the related home health services are treated as discontinued operations. The following is a summary of the net assets sold:

Inventories, prepaid expenses, and other	\$ 3,307
Property and equipment — net	12,471
Accounts payable and accrued liabilities	<u>(798)</u>
Net assets sold	<u>\$ 14,980</u>

As part of the sale of the hospital in Blue Island, Illinois, SSMHC transferred control of St. Francis Health Care Foundation (SFHCF) to the community-based board of directors of SFHCF on December 31, 2008. SFHCF was renamed and the purpose amended to support the unfunded health care needs in the community. The assets and net assets contributed to the community at December 31, 2008 were \$2,766.

On June 30, 2009, SSMHC ceased operations of its Home Medical Equipment Company (HME). For the period from January 1, 2009 to June 30, 2009, HME recorded a net loss of \$1,609 which includes a gain on sale of \$474. The loss is treated as discontinued operations for reporting purposes. The assets sold include the patient base which had no net book value at December 31, 2009.

Commitments — At December 31, 2009, construction and equipment purchase contracts of approximately \$85,555 exist for new facilities and capital improvements of SSMHC's existing facilities. At December 31, 2009, the remaining commitment on these contracts approximated \$56,898, which will be financed with board-designated assets, project funds or cash generated from operations.

10. INVESTMENTS IN UNCONSOLIDATED ENTITIES

SSMHC included the following income (loss) from operations from equity method investments in health care joint ventures for the years ended December 31, 2009 and 2008 as other operating revenue.

	2009	2008
Income from operations	\$ 17,266	\$ 6,889
Losses from operations	<u>(9,300)</u>	<u>(7,463)</u>
Net income (loss) from operations	<u>\$ 26,566</u>	<u>\$ 14,352</u>

On December 7, 2009, SSMHC contributed certain of its assets and liabilities of its rehabilitation division to form a new joint venture with an unrelated third party, Select Medical Corporation, in exchange for \$21,000 and a 49% interest in the new joint venture valued at \$1,295. This resulted in the recognition of a \$19,652 gain which is included in other revenue in the accompanying consolidated statements of operations. SSMHC retained ownership of the receivables, accounts payable, and certain other assets and liabilities incurred prior to December 7, 2009.

SSMHCC owns 47% of the outstanding stock of Dean Health Insurance, Inc., which operates as a health maintenance organization in the Southern Wisconsin market. This investment is being accounted for under the equity method and the carrying value of this investment exceeded SSMHC's share of underlying equity by approximately \$42,073 and \$46,080 at December 31, 2009 and 2008, respectively. The original excess is being amortized on a straight-line basis over 25 years and is recorded in operating expenses. In addition, SSMHCC owns 47% of the outstanding stock in Dean Health Service Co., which is an information technology provider for Dean Health Insurance, Inc.

Dean Health Insurance, Inc. classifies its marketable securities as available for sale and includes the change in unrealized gain (loss) on available-for-sale marketable securities outside of its performance indicator. SSMHC records its share of this activity as an increase (decrease) in unrestricted net assets outside of its performance indicator.

Condensed financial information of Dean Health Insurance, Inc. and Subsidiaries and Dean Health Service Co. as of December 31, 2009, and for the year then ended, is summarized below:

	2009
Current assets	\$ 166,094
Noncurrent assets	<u>122,206</u>
Total assets	<u>\$ 288,300</u>
Current liabilities	\$ 148,992
Noncurrent liabilities	<u>13,963</u>
Total liabilities	162,955
Equity	<u>125,345</u>
Total liabilities and equity	<u>\$ 288,300</u>
Total revenues	\$ 942,205
Total expenses	<u>929,142</u>
Net income	<u>\$ 13,063</u>

Condensed financial information of Dean Health Insurance, Inc. and Subsidiaries as of December 31, 2008, and for the year then ended, is summarized below:

	2008
Current assets	\$ 132,652
Noncurrent assets	<u>79,973</u>
Total assets	<u>\$ 212,625</u>
Current liabilities	\$ 139,859
Noncurrent liabilities	<u>12,392</u>
Total liabilities	152,251
Equity	<u>60,374</u>
Total liabilities and equity	<u>\$ 212,625</u>
Total revenues	\$ 869,567
Total expenses	<u>866,591</u>
Net income	<u>\$ 2,976</u>

SSMHC also owns 5% of the outstanding stock of Dean Health Systems, Inc., a Wisconsin service corporation, acquired for \$8,000. This investment is being accounted for under the cost method. Dean Health Systems, Inc owns the remaining shares of Dean Health Insurance, Inc. and Dean Health Service Co.

11. DEBT

Debt at December 31, 2009 and 2008, consists of the following:

	2009	2008
Under the Master Indenture:		
Fixed Rate:		
Series 2008A Bonds, 5.0%, due serially through 2036 (less unamortized discount of \$2,956 and \$3,077 at December 31, 2009 and 2008 respectively)	\$ 101,044	\$ 100,923
Series 2002A Bonds, 3.2% to 5.0%, due serially through 2012 (plus unamortized premium of \$333 and \$566 at December 31, 2009 and 2008, respectively)	21,008	21,241
Series 2001A Bonds, 5.2%, due between 2012 and 2018 (less unamortized discount of \$385 and \$460 at December 31, 2009 and 2008, respectively)	23,970	23,895
Series 1998A Bonds, 5.0% to 5.5%, due serially through 2022 (less unamortized discount of \$468 and \$609 at December 31, 2009 and 2008, respectively)	56,957	65,086
Series 1992A, 6.2%, due serially through 2015 (plus unamortized premium of \$925 and \$1,110 at December 31, 2009 and 2008, respectively)	14,410	16,405
Total fixed rate debt	<u>217,389</u>	<u>227,550</u>
Variable Rate:		
Series 2005A Variable Rate Demand Bonds, 0.23% to 0.32% at December 31, 2009, due serially through 2035	119,200	119,200
Series 2005B Indexed Put Bonds, 0.6% at December 31, 2009, due serially through 2035	79,600	79,600
Series 2005C Variable Rate Demand Bonds, 0.2% to 0.3% at December 31, 2009, due serially through 2033	332,600	348,900
Series 2005D Variable Rate Demand Bonds, 0.22% to 0.32% at December 31, 2009, due serially through 2033	167,070	167,070
Series 2002B, Auction Rate Bonds, 2.2% at December 31, 2009, term bonds due between 2013 and 2020	60,000	60,000
Series 1998B, Auction Rate Bonds, 2.2% at December 31, 2009, due serially through 2019	86,100	88,950
Total variable rate debt	<u>844,570</u>	<u>863,720</u>
Other Debt:		
Note payable to Felician Services, Inc.	38,404	37,387
Notes payable, due at various dates through 2032, interest at 2.1% to 10.5%, unsecured	8,107	4,933
Capital lease obligations, at varying rates from 3.0% to 5.1% collateralized by leased equipment	38,039	15,089
Total other	<u>84,550</u>	<u>57,409</u>
Total long-term debt	1,146,509	1,148,679
Less current portion	<u>160,769</u>	<u>65,665</u>
Total	<u>\$ 985,740</u>	<u>\$ 1,083,014</u>

SSM Health Care Master Indenture — SSMHCC is a member of the SSM Health Care Credit Group (Credit Group) and the only Obligated Group Member pursuant to a Master Trust Indenture (amended and restated) dated May 15, 1998. SSMHC corporations not included in the Credit Group include a

variety of entities consisting primarily of foundations, medical office building corporations, employed physician practices, and various other corporations involved in activities supporting SSM Health Care. Certain of SSMHC's affiliates are "Designated Affiliates" under the Master Trust Indenture. The net assets of the Designated Affiliates are available to SSMHCC to service all obligations under the Master Trust Indenture. Various issuing authorities have issued tax-exempt revenue bonds under the Master Trust Indenture. The payment of these bonds, except for portions of the Series 2002A, 2005A, 2005C, 2005D, and the Series 2005B Indexed Put Bonds, which aggregate \$533,200 at December 31, 2009 and 2008, is insured by municipal bond insurance policies. All Master Indenture debt is subject to certain debt covenants, including, among other things, the maintenance of certain cash balances and other financial ratios. SSMHC was in compliance with all debt covenants as of December 31, 2009.

In 2008, SSMHC issued \$104,000 of uninsured, fixed rate debt due serially through 2036 through the Health and Education Facility of the state of Missouri. The proceeds were used to finance qualified capital projects. In addition, it converted \$309,600 of auction rate securities to variable rate demand bonds. SSMHC defeased \$57,000 of insured and uninsured fixed and variable rate debt due through 2033 due to a change in use of assets to taxable activities.

Included in the variable rate bonds issued in 2005 are \$79,600 of uninsured indexed put bonds. The bondholders have the option of tendering these bonds on August 5, 2010 and every anniversary thereafter, with advance notice. If any of the bonds are not successfully remarketed, SSMHC can be required to purchase them. These bonds are classified as current liabilities at December 31, 2009.

Auction Rate Bonds — The debt includes \$146,100 and \$148,950 at December 31, 2009 and 2008, respectively, of variable auction rate bonds. The interest rates on these bonds are reset at regular intervals of 35 days. The bonds are bought and sold at the lowest bid rate at which all of the outstanding bonds can be sold. This rate varies based on market conditions. If there are insufficient orders to purchase all of the bonds available for sale, the rate is set at a maximum rate required by the bond agreement. The maximum rate for SSMHC's auction rate bonds is the higher of the 175% of the after-tax equivalent rate or the Kenny Index, but no more than 12%.

Variable Rate Bonds – The debt includes \$618,870 and \$635,170 at December 31, 2009 and 2008, respectively, of variable rate demand bonds. The interest rates on these bonds are reset at daily or weekly intervals. The bonds are supported by credit facilities for the full amount of the bonds.

On July 1, 2009, portions of the Series 2005A and 2005D variable rate demand bonds totaling \$145,545 were converted from a weekly rate to a daily rate. In connection with this conversion, these bonds were subject to mandatory tender and the remarketing proceeds were used to pay off current bond holders. As a result of these transactions, SSMHC recorded a loss on the extinguishment of debt in the amount of \$910 in 2009.

Note Payable to FSI — On July 1, 2007, SSMHC entered into an installment note payable to the Felician Services, Inc. (FSI). Under the terms of the agreement, FSI may elect to convert the note to pay status on or after December 31, 2014. SSMHC will begin making twenty annual payments on the note, with the first one due one year after FSI has notified SSMHC of its election to convert the note to pay status. Under specified circumstances SSMHC can issue a resolution which enables FSI to convert the note to pay status prior to December 31, 2014, with installments to begin two years from notice. The fixed interest rate will be equal to the 20-year municipal market data index plus 0.25 on the first day the note is in pay status.

Until the note is in pay status, the principal is adjusted annually based on a specified consumer price index. The principal of the note was adjusted \$1,017 and \$34 for the years ended December 31, 2009 and 2008, respectively, from the fair value at July 1, 2007, which is reflected in interest expense.

Liquidity Agreements — The Series 2005A, 2005C, and 2005D Variable Rate Demand Bonds require remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, SSMHC has liquidity agreements with five banking corporations. If the bonds are not successfully remarketed, SSMHC is required to pay an interest rate specified in the liquidity agreement. These agreements have terms that expire in 2010 or 2011 or require accelerated principal repayment terms in the event of a failed remarketing. The 2005A, 2005C, and 2005D Variable Rate Demand Bonds are classified between long-term borrowings and short-term borrowings based upon these accelerated terms. The contingent payments below reflect these accelerated terms. However, SSMHC's contractual payments do not reflect these accelerated terms. If any of these agreements are terminated and not replaced, extended, or renewed, SSMHC can be required to purchase the tendered bonds at the specified bank rate in a short period of time.

Contractual and Contingent Principal Repayments — Contractual and contingent principal repayments on long-term debt and capital lease obligations of SSMHC are as follows:

	Long-term Debt		Capital Lease Obligations
	Contractual Payments	Contingent Payments	
2010	\$ 31,553	\$ 151,233	\$ 10,906
2011	32,130	609,850	10,323
2012	33,534	29,334	8,136
2013	38,249	35,349	6,490
2014	36,595	36,295	4,868
Thereafter	938,959	248,959	
	\$1,111,020	\$1,111,020	40,723
Less amount representing interest under capital leases obligations			2,684
			\$38,039

Revolving Line of Credit — SSMHC has two line of credit agreements with banks that permit SSMHC to borrow up to \$70,000, at varying rates of interest through July 17, 2010. The outstanding balances under these agreements was \$53,437 and \$58,059 at December 31, 2009 and 2008, respectively.

Fair Value of Long-Term Debt — The fair value of long-term debt is estimated based upon current rates offered to health care systems for similar issues and approximated \$1,145,429 and \$1,132,000 at December 31, 2009 and 2008, respectively.

Interest Rate Swaps — In 2005, SSMHC entered into three interest rate swap contracts under which SSMHC pays a fixed rate of interest of 3.509% and receives a payment of 65% of LIBOR plus 12 basis points from swap counterparties on notional amounts totaling \$555,100 beginning July 21, 2005. The notional amounts amortize through 2033, approximating the amortization of the Series 2005C and Series 2005D bonds.

In 2005, SSMHC entered into three additional amortizing interest rate swap contracts under which SSMHC pays a fixed rate of interest between 3.372% and 3.357% and receives from the swap counterparties 65% of LIBOR plus 12 basis points notional amounts totaling \$119,200 beginning June 14, 2006. The notional amounts amortize through 2035, approximating the amortization of the Series 2005A bonds.

None of the aforementioned swaps have been designated as hedges of outstanding debt obligations under U.S. generally accepted accounting principles.

The counterparty to SSMHC may require posting of collateral if the market value falls below the established spread in the swap contract.

The net change in the fair value of the swaps was recorded as a nonoperating gain (loss) of (\$94,385) in the accompanying consolidated statements of operations for 2008. The total fair value of the swap was a net liability of \$110,603 at December 31, 2008. Fair value is based on significant other observable inputs (level 2) at December 31, 2009 and 2008.

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 December 31, 2009:

	Recorded on Balance Sheet	Maturity Date of Derivatives	Fixed Rate	December 31, 2009	
				Notional Amount Outstanding	Fair Value
Derivatives not designated as hedges — interest rate swaps	Other liabilities	2033–2035	3.357%–3.509%	<u>\$ 642,200</u>	<u>\$ (44,069)</u>
Total				<u>\$ 642,200</u>	<u>\$ (44,069)</u>

Changes in fair value of derivative instruments have been recorded for the year ended December 31, 2009, as follows:

	Recorded as	Gain (Loss)
Settled amounts	Operating interest expense	\$(14,258)
	Nonoperating investment income (loss)	(5,648)
Unrealized gains/losses	Change in market value of interest rate swap	<u>66,534</u>
Total		<u>\$ 46,628</u>

Cash Paid for Interest — Cash paid for interest totaled \$41,896 and \$48,688 for the years ended December 31, 2009 and 2008, respectively. SSMHC capitalized interest cost in the amounts of \$2,707 and \$9,312 in the years ended December 31, 2009 and 2008, respectively.

12. PENSION

SSMHC administers several qualified and non-qualified pension plans for its employees. The following table summarizes the benefit obligations, the fair value of plan assets and the funded status at December 31, 2009 and 2008:

	2009	2008
Change in projected benefit obligation:		
Projected benefit obligation — beginning of period	\$ 1,192,730	\$ 1,105,126
Service cost, benefits earned during the period	49,497	48,211
Interest costs on projected benefit obligation	76,699	71,009
Actuarial loss	58,977	1,533
Plan amendments		2,141
Curtailments		(10,071)
Benefits paid	<u>(27,822)</u>	<u>(25,219)</u>
Projected benefit obligation — end of period	<u>1,350,081</u>	<u>1,192,730</u>
Change in plan assets:		
Fair value of plan assets — beginning of period	599,604	817,750
Actual return on plan assets	118,349	(228,872)
Employer contributions	46,294	35,945
Benefits paid	<u>(27,822)</u>	<u>(25,219)</u>
Fair value of plan assets — end of period	<u>736,425</u>	<u>599,604</u>
Net amount recognized at end of period and funded status	<u>\$ (613,656)</u>	<u>\$ (593,126)</u>
Accumulated benefit obligation — end of period	<u>\$ 1,173,830</u>	<u>\$ 1,038,586</u>

The following is a summary of the amounts recognized in the consolidated balance sheets for the years ended December 31, 2009 and 2008:

	2009	2008
Amounts recognized in the balance sheets consist of:		
Current liabilities	\$ (1,297)	\$ (1,092)
Other liabilities	<u>(612,359)</u>	<u>(592,034)</u>
Net amount recognized	<u>\$ (613,656)</u>	<u>\$ (593,126)</u>
Amounts recognized in unrestricted net assets consist of:		
Net actuarial loss	\$ 433,601	\$ 432,054
Prior service cost	<u>3,170</u>	<u>3,957</u>
	<u>\$ 436,771</u>	<u>\$ 436,011</u>

The net loss and prior service cost for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit costs over the next fiscal year are \$17,332 and \$787, respectively.

The following is a summary of the components of net periodic pension cost for the years ended December 31, 2009 and 2008:

	2009	2008
Service cost, benefits earned during the period	\$ 49,497	\$ 48,211
Interest costs on projected benefit obligation	76,699	71,009
Expected return on plan assets	(69,364)	(67,651)
Amortization of unrecognized:		
Prior service costs	787	1,120
Net loss	<u>8,445</u>	<u>2,344</u>
Net periodic pension cost	<u>\$ 66,064</u>	<u>\$ 55,033</u>

The following are the actuarial assumptions used by the pension plans to develop the components of pension expense for the years ended December 31, 2009 and 2008:

	2009	2008
Discount rates	6.25 %	6.25 %
Rates of salary increase	4.25	4.25
Return on plan assets	8.25	8.25

The following are the actuarial assumptions used by the pension plans to develop the components of the pension projected benefit obligation as of December 31, 2009 and 2008:

	2009	2008
Discount rates	6.00 %	6.25 %
Rates of salary increase	4.25	4.25

SSMHC expects to contribute \$47,312 to its pension plans in 2010.

Estimated Future Benefit Payments — The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2010	\$ 33,885
2011	39,314
2012	45,429
2013	52,278
2014	59,541
Years 2015–2019	421,852

The actual plan asset allocations and the allocation goals comprise the following investment classifications at December 31, 2009 and 2008:

	2009	2008	Allocation Goals
Cash, cash equivalents, and short-term investments	1 %	1 %	- %
Domestic equities	39	44	45
International equities	24	17	20
Fixed income	17	14	15
Real estate investments	10	12	10
Multi-strategy hedge funds	<u>9</u>	<u>12</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

SSMHC's investment objective with respect to pension plans is to produce sufficient current income and capital growth through a portfolio of equity, real estate, hedge fund, and fixed income investments, which together with appropriate employer contributions is sufficient to provide for the pension benefit obligations. The assumed return on plan assets is intended to be a long-term rate expected on funds invested or to be invested in accordance with SSMHC's asset allocation policy to provide for benefits reflected in the plans' projected benefit obligation. In developing the assumptions, SSMHC evaluated input from its actuary and pension fund investment advisors, including the advisors' actual performance returns, which have been in excess of the plans' return on asset assumptions, with the exception of 2008 due to the unusual market conditions. Pension assets are managed by outside investment managers in accordance with the investment policies and guidelines established by the pension trustees, and are diversified by investment style, asset category, sector, industry, issuer, geographical location, and maturity. Pension assets are rebalanced each quarter to the plan's asset allocation guidelines. SSMHC anticipates that its investment managers will continue to generate long-term returns equal to or in excess of its assumed rates.

Plan assets, at fair value, comprise the following asset classifications which include securities on loan:

	2009	2008
Cash, cash equivalents, and short-term investments	\$ 31,035	\$ 25,943
Equity securities	358,380	293,684
Government securities	25,845	36,998
Corporate obligations	36,517	34,065
Mutual funds	217,797	143,110
Real estate investments	<u>66,851</u>	<u>65,804</u>
	736,425	599,604
Collateral held under securities lending agreements	<u>114,106</u>	<u>95,526</u>
Total	<u>\$ 850,531</u>	<u>\$ 695,130</u>

Following is a summary of plan assets by the level of significant input.

2009	Level 1	Level 2	Level 3	Total
ASSETS:				
Cash and cash equivalents	\$ 1,380	\$ -	\$ -	\$ 1,380
Short-term investments	29,655			29,655
Equity securities	358,380			358,380
Government securities		25,845		25,845
Corporate obligations		36,517		36,517
Mutual funds	49,527	65,878	102,392	217,797
Real estate investments	6,992		59,859	66,851
Securities lending:				
Equity securities	105,020			105,020
Government securities		7,622		7,622
Corporate obligations		1,464		1,464
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 550,954</u>	<u>\$ 137,326</u>	<u>\$ 162,251</u>	<u>\$ 850,531</u>

Changes related to the fair values based on level 3 inputs, are summarized as follows.

2009	Total
Beginning balance	\$ 166,432
Total gains (losses) realized/unrealized	18,374
Purchases	39,499
Sales	<u>(62,054)</u>
Ending balance	<u>\$ 162,251</u>

Defined Contribution Plans — SSMHC also sponsors defined contribution plans covering employees who participate in the voluntary tax deferred annuity program and who meet age and service requirements. SSMHC's contributions to these plans are based on a percentage of employee compensation or employee contributions. Defined contribution pension expense for these plans was \$2,463 and \$8,930 for 2009 and 2008, respectively.

13. SELF-INSURANCE

Professional Liability Insurance — A majority of the members of SSMHC participate in the SSMHC Liability Trust I or SSMHC Liability Trust II (Trusts). Both Trusts are revocable grantor trusts. These Trusts, which cover primary limits of professional and general liability, require annual contributions by participating entities at actuarially determined amounts. All professional and general liability claims and workers' compensation claims are paid from the Trusts subject to certain liability limitations.

SSMHC's underlying self-insured retention for professional liability claims is as follows:

	January 1, 2009 to December 31, 2009	January 1, 2008 to December 31, 2008
Per occurrence limits:		
Missouri, Oklahoma, and Wisconsin	\$5,000	\$ 5,000
Illinois:		
Cook County	N/A	15,000
Other	7,000	7,000
Annual aggregate	None	None

SSMHC's underlying self-insured retention for general liability claims is as follows:

	July 20, 2009 to December 31, 2009	July 20, 2008 to July 19, 2009	January 1, 2008 to July 19, 2008
Per occurrence limits:			
Missouri, Oklahoma, and Wisconsin	\$ 3,000	\$ 3,000	\$ 5,000
Illinois:			
Cook County	N/A	5,000	15,000
Other	3,000	3,000	7,000
Annual aggregate	None	None	None

SSMHC maintains reinsurance for claims exceeding the underlying self-insured retention. As of December 31, 2009, the reinsurance provides coverage up to the limits in the following table. The sublimits are part of and not in addition to the overall policy aggregate limits.

	Locations
Per loss event	\$ 125,000
Combined single annual aggregate	150,000
Annual aggregate per location	125,000

The estimated professional and general liability obligation is recorded in the consolidated financial statements at the present value of future cash payments for both asserted and unasserted claims, using discount rates of 3.5% and 2.5% at December 31, 2009 and 2008, respectively. The liability for self-insured reserves represents estimates of the ultimate net cost of all losses and related expenses, which are incurred but not paid at the balance sheet date based on an actuarial valuation.

SSMHC members recognized expense of \$24,183 and \$40,656 during the years ended December 31, 2009 and 2008, respectively, related to the Trusts. These intercompany transactions are eliminated in the consolidated financial statements. The accumulated assets of the Trusts are not available to participating members except to pay covered professional liability claims or to reduce future contributions when warranted by claims experience. In the event the Trusts are ever depleted, the participating members would be required to fund deficiencies based on future actuarial determinations.

Workers' Compensation — A majority of the members of SSMHC participate in SSMHC's centralized self-insured workers' compensation program. Claims in excess of certain liability limitations are covered by commercial insurance. The estimated workers' compensation liability obligation is actuarially determined and recorded in the consolidated financial statements at the present value of future cash payments for both asserted and unasserted claims, using a discount rate of .25% and 0.5%, respectively, at December 31, 2009 and 2008.

Employee Health Insurance — A majority of the members of SSMHC participate in the SSM Employee Health Care Fund (Fund). Each participating member funds an actuarially determined amount with the Fund's trustee for payment of covered benefits and related expenses, which are subject to certain limitations.

SSMHC members recognized employee health care expense of \$114,030 and \$104,690 during the years ended December 31, 2009 and 2008, respectively. These amounts and corresponding Fund revenues are eliminated in consolidation. Claims paid by the Fund are included in salaries and benefits expense. The accumulated assets of the Fund are not available to the participating members except to pay covered benefits. In the event the Fund is ever depleted, the participating entities would be assessed to cover the deficiencies.

14. ASSET RETIREMENT OBLIGATIONS

SSMHC has recorded conditional asset retirement obligations and capitalized retirement costs related to the estimated cost of removing asbestos from its facilities. Federal and state regulations require the removal of asbestos when a building is demolished or, at a minimum, encapsulation of the asbestos when it would be exposed during renovation. The obligation is included in other liabilities, and the capitalized costs are included in property and equipment. The following summarizes the asset retirement obligations at December 31, 2009 and 2008:

	2009	2008
Balance — beginning of the period	\$ 11,302	\$ 12,008
Retirements	(352)	(1,043)
Additions	176	6
Accretion expense	<u>404</u>	<u>331</u>
Balance — end of the period	<u>\$ 11,530</u>	<u>\$ 11,302</u>

15. NET ASSETS

Endowments consist of approximately 47 individual funds established for a variety of purposes. They include both donor-restricted endowment funds and funds designated by the boards of trustees or governors of its 15 foundations to function as endowments (board-designated endowment funds). Net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions and the nature of the restrictions, if any.

Endowment Net Asset Composition by Type of Fund as of December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 45	\$ 15,235	\$ 15,280
Board-designated endowment funds	<u>12,839</u>	<u>—</u>	<u>—</u>	<u>12,839</u>
Total funds	<u>\$ 12,839</u>	<u>\$ 45</u>	<u>\$ 15,235</u>	<u>\$ 28,119</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$ 11,745	\$ 141	\$ 8,577	\$ 20,463
Investment return:				
Investment income	389	11		400
Net depreciation (realized and unrealized)	<u>785</u>	<u>38</u>	<u>4</u>	<u>827</u>
Total investment return	1,174	49	4	1,227
Contributions		2	294	296
Appropriation of endowment assets for expenditure	(150)	(147)		(297)
Other changes:				
Transfers in (out)	<u>70</u>	<u>—</u>	<u>6,360</u>	<u>6,430</u>
Endowment net assets — end of year	<u>\$ 12,839</u>	<u>\$ 45</u>	<u>\$ 15,235</u>	<u>\$ 28,119</u>

Transfers in (out) include a reclassification of beneficial interest in a charitable trust to endowment. Previously, this asset, although considered permanently restricted, had been reported separately from endowments.

Endowment Net Asset Composition by Type of Fund as of December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 141	\$ 8,577	\$ 8,718
Board-designated endowment funds	<u>11,745</u>	<u>—</u>	<u>—</u>	<u>11,745</u>
Total funds	<u>\$ 11,745</u>	<u>\$ 141</u>	<u>\$ 8,577</u>	<u>\$ 20,463</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — beginning of year	\$ 13,298	\$ 205	\$ 9,150	\$ 22,653
Investment return:				
Investment income	68	8		76
Net depreciation (realized and unrealized)	<u>(3,460)</u>	<u>(67)</u>	<u>(339)</u>	<u>(3,866)</u>
Total investment return	(3,392)	(59)	(339)	(3,790)
Contributions			103	103
Appropriation of endowment assets for expenditure	(161)	(11)		(172)
Other changes:				
Transfers to create board designated endowment funds	2,000			2,000
Transfers in (out)	<u>—</u>	<u>6</u>	<u>(337)</u>	<u>(331)</u>
Endowment net assets — end of year	<u>\$ 11,745</u>	<u>\$ 141</u>	<u>\$ 8,577</u>	<u>\$ 20,463</u>

Funds with Deficiencies — From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires SSMHC to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies totaled \$42 and \$608 as of December 31, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters — SSMHC has investment and spending practices for endowment assets that intend to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that SSMHC must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The policy allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield results of the allocation index while assuming a moderate level of investment risk. SSMHC expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

Strategies Employed for Achieving Objectives — To satisfy its long-term rate-of-return objectives, SSMHC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. SSMHC uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

Spending Policy and How the Investment Objectives Relate to Spending Policy — SSMHC has a practice of distributing the major portion of current year earnings on the endowment funds, if the restrictions have been met. Some of the donor-restricted endowments require a portion of the earnings to increase the corpus of the endowment. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

16. FUNCTIONAL EXPENSES

SSMHC provides general health care services to residents within its geographic locations. Expenses excluding discontinued operations related to providing these services are as follows:

	2009	2008
Health care services	\$2,438,718	\$2,294,611
General and administrative	301,037	297,147
Fundraising	<u>5,269</u>	<u>7,161</u>
Total expenses	<u>\$2,745,024</u>	<u>\$2,598,919</u>

17. COMMITMENTS AND CONTINGENT LIABILITIES

Leases for property and equipment that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2009, that have initial or remaining lease terms in excess of one year:

2010	\$ 28,700
2011	23,211
2012	17,935
2013	13,721
2014	8,928
Thereafter	<u>11,622</u>
Total minimum lease payments	<u>\$ 104,117</u>

Total rental expense was approximately \$46,166 and \$44,951 in 2009 and 2008, respectively.

SSMHC has outstanding letters of credit of \$4,955 at December 31, 2009. There are no outstanding draws on these letters of credit.

SSMHCC has guaranteed that certain lease payments will be made by one of its equity investments. The amount of future lease payments guaranteed by SSMHCC totaled \$1,484 at December 31, 2009.

SSMHC is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on SSMHC's consolidated financial position or consolidated results of operations.

During a periodic cost report audit performed by the Medicare intermediary in Oklahoma, the intermediary identified potential issues with the calculation of the disproportionate share hospital (DSH) payments paid to SSMHC's Oklahoma facility. The payments are paid by Medicare for hospitals that treat a disproportionate share of Medicaid and disabled social security patients. The specific issue under review is whether the care furnished for children and adolescents in an adolescent psychiatric program at SSMHC's Oklahoma facility is similar in acuity to services that are usually paid for under Medicare's inpatient hospital prospective payment system. At the end of the year, no determination (reduction of previously claimed Medicaid days, or agreement with previous days claimed) had been made by the Medicare contractor or the Centers for Medicare and Medicaid Services. If an adverse ruling is rendered and a request for partial or full refund of previous DSH payments attributable to the adolescent psychiatric program is made for 2006 and previous Medicare cost report years that are subject to reopening, a reduction in revenue would occur. The amount of an adverse ruling is indeterminable; however, the estimated DSH payments received attributable to the adolescent psychiatric program for the period (2004-2009) is approximately \$33,700.

* * * * *

SSM HEALTH CARE ADDITIONAL INFORMATION

SSM HEALTH CARE

CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION AS OF DECEMBER 31, 2009 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ (2,082)	\$ 9,656	\$ -	\$ 7,574
Short-term investments	136,271	2,266	-	138,537
Current portion of assets limited as to use	157,971	36,657	-	194,628
Net patient accounts receivable	310,834	10,717	-	321,551
Other receivables	13,716	2,919	(1,510)	15,125
Inventories, prepaid expenses, and other	59,799	6,337	(2,265)	63,871
Estimated third-party payor settlements	6,945	-	-	6,945
Assets held for sale	698	-	-	698
Total current assets	<u>684,152</u>	<u>68,552</u>	<u>(3,775)</u>	<u>748,929</u>
ASSETS LIMITED AS TO USE OR RESTRICTED — Excluding current portion	<u>1,439,074</u>	<u>131,872</u>	<u>-</u>	<u>1,570,946</u>
PROPERTY AND EQUIPMENT — Net	<u>1,229,290</u>	<u>32,085</u>	<u>-</u>	<u>1,261,375</u>
OTHER ASSETS:				
Deferred financing costs — net	6,988	-	-	6,988
Intangibles — net	7,041	3,713	-	10,754
Investments in unconsolidated entities	246,078	10,870	(98,138)	158,810
Other	32,561	224	(26,863)	5,922
Total other assets	<u>292,668</u>	<u>14,807</u>	<u>(125,001)</u>	<u>182,474</u>
TOTAL	<u>\$3,645,184</u>	<u>\$247,316</u>	<u>\$(128,776)</u>	<u>\$3,763,724</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Revolving line of credit	\$ 53,437	\$ -	\$ -	\$ 53,437
Current portion of long-term debt	160,280	1,895	(1,406)	160,769
Accounts payable and accrued expenses	114,218	127,588	(1,609)	240,197
Payable under securities lending agreements	155,543	1,576	-	157,119
Total current liabilities	483,478	131,059	(3,015)	611,522
LONG-TERM DEBT — Excluding current portion	984,695	27,908	(26,863)	985,740
ESTIMATED SELF-INSURANCE OBLIGATIONS	100,107	13,028	-	113,135
OTHER LIABILITIES	<u>742,037</u>	<u>12,259</u>	<u>-</u>	<u>754,296</u>
Total liabilities	2,310,317	184,254	(29,878)	2,464,693
NET ASSETS:				
Unrestricted	1,289,173	20,617	(62,029)	1,247,761
Temporarily restricted	30,459	33,400	(27,824)	36,035
Permanently restricted	15,235	9,045	(9,045)	15,235
Total net assets	<u>1,334,867</u>	<u>63,062</u>	<u>(98,898)</u>	<u>1,299,031</u>
TOTAL	<u>\$3,645,184</u>	<u>\$247,316</u>	<u>\$(128,776)</u>	<u>\$3,763,724</u>

SSM HEALTH CARE

CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2009 (In thousands)

	Credit Group	Other Entities	Eliminations	Total
OPERATING REVENUES AND OTHER SUPPORT:				
Net patient service revenues	\$ 2,566,105	\$ 115,131	\$ -	\$ 2,681,236
Investment income (loss)	27,683	14,080	-	41,763
Other revenue	134,301	173,154	(152,175)	155,280
Net assets released from restrictions	<u>6,510</u>	<u>4,939</u>	<u>-</u>	<u>11,449</u>
Total operating revenues and other support	<u>2,734,599</u>	<u>307,304</u>	<u>(152,175)</u>	<u>2,889,728</u>
OPERATING EXPENSES:				
Salaries and benefits	1,298,489	236,248	(112,712)	1,422,025
Supplies	451,204	16,481	(6)	467,679
Professional fees and other	554,850	54,323	(25,339)	583,834
Interest	23,515	1,331	(1,005)	23,841
Depreciation and amortization	139,334	3,241	-	142,575
Bad debts	<u>100,295</u>	<u>4,973</u>	<u>(198)</u>	<u>105,070</u>
Total operating expenses	<u>2,567,687</u>	<u>316,597</u>	<u>(139,260)</u>	<u>2,745,024</u>
INCOME (LOSS) FROM OPERATIONS	<u>166,912</u>	<u>(9,293)</u>	<u>(12,915)</u>	<u>144,704</u>
NONOPERATING GAINS AND (LOSSES):				
Investment income (loss)	145,092	2,089	-	147,181
Loss from early extinguishment of debt	(910)	-	-	(910)
Other — net	<u>(3,928)</u>	<u>349</u>	<u>-</u>	<u>(3,579)</u>
Total nonoperating gains and (losses) — net	<u>140,254</u>	<u>2,438</u>	<u>-</u>	<u>142,692</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CHANGE IN MARKET VALUE OF INTEREST RATE SWAPS	307,166	(6,855)	(12,915)	287,396
CHANGE IN MARKET VALUE OF INTEREST RATE SWAPS	<u>66,534</u>	<u>-</u>	<u>-</u>	<u>66,534</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	<u>\$ 373,700</u>	<u>\$ (6,855)</u>	<u>\$ (12,915)</u>	<u>\$ 353,930</u>

SSM HEALTH CARE

NOTES TO CONSOLIDATING ADDITIONAL INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

1. PRINCIPLES OF INCLUSION

The Credit Group is made up of SSM Health Care Corporation and its wholly owned Designated Affiliates as defined in the Master Trust Indenture, including the activities, assets, and liabilities of wholly owned and partially owned subsidiaries that are consolidated under generally accepted accounting principles. Additionally, management has chosen to exclude certain activities (primarily fundraising foundations and certain for-profit taxable activities) that are referred to herein as Other Entities. In 2009, the assets of the Credit Group represented 97% of the consolidated total, and the total revenues represented 95% of the consolidated total.

2. PRESENTATION

Entities included in the Credit Group do not reflect their equity interest in Other Entities on their balance sheets, except for beneficial interest in foundations.

3. OBLIGATIONS

Included in Other Entities are certain entities with negative net assets totaling \$98,824. The Credit Group may be required to provide operating capital to these entities to ensure their solvency.

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