KPMG

BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Financial Statements and Consolidating Schedules

August 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Directors
Bon Secours Health System, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Bon Secours Health System, Inc. and Subsidiaries (the System) as of August 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bon Secours Health System, Inc. and Subsidiaries as of August 31, 2010 and 2009, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 11, 2010

BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

August 31, 2010 and 2009

(In thousands)

Assets		2010	2009
Current assets:			
Cash and cash equivalents	$	180,255	129,048
Accounts receivable, net:			
Patient and third-party payors		348,307	328,995
Other		15,238	15,509
Total accounts receivable, net		363,545	344,504
Assets limited or restricted as to use		62,187	44,090
Inventories		49,231	43,650
Prepaid expenses and other current assets		21,553	24,688
Total current assets		676,771	585,980
Assets limited or restricted as to use, less current portion		790,687	745,638
Property, plant, and equipment, net		1,077,741	1,101,713
Deferred financing costs, net		12,774	14,173
Goodwill and other assets, net		241,009	226,651
Total assets	$	2,798,982	2,674,155
Liabilities, Minority Interest, and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	26,573	26,968
Accounts payable		169,874	138,684
Accrued salaries, wages, and benefits		152,763	144,580
Other accrued expenses		99,442	107,016
Total current liabilities		448,652	417,248
Long-term debt, less current portion		1,033,041	1,059,383
Other long-term liabilities and deferred credits		632,034	494,112
Total liabilities		2,113,727	1,970,743
Minority interest		144,397	130,043
Net assets:			
Unrestricted		500,722	542,090
Temporarily restricted		33,381	24,638
Permanently restricted		6,755	6,641
Total net assets		540,858	573,369
	$	2,798,982	2,674,155

See accompanying notes to consolidated financial statements.

BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended August 31, 2010 and 2009

(In thousands)

	2010	2009
Revenues:		
Net patient service revenue	$ 2,993,910	2,827,545
Other revenue	90,964	67,682
Total revenues	3,084,874	2,895,227
Expenses:		
Salaries, wages, and benefits	1,430,410	1,347,585
Supplies	498,997	466,771
Purchased services and other	683,072	631,934
Provision for bad debts	212,478	200,141
Depreciation and amortization	123,292	122,711
Interest	34,939	48,392
Total expenses	2,983,188	2,817,534
Operating income from continuing operations	101,686	77,693
Nonoperating gains (losses), net:		
Nonoperating investment losses, net	(41,210)	(162,145)
Loss on early retirement of debt	—	(14,113)
Gain on sale of assets, net	561	—
Other nonoperating activities, net	(31,205)	(25,943)
Excess (deficit) of continuing revenues over expenses before minority interest	29,832	(124,508)
Minority interest of consolidated subsidiaries	(20,445)	(2,427)
Excess (deficit) of continuing revenues over expenses	9,387	(126,935)
Gain on discontinued operations, net	3,421	2,441
Excess (deficit) of revenues over expenses	12,808	(124,494)
Other changes in unrestricted net assets:		
Net change in unrealized gains on other-than-trading securities	1,729	1,250
Net assets released from restrictions used for purchase of property, plant, and equipment	1,359	2,529
Transfers to affiliates and other changes, net	(3,769)	(8,583)
Net change in equity of joint venture	(3,982)	(834)
Pension and other postretirement adjustments	(49,513)	(161,731)
Decrease in unrestricted net assets	(41,368)	(291,863)
Unrestricted net assets, beginning of year	542,090	833,953
Unrestricted net assets, end of year	$ 500,722	542,090

See accompanying notes to consolidated financial statements.

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years ended August 31, 2010 and 2009

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance at August 31, 2008	$ 833,953	23,295	6,736	863,984
Deficit of revenues over expenses	(124,494)	—	—	(124,494)
Grants and restricted contributions	—	6,832	192	7,024
Net change in unrealized gains (losses) on other-than-trading securities	1,250	(706)	—	544
Investment losses	—	(1,028)	(107)	(1,135)
Net assets released from restrictions used for purchase of property, plant, and equipment	2,529	(2,529)	—	—
Net assets released from restrictions used for operations	—	(1,680)	—	(1,680)
Net change in equity of joint venture	(834)	—	—	(834)
Pension and other postretirement adjustments	(161,731)	—	—	(161,731)
Transfers (to) from affiliates and other changes, net	(8,583)	454	(180)	(8,309)
(Decrease) increase in net assets	(291,863)	1,343	(95)	(290,615)
Balance at August 31, 2009	542,090	24,638	6,641	573,369
Excess of revenues over expenses	12,808	—	—	12,808
Grants and restricted contributions	—	11,823	85	11,908
Net change in unrealized gains on other-than-trading securities	1,729	299	—	2,028
Investment income	—	51	—	51
Net assets released from restrictions used for purchase of property, plant, and equipment	1,359	(1,359)	—	—
Net assets released from restrictions used for operations	—	(1,720)	—	(1,720)
Net change in equity of joint venture	(3,982)	—	—	(3,982)
Pension and other postretirement adjustments	(49,513)	—	—	(49,513)
Transfers (to) from affiliates and other changes, net	(3,769)	(351)	29	(4,091)
(Decrease) increase in net assets	(41,368)	8,743	114	(32,511)
Balance at August 31, 2010	$ 500,722	33,381	6,755	540,858

See accompanying notes to consolidated financial statements.

**BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended August 31, 2010 and 2009

(In thousands)

		2010	2009
Cash flows from operating activities:			
Decrease in net assets	$	(32,511)	(290,615)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Gain on discontinued operations, net		(3,421)	(2,441)
Provision for bad debts		212,478	200,141
Depreciation and amortization, including $3,283 and $2,888 reported in nonoperating activities, net in 2010 and 2009, respectively		126,575	125,599
Amortization of deferred financing costs and bond discount, net		1,677	3,027
Minority interest of consolidated subsidiaries		20,445	2,427
Equity in income of joint ventures		(21,193)	(37,166)
Distributions received from investments in joint venture		29,359	20,293
Net realized/unrealized losses on certain investments and derivative instruments		47,560	186,353
Loss on early retirement of debt		—	14,113
Gain on sale of assets		(561)	—
Pension and other postretirement adjustments		49,513	161,731
Contributions restricted by donor		(11,908)	(7,024)
Cash distribution to minority interest holders		(6,091)	(4,304)
Cash (used in) provided by changes in assets and liabilities:			
Increase in accounts receivable		(231,519)	(191,519)
Increase in inventories, prepaid expenses and other current assets		(2,446)	(3,670)
(Increase) decrease in goodwill and other assets, net		(15,915)	31,855
Increase in accounts payable and other current liabilities		35,220	41,371
Increase (decrease) in other long-term liabilities and deferred credits		27,676	(11,279)
Net cash provided by operating activities		224,938	238,892
Cash flows from investing activities:			
Investment in joint venture		(3,797)	(4,555)
Proceeds (purchases) of securities, net		(27,537)	31,711
Property, plant, and equipment additions, net of disposals		(97,654)	(117,816)
Cash flows from hedging activities		(22,436)	(18,717)
Net cash used in investing activities		(151,424)	(109,377)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		—	293,580
Payments of long-term debt		(27,015)	(23,143)
Retirements of long-term debt		—	(293,580)
Proceeds from contributions restricted by donors		4,708	7,024
Net cash used in financing activities		(22,307)	(16,119)
Net increase in cash and cash equivalents		51,207	113,396
Cash and cash equivalents, beginning of year		129,048	15,652
Cash and cash equivalents, end of year	$	180,255	129,048

Supplemental disclosures:

(a) Cash paid for taxes was $791 and $1,560 for 2010 and 2009, respectively.
(b) System entered into capital lease of $4,822 in 2009 and Medical Office Building (MOB) liabilities of $17,059 in 2009.
(c) System received a restricted capital contribution of $7,200 in 2010.

See accompanying notes to consolidated financial statements.

(1) Organization and Mission

(a) Organizational Structure

Bon Secours Health System, Inc., a Maryland nonprofit, nonstock membership corporation (BSHSI), and all of the other entities that are controlled directly or indirectly by Bon Secours, Inc., a Maryland nonprofit, nonstock membership corporation (BSI) are described collectively as the System. BSI, which is the sole corporate member of BSHSI, has no healthcare operations. The System was organized in June 1983 to fulfill the healthcare mission of the United States Province of the Congregation of the Sisters of Bon Secours of Paris (*Sisters of Bon Secours*), a congregation of religious women of the Roman Catholic Church founded in France in 1824.

The Sisters of Bon Secours have ministered to the healthcare needs of people in the United States since 1881. To ensure the sustainability of the ministry into the future as well as to broaden their collaboration with the laity in areas of influence, the Sisters of Bon Secours petitioned the Vatican to establish Bon Secours Ministries, an entity comprised of both laypersons and Sisters of Bon Secours to oversee the Catholic ministry of BSHSI. Bon Secours Ministries, which is referred to as a “public juridic person” in the Catholic Church’s *Code of Canon Law*, was established by the Vatican on May 31, 2006 with the specific responsibility to oversee (and, as appropriate, initiate) the healthcare ministries within the System and, in particular, BSHSI’s Catholic identity and mission. This formal relationship with the Catholic Church and the specific ministry is commonly referred to as “sponsorship.” The Sisters of Bon Secours formally transferred the responsibility of sponsorship of the System to Bon Secours Ministries on November 1, 2006. Since then, Bon Secours Ministries has provided an active presence of leadership and direction for BSHSI to ensure its operations and use of resources are aligned with the mission, values and fundamentals of Catholic social teaching.

The System’s principal activities comprise health and nursing care services in the states of New York, Pennsylvania, Maryland, Virginia, Kentucky, South Carolina, and Florida.

(b) Mission

The Mission of the System is to bring compassion to healthcare and to be good help to those in need, especially those who are poor and dying. As a system of caregivers, the System is committed to helping to bring people and communities to health and wholeness as part of the healing ministry of Jesus Christ and the Catholic Church.

The ministry of BSHSI aids those in need, particularly those who are sick and dying, by offering a wide variety of services, including acute inpatient, outpatient, pastoral, palliative, home health, nursing home, rehabilitative, primary and secondary care and assisted living, in Florida, Kentucky, Maryland, New York, Pennsylvania, South Carolina, and Virginia without regard to race, religion, color, gender, age, marital status, national origin, sexual orientation, or disability. Activities directly associated with this purpose are considered operating activities. Operating activities also include other incidental services that are closely related to healthcare.

(c) Community Benefits

The System exists to benefit the people in the communities we serve. In pursuing its mission, the System advocates for and provides services to help meet healthcare and related socioeconomic needs of poor and disadvantaged individuals and the broader community. The System provides services in the communities served by holistically ministering to the patients with respect and without regard to their ability to pay.

Programs and services for the uninsured and underinsured represent the financial commitment of the System to everyone in the community. The System's financial assistance policy ensures that all members of the community receive this basic human right to access healthcare.

The categories included as programs and services for the poor and disadvantaged are as follows:

(i) Charitable Services – Financially Disadvantaged Persons

The System provides care to patients regardless of their ability pay all or a portion of the charges incurred. This care is classified as charity care based upon the System's established policies. In accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the organization's criteria for financial assistance.

In assessing a patient's ability to pay, the System utilizes generally recognized poverty income levels, financially supporting 100% of the healthcare services provided to patients with annual family income at or below 200% of the federal poverty guidelines. Additional assistance is provided by a reduction in charges for medically necessary services through a community service adjustment.

(ii) Charitable Services – State Programs

The System provides services to indigent patients under various state programs, including state Medicaid, that generally pay healthcare providers amounts that are less than the cost of the services provided to the recipients. Unreimbursed costs of the care provided to these disadvantaged patients are also reported as charitable services.

(iii) Other Community Benefits

Other community benefits include community services for the poor and disadvantaged as well as the broader community. The programs cover a broad spectrum of services and are financially supported by the System:

- Mobile Care-A-Vans – providing free community-based preventive and primary care services;
- Child programs – providing oral healthcare, asthma and childhood obesity interventions;
- Caregiver and senior programs – focused on support, health screenings, and a variety of others;

(In thousands)

- Education – providing medical and other health professional programs;
- Leadership activities – a full-time healthy community leader is provided in each community served who works to unite the people and to provide health and social issues.

The cost of charitable services and community benefits provided by the System is determined in accordance with the System's accounting policies. These costs are computed by using the cost to charge ratio applied by Medicaid and other state programs as well as specific patient visits identified under the System's charity care policies. The cost of these services is as follows for the years ended August 31, 2010 and 2009:

		2010	2009
Charitable services and other community benefits:			
Cost of services to financially disadvantaged persons	$	121,445	119,973
Unpaid cost of state programs (e.g., Medicaid) to financially disadvantaged persons		84,646	77,457
Cost of other community benefits		48,975	55,983
Total community benefits, at cost	$	255,066	253,413

(2) Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all members of the corporate group controlled by BSHSI. Members of the corporate group include all entities that BSHSI directly or indirectly controls, even if the System has less than 50% of the ownership or membership interest in the entity. Investments in entities where the System holds 50% or less of an entity's operations and does not have operational control are recorded under the equity or cost method of accounting. The System has included its equity share of income or losses and changes in net assets from investments in unconsolidated affiliates in other revenue and changes in unrestricted net assets, respectively, in the accompanying consolidated statements of operations. All material intercompany transactions and account balances have been eliminated in consolidation.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the years ended August 31, 2010 and 2009, the System recorded income of $22,476 and $18,658, respectively, related to expense reductions and increases in net patient service revenue as a result of the reassessment of various third-party payor settlement issues and changes in estimates associated with other operating assets and liabilities.

(In thousands)

(c) Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less, excluding investments limited or restricted as to use.

(d) Accounts Receivable

Accounts receivable is presented net of allowances for uncollectible amounts of $147,714 and $132,150 at August 31, 2010 and 2009, respectively. The System grants credits to patients and generally does not require collateral or other security. However, it routinely obtains assignment of patients' benefits under their health insurance policies. Most of the System's net patient service revenue is derived from third-party payment programs. Medicare, Medicaid, and Blue Cross comprise approximately half of the System's consolidated third-party payor revenue.

The respective percentages of amounts due from patients and third-party payors at August 31, 2010 and 2009 are as follows:

	2010	2009
Medicare	25%	23%
Medicaid	12	12
Blue Cross	13	13
Managed care	23	26
Other, including self-pay	27	26
	100%	100%

(e) Assets Limited or Restricted as to Use and Investment Income

Assets limited or restricted as to use include assets held by trustees under indentures, self-insurance trust arrangements, assets related to donor-restricted net assets, and assets designated by the board of directors over which it retains control and may, at its discretion, use for other purposes. The fair value of investments, with the exception of alternative investments, is based upon quoted market prices or other observable market inputs. Alternative investments are recorded under the equity method.

Unrealized gains or losses on trading securities are included in nonoperating investment losses, net. As of August 31, 2010 and 2009, all investments and assets limited or restricted as to use are designated as trading securities, except for certain Foundation investments.

Investment income on donor-restricted funds is recorded as an addition to donor-restricted net assets provided the income has been restricted by the donor. Investment income on trustee-held funds, professional/general liability, workers' compensation, and health benefit self-insurance funds is reported in other revenue for the years ended August 31, 2010 and 2009, respectively. All other investment income is reported within nonoperating investment losses, net.

(f) Inventories

Inventories, consisting primarily of pharmaceuticals and medical supplies, are stated at the lower of cost or market, principally on a first-in, first-out basis.

(g) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Estimated useful lives of the assets are as follows:

Buildings	20 to 50 years
Fixed equipment	10 to 20 years
Major movable equipment	3 to 5 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess (deficit) of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Interest cost is capitalized as part of the cost of constructing capital assets, net of any interest income earned on unexpended bond proceeds borrowed for a specific project, during the construction period. The System capitalizes the direct costs, including internal costs, associated with the implementation of new information systems for internal use. Capitalized amounts are amortized over the estimated lives of the software, which generally are five years.

(h) Asset Impairment

The System regularly evaluates whether events or changes in circumstances have occurred that could indicate an impairment in the value of long-lived assets. In accordance with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 360-10, *Impairment or Disposal of Long-Lived Assets*, if events or changes in circumstances indicate that the carrying value of an asset is not recoverable, the System's management estimates the projected undiscounted cash flows, excluding interest and taxes, of the related individual facilities to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance of facilities using standard industry valuation techniques.

(Continued)

(In thousands)

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives. In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, the System groups their assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. No impairment charges were recorded during the years ended August 31, 2010 and 2009, respectively.

(i) Goodwill and Other Assets, Net

Goodwill and other assets, net, consist of the following at August 31, 2010 and 2009:

		2010	2009
Goodwill, net of accumulated amortization	$	92,898	96,993
Investments in joint ventures (note 10)		94,907	98,049
Other assets		40,802	24,728
Pledges and notes receivable		12,402	6,881
Total goodwill and other assets, net	$	241,009	226,651

Goodwill recorded in connection with acquisitions is amortized on a straight-line basis over 15 to 40 years. Accumulated amortization of goodwill amounted to $50,890 and $46,540 at August 31, 2010 and 2009, respectively.

(j) Deferred Financing Costs, Net

Financing costs incurred in connection with the issuance of long-term debt have been capitalized and included in other assets. These costs are being amortized using the effective-interest method over the term of the related obligations. Accumulated amortization of long-term debt issuance costs amounted to $7,297 and $6,261 at August 31, 2010 and 2009, respectively. As a result of the October 2008 debt refinancing, write-offs of $10,490 of net deferred financing costs are included in the loss on early retirement of debt of $14,113 on the accompanying consolidated statement of operations for the year ended August 31, 2009.

(k) Leases

Lease arrangements, including assets under construction, are capitalized when such leases convey substantially all the risks and benefits incidental to ownership. Capital leases are amortized over either the lease term or the life of the related assets, depending upon available purchase options and lease renewal features. Amortization related to capital leases is included in the consolidated statements of operations within depreciation and amortization expense.

(In thousands)

(l) Other Long-Term Liabilities and Deferred Credits

Other long-term liabilities and deferred credits consist of the following at August 31, 2010 and 2009:

		2010	2009
Accrued pension liability (note 8)	$	350,856	289,947
Self-insurance liabilities		78,997	65,065
Environmental liabilities		13,811	13,805
Derivative instrument valuations (note 7)		135,435	74,655
Medical office building liabilities (note 11(e))		40,070	40,070
Other long-term liabilities		12,865	10,570
	$	632,034	494,112

(m) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations as net assets released from restrictions. Such amounts are classified as other revenue or transfers for additions to property, plant, and equipment. Donor-restricted contributions whose restrictions are satisfied within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

(n) Net Assets

The System classifies net assets based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent contributions, gifts, and grants that have no donor-imposed restrictions or that arise as a result of operations. Temporarily restricted net assets are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose and/or passage of time. Temporarily restricted net assets of $33,381 and $24,638 at August 31, 2010 and 2009, respectively, primarily consisted of pledges and funds received for capital projects, various healthcare programs, and community outreach programs. Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for specific purposes.

(o) Fair Values

The carrying values of financial instruments classified as current assets and current liabilities approximate fair values. The fair values of investments and assets limited or restricted as to use, with the exception of alternative investments, are based on quoted market prices or other observable inputs. Alternative investments are recorded under the equity method. See note 4 for additional disclosures of investments and assets limited or restricted as to use. The carrying values of other long-term liabilities approximate fair values. See note 6 for the fair value of long-term debt.

(p) Net Patient Service Revenue

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

(q) Nonoperating Activities, Net

Other activities, which are largely unrelated to the System's primary mission, are recorded as other nonoperating gains (losses), include rental activities of medical office buildings, school of nursing, general donations, and fund-raising activities.

(r) Performance Indicator

The accompanying consolidated statements of operations include a performance indicator, excess (deficit) of continuing revenues over expenses. Changes in unrestricted net assets that are excluded from the performance indicator, consistent with industry practice, include discontinued operations, unrealized gains and losses on other-than-trading securities, permanent transfers of assets to and from unconsolidated affiliates for other than goods and services, pension and other post retirement adjustments, the System's allocated share of joint ventures' change in equity, and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

(s) Discontinued Operations

The System accounts for discontinued operations under relevant FASB accounting guidance, which requires that a component of an entity that has been disposed of or is classified as held-for-sale and has operations and cash flows that can be clearly distinguished from the rest of the entity be reported as discontinued operations. In the period that a component of an entity has been disposed of or classified as held-for-sale, the results of operations for current and prior periods are reclassified to discontinued operations in the accompanying consolidated statements of operations. The System recognized gains on discontinued operations of $3,421 and $2,441 for the years ended August 31, 2010 and 2009, respectively.

(t) Income Taxes

The System and most of its subsidiaries (including certain joint venture entities) are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The system accounts for uncertain tax positions in accordance with ASC Topic 740. Income taxes of the System's for-profit subsidiaries are not material to the accompanying consolidated financial statements. The System's taxable subsidiaries have approximately $98,300 and $117,200 of net operating loss carryforwards as of August 31, 2010 and 2009, respectively, which expire in varying periods through 2030 and are available to offset future taxable income. The System's deferred tax assets are fully reserved at August 31, 2010 and 2009. Any changes to the valuation allowance on the deferred tax asset are reflected in the year of the change.

(u) Derivative Instruments

ASC Topic 815, *Derivatives and Hedging*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. An entity is required to recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value. In addition, for those derivative instruments that meet the criteria of an effective hedge, the hedged item must also be recorded at its fair value, with the changes in fair value reflected in other changes in unrestricted net assets.

Derivative instruments, specifically interest rate swaps, are recorded on the balance sheets at their respective fair values. The System's current derivative instruments do not qualify for hedge accounting, and the changes in fair value of such derivative instruments are reflected in nonoperating investment losses, net in the accompanying consolidated statements of operations in the period of change. Net settlement payments made or received on nonqualifying derivatives are recorded as nonoperating investment losses, net.

(v) Self-Insurance

Under the System's self-insurance programs (professional/general liability, workers' compensation, and employee health benefits), claims are reflected as based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments.

(w) Reclassifications

Certain prior year amounts have been reclassified to conform to current period presentation, the effect of which is not material.

(x) Recently Issued Accounting Pronouncements

(i) In August 2008, the FASB issued FSP No. FAS 117-1, *Endowment 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*, which was later codified as ASC Topic 958-205 and is effective for fiscal years ending after December 15, 2008. ASC Topic 958-205 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 guidance 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.

BSHSI has interpreted UPMIFA as requiring the preservation of 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. As a result of this interpretation, BSHSI 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System entity that received the donation.

At August 31, 2010, all System entities with the exception of those in Florida are subject to a state law based on UPMIFA. For System entities in Florida, prior law remains in effect until UPMIFA is enacted. They are subject to asset classification guidance in effect prior to ASC Topic 958-205. Under this guidance, earnings on donor-restricted endowment funds that are not either permanently restricted or temporarily restricted for a donor specified purpose are recorded as unrestricted net assets.

The adoption of this guidance did not have a material impact on BSHSI's consolidated financial statements.

(ii) In December 2008, the FASB issued new guidance relating to employers' disclosures about postretirement benefit plan assets. Entities are required to disclose investment policies and strategies, major categories of plan assets, inputs, and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (Level 3) on change in plan assets for the period, and significant concentrations of risk within plan assets. The adoption of this new guidance in 2010 did not impact the System's financial position, results of operations, or cash flows.

(iii) In April 2009, the FASB issued new guidance relating to not-for-profit mergers and acquisitions that will apply prospectively to mergers with merger dates on or after December 15, 2009, and to acquisitions with acquisition dates on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. This new guidance prescribes how to determine whether a combination is a merger or acquisition, how to account for each, and the disclosures that should be made. This guidance does not apply to formations of joint ventures, acquisitions of assets or a group of assets that do not constitute either a business or a nonprofit activity, a combination between not-for-profit entities under common control or transaction or other events where a not-for-profit entity obtains control of another entity but does not consolidate that entity. In addition, under the new guidance, goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity are not amortized. Such assets are tested for impairment at least annually. At the date the statement is initially applied, an entity shall establish its reporting units based on its reporting structure at that date. After establishing its reporting units, goodwill in each reporting unit shall be tested for impairment as of September 1, 2010 upon adoption of the statement and at August 31 annually thereafter. The new guidance also requires a not-for-profit reporting entity to account for and present noncontrolling interests in a consolidated subsidiary as a separate component of the appropriate class of consolidated net assets (equity). The adoption of this new guidance will be effective in fiscal year 2011 for the System.

(iv) In May 2009, the FASB issued new guidance related to subsequent events that defines the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an organization shall recognize events occurring after the balance sheet date and the disclosures that an organization shall make about those events or transactions. The guidance defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (i.e., recognized subsequent events). The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (i.e., nonrecognized subsequent event). The System adopted this guidance on August 31, 2009, with no impact or change from prior reporting practices.

(v) In January 2010, the FASB issued guidance that clarifies and requires new disclosures about fair value measurements. The clarifications and requirement to disclose the amounts and reasons for significant transfers between Level 1 and Level 2, as well as significant transfers in and out of Level 3 of the fair value hierarchy, is effective for interim and annual reporting periods beginning after December 15, 2009. The new guidance also requires that purchases, sales, issuances, and settlements be presented gross in the Level 3 reconciliation and that requirement is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years, with early adoption permitted. Since this new guidance only amends the disclosure requirements, it did not impact the System’s financial position, results of operations or cash flows.

(vi) In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent).* The guidance amends ASC Topic 820, *Fair Value Measurements and Disclosures*, and permits, as a practical expedient, fair value of investments within its scope to be estimated using net asset value or its equivalent as of the reporting entity’s measurement date. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to ASC Topic 820. The System adopted this guidance on September 1, 2009 (see note 8).

(vii) In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure.* ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. The ASU is effective for the System on September 1, 2011. The System is currently evaluating the impact on its disclosures from the adoption of this pronouncement.

(In thousands)

(3) Property, Plant, and Equipment, Net

Property, plant, and equipment, net consist of the following at August 31, 2010 and 2009:

	2010	2009
Land	$ 82,105	77,956
Land improvements	46,400	45,553
Buildings	902,794	899,733
Fixed equipment	66,582	72,241
Major movable equipment	858,379	782,431
Leasehold improvements	63,919	52,806
Construction in progress	124,190	137,552
	2,144,369	2,068,272
Less accumulated depreciation	1,066,628	966,559
	$ 1,077,741	1,101,713

Included in construction in progress at August 31, 2010 and 2009 are costs mainly associated with an electronic medical records project, facility renovations, and expansions. The System anticipates expending an additional $122,067 in future periods to complete strategic capital projects. Depreciation expense for the System was $122,187 and $121,193 for the years ended August 31, 2010 and 2009, respectively.

(4) Assets Limited or Restricted as to Use

The composition of assets limited or restricted as to use consists of the following at August 31, 2010 and 2009:

	2010	2009
Board-designated funds:		
Cash and cash equivalents	$ 81,398	128,894
Equity mutual funds	75,284	61,760
Common and preferred stocks	258,107	277,216
Fixed-income mutual funds	146,269	83,612
Government and agency bonds	803	4,038
Corporate obligations	52,329	45,407
Alternative investments	80,005	50,137
Land and other investments, at cost	901	891
	695,096	651,955

(In thousands)

		2010	2009
Donor-restricted funds:			
Cash and cash equivalents	$	11,141	8,998
Equity mutual funds		1,238	804
Common and preferred stocks		2,894	3,020
Fixed-income mutual funds		857	971
Government and agency bonds		437	629
Corporate obligations		1,325	1,172
Land and other investments, at cost		121	497
		18,013	16,091
Funds held by indenture trustees:			
Cash and cash equivalents		26,808	43,444
Government and agency bonds		33,255	8,085
Corporate obligations		15,170	18,523
		75,233	70,052
Self-insurance funds:			
Cash and cash equivalents		6,334	7,523
Equity mutual funds		11,611	11,188
Common and preferred stocks		8,626	7,816
Fixed income mutual funds		33,475	16,090
Corporate obligations		4,486	9,013
		64,532	51,630
Assets limited or restricted as to use		852,874	789,728
Available for current liabilities		(62,187)	(44,090)
Long-term assets limited or restricted as to use	$	790,687	745,638

The portion of the System’s investments available for current liabilities consists of the following at August 31, 2010 and 2009:

		2010	2009
Current portion of debt and interest rate swap collateral	$	14,528	7,887
Self-insurance programs		38,460	27,725
Foundation programs		4,758	4,176
General board-designated		4,441	4,302
	$	62,187	44,090

(In thousands)

The System's consolidated total return on investments consists of the following for the years ended August 31, 2010 and 2009:

		2010	2009
Dividends and interest	$	16,201	18,950
Net realized losses on securities		(7,610)	(87,263)
Net unrealized gains (losses) on securities		43,218	(41,134)
		51,809	(109,447)
Realized and unrealized losses on derivative instruments		(83,168)	(57,956)
	$	(31,359)	(167,403)

Total investment return is classified in the accompanying consolidated financial statements as follows for the years ended August 31, 2010 and 2009:

		2010	2009
Nonoperating investment losses, net	$	(41,210)	(162,145)
Investment income (losses), net on trustee-held funds recorded as other revenue		7,772	(4,667)
Investment income and net unrealized losses on securities in restricted net assets		350	(1,841)
Net unrealized gains on other-than-trading securities		1,729	1,250
Total investment return	$	(31,359)	(167,403)

The System's ability to generate investment income is dependent in large measure on market conditions. The market value of the System's investment portfolio, as well as the System's investment income, have fluctuated significantly in the past and are likely to continue to fluctuate in the future. The System's investment portfolio assets are designated as trading securities as discussed in ASC Topic 320, *Investments – Debt and Equity Securities*. The System's entire portfolio is actively managed by third-party investment managers. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. As required by U.S. GAAP, realized and unrealized gains and losses on an investment portfolio designated as a trading portfolio are accounted for as nonoperating investment income and are included in excess (deficit) of revenues over expenses. Because of this designation as a trading portfolio, management anticipates fluctuations in excess (deficit) of revenues over expenses.

At August 31, 2010 and 2009, the System had invested approximately $80,005 and $50,137, or 9.4% and 6.3%, respectively, of the portfolio in alternative investments, which are allocated between hedge funds of funds and real estate investment funds.

(Continued)

(5) Fair Value of Financial Instruments

The System determines the fair values of its financial instruments based on the fair value hierarchy established in ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include cash and cash equivalents, debt and equity securities and mutual funds that are traded in an active exchange market, as well as government and agency securities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain equity mutual funds, corporate-debt securities, and interest rate swaps.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the System's business, its value or consolidated financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Fair values for the System's fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The System's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

(In thousands)

Fair values of equity securities have been determined by the System from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

Fair values for the System's interest rate swaps have been determined using pricing models developed based on the LIBOR swap rate and other observable market data. The values were determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and the System.

The following table presents the System's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of August 31, 2010:

		Fair value measurements at August 31, 2010 using		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial instruments:				
Investments:				
Cash and cash equivalents	$ 125,681	125,681	—	—
Equity mutual funds	88,133	16,104	72,029	—
Common and preferred stocks	269,627	269,627	—	—
Fixed-income mutual funds	180,601	180,601	—	—
Government and agency bonds	34,495	34,495	—	—
Corporate obligations	73,310	15,349	57,961	—
Total investments	$ 771,847	641,857	129,990	—
Liabilities:				
Interest rate swaps	$ 135,435	—	135,435	—
Total liabilities	$ 135,435	—	135,435	—

(Continued)

(In thousands)

The following table presents the System's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of August 31, 2009:

		Fair value measurements at August 31, 2009 using		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial instruments:				
Investments:				
Cash and cash equivalents	$ 187,524	187,524	—	—
Equity mutual funds	71,967	—	71,967	—
Common and preferred stocks	290,621	290,621	—	—
Fixed-income mutual funds	100,661	100,661	—	—
Government and agency bonds	20,527	20,527	—	—
Corporate obligations	66,903	1,020	65,883	—
Total investments	$ 738,203	600,353	137,850	—
Liabilities:				
Interest rate swaps	$ 74,655	—	74,655	—
Total liabilities	$ 74,655	—	74,655	—

There were no significant transfers between Level 1 and Level 2 during the year ended August 31, 2010.

The System has incorporated an Investment Policy Statement (IPS) into its investment program. The IPS, which has been formally adopted by the Board of Directors, contains numerous standards designed to ensure adequate diversification by asset category and geography. The IPS also limits investments by manger and position size, and limits fixed-income positions based on credit ratings, which serves to further mitigate the risks associated with the investment program. At August 31, 2010, management believes that its investment positions are in accordance with the guidelines in the IPS.

(6) Long-Term Debt

Long-term debt consists of the following at August 31, 2010 and 2009:

	2010	**2009**
Master Trust Notes and Hospital Revenue Bonds:		
Series 1992B and 1992C Virginia fixed rate term bonds payable in installments through August 2027; interest at 5.93%	$ 65,943	65,943
Series 1995 Virginia fixed rate serial bonds payable in installments through August 2010; interest at 6.00%	—	1,640
Series 1995 Maryland fixed rate term bonds payable in installments through August 2024; interest at 5.50%	5,400	5,655

(In thousands)

		2010	2009
Series 1995 Memorial Regional Medical Center fixed rate serial and term bonds payable in installments through August 2018; interest at 6.375% to 6.500%	$	28,580	31,255
Series 1996 Virginia fixed rate serial and term bonds payable in installments through August 2020; interest at 5.40% to 6.25%		13,780	14,810
Series 1997 Virginia fixed rate serial and term bonds payable in installments through August 2023; interest at 4.70% to 5.25%		13,130	13,910
Series 1997 New York fixed rate serial and term bonds payable in installments through July 2027; interest at 5.00% to 5.50%		34,350	35,555
Series 2002A Kentucky fixed rate term bond payable in installments beginning November 2023 through November 2030; interest at 5.625%		42,970	42,970
Series 2002A South Carolina fixed rate and serial term bonds payable in installments beginning November 2015 through November 2030; interest at 5.50% to 6.00%		225,200	225,200
Series 2002A Henrico, Virginia fixed rate term bond payable in installments beginning November 2023 through November 2030; interest at 5.60%		46,400	46,400
Series 2002B Florida variable rate demand bond payable in installments beginning November 2017 through November 2026 subject to a fifteen day put provision; interest at 0.33% and 0.75% at August 31, 2010 and 2009, set at prevailing rates		4,250	4,250
Series 2002B Kentucky variable rate demand bond payable in installments through November 2026 subject to a fifteen day put provision; interest at 0.33% and 0.75% at August 31, 2010 and 2009, set at prevailing rates		14,725	15,350
Series 2008B-C Virginia variable rate demand bonds subject to a seven day put provision payable in installments beginning November 2032 through November 2042; interest at 0.33% and 0.65% to 0.85% at August 31, 2010 and 2009, set at prevailing rates		173,355	173,355
Series 2008A South Carolina variable rate demand bonds subject to a seven day put provision payable in installments beginning November 2032 through November 2042; interest at 0.33% and 0.85% at August 31, 2010 and 2009, set at prevailing rates		69,925	69,925
Series 2008D Virginia variable rate demand bonds subject to a seven day put provision payable in installments through November 2025; interest at 0.24% to 0.33% at August 31, 2010 and 0.20% to 0.80% at August 31, 2009, set at prevailing rates		242,840	254,860

(Continued)

(In thousands)

	2010	2009
Series 2008D South Carolina variable rate demand bonds subject to a seven day put provision payable in installments through November 2025; interest at 0.33% and 0.80% at August 31, 2010 and 2009, set at prevailing rates	$ 27,785	29,095
Total Master Trust Notes and Hospital Revenue Bonds	1,008,633	1,030,173
Other debt secured by certain property, plant, and equipment:		
9.25% note payable to HUD, due April 2025	7,025	7,241
3.00% note payable to Wells Fargo	1,575	1,725
Capital leases obligations (interest at 5.00% – 6.00%)	16,060	18,936
Notes payable	30,428	31,592
Other long-term debt	890	1,997
Total other debt	55,978	61,491
Total long-term debt	1,064,611	1,091,664
Less bond discount, net of accumulated amortization	4,997	5,313
	1,059,614	1,086,351
Less current portion	26,573	26,968
Long-term debt, less current portion	$ 1,033,041	1,059,383

Master Notes have been issued by certain members of the System. Master Notes consist of payment obligations evidencing or securing serial and term indebtedness incurred on behalf of Members of the Obligated Group, as defined in the related debt agreements, or affiliates of BSHSI. The Master Notes are issued under a Master Trust Indenture dated October 1, 1985, as restated, supplemented, and amended. The indebtedness is subject to mandatory redemption or maturity annually at various dates through 2042. Each Master Note is a joint and several obligation of each Member of the Obligated Group, but is not secured by any mortgage of, or security interest in, any real or personal property of the Members of the Obligated Group, other than a security interest in their Unrestricted Receivables. Approximately 40.1% and 32.1% of the indebtedness represented or secured by the Master Notes is secured, as to payments of principal and interest, by bond insurance policies as of August 31, 2010 and 2009, respectively. Approximately 26.7% and 27.3% of the indebtedness represented or secured by the Master Notes is secured, as to payments of principal and interest, by letters of credit as of August 31, 2010 and 2009, respectively.

The Master Trust Indenture and related agreements require the Obligated Group to maintain minimum financial ratios, place restrictions on the disposition of assets and changes in members of the Obligated Group, and provide for the maintenance of certain trustee-held funds, among other things. At August 31, 2010, management requested and received waivers of compliance with the debt to capitalization covenant for the fiscal year ended August 31, 2010 from each of the credit enhancers.

On January 15, 2008, the System completed a bond financing of approximately $243,300 (Series 2008A-C Bonds). The proceeds of the sale of the Series 2008A-C Bonds together with other funds, were used to (i) pay or reimburse, or refinance certain indebtedness, the proceeds of which were used for the payment of the costs of acquiring, constructing, equipping, expanding, enlarging and improving certain healthcare facilities, (ii) refund the outstanding portion of certain prior bonds, which were outstanding with an aggregate principal amount of $80,000, and (iii) pay certain costs incurred in connection with the issuance of the Series 2008A-C Bonds and the refunding of the prior bonds, including the costs of bond insurance policies and liquidity enhancement (in the form of standby bond purchase agreements) for the Series 2008A-C Bonds. The 2008A-C Bonds are bonds remarketed weekly that bear interest at a weekly interest rate established by the market.

The 2008A-C Bonds, while subject to long-term amortization periods, may be put at the option of the bondholders. At such point, the banks would advance funds on behalf of the System to the bondholders under the standby bond purchase agreements. The standby bond purchase agreements have notional amounts of $69,925, $80,695, $46,440, and $46,220; all four of the standby bond purchase agreements have a stated expiration date of January 14, 2013. If funds are advanced on the standby bond purchase agreements to purchase bonds, no payments are due from the System to the bank(s) until 367 days after the bank(s) purchases such bonds. Beginning on the first business day following the 367th day, the System must repay the advances semiannually in equal or near equal amounts over the subsequent four years, unless certain events occur.

On October 17, 2008, the Obligated Group completed a bond financing of approximately $293,600 (referred to as the Series 2008D Bonds). The proceeds of the sale of the Series 2008D Bonds, together with other funds, were used to (i) currently refund and/or purchase all of the outstanding principal amount of the South Carolina Jobs-Economic Development Authority Variable Rate Economic Development Revenue Bonds, Series 2002B (Bon Secours Health System, Inc.) outstanding in the aggregate principal amount of $30,400; (ii) currently refund and/or purchase all of the Economic Development Authority of Hanover County Variable Rate Revenue Bonds, Series 2002B (Bon Secours Health System, Inc.) outstanding in the aggregate principal amount of $31,500; (iii) currently refund and/or purchase all of the Economic Development Authority of Henrico County, Virginia Variable Rate Revenue Bonds, Series 2002B (Bon Secours Health System, Inc.) outstanding in the aggregate principal amount of $53,900; (iv) currently refund and/or purchase all of the Economic Development Authority of the City of Norfolk Variable Rate Revenue Refunding Bonds, Series 2005A (Bon Secours Health System, Inc.) outstanding in the aggregate principal amount of $40,300; (v) purchase and redeem all of the Economic Development Authority of Hanover County Variable Rate Revenue Bonds, Series 2005A outstanding in the aggregate amount of $93,200; (vi) purchase and redeem all of the Economic Development Authority of the City of Norfolk Variable Rate Revenue Bonds, Series 2002B (Bon Secours Health System, Inc.) outstanding in the aggregate amount of $44,300; and (vii) pay-related costs. The Series 2008D Bonds are bonds remarketed weekly that bear interest at a weekly interest rate established by the market.

The Series 2008D Bonds, while subject to long-term amortization periods, may be put at the option of the bondholders. At such point, the banks would advance funds on behalf of the System to the bondholders under the letters-of-credit agreements. The Series 2008D Bonds are secured by six irrevocable direct pay letters of credit issued by agreements between selected banks and the members of the Obligated Group. The irrevocable direct pay letters of credit have notional amounts of $31,500, $53,900, $40,400, $30,400,

$93,200, and $44,300; all six of the letters of credit have a stated maturity date of October 14, 2011. If funds are advanced on the letters of credit to purchase bonds, no payments are due from the System to the bank(s) until 367 days after the bank(s) purchases such bonds. Beginning on the first business day following the 367th day, the System must repay these advances semiannually in equal or nearly equal amounts over the subsequent three to five years, unless certain events occur. To secure its obligations to reimburse these banks, BSHSI issued separate direct note obligations.

The System recorded a net loss on early retirement of debt of $14,113 as a result of these bond defeasances and refinancing transactions, for the year ended August 31, 2009.

Total interest expense was $34,939 and $48,392 for the years ended August 31, 2010 and 2009, respectively. Cash paid for interest was $28,212 and $45,582 for the years ended August 31, 2010 and 2009, respectively, and includes capitalized interest for construction projects of $1,899 and $2,999, net of investment income, for the years ended August 31, 2010 and 2009, respectively.

Subsequent to year-end, on September 29, 2010, BSHSI terminated six irrevocable direct pay letters of credit that secured Series 2008D variable rate debt bonds. On the same date, BSHSI entered into four new and two amended and restated irrevocable direct pay letters of credit to secure the Series 2008D bonds with stated maturities ranging from September 2013 to September 2015. The direct pay letters of credit have notional amounts of (i) $27,785 Series 2008D SCJEDA; (ii) $28,805 Series 2008D-1 Hanover, VA; (iii) $36,805 Series 2008 D-1 Norfolk, VA; (iv) $42,415 Series 2008D Henrico; (v) $42,050 Series 2008D-2 Norfolk, and (vi) $92,765 Series 2008D-2.

Subsequent to year-end, the Series 2008D Bonds, while subject to long-term amortization periods, may be put at the option of the bondholders. At such point, the banks would advance funds on behalf of the System to the bondholders under the letter-of-credit arrangements. If funds are advanced on the letters of credit to purchase bonds, no payments are due from the System to the bank(s) until 367 days after the bank(s) purchases such bonds. With respect to three of the bank agreements, (i), (ii), and (iii) as described above, the System must repay these advances on the first day of the 13th month succeeding the stated expiration date (currently September 2013). To secure its obligations to reimburse these banks, BSHSI issued separate direct note obligations. With respect to the other three letter-of-credit agreements, (iv), (v), and (vi) as described above, reimbursement to the bank begins on the first business day following the 367th day, and the system must repay these advances semiannually in equal or nearly equal amounts over the subsequent three to five years unless certain events occur. The bonds are remarketed weekly that bear interest at a weekly interest rate established by the market.

Subsequent to year-end, on October 19, 2010, the Obligated Group converted the interest rate mode of $173,355 of the Series 2008B-C bonds from variable interest rate to fixed interest rate. The bonds were converted to fixed rate serial and term bonds. The original variable interest rate bonds were secured by bond insurance policies and four standby bond purchase agreements. The standby bond purchase agreements were terminated on October 19, 2010; however, the bond insurance policies remained in effect. Principal and interest are payable in installments through November 2042 at fixed interest rates ranging from 4.50% to 5.25%.

(In thousands)

The conversion satisfies a one-time covenant for the benefit of certain credit enhancers to cause the percentage of the principal amount of its long-term indebtedness, which bears interest at other than a fixed rate to be reduced to not greater than 40% of the Obligated Group's long-term indebtedness.

Additionally, on October 19, 2010 the Obligated Group completed a bond financing of $40,740 (referred to as the Series 2010 Bonds). The proceeds of the sale of the Series 2010 Bonds were used to (i) pay the swap termination payment of $38,972 and (ii) pay-related costs of issuance. The Series 2010 Bonds were issued through the Virginia Small Business Financing Authority. The bonds are secured by an irrevocable direct pay letter of credit with a stated maturity of September 2013. The Series 2010 Bonds are bonds remarketed weekly and bear interest at a weekly rate established by the market.

The Series 2010 Bonds, while subject to long-term amortization periods, may be put at the option of the bondholders. At such time, the bank would advance funds on behalf of the System to the bondholders under the letter-of-credit agreement. If funds are advanced on the letter of credit to purchase bonds, no payments are due from the System to the bank(s) until 367 days after the bank(s) purchases such bonds. Beginning on the first business day following the 367th day, the system must repay these advances semiannually in equal or nearly equal amounts over the subsequent three years unless certain events occur. To secure its obligations to reimburse the bank BSHSI issued a direct note obligation.

The fair value of the Master Notes and the underlying indebtedness is $1,020,718 and $1,024,622 as of August 31, 2010 and 2009, respectively. The fair value of the Master Notes was determined by comparing current market prices of similar debt.

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

2011	$	26,573
2012		27,804
2013		26,058
2014		28,239
2015		48,129
Thereafter		907,808
Total	$	1,064,611

The System has entered into four leases maturing in 5 – 10 years that are classified as capital leases for building and equipment. In addition, the System has consolidated two limited liability corporations with amounts outstanding under notes totaling $30,428 as of August 31, 2010. Such notes have an interest rate of 7.75% and maturity dates in 2021.

(7) Interest Rate Risk Management

The System uses fixed and variable-rate debt to finance capital needs and develop an appropriate debt structure. Variable-rate debt exposes the System to variability in interest expense due to changes in interest rates. Conversely, fixed-rate debt obligations can be more expensive to the System in times of declining interest rates. The System manages and monitors its cost of capital on a regular basis and from time to time enters into derivative instruments with financial institutions to help manage interest rate risk.

(In thousands)

At August 31, 2010 and 2009, the System had fifteen and fourteen derivative instruments, respectively, which did not qualify for hedge accounting treatment under ASC Topic 815. Fair value changes of these instruments were reported under nonoperating investment losses, net. The following is a summary of the derivative instruments in place at August 31, 2010:

Description	Number	Outstanding notional amount	Pay rates	Maturity dates	Collateral posted at 8/31/10	Counterparties	Mark to market	Collateral thresholds
Fixed payor	1	$ 61,410	3.448%	Nov-2025	$ —	Goldman Sachs	$ (7,656)	10,000
Fixed payor	1	92,115	3.491	Nov-2025	—	Deutsche Bank	(11,733)	20,000
Fixed payor	2	133,075	3.420/ 4.460	Aug-2026/ Nov-2028	—	Merrill Lynch	(25,792)	*
Fixed payor	2	128,950	3.384/ 4.485	Oct-2025/ Oct-2026	11,199	JP Morgan	(27,739)	15,000
Fixed payor	1	69,925	3.454	Nov-2042	—	Citigroup	(16,555)	*
Fixed payor †	1	46,440	3.454	Nov-2042	—	Citigroup	(10,995)	*
Fixed payor †	3	126,915	3.454	Nov-2042	—	Citigroup	(30,048)	*
	11	658,830			11,199		(130,518)	
Fixed basis	1	200,000	SIFMA	Jan-2029	—	Citigroup	(2,762)	20,000
Variable basis	3	512,500	SIFMA	Nov-2029	—	Merrill Lynch	(16,079)	*
Total derivatives	15	$ 1,371,330			$ 11,199		(149,359)	$ 65,000
						Valuation adjustments	13,924	
							$ (135,435)	

* Derivative instrument does not provide for the posting of collateral.
† Derivative instrument terminated subsequent to year-end as described below.

The following is a summary of the derivative instruments in place at August 31, 2009:

Description	Number	Outstanding notional amount	Pay rates	Maturity dates	Collateral posted at 8/31/10	Counterparties	Mark to market	Collateral thresholds
Fixed payor	1	$ 165,850	3.250%	Nov-2025	$ —	Merrill Lynch	$ (11,018)	*
Fixed payor	2	138,350	3.420/ 4.460	Aug-2026/ Nov-2028	—	Merrill Lynch	(17,975)	*
Fixed payor	2	131,000	3.384/ 4.485	Oct-2025/ Oct-2026	4,782	JP Morgan	(19,628)	15,000
Fixed payor	1	69,925	3.454	Nov-2042	—	Citigroup	(8,020)	*
Fixed payor	1	46,440	3.454	Nov-2042	—	Citigroup	(5,326)	*
Fixed payor	3	126,915	3.454	Nov-2042	—	Citigroup	(14,556)	*
	10	678,480			4,782		(76,523)	
Fixed basis	1	200,000	SIFMA	Jan-2029	—	Citigroup	190	20,000
Variable basis	3	213,100	SIFMA	Nov-2029	—	Merrill Lynch	(9,086)	35,000
Total derivatives	14	$ 1,091,580			$ 4,782		(85,419)	$ 70,000
						Valuation adjustments	10,764	
							$ (74,655)	

* Derivative instrument does not provide for the posting of collateral.

The unrealized losses of $60,732 and $39,239 for the years ended August 31, 2010 and 2009, respectively, relating to these nonqualifying derivative activities are recorded within nonoperating investment losses, net in the accompanying consolidated statements of operations.

The System utilizes a diversified group of swap counterparties and has sought to limit its obligations to post collateral in the agreements governing its derivative instruments. In addition, the System routinely evaluates its derivative portfolio and may decide at any time to terminate certain of the derivative instruments discussed above and/or enter into new derivative instruments. Should the System decide to terminate any of such instruments, it may be required to make termination or breakage payments under the terms of those instruments.

On September 28, 2010, the System terminated four fixed payor swaps with a notional value of $173,355 that were integrated with the Series 2008B-C bonds converted from variable rate to fixed interest rate bonds. On October 19, 2010, the System paid $38,972 to the counterparty to terminate these swaps.

(8) Pension Plan

Most of the System's employees are covered by one of the System's several noncontributory defined benefit pension plans, while a portion are covered by defined contribution retirement plans. The System's noncontributory defined benefit pension plans provide benefits based upon age at retirement, years of credited services, and average earnings. Twelve of the System's thirteen defined benefit plans are deemed church plans under the Internal Revenue Code. For defined benefit pension plans deemed to be church plans under the Internal Revenue Code, the System's funding policy is to make contributions to fund the annual service cost of the plans. Defined benefit pension plans that are subject to the Employee Retirement Income Security Act of 1974 guidelines are funded in accordance with those guidelines. The service cost and projected benefit obligation are based upon the projected unit credit actuarial method.

The investment policy and objectives for defined benefit plan assets are established by BSHSI and are based on a long-term perspective. An investment advisory firm engaged by BSHSI reviews asset performance and allocation on a periodic basis throughout the fiscal year. The percentage allocation to each asset class may vary depending upon market conditions and is adjusted when it falls outside the established ranges set for each asset class.

(In thousands)

The following are deferred pension costs, which have not yet been recognized in periodic pension expense but are accrued in unrestricted net assets, as of August 31, 2010 and 2009. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the expected average remaining assumed service period for active employees.

	Amounts in unrestricted net assets at August 31, 2010	Amounts in unrestricted net assets at August 31, 2009	Amounts in unrestricted net assets to be recognized in fiscal year 2011
Net prior service cost	$ 964	1,963	325
Net actuarial losses	281,900	231,293	16,518
Transition asset	(29)	(36)	(7)
Total	$ 282,835	233,220	16,836

The components of the funded status, net periodic benefit costs, and actuarial assumptions used in accounting for defined benefit pension plans for the years ended August 31, 2010 and 2009 are as follows:

	2010	2009
Change in projected benefit obligation:		
Net projected benefit obligation at beginning of year	$ 643,771	535,638
Service cost	20,256	16,297
Interest cost	37,489	35,988
Actuarial loss	50,632	80,150
Plan amendments	(583)	—
Gross benefits paid	(24,118)	(24,302)
Projected benefit obligation at end of year	727,447	643,771
Change in plan assets:		
Fair value of plan assets at beginning of year	353,824	400,602
Actual return on plan assets	26,218	(47,020)
Employer contributions	20,667	24,544
Gross benefits paid	(24,118)	(24,302)
Fair value of plan assets at end of year	376,591	353,824
Net amount recognized at end of year	$ (350,856)	(289,947)

(In thousands)

		2010	2009
Accumulated benefit obligation at end of year	$	680,879	602,195
Amounts recognized in the consolidated balance sheets consist of:			
Accrued benefit costs – long term	$	(350,856)	(289,947)
Components of net periodic benefit cost:			
Service cost	$	20,256	16,297
Interest cost		37,489	35,988
Expected return on plan assets		(34,591)	(35,474)
Amortization of:			
Actuarial loss		8,397	453
Prior service cost		416	416
Transition asset		(7)	(7)
Total net periodic benefit costs	$	31,960	17,673

	2010	2009
Weighted average assumptions used to determine benefit obligations at August 31:		
Discount rate	5.30%	5.80%
Rate of compensation increase	3.50	3.50
Weighted average assumptions used to determine net periodic benefit cost at August 31:		
Discount rate	5.80%	6.70%
Expected return on plan assets	7.80	7.80
Rate of compensation increase	3.50	4.00

Net pension expense is included as a component of fringe benefits recorded as salaries, wages, and benefits in the accompanying consolidated statements of operations.

The expected long-term rate of return of the pension plan assets used for determining pension expense was 7.80% and was determined based upon a review of the System’s long-term rate of return experienced in the capital markets for the target asset allocation employed to invest pension assets.

(In thousands)

The System's pension plan asset allocation is planned to include approximately 65% equities, 30% fixed income/cash, and 5% alternatives. Equity investments are balanced between type and size of investment and investment managers are monitored against benchmarks. Pension plan assets at August 31, 2010 and 2009 by asset category are as follows:

	2010	2009
Equity mutual funds and securities	60%	67%
Fixed-income mutual funds and securities	32	25
Alternative investments	5	—
Cash	3	8
Total	100%	100%

The following table presents the System's fair value hierarchy for the pension plan assets measured at fair value on a recurring basis as of August 31, 2010:

	Fair value	Fair value measurements Level 1	Level 2	Level 3
Investments:				
Cash and cash equivalents	$ 11,511	11,511	—	—
Equity mutual funds	51,035	7,537	43,498	—
Common and preferred stocks	174,029	174,029	—	—
Fixed-income mutual funds	87,132	87,132	—	—
Corporate obligations	33,129	—	33,129	—
Alternative investments	19,755	—	—	19,755
Total investments	$ 376,591	280,209	76,627	19,755

There were no significant transfers between Level 1 and Level 2 during the year ended August 31, 2010.

The change in the fair value for the pension assets valued using significant unobservable inputs (Level 3) was due to the following:

	Level 3 assets fixed maturities	Alternative investments	Total
Beginning balance September 1, 2009	$ —	—	—
Total net gains realized	2	—	2
Total net gains unrealized	—	255	255
Purchases, sales, issuances and settlements	(2)	19,500	19,498
Ending balance August 31, 2010	$ —	19,755	19,755

(In thousands)

Effective September 1, 2009 the System adopted ASU No. 2009-12, and applied its provisions to its pension plan asset portfolio. The guidance amends ASC Topic 820 and permits, as a practical expedient, fair value of investments within its scope to be estimated using net asset value or its equivalent. The alternative investments classified within Level 3 of the fair value hierarchy have been recorded using Net Asset Value (NAV).

The following summarizes redemption and commitment terms for the alternative investment vehicles held in the pension plan assets as of and for the year ended August 31, 2010:

Pension Plan Alternative Investment Terms as of August 31, 2010

		Hedge fund	Real estate
Redemption timing:			
Redemption frequency		Monthly	Semiannually
Required notice		70 days	60 days
Audit reserve:			
Percentage held back for audit reserve		10%	—%
Gates:			
Potential gate holdback		—%	—%
Potential gate release timeframe		n/a	n/a
Unfunded commitments	$	—	—

The System expects to contribute $38,437 to its pension plans in fiscal year 2011.

Future pension benefit payments, which reflect expected future service, as appropriate, are expected as follows:

Fiscal year:		
2011	$	39,971
2012		28,896
2013		31,589
2014		34,745
2015		35,930
2016 – 2020		217,222

The System also has various contributory, tax-deferred annuity, and savings plans with participation available to certain employees. The System matches employee contributions up to 7% of compensation under certain defined contribution plans. The System contributed approximately $14,202 and $12,885 towards these plans during the years ended August 31, 2010 and 2009, respectively. Total expense was $15,537 and $14,279 in 2010 and 2009, respectively.

In addition to the retirement plan described above, other postretirement healthcare benefits are provided to certain qualified retirees who meet certain eligibility requirements. The net obligation recognized in the accompanying consolidated balance sheets at August 31, 2010 and 2009 is $3,812 and $3,932, respectively.

(9) Reimbursement Programs

The System participates in the Medicare and Medicaid programs. Payment rates for inpatient services provided to program beneficiaries are governed by the applicable regulations and implementation provisions thereunder, based generally on prospectively determined rates using clinical and diagnostic charges. Capital costs are also generally based upon prospectively determined rates. However, certain services are subject to cost-based reimbursement principles, subject to certain limitations. The System also participates in Blue Cross and other managed care programs. Generally, these programs provide for payments based on negotiated rates; however, certain plans utilize cost-based or charge-based payment principles.

Programs utilizing cost-based reimbursement principles are subject to review and final determination by appropriate program representatives. In the opinion of management, adequate provision has been made for any adjustments that may result from such reviews. Due to third-party payors, net, is included in other accrued expenses in the accompanying consolidated balance sheets.

In 2005, the Centers for Medicare and Medicaid Services (CMS) implemented a new demonstration project using recovery audit contractors (RACs) as part of the CMS's further efforts to assure accurate patient payments. The project uses the RACs to search for potentially inaccurate Medicare payments that may have been made to healthcare providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The five-state pilot program concluded in March 2008 with a nationwide rollout in phases beginning in 2009. The experience during the pilot indicated that the RACs identified more overpayments than were ultimately verified and CMS expanded the pilot program into a permanent program. Following completion of the pilot program, certain System affiliates have been the subject of RAC audits. As of August 31, 2010, the BSHSI hospitals in Kentucky, South Carolina, and New York had received notices. To date, the BSHSI hospitals in South Carolina and New York have had no Medicare claims denied and the BSHSI hospital in Kentucky has had a nominal amount of claims denied. Additional RAC assessments against the System are anticipated; however, the outcome of such assessments is unknown and cannot be reasonably estimated.

In 2008 and 2009, State Medicaid Integrity Programs (referred to as MIPs) were initiated by CMS through contractors. Virginia, Florida, and New York are the only states in which BSHSI operates where MIP audits have been initiated. As of August 31, 2010, MIP audits have been initiated at five BSHSI hospitals in Virginia and one hospital in New York. One Virginia facility has received a clean audit report and the remaining four are static while CMS replaces the original contractor. The outcome of the four Virginia and one New York open audit reports is uncertain and cannot be reasonably estimated.

The System's management strives to anticipate factors that affect payment changes and develop plans to address them. Management attempts to address these issues proactively through its policies and practices that focus on areas such as charity and uninsured care as well as effective managed care contracting, accounts receivable and revenue cycle best practices and analysis of potential government payment changes. Nonetheless, future actions by federal, state, and private payors could have a significant adverse effect on the System's operating results, cash flows, and liquidity. In addition, management pursues the highest level of compliance, but state and federal audits by the Offices of the Inspector General's do create uncertainty. At this time, the System has one audit underway. The outcome of this audit is uncertain and the impact cannot be reasonably estimated at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

(10) Investments in Joint Ventures and Nonpublic Entities

The System has invested in a number of joint ventures, limited liability corporations and other nonpublic entities to provide specialty healthcare services or engage in other activities. These investments range from minority investments with no control to majority investments or investments with control.

(a) Roper St. Francis Healthcare – South Carolina

BSHSI, The Medical Society of South Carolina, and the Carolinas Health System, Inc. are members of Care Alliance Health Services (d/b/a Roper St. Francis Healthcare). Roper St. Francis Healthcare is the sole member of and operates Bon Secours – St. Francis Xavier Hospital, Roper Hospital, a supporting foundation and physician practices located in Charleston, South Carolina. BSHSI is obligated to provide 27% of any capital contribution to Roper St. Francis Healthcare and is entitled to 27% of any surplus capital. BSHSI accounts for its interest in Roper St. Francis Healthcare under the equity method and includes its interest in Roper St. Francis Healthcare’s excess of revenue over expenses in its consolidated statements of operations as other revenue. Roper St. Francis Healthcare, The Medical Society of South Carolina, and the Carolinas Health System, Inc. are not otherwise affiliated with BSHSI and are not Members of the Obligated Group.

The System recorded income of $6,332 and $498 related to its equity interest for the years ended August 31, 2010 and 2009, respectively. Included in these amounts were the System’s allocated share of investment gains (losses) of $1,842 and $(5,234) for the years ended August 31, 2010 and 2009, respectively. In addition, adjustments of $1,091 and $(665) were recorded as net change in equity of joint ventures in 2010 and 2009, respectively, to reflect the System’s 27% interest in the net assets of this joint venture.

(In thousands)

The total assets, total liabilities, and net assets as of August 31, 2010 and 2009 and the total revenue, total expenses, investment gains (losses), net, and change in unrestricted net assets for the twelve months then ended for Roper St. Francis Healthcare are as follows:

		2010	2009
Total assets	$	813,943	783,257
Total liabilities		508,414	486,156
Net assets		305,529	297,101
Total revenue		708,449	649,162
Total expenses		691,815	627,932
Investment gains (losses), net		6,822	(19,385)
Change in unrestricted net assets		22,327	(11,132)

In May 2008, Roper St. Francis Healthcare began construction of a third 85-bed general acute care hospital and a medical office building, which opened on November 1, 2010. In addition, in June 2009, Roper St. Francis Healthcare received state approval for the construction of an additional 50-bed general acute care hospital located in Berkeley County, South Carolina. The approval of this project is currently under appeal at the request of a local hospital that also received state approval for a 50-bed facility. These capital construction projects will be financed through Roper St. Francis Healthcare's equity. Distributions are expected to be foregone during this construction period.

(b) Bon Secours Holy Family Regional Health System – Pennsylvania

On November 1, 2004, Bon Secours Holy Family Regional Health System, which owned and operated Bon Secours Holy Family Hospital (now known as Bon Secours Hospital), located in Altoona, Pennsylvania, merged with Altoona Hospital, Inc. to form ARHS. ARHS owns and operates Altoona Hospital and Bon Secours Hospital. Central Pennsylvania Health Services Corporation holds a 90% membership interest in ARHS and BSHSI holds the remaining 10% membership interest. BSHSI records its membership interest in ARHS under the equity method due to the extent of its board powers, and includes its interest in ARHS's change in net assets in its consolidated statements of operations as other revenue. Considering the System's ability to influence ARHS, the System records its investment on the equity method.

The System recorded a net gain of $279 and $189 related to its equity interest in ARHS for the years ended August 31, 2010 and 2009, respectively.

The ARHS bylaws provide that upon the occurrence of certain defined events and dates, ARHS may exercise a "call" option to purchase BSHSI's membership interest in ARHS at fair value. The ARHS bylaws also provide that upon the occurrence of certain defined events and dates BSHSI may exercise a "put" option to require ARHS to purchase BSHSI's membership interest in ARHS at fair value. If a put or call option is exercised, the purchase price for BSHSI's membership interest in ARHS would be based on an independent fair market valuation of ARHS as a whole, multiplied by BSHSI's membership interest percentage in ARHS. If an option is exercised at any time prior to November 1, 2012, the payment made by ARHS to BSHSI will be offset by a portion of the fees previously paid to BSHSI for corporate services in an amount equal to the lesser of (i) $10,000 or (ii) fifty-five and one-half percent (55.5%) of such payments.

(Continued)

During June 2010, BSHSI and ARHS obtained an independent valuation of AHRS. At November 1, 2010, BSHSI exercised its "put" option. Upon Vatican approval, BSHSI would withdraw as a member of AHRS and would receive a distribution for their share. This transaction is expected to have minimal effect upon BSHSI's financial position, results of operations, or cash flows.

(11) Other Commitments and Contingent Liabilities

(a) General and Professional Liability Insurance

The System participates in a self-insurance program for health professional/general liability (HPL/GL Program) by policies issued under a member of the System, Bon Secours Assurance Company, LTD (BSAC). BSAC is incorporated in the Cayman Islands. BSHSI is the sole shareholder of BSAC. Assets are available under the HPL/GL Program to provide specified levels of claims-made coverage for health professional liabilities and occurrence-based coverage for general liabilities, with excess layers obtained through commercial carriers under policies written on a claims-made basis.

The provision for claims and related funding levels for the HPL/GL Program is established annually based upon the recommendations of consulting actuaries. BSAC has accrued claims including liabilities for incidents incurred but not reported of approximately $69,958 and $58,527 at August 31, 2010 and 2009, respectively. The current portion of such accruals is included in other accrued expenses, and the remainder is reported within other long-term liabilities in the accompanying consolidated balance sheets. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial estimate.

(b) Workers' Compensation Insurance

The System's workers' compensation program primarily consists of self-insurance programs in various states with excess coverage through a commercial insurer. Mary Immaculate Hospital, which is also a participant of the System's workers' compensation program, is insured under a large deductible policy. Accrued workers' compensation claims of $29,521 and $26,221, of which the current portion is reported as other accrued expenses and the remainder is reported within other long-term liabilities in the accompanying consolidated balance sheets, include estimates for incidents incurred but not reported at August 31, 2010 and 2009, respectively. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments using a discount rate of 3.50%, as of August 31, 2010 and 2009, respectively.

(c) Employee Health Insurance

Employee health benefits of the System are principally provided through the System's self-insurance program. Accrued claims associated with this program, reported as other accrued expenses in the accompanying consolidated balance sheets, of approximately $14,739 and $12,048 include estimates for claims incurred but not reported at August 31, 2010 and 2009, respectively.

 (Continued)

(In thousands)

(d) Litigation

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The System's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business. It is management's opinion that the ultimate resolution of these pending claims and regulatory matters will not have a material adverse effect on the System's consolidated results of operations or financial position.

(e) Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense was $82,830 and $69,488 in 2010 and 2009, respectively. Future rental payments under noncancelable operating leases with durations in excess of one year are as follows:

2011	$	59,847
2012		49,575
2013		37,085
2014		31,017
2015		24,633
Thereafter		67,493

Certain local systems entered into agreements to lease space in medical office buildings (MOBs) under construction by external development companies. Based on the provisions of ASC Topic 840-40-05-5, *Lessee Involvement with Construction*, local systems were considered the owner of the MOBs during construction. These transactions do not qualify for sale-leaseback accounting and as such are treated as financing transactions. Accordingly, the associated financing obligations, along with their related construction in progress or building assets of $40,070 at August 31, 2010 and 2009, are included in other long-term liabilities and construction in progress or buildings and equipment in the accompanying consolidated balance sheets. The financing obligations associated with these transactions will not result in cash payments in excess of amounts paid under the related operating lease payments. All future cash obligations related to leased space within these MOBs are included as future minimum lease payments in the amounts reported above.

Subsequent to August 31, 2010, the System has entered into additional operating leases and developments as a matter of ongoing business.

(f) Guaranty Agreements

Affiliates of the System entered into several limited partnership agreements during the period from 1997 through 2010. The limited partnerships are involved in housing projects in the System's Baltimore market. System affiliates have entered into guaranty agreements with the limited partnerships during 1997 through 2010, whereby they have agreed to advance funds to the partnerships under specified conditions. The termination of each guaranty agreement is predicated on the occurrence of certain events. All such guaranty agreements are still in effect as of August 31,

2010. System affiliates have not been obligated to make any guarantee payments under the guaranty agreements to date through August 31, 2010. The maximum potential amount of future payments the System affiliates are obligated to make was $5,583 and $4,776 as of August 31, 2010 and 2009, respectively.

(12) Net Assets

BSHSI's endowments consist of approximately 75 individual funds established for a variety of purposes. Net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor or board-imposed restrictions and the nature of the restrictions, if any.

The System's endowment net assets are comprised of permanently restricted funds, which were $6,755 and $6,641 at August 31, 2010 and 2009, respectively. The System does not hold any board-designated endowment funds within unrestricted net assets or temporarily restricted net assets.

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 UPMIFA requires the System to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There were no significant deficiencies at August 31, 2010 and 2009.

The System has investment and spending policies for endowment assets that attempt 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 the System must hold in perpetuity or for a donor-specified period as well as board-designated funds. The practice allows the endowment assets to be invested in a manner that is intended to produce investment returns that exceed the price and yield the results of the allocation index while assuming a moderate level of investment risk. The System expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

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

BSHSI has a practice of distributing the major portion of current year earnings on the endowment funds, if the restrictions have been met. This is consistent with the System'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.

(In thousands)

(13) Functional Expenses

The functional breakdown of expenses incurred by the System in fulfilling its mission for the years ended August 31, 2010 and 2009 is as follows:

		2010	2009
Healthcare services	$	2,700,692	2,535,781
General and administrative		282,496	281,753
Total expenses	$	2,983,188	2,817,534

(14) Subsequent Events

Management evaluated all events and transactions that occurred after August 31, 2010 and through November 11, 2010. The System did not have any material recognizable subsequent events during this period, other than the transactions previously disclosed in the accompanying notes or as described below.

On October 20, 2010, BSHSI's board of directors approved 8 entities in Richmond and Hampton Roads to enter into a definitive agreement to sell certain operating assets related to the entities' outreach clinical reference laboratory services. These outreach lab services contribute less than 1.0% of the System's total revenue during the fiscal year ended August 31, 2010 and the assets to be sold are less than 0.1% of the System's net assets at August 31, 2010.

BON SECOURS HEALTH SYSTEM, INC.
AND SUBSIDIARIES

Index to Consolidating Information

KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report on Supplementary Information

The Board of Directors
Bon Secours Health System, Inc. and Subsidiaries:

We have audited and reported separately herein on the consolidated financial statements of Bon Secours Health System, Inc. and subsidiaries as of and for the years ended August 31, 2010 and 2009.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of Bon Secours Health System, Inc. and subsidiaries taken as a whole. The consolidating information in Schedules 1.1 through 2.10 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual reporting entities. The schedules have been subjected to the auditing procedures applied in the basic audits of the consolidated financial statements, and, in our opinion, are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

November 11, 2010

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

		Bon Secours Baltimore Health Corporation	Bon Secours Hampton Roads Healthcare System	Bon Secours Richmond Health Corporation	St. Francis Health System, Inc.	Bon Secours Kentucky Health System, Inc.	Bon Secours New York Health System, Inc.	Bon Secours Charity Health System, Inc.
ASSETS								
Current assets:								
Cash and cash equivalents	$	560	102,007	248,130	177,042	5,387	10,636	3,262
Accounts receivable, net		17,300	72,149	131,813	55,446	18,356	10,236	53,666
Assets limited or restricted as to use		6	2,682	4,800	736	-	4,305	-
Inventories		948	11,033	16,400	10,698	3,649	122	6,298
Prepaid expenses and other current assets		1,242	2,503	10,089	2,583	1,085	135	2,192
Total current assets		20,056	190,374	411,232	246,505	28,477	25,434	65,418
Assets limited or restricted as to use, less current portion		13,867	107,457	272,036	18,535	8,486	4,358	23,799
Property, plant, and equipment, net		36,518	131,584	357,751	171,571	57,748	24,353	110,681
Deferred financing costs, net		-	865	2,950	-	-	-	-
Goodwill and other assets, net		1,121	14,339	10,528	83,938	1,695	329	10,910
	$	71,562	444,619	1,054,497	520,549	96,406	54,474	210,808
LIABILITIES, MINORITY INTEREST, AND NET ASSETS								
Current liabilities								
Current portion of long-term debt	$	635	932	5,428	-	-	1,512	301
Accounts payable		9,175	39,932	53,538	21,467	7,254	4,476	14,118
Accrued salaries, wages, and benefits		5,585	20,647	40,423	22,613	6,114	3,085	27,322
Other accrued expenses		3,873	4,952	18,033	2,831	3,371	781	12,729
Due to (from) affiliate		(3)	712	-	-	0	-	87
Total current liabilities		19,265	67,175	117,422	46,911	16,739	9,854	54,557
Long-term debt, less current portion		9,010	40,928	75,039	426	-	39,863	81,285
Due to (from) affiliate, less current portion		94,761	86,871	197,207	344,638	14,734	-	58,284
Other long-term liabilities and deferred credits		24,138	53,745	163,203	6,373	39,969	4,451	16,583
Total liabilities		147,174	248,719	552,871	398,348	71,442	54,168	210,709
Minority interest		-	56,843	86,437	1,115	-	-	-
Net assets:								
Unrestricted		(75,740)	135,118	398,673	118,685	22,604	(1,258)	(5,857)
Temporarily restricted		128	3,080	12,901	1,968	1,153	1,564	5,327
Permanently restricted		-	859	3,615	433	1,207	-	629
Total net assets		(75,612)	139,057	415,189	121,086	24,964	306	99
	$	71,562	444,619	1,054,497	520,549	96,406	54,474	210,808

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

	Bon Secours St. Petersburg Health System, Inc.	Bon Secours Associates, LLC	Bon Secours Assurance Company, Ltd.	Bon Secours Health System Office	Consolidating Eliminations	2010 Consolidated Bon Secours Health System, Inc.	2009 Consolidated Bon Secours Health System, Inc.
ASSETS							
Current assets:							
Cash and cash equivalents	$ 1,543	-	-	0	(368,312)	180,255	129,048
Accounts receivable, net	3,019	-	-	1,697	(137)	363,545	344,504
Assets limited or restricted as to use	-	-	15,972	33,686	0	62,187	44,090
Inventories	83	-	-	-	0	49,231	43,650
Prepaid expenses and other current assets	30	-	-	6,296	(4,602)	21,553	24,688
Total current assets	4,675	-	15,972	41,679	(373,051)	676,771	585,980
Assets limited or restricted as to use, less current portion	-	442	48,560	240,056	53,091	790,687	745,638
Property, plant, and equipment, net	12,499	-	-	170,232	4,804	1,077,741	1,101,713
Deferred financing costs, net	-	-	-	8,959	0	12,774	14,173
Goodwill and other assets, net	-	1,267	6,261	129,062	(18,441)	241,009	226,651
	$ 17,174	1,709	70,793	589,988	(333,597)	2,798,982	2,674,155
LIABILITIES, MINORITY INTEREST, AND NET ASSETS							
Current liabilities							
Current portion of long-term debt	-	-	-	17,066	699	26,573	26,968
Accounts payable	947	-	-	19,185	(218)	169,874	138,684
Accrued salaries, wages, and benefits	1,410	-	-	25,565	(1)	152,763	144,580
Other accrued expenses	326	-	15,972	41,314	(4,740)	99,442	107,016
Due to (from) affiliate	(11)	-	-	(1,002)	217	0	0
Total current liabilities	2,672	-	15,972	102,128	(4,043)	448,652	417,248
Long-term debt, less current portion	-	-	-	833,271	(46,781)	1,033,041	1,059,383
Due to (from) affiliate, less current portion	16,791	-	-	(497,488)	(315,798)	-	-
Other long-term liabilities and deferred credits	702	1	54,821	293,411	(25,363)	632,034	494,112
Total liabilities	20,165	1	70,793	731,322	(391,985)	2,113,727	1,970,743
Minority interest	2	-	-	-	0	144,397	130,043
Net assets:							
Unrestricted	(3,006)	1,708	-	(148,594)	58,389	500,722	542,090
Temporarily restricted	-	-	-	7,260	0	33,381	24,638
Permanently restricted	13	-	-	-	(1)	6,755	6,641
Total net assets	(2,993)	1,708	-	(141,334)	58,388	540,858	573,369
	$ 17,174	1,709	70,793	589,988	(333,597)	2,798,982	2,674,155

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

	Bon Secours Baltimore Health Corporation						
	Bon Secours Hospital Baltimore	BS Community Health Services	Bon Secours of Maryland Foundation	Urban Medical Institute	Consolidating Eliminations	2010 Consolidated	2009 Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	$ (72,347)	(231)	375	(449)	73,212	560	1,415
Accounts receivable, net	16,474	239	570	23	(6)	17,300	18,027
Assets limited or restricted as to use	-	-	6	-	0	6	15
Inventories	948	-	-	-	0	948	740
Prepaid expenses and other current assets	1,242	-	2,994	-	(2,994)	1,242	1,738
Total current assets	(53,683)	8	3,945	(426)	70,212	20,056	21,935
Assets limited or restricted as to use, less current portion	8,590	-	5,277	-	0	13,867	13,121
Property, plant, and equipment, net	31,067	97	35,711	3,543	(33,900)	36,518	39,697
Deferred financing costs, net	-	-	70	-	(70)	-	-
Goodwill and other assets, net	13	300	189	-	619	1,121	1,650
	$ (14,013)	405	45,192	3,117	36,861	71,562	76,403
LIABILITIES, MINORITY INTEREST, AND NET ASSETS							
Current liabilities:							
Current portion of long-term debt	$ 635	-	425	-	(425)	635	610
Accounts payable	8,928	4	1,723	86	(1,566)	9,175	9,412
Accrued salaries, wages, and benefits	5,585	-	19	-	(19)	5,585	5,688
Other accrued expenses	3,751	-	3,260	-	(3,138)	3,873	3,029
Due to (from) affiliate	(17,448)	13,016	1,354	3,075	0	(3)	(222)
Total current liabilities	1,451	13,020	6,781	3,161	(5,148)	19,265	18,517
Long-term debt, less current portion	8,908	-	12,924	-	(12,822)	9,010	9,651
Due to (from) affiliate, less current portion	17,485	-	3,717	-	73,559	94,761	99,717
Other long-term liabilities and deferred credits	24,138	(1)	1	1	(1)	24,138	20,140
Total liabilities	51,982	13,019	23,423	3,162	55,588	147,174	148,025
Minority interest	-	-	19,385	-	(19,385)	-	-
Net assets:							
Unrestricted	(66,065)	(12,614)	2,326	(45)	658	(75,740)	(71,847)
Temporarily restricted	70	-	58	-	0	128	225
Permanently restricted	-	-	-	-	-	-	-
Total net assets	(65,995)	(12,614)	2,384	(45)	658	(75,612)	(71,622)
	$ (14,013)	405	45,192	3,117	36,861	71,562	76,403

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

	Bon Secours Hampton Roads Healthcare System										
	Maryview Medical Center	Professional Health Care Mgmt Services	Bon Secours Maryview Nursing Care Center	Bon Secours DePaul Medical Center, Inc.	Tidewater Diversified, Inc.	Mary Immaculate Hospital, Inc.	St. Francis Nursing Care Center, Inc.	Other Corporations	Consolidating Eliminations	2010 Consolidated	2009 Consolidated
ASSETS											
Current assets:											
Cash and cash equivalents	$ 13,656	12,989	2,140	(44,810)	1,552	59,110	6,669	5,887	44,814	102,007	73,738
Accounts receivable, net	32,514	934	(6)	20,131	229	17,481	783	84	(1)	72,149	65,267
Assets limited or restricted as to use	336	32	-	11	-	832	-	1,471	0	2,682	2,218
Inventories	4,124	-	-	2,539	384	3,209	-	779	(2)	11,033	9,374
Prepaid expenses and other current assets	1,797	5	13	287	(1)	292	2	104	4	2,503	1,594
Total current assets	52,427	13,960	2,147	(21,842)	2,164	80,924	7,454	8,325	44,815	190,374	152,191
Assets limited or restricted as to use, less current portion	72,514	488	-	9,487	-	22,721	-	2,246	1	107,457	100,249
Property, plant, and equipment, net	50,263	1,877	10,582	37,686	0	28,383	1,714	1,078	1	131,584	136,060
Deferred financing costs, net	373	65	-	76	-	312	40	-	(1)	865	967
Goodwill and other assets, net	3,444	-	-	9,218	354	522	-	1,650	(849)	14,339	15,934
	$ 179,021	16,390	12,729	34,625	2,518	132,862	9,208	13,299	43,967	444,619	405,401
LIABILITIES, MINORITY INTEREST, AND NET ASSETS											
Current liabilities:											
Current portion of long-term debt	$ 122	0	(4)	-	-	815	-	-	(1)	932	1,227
Accounts payable	15,694	557	171	10,080	624	8,901	474	3,421	10	39,932	30,367
Accrued salaries, wages, and benefits	15,787	127	139	1,652	55	1,041	99	1,746	1	20,647	17,861
Other accrued expenses	1,996	635	74	1,808	0	247	80	112	0	4,952	10,300
Due to (from) affiliate	(2,672)	(26)	3,653	369	2	(112)	(8)	(485)	(9)	712	(157)
Total current liabilities	30,927	1,293	4,033	13,909	681	10,892	645	4,794	1	67,175	59,598
Long-term debt, less current portion	24,823	3,900	-	-	-	12,205	-	-	0	40,928	41,756
Due to (from) affiliate, less current portion	(11,934)	-	4,250	46,739	-	(2,691)	3,498	2,194	44,815	86,871	83,466
Other long-term liabilities and deferred credits	29,073	(1)	4,076	8,128	1	8,232	2	4,235	(1)	53,745	49,679
Total liabilities	72,889	5,192	12,359	68,776	682	28,638	4,145	11,223	44,815	248,719	234,499
Minority interest	-	-	933	-	-	-	-	-	55,910	56,843	47,943
Net Assets:											
Unrestricted	106,053	11,198	(563)	(34,131)	1,836	103,768	5,044	(1,327)	(56,760)	135,118	119,384
Temporarily restricted	79	-	-	(20)	-	406	19	2,595	1	3,080	2,770
Permanently restricted	-	-	-	-	-	50	-	808	1	859	805
Total net assets	106,132	11,198	(563)	(34,151)	1,836	104,224	5,063	2,076	(56,758)	139,057	122,959
	$ 179,021	16,390	12,729	34,625	2,518	132,862	9,208	13,299	43,967	444,619	

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

		Bon Secours Richmond Health Corporation									
		St. Mary's Hospital, Inc.	Stuart Circle Hospital, Inc.	Richmond Community Hospital	St. Francis Medical Center	Memorial Regional Medical Center	Bon Secours Healthsource Company Group	Other Corporations	Consolidating Eliminations	2010 Consolidated	2009 Consolidated
ASSETS											
Current assets:											
Cash and cash equivalents	$	207,097	(11,512)	(41,145)	(46,962)	141,458	(21,385)	(14,475)	35,054	248,130	177,546
Accounts receivable, net		54,272	-	6,970	24,767	37,767	5,730	2,306	1	131,813	118,647
Assets limited or restricted as to use		2,287	-	-	-	8	-	2,505	0	4,800	5,163
Inventories		5,784	-	979	3,529	4,255	281	1,573	(1)	16,400	14,129
Prepaid expenses and other current assets		1,241	-	191	924	1,233	4,701	1,799	-	10,089	10,165
Total current assets		270,681	(11,512)	(33,005)	(17,742)	184,721	(10,673)	(6,292)	35,054	411,232	325,650
Assets limited or restricted as to use, less current portion		249,112	-	-	-	11,254	-	11,670	0	272,036	258,716
Property, plant, and equipment, net		128,643	-	9,222	108,124	87,167	22,117	2,478	0	357,751	377,393
Deferred financing costs, net		839	-	-	1,363	749	-	-	(1)	2,950	3,124
Goodwill and other assets, net		1,357	-	250	2,416	330	1,080	5,094	1	10,528	10,759
	$	650,632	(11,512)	(23,533)	94,161	284,221	12,524	12,950	35,054	1,054,497	975,642
LIABILITIES, MINORITY INTEREST, AND NET ASSETS											
Current liabilities:											
Current portion of long-term debt	$	1,867	-	-	-	2,850	711	-	0	5,428	6,338
Accounts payable		19,008	-	2,034	9,156	11,900	2,041	9,399	0	53,538	45,219
Accrued salaries, wages, and benefits		40,041	-	25	-	113	244	-	0	40,423	36,560
Other accrued expenses		4,715	-	312	4,605	4,905	2,859	636	1	18,033	15,047
Due to (from) affiliate		896	-	(79)	(43)	(466)	(308)	-	-	-	(213)
Total current liabilities		66,527	-	2,292	13,718	19,302	5,547	10,035	1	117,422	102,951
Long-term debt, less current portion		49,228	-	-	-	25,730	81	-	0	75,039	80,236
Due to (from) affiliate, less current portion		12,835	24,854	2,584	80,000	41,880	0	-	35,054	197,207	192,227
Other long-term liabilities and deferred credits		114,719	(1)	-	106	46,139	332	1,908	0	163,203	135,786
Total liabilities		243,309	24,853	4,876	93,824	133,051	5,960	11,943	35,055	552,871	511,200
Minority interest		-	-	-	-	-	7,274	79,163	0	86,437	81,162
Net Assets:											
Unrestricted		407,251	(36,365)	(28,409)	337	151,047	(710)	(94,477)	(1)	398,673	367,676
Temporarily restricted		72	-	-	0	3	-	12,826	0	12,901	11,992
Permanently restricted		-	-	-	-	120	-	3,495	0	3,615	3,612
Total net assets		407,323	(36,365)	(28,409)	337	151,170	(710)	(78,156)	(1)	415,189	383,280
	$	650,632	(11,512)	(23,533)	94,161	284,221	12,524	12,950	35,054	1,054,497	975,642

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

	St. Francis Health System, Inc.										
	St. Francis - Downtown	St. Francis - Eastside	Health Care Enterprises, Inc.	Upstate Surgery Center	St. Francis Foundation	St. Francis Physician Services	Optimum Health Network	St Francis - Millennium	Consolidating Eliminations	2010 Consolidated	2009 Consolidated
ASSETS											
Current assets:											
Cash and cash equivalents	$ 84,267	85,188	-	1,328	1,913	(77,706)	8	(3,294)	85,338	177,042	115,243
Accounts receivable, net	26,338	19,571	-	421	313	8,494	-	309	-	55,446	58,199
Assets limited or restricted as to use	-	-	-	-	736	-	-	-	0	736	709
Inventories	8,745	1,886	-	59	-	8	-	-	0	10,698	9,077
Prepaid expenses and other current assets	1,343	121	-	-	40	872	-	207	-	2,583	3,357
Total current assets	120,693	106,766	-	1,808	3,002	(68,332)	8	(2,778)	85,338	246,505	186,585
Assets limited or restricted as to use, less current portion	14,490	-	-	-	4,045	-	-	-	0	18,535	17,323
Property, plant, and equipment, net	101,263	52,818	-	430	-	-	-	17,060	0	171,571	178,023
Deferred financing costs, net	-	-	-	-	-	-	-	-	-	-	-
Goodwill and other assets, net	83,641	-	-	297	-	-	-	-	0	83,938	86,845
	$ 320,087	159,584	-	2,535	7,047	(68,332)	8	14,282	85,338	520,549	468,776
LIABILITIES, MINORITY INTEREST, AND NET ASSETS											
Current liabilities:											
Current portion of long-term debt	$ -	-	-	-	-	-	-	-	-	-	-
Accounts payable	16,669	3,248	-	130	-	1,261	8	152	(1)	21,467	20,144
Accrued salaries, wages, and benefits	16,933	2,029	-	41	-	3,537	-	72	1	22,613	18,111
Other accrued expenses	1,384	570	-	143	-	726	-	7	1	2,831	2,676
Due to (from) affiliate	-	-	-	-	-	-	-	-	-	-	(2,168)
Total current liabilities	34,986	5,847	-	314	-	5,524	8	231	1	46,911	38,763
Long-term debt, less current portion	32	395	-	-	-	-	-	-	(1)	426	511
Due to (from) affiliate, less current portion	259,300	-	-	-	-	-	-	-	85,338	344,638	313,911
Other long-term liabilities and deferred credits	(10,714)	20	-	-	-	7	-	17,060	0	6,373	11,071
Total liabilities	283,604	6,262	-	314	-	5,531	8	17,291	85,338	398,348	364,256
Minority interest	-	-	-	1,115	-	-	-	-	0	1,115	1,068
Net Assets:											
Unrestricted	36,483	153,322	-	1,106	4,646	(73,863)	-	(3,009)	0	118,685	100,996
Temporarily restricted	-	-	-	-	1,968	-	-	-	0	1,968	2,025
Permanently restricted	-	-	-	-	433	-	-	-	0	433	431
Total net assets	36,483	153,322	-	1,106	7,047	(73,863)	-	(3,009)	-	121,086	103,452
	$ 320,087	159,584	-	2,535	7,047	(68,332)	8	14,282	85,338	520,549	468,776

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

		Bon Secours Kentucky Health System, Inc.					
		Our Lady of Bellefonte Hospital, Inc.	OLBH Foundation	Bellefonte Physician Services	Consolidating Eliminations	2010 Consolidated	2009 Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	$	4,894	347	(14,589)	14,734	5,386	1,511
Accounts receivable, net		16,764	48	1,543	-	18,355	19,020
Assets limited or restricted as to use		-	-	-	-	-	10
Inventories		3,536	-	113	-	3,649	3,672
Prepaid expenses and other current assets		967	1	120	-	1,088	213
Total current assets		26,161	396	(12,813)	14,734	28,478	24,426
Assets limited or restricted as to use, less current portion		6,238	2,248	-	-	8,486	8,461
Property, plant, and equipment, net		57,748	-	-	-	57,748	62,653
Deferred financing costs, net		-	-	-	-	-	-
Goodwill and other assets, net		1,518	72	104	-	1,694	904
	$	91,665	2,716	(12,709)	14,734	96,406	96,444
LIABILITIES, MINORITY INTEREST, AND NET ASSETS							
Current liabilities:							
Current portion of long-term debt	$	-	-	-	-	-	-
Accounts payable		6,880	-	374	-	7,254	4,769
Accrued salaries, wages, and benefits		5,262	-	852	-	6,114	6,017
Other accrued expenses		3,373	-	(2)	-	3,371	2,488
Due to (from) affiliate		0	-	-	-	-	(24)
Total current liabilities		15,515	-	1,224	-	16,739	13,250
Long-term debt, less current portion		-	-	-	-	-	-
Due to (from) affiliate, less current portion		-	-	-	14,734	14,734	19,340
Other long-term liabilities and deferred credits		39,970	(1)	-	-	39,969	34,077
Total liabilities		55,485	(1)	1,224	14,734	71,442	66,667
Minority interest		-	-	-	-	-	-
Net Assets:							
Unrestricted		36,180	357	(13,933)	-	22,604	27,409
Temporarily restricted		-	1,153	-	-	1,153	1,198
Permanently restricted		-	1,207	-	-	1,207	1,170
Total net assets		36,180	2,717	(13,933)	-	24,964	29,777
	$	91,665	2,716	(12,709)	14,734	96,406	96,444

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

		Bon Secours New York Health System, Inc.						
		Frances Schervier Home and Hospital	Frances Schervier Housing Development	Bon Secours New York Parent Corp.	Schervier Long Term Home Health Care	Consolidating Eliminations	2010 Consolidated	2009 Consolidated
ASSETS								
Current assets:								
Cash and cash equivalents	$	10,289	346	-	1	0	10,636	11,987
Accounts receivable, net		6,403	5	-	3,828	-	10,236	10,291
Assets limited or restricted as to use		4,305	-	-	-	0	4,305	4,258
Inventories		122	-	-	-	0	122	86
Prepaid expenses and other current assets		121	2	9	3	-	135	73
Total current assets		21,240	353	9	3,832	-	25,434	26,695
Assets limited or restricted as to use, less current portion		3,701	658	-	-	(1)	4,358	4,346
Property, plant, and equipment, net		19,257	4,827	-	268	1	24,353	25,720
Deferred financing costs, net		-	-	-	-	-	-	-
Goodwill and other assets, net		285	44	-	-	0	329	745
	$	44,483	5,882	9	4,100	-	54,474	57,506
LIABILITIES, MINORITY INTEREST, AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	$	1,275	237	-	-	0	1,512	1,421
Accounts payable		1,803	460	21	2,192	0	4,476	4,325
Accrued salaries, wages, and benefits		2,887	13	95	91	(1)	3,085	3,804
Other accrued expenses		779	-	-	2	0	781	803
Due to (from) affiliate		-	-	-	-	-	-	-
Total current liabilities		6,744	710	116	2,285	(1)	9,854	10,353
Long-term debt, less current portion		33,075	6,788	-	-	0	39,863	41,375
Due to (from) affiliate, less current portion		7,185	663	641	(8,489)	-	-	-
Other long-term liabilities and deferred credits		3,423	44	(1)	984	1	4,451	3,266
Total liabilities		50,427	8,205	756	(5,220)	-	54,168	54,994
Minority interest		-	-	-	-	-	-	-
Net Assets:								
Unrestricted		(7,508)	(2,323)	(747)	9,320	0	(1,258)	949
Temporarily restricted		1,564	-	-	-	0	1,564	1,563
Permanently restricted		-	-	-	-	-	-	-
Total net assets		(5,944)	(2,323)	(747)	9,320	-	306	2,512
	$	44,483	5,882	9	4,100	-	54,474	57,506

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

	Bon Secours Charity Health System, Inc										
	Good Samaritan Hospital	St. Anthony Community Hospital	Bon Secours Community Hospital	Schervier Pavilion	Mt. Alverno Assisted Living Facility	Good Samaritan Hospital Foundation	Good Samaritan Hospital Home Care	Other Corporations	Consolidating Eliminations	2010 Consolidated	2009 Consolidated
ASSETS											
Current assets:											
Cash and cash equivalents	$ (63,925)	11,280	(5,638)	914	28	674	34	1,610	58,285	3,262	6,043
Accounts receivable, net	34,603	5,667	9,598	1,392	199	-	1,783	423	1	53,666	51,061
Assets limited or restricted as to use	-	-	-	-	-	-	-	-	-	-	-
Inventories	4,296	937	1,057	-	9	-	-	-	(1)	6,298	6,501
Prepaid expenses and other current assets	1,717	120	86	7	4	-	1	259	(2)	2,192	3,755
Total current assets	(23,309)	18,004	5,103	2,313	240	674	1,818	2,292	58,283	65,418	67,360
Assets limited or restricted as to use, less current portion	18,285	1,161	25	-	-	3,062	249	1,017	0	23,799	21,634
Property, plant, and equipment, net	69,955	17,271	13,057	6,084	3,986	-	223	106	(1)	110,681	112,335
Deferred financing costs, net	-	-	-	-	-	-	-	-	-	-	-
Goodwill and other assets, net	6,488	839	2,976	16	16	559	-	15	1	10,910	1,939
	$ 71,419	37,275	21,161	8,413	4,242	4,295	2,290	3,430	58,283	210,808	203,268
LIABILITIES, MINORITY INTEREST, AND NET ASSETS											
Current liabilities:											
Current portion of long-term debt	$ 290	-	-	-	-	-	-	12	(1)	301	223
Accounts payable	9,490	2,103	1,911	91	41	2	395	85	0	14,118	9,406
Accrued salaries, wages, and benefits	20,475	1,919	3,347	622	203	-	-	756	0	27,322	27,721
Other accrued expenses	7,449	1,150	2,242	337	145	-	1,205	201	0	12,729	14,208
Due to (from) affiliate	1,374	0	0	-	0	147	(1,356)	(78)	0	87	(931)
Total current liabilities	39,078	5,172	7,500	1,050	389	149	244	976	(1)	54,557	50,627
Long-term debt, less current portion	53,753	-	13,790	13,700	-	-	-	42	0	81,285	81,602
Due to (from) affiliate, less current portion	-	-	-	-	-	-	-	-	58,284	58,284	46,638
Other long-term liabilities and deferred credits	10,457	247	4,193	57	334	-	1,297	(1)	(1)	16,583	12,331
Total liabilities	103,288	5,419	25,483	14,807	723	149	1,541	1,017	58,282	210,709	191,198
Minority interest	-	-	-	-	-	-	-	-	-	-	-
Net Assets:											
Unrestricted	(32,362)	31,295	(4,322)	(6,394)	3,519	525	500	1,382	0	(5,857)	6,580
Temporarily restricted	493	561	-	-	-	3,609	249	414	1	5,327	4,866
Permanently restricted	-	-	-	-	-	12	-	617	0	629	624
Total net assets	(31,869)	31,856	(4,322)	(6,394)	3,519	4,146	749	2,413	1	99	12,070
	$ 71,419	37,275	21,161	8,413	4,242	4,295	2,290	3,430	58,283	210,808	203,268

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

	Bon Secours St. Petersburg Health System, Inc.						
	Maria Manor Nursing Care Center, Inc.	Bon Secours Place at St. Petersburg	Maria Manor Health Resources	St. Petersburg Home Care Services, Inc.	Consolidating Eliminations	2010 Consolidated	2009 Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	$ (86)	1,659	-	(30)	0	1,543	1,995
Accounts receivable, net	2,627	29	-	364	(1)	3,019	3,500
Assets limited or restricted as to use	-	-	-	-	-	-	-
Inventories	83	-	-	-	0	83	71
Prepaid expenses and other current assets	26	3	-	-	1	30	32
Total current assets	2,650	1,691	-	334	-	4,675	5,598
Assets limited or restricted as to use, less current portion	-	-	-	-	-	-	-
Property, plant, and equipment, net	5,289	7,127	-	83	0	12,499	12,546
Deferred financing costs, net	-	-	-	-	-	-	-
Goodwill and other assets, net	-	-	1,000	-	(1,000)	-	21
	$ 7,939	8,818	1,000	417	(1,000)	17,174	18,165
LIABILITIES, MINORITY INTEREST, AND NET ASSETS							
Current liabilities:							
Current portion of long-term debt	$ -	-	-	-	-	-	-
Accounts payable	904	4	-	39	0	947	1,008
Accrued salaries, wages, and benefits	1,078	144	-	187	1	1,410	1,344
Other accrued expenses	(3)	316	-	13	0	326	1,115
Due to (from) affiliate	(646)	19	-	616	0	(11)	13
Total current liabilities	1,333	483	-	855	1	2,672	3,480
Long-term debt, less current portion	-	-	-	-	-	-	-
Due to (from) affiliate, less current portion	10,700	6,091	-	-	0	16,791	17,117
Other long-term liabilities and deferred credits	647	47	-	8	0	702	750
Total liabilities	12,680	6,621	-	863	1	20,165	21,347
Minority interest	-	300	-	-	(298)	2	(131)
Net Assets:							
Unrestricted	(4,754)	1,897	1,000	(446)	(703)	(3,006)	(3,051)
Temporarily restricted	-	-	-	-	-	-	-
Permanently restricted	13	-	-	-	0	13	-
Total net assets	(4,741)	1,897	1,000	(446)	(703)	(2,993)	(3,051)
	$ 7,939	8,818	1,000	417	(1,000)	17,174	18,165

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet Information
(in thousands)

August 31, 2010
(with comparative totals for 2009)

	Bon Secours Associates, LLC		Bon Secours Assurance Company, Ltd.		Bon Secours Health System Office	
	2010 Consolidated	2009 Consolidated	2010 Consolidated	2009 Consolidated	2010 Consolidated	2009 Consolidated
ASSETS						
Cash and cash equivalents	$ -	-	-	-	0	13,269
Accounts receivable, net	-	-	-	-	1,697	630
Assets limited or restricted as to use	-	-	15,972	14,944	33,686	16,772
Inventories	-	-	-	-	-	-
Prepaid expenses and other current assets	-	-	-	-	6,296	4,337
Total current assets	-	-	15,972	14,944	41,679	35,008
Assets limited or restricted as to use, less current portion	442	175	48,560	37,875	240,056	283,395
Property, plant, and equipment, net	-	-	-	-	170,232	152,244
Deferred financing costs, net	-	-	-	-	8,959	10,081
Goodwill and other assets, net	1,267	1,267	6,261	6,684	129,062	118,345
	$ 1,709	1,442	70,793	59,503	589,988	599,073
LIABILITIES, MINORITY INTEREST, AND NET ASSETS						
Current liabilities:						
Current portion of long-term debt	$ -	-	-	-	17,066	16,287
Accounts payable	-	-	-	-	19,185	14,378
Accrued salaries, wages, and benefits	-	-	-	-	25,565	27,473
Other accrued expenses	-	-	15,972	14,944	41,314	43,119
Due to (from) affiliate	-	-	-	-	(1,002)	3,356
Total current liabilities	-	-	15,972	14,944	102,128	104,613
Long-term debt, less current portion	-	-	-	-	833,271	850,034
Due to (from) affiliate, less current portion	-	-	-	-	(497,488)	(498,458)
Other long-term liabilities and deferred credits	1	1	54,821	44,559	293,411	208,745
Total liabilities	1	1	70,793	59,503	731,322	664,934
Minority interest	-	-	-	-	-	-
Net assets:						
Unrestricted	1,708	1,441	-	-	(148,594)	(65,861)
Temporarily restricted	-	-	-	-	7,260	-
Permanently restricted	-	-	-	-	-	-
Total net assets	1,708	1,441	-	-	(141,334)	(65,861)
	$ 1,709	1,442	70,793	59,503	589,988	599,073

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

		Bon Secours Baltimore Health Corporation	Bon Secours Hampton Roads Health System	Bon Secours Richmond Health Corporation	St. Francis Health System, Inc.	Bon Secours Kentucky Health System, Inc.	Bon Secours New York Health System, Inc.	Bon Secours Charity Health System, Inc.
Revenues:								
Net patient service revenue	$	126,814	620,626	1,053,661	522,583	164,305	54,437	428,665
Other revenues		11,974	20,878	10,602	9,969	4,270	604	3,229
Total revenues		138,788	641,504	1,064,263	532,552	168,575	55,041	431,894
Expenses:								
Salaries, wages, and benefits		59,837	241,630	453,282	242,015	73,202	30,681	225,616
Supplies		12,649	121,151	187,307	92,826	21,385	2,877	57,870
Purchased services and other		43,391	168,603	243,229	92,275	44,597	18,414	109,158
Provision for bad debts		16,080	54,030	50,871	53,507	13,294	266	23,819
Depreciation and amortization		4,843	22,294	42,551	23,568	8,757	1,930	17,268
Interest		1,576	8,603	18,211	8,646	4,870	2,023	9,534
Total expenses		138,376	616,311	995,451	512,837	166,105	56,191	443,265
Income (loss) from continuing operations		412	25,193	68,812	19,715	2,470	(1,150)	(11,371)
Non-operating gains (losses), net:								
Nonoperating investment income (losses), net		448	7,019	17,806	1,333	445	148	238
Loss on early retirement of debt		-	-	-	-	-	-	-
Other nonoperating activities, net		(1,306)	(2,878)	(20,427)	(120)	(3,349)	(618)	1,125
Excess (deficit) of revenues over expenses before minority interest		(446)	29,334	66,191	20,928	(434)	(1,620)	(10,008)
Minority interest of consolidated subsidiaries		-	(8,899)	(11,141)	(273)	-	-	-
Excess (deficit) of continuing revenues over expenses		(446)	20,435	55,050	20,655	(434)	(1,620)	(10,008)
Gain on discontinued operations, net		-	-	-	-	-	-	-
Excess (deficit) of revenues over expenses		(446)	20,435	55,050	20,655	(434)	(1,620)	(10,008)
Other changes in net assets:								
Net change in unrealized gains (losses) on other-than-trading securities		109	121	271	(48)	39	-	118
Change in classification of interest rate derivatives		-	-	47	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment		-	110	453	-	138	-	659
Transfers to affiliates and other changes, net		(467)	(2,102)	(4,179)	(2,918)	8	-	(3,306)
Net change in equity of joint venture		-	-	-	-	-	-	-
Pension and other postretirement adjustments		(3,089)	(2,829)	(20,645)	-	(4,556)	(587)	100
Increase (decrease) in unrestricted net assets	$	(3,893)	15,735	30,997	17,689	(4,805)	(2,207)	(12,437)

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	Bon Secours St. Petersburg Health System, Inc.	Bon Secours Associates, LLC	Bon Secours Assurance Company, Ltd.	Bon Secours Health System Office	Consolidating Eliminations	2010 Consolidated Bon Secours Health System, Inc.	2009 Consolidated Bon Secours Health System, Inc.
Revenues:							
Net patient service revenue	$ 22,819	-	-	-	0	2,993,910	2,827,545
Other revenues	5,340	-	28,398	133,371	(137,671)	90,964	67,682
Total revenues	28,159	-	28,398	133,371	(137,671)	3,084,874	2,895,227
Expenses:							
Salaries, wages, and benefits	16,197	-	-	88,230	(280)	1,430,410	1,347,585
Supplies	2,035	-	-	898	(1)	498,997	466,771
Purchased services and other	7,314	-	28,398	45,120	(117,427)	683,072	631,934
Provision for bad debts	612	-	-	-	(1)	212,478	200,141
Depreciation and amortization	800	-	-	20,923	(19,642)	123,292	122,711
Interest	769	-	-	(18,996)	(297)	34,939	48,392
Total expenses	27,727	-	28,398	136,175	(137,648)	2,983,188	2,817,534
Income (loss) from continuing operations	432	-	-	(2,804)	(23)	101,686	77,693
Non-operating gains (losses), net:							
Nonoperating investment income (losses), net	5	-	-	(68,652)	0	(41,210)	(162,145)
Loss on early retirement of debt	-	-	-	-	-	-	(14,113)
Other nonoperating activities, net	(42)	267	-	(3,296)	0	(30,644)	(25,943)
Excess (deficit) of revenues over expenses before minority interest	395	267	-	(74,752)	(23)	29,832	(124,508)
Minority interest of consolidated subsidiaries	(132)	-	-	-	0	(20,445)	(2,427)
Excess (deficit) of continuing revenues over expenses	263	267	-	(74,752)	(23)	9,387	(126,935)
Gain on discontinued operations, net	-	-	-	3,421	0	3,421	2,441
Excess (deficit) of revenues over expenses	263	267	-	(71,331)	(23)	12,808	(124,494)
Other changes in net assets:							
Net change in unrealized gains (losses) on other-than-trading securities	-	-	-	1,072	0	1,682	1,250
Change in classification of interest rate derivatives	-	-	-	-	0	47	-
Net assets released from restrictions used for purchase of property, plant, and equipment	-	-	-	-	(1)	1,359	2,529
Transfers to affiliates and other changes, net	(219)	-	-	9,414	-	(3,769)	(8,583)
Net change in equity of joint venture	-	-	-	(3,982)	-	(3,982)	(834)
Pension and other postretirement adjustments	-	-	-	(17,907)	0	(49,513)	(161,731)
Increase (decrease) in unrestricted net assets	$ 44	267	-	(82,734)	(24)	(41,368)	(291,863)

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Schedule 2.2

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	Bon Secours Baltimore Health Corporation						
	Bon Secours Hospital Baltimore	Bon Secours Community Health Services	Bon Secours of Maryland Foundation	Urban Medical Institute	Consolidation Eliminations	2010 Consolidated	2009 Consolidated
Revenues:							
Net patient service revenue	$ 126,814	-	-	-	0	126,814	118,129
Other revenues	10,537	41	4,070	299	(2,973)	11,974	11,480
Total revenues	137,351	41	4,070	299	(2,973)	138,788	129,609
Expenses:							
Salaries, wages, and benefits	58,730	121	1,787	166	(967)	59,837	58,909
Supplies	12,593	2	175	1	(122)	12,649	12,864
Purchased services and other	42,292	176	3,471	445	(2,993)	43,391	44,542
Provision for bad debts	16,080	-	-	-	0	16,080	16,195
Depreciation and amortization	4,580	45	1,154	218	(1,154)	4,843	4,734
Interest	1,576	-	540	-	(540)	1,576	1,457
Total expenses	135,851	344	7,127	830	(5,776)	138,376	138,701
Income (loss) from continuing operations	1,500	(303)	(3,057)	(531)	2,803	412	(9,092)
Non-operating gains (losses), net:							
Nonoperating investment income, net	408	-	39	-	1	448	(3,117)
Loss on early retirement of debt	-	-	-	-	-	-	-
Other nonoperating activities, net	(42)	-	(6)	(11)	(1,247)	(1,306)	(1,025)
Excess (deficit) of revenues over expenses before minority interest	1,866	(303)	(3,024)	(542)	1,557	(446)	(13,234)
Minority interest of consolidated subsidiaries	-	-	1,556	-	(1,556)	-	-
Excess (deficit) of continuing revenues over expenses	1,866	(303)	(1,468)	(542)	1	(446)	(13,234)
Gain on discontinued operations, net	-	-	-	-	-	-	-
Excess (deficit) of revenues over expenses	1,866	(303)	(1,468)	(542)	1	(446)	(13,234)
Other changes in unrestricted net assets:							
Net change in unrealized losses on other-than-trading securities	0	-	109	-	0	109	(33)
Change in classification of interest rate derivatives	-	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	-	-	-	-	-	-	-
Transfers to affiliates and other changes, net	(483)	-	17	-	(1)	(467)	(4,202)
Net change in equity of joint venture	-	-	-	-	-	-	-
Pension and other postretirement adjustments	(3,089)	-	-	-	0	(3,089)	(7,543)
Increase (decrease) in unrestricted net assets	$ (1,706)	(303)	(1,342)	(542)	-	(3,893)	(25,012)

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Schedule 2.3

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	Bon Secours Hampton Roads Health System										
	Maryview Medical Center	Bon Secours Maryview Nursing Care Center	Professional Health Care Mgmt Services	Bon Secours DePaul Medical Center, Inc.	Tidewater Diversified, Inc.	Mary Immaculate Hospital, Inc.	St. Francis Nursing Care Center, Inc.	Other Corporations	Consolidation Eliminations	2010 Consolidated	2009 Consolidated
Revenues:											
Net patient service revenue	$ 279,500	9,797	-	168,065	-	156,084	7,181	-	(1)	620,626	552,401
Other revenues	6,441	38	6,998	1,996	3,450	1,917	39	69,611	(69,612)	20,878	22,906
Total revenues	285,941	9,835	6,998	170,061	3,450	158,001	7,220	69,611	(69,613)	641,504	575,307
Expenses:											
Salaries, wages, and benefits	101,068	4,797	3,613	58,394	328	41,647	3,563	28,220	0	241,630	217,458
Supplies	39,438	949	570	29,215	2,913	42,082	874	5,110	0	121,151	100,916
Purchased services and other	100,816	2,043	1,729	58,255	114	39,891	1,981	33,384	(69,610)	168,603	155,841
Provision for bad debts	22,901	112	-	18,190	1	12,729	98	-	(1)	54,030	44,789
Depreciation and amortization	9,297	241	392	6,380	14	2,828	245	2,897	0	22,294	24,596
Interest	3,837	241	138	2,044	-	2,125	218	-	0	8,603	9,045
Total expenses	277,357	8,383	6,442	172,478	3,370	141,302	6,979	69,611	(69,611)	616,311	552,645
Income (loss) from continuing operations	8,584	1,452	556	(2,417)	80	16,699	241	-	(2)	25,193	22,662
Non-operating gains (losses), net:											
Nonoperating investment income (losses), net	4,817	33	8	451	2	1,597	17	95	(1)	7,019	(16,434)
Loss on early retirement of debt	-	-	-	-	-	-	-	-	-	-	-
Other nonoperating activities, net	(498)	-	(997)	(446)	-	(841)	-	(96)	0	(2,878)	(1,776)
Excess (deficit) of revenues over expenses before minority interest	12,903	1,485	(433)	(2,412)	82	17,455	258	(1)	(3)	29,334	4,452
Minority interest of consolidated subsidiaries	-	-	(84)	-	-	-	-	-	(8,815)	(8,899)	(5,945)
Excess (deficit) of continuing revenues over expenses	12,903	1,485	(517)	(2,412)	82	17,455	258	(1)	(8,818)	20,435	(1,493)
Gain on discontinued operations, net	-	-	-	-	-	-	-	-	-	-	-
Excess (deficit) of revenues over expenses	12,903	1,485	(517)	(2,412)	82	17,455	258	(1)	(8,818)	20,435	(1,493)
Other changes in unrestricted net assets:											
Net change in unrealised losses on other-than-trading securities	-	-	-	-	-	207	-	(86)	0	121	(394)
Change in classification of interest rate derivatives	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	1	-	-	58	-	-	50	-	1	110	402
Transfers to affiliates and other changes, net	(803)	-	-	(690)	-	(472)	(73)	(64)	-	(2,102)	(1,677)
Net change in equity of joint ventures	-	-	-	-	-	-	-	-	-	-	-
Pension and other postretirement adjustments	(1,980)	-	-	(424)	-	(424)	-	-	(1)	(2,829)	(22,937)
Increase (decrease) in unrestricted net assets	$ 10,121	1,485	(517)	(3,468)	82	16,766	235	(151)	(8,818)	15,735	(26,099)

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Schedule 2.4

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

		Bon Secours Richmond Health Corporation									
		St. Mary's Hospital, Inc.	Stuart Circle Hospital, Inc.	Richmond Community Hospital	St. Francis Medical Center	Memorial Regional Medical Center	Bon Secours Healthsource Company Group	Other Corporations	Consolidation Eliminations	2010 Consolidated	2009 Consolidated
Revenues:											
Net patient service revenue	$	445,973	-	53,187	193,350	292,712	68,353	87	(1)	1,053,661	992,746
Other revenues		1,963	-	235	3,315	1,979	2,892	158,138	(157,920)	10,602	12,213
Total revenues		447,936	-	53,422	196,665	294,691	71,245	158,225	(157,921)	1,064,263	1,004,959
Expenses:											
Salaries, wages, and benefits		161,109	-	18,645	60,533	105,298	34,087	73,610	0	453,282	426,230
Supplies		78,178	-	9,146	37,240	44,611	3,667	14,466	(1)	187,307	178,050
Purchased services and other		130,589	-	18,516	61,570	100,624	25,316	64,535	(157,921)	243,229	225,887
Provision for bad debts		17,711	-	5,493	10,607	15,654	1,405	-	1	50,871	46,191
Depreciation and amortization		12,839	-	1,519	9,241	8,721	4,417	5,814	0	42,551	46,055
Interest		7,660	-	19	4,089	6,361	105	-	(23)	18,211	19,194
Total expenses		408,086	-	53,338	183,280	281,269	68,997	158,425	(157,944)	995,451	941,607
Income (loss) from continuing operations		39,850	-	84	13,385	13,422	2,248	(200)	23	68,812	63,352
Non-operating gains (losses), net:											
Nonoperating investment income, net		17,231	-	(159)	(184)	764	(61)	215	0	17,806	(43,136)
Loss on early retirement of debt		-	-	-	-	-	-	-	-	-	-
Other nonoperating activities, net		(6,499)	-	(191)	(400)	(4,964)	(1,634)	(6,718)	(21)	(20,427)	(18,398)
Excess (deficit) of revenues over expenses before minority interest		50,582	-	(266)	12,801	9,222	553	(6,703)	2	66,191	1,818
Minority interest of consolidated subsidiaries		-	-	-	-	-	(5,715)	(5,426)	0	(11,141)	4,021
Excess (deficit) of continuing revenues over expenses		50,582	-	(266)	12,801	9,222	(5,162)	(12,129)	2	55,050	5,839
Gain on discontinued operations, net		-	-	-	-	-	-	-	-	-	-
Excess (deficit) of revenues over expenses		50,582	-	(266)	12,801	9,222	(5,162)	(12,129)	2	55,050	5,839
Other changes in unrestricted net assets:											
Net change in unrealized gains (losses) on other-than-trading securities		(15)	-	-	-	14	-	272	0	271	582
Change in classification of interest rate derivatives		-	-	-	-	-	47	-	0	47	-
Net assets released from restrictions used for purchase of property, plant, and equipment		213	-	27	213	-	-	-	0	453	1,330
Transfers to affiliates and other changes, net		(3,450)	-	169	(1,317)	(1,428)	-	1,847	(1)	(4,179)	(8,072)
Net change in equity of joint ventures		-	-	-	-	-	-	-	-	-	-
Pension and other postretirement adjustments		(12,943)	-	-	-	(7,701)	-	-	(1)	(20,645)	(52,622)
Increase (decrease) in unrestricted net assets	$	34,387	-	(70)	11,697	107	(5,115)	(10,010)	-	30,997	(52,943)

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Schedule 2.5

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	St. Francis Health System, Inc.										
	St. Francis - Downtown	St. Francis - Eastside	St. Francis Physician Services	Upstate Surgery Center	St Francis - Millennium	Health Care Enterprises, Inc.	Optimum Health Network	St. Francis Foundation	Consolidation Eliminations	2010 Consolidated	2009 Consolidated
Revenues:											
Net patient service revenue	$ 289,180	140,185	87,022	4,016	2,179	-	-	-	1	522,583	476,920
Other revenues	6,683	447	2,699	44	96	-	-	-	0	9,969	7,816
Total revenues	295,863	140,632	89,721	4,060	2,275	-	-	-	1	532,552	484,736
Expenses:											
Salaries, wages, and benefits	95,899	56,395	86,870	1,132	1,493	-	225	-	1	242,015	226,492
Supplies	64,727	19,606	7,292	1,003	195	-	3	-	0	92,826	83,151
Purchased services and other	49,243	21,524	17,950	618	2,863	-	77	-	0	92,275	85,771
Provision for bad debts	34,325	15,683	2,770	520	208	-	-	-	1	53,507	43,350
Depreciation and amortization	19,726	3,703	-	139	-	-	-	-	0	23,568	19,335
Interest	5,172	3,474	-	-	-	-	-	-	0	8,646	9,014
Total expenses	269,092	120,385	114,882	3,412	4,759	-	305	-	2	512,837	467,113
Income (loss) from continuing operations	26,771	20,247	(25,161)	648	(2,484)	-	(305)	-	(1)	19,715	17,623
Non-operating gains (losses), net:											
Nonoperating investment losses, net	1,081	-	-	(6)	-	-	-	258	0	1,333	(1,616)
Loss on early retirement of debt	-	-	-	-	-	-	-	-	-	-	-
Other nonoperating activities, net	(400)	1	-	-	(253)	(67)	-	599	0	(120)	(51)
Excess (deficit) of revenues over expenses before minority interest	27,452	20,248	(25,161)	642	(2,737)	(67)	(305)	857	(1)	20,928	15,956
Minority interest of consolidated subsidiaries	-	-	-	(273)	-	-	-	-	0	(273)	(380)
Excess (deficit) of continuing revenues over expenses	27,452	20,248	(25,161)	369	(2,737)	(67)	(305)	857	(1)	20,655	15,576
Gain on discontinued operations, net	-	-	-	-	-	-	-	-	-	-	-
Excess (deficit) of revenues over expenses	27,452	20,248	(25,161)	369	(2,737)	(67)	(305)	857	(1)	20,655	15,576
Other changes in unrestricted net assets:											
Net change in unrealized gains (losses) on other-than-trading securities	-	-	-	-	-	-	-	(48)	0	(48)	17
Change in classification of interest rate derivatives	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	-	-	-	-	-	-	-	-	-	-	-
Transfers to affiliates and other changes, net	(1,825)	(1,167)	-	(312)	-	23	513	(150)	-	(2,918)	(2,127)
Net change in equity of joint ventures	-	-	-	-	-	-	-	-	-	-	-
Pension and other postretirement adjustments	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	$ 25,627	19,081	(25,161)	57	(2,737)	(44)	208	659	(1)	17,689	13,466

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	Bon Secours Kentucky Health System, Inc.					
	Our Lady of Bellefonte Hospital, Inc.	OLBH Foundation	Bellefonte Physician Services	Consolidation Eliminations	2010 Consolidated	2009 Consolidated
Revenues:						
Net patient service revenue	$ 150,081	-	14,224	0	164,305	165,429
Other revenues	3,987	-	284	(1)	4,270	3,200
Total revenues	154,068	-	14,508	(1)	168,575	168,629
Expenses:						
Salaries, wages, and benefits	56,158	-	17,044	0	73,202	68,943
Supplies	20,279	-	1,106	0	21,385	22,549
Purchased services and other	40,956	-	3,641	0	44,597	43,223
Provision for bad debts	12,694	-	599	1	13,294	18,152
Depreciation and amortization	8,534	-	223	0	8,757	8,561
Interest	4,870	-	0	0	4,870	5,077
Total expenses	143,491	-	22,613	1	166,105	166,505
Income (loss) from continuing operations	10,577	-	(8,105)	(2)	2,470	2,124
Non-operating gains (losses), net:						
Nonoperating investment income, net	453	23	(31)	0	445	(1,481)
Loss on early retirement of debt	-	-	-	-	-	-
Other nonoperating activities, net	(3,210)	(139)	-	0	(3,349)	(3,228)
Excess (deficit) of revenues over expenses before minority interest	7,820	(116)	(8,136)	(2)	(434)	(2,585)
Minority interest of consolidated subsidiaries	-	-	-	-	-	-
Excess (deficit) of continuing revenues over expenses	7,820	(116)	(8,136)	(2)	(434)	(2,585)
Gain on discontinued operations, net	-	-	-	-	-	-
Excess (deficit) of revenues over expenses	7,820	(116)	(8,136)	(2)	(434)	(2,585)
Other changes in unrestricted net assets:						
Net change in unrealized gains on other-than-trading securities	-	39	-	0	39	-
Change in classification of interest rate derivatives	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	138	-	-	0	138	(11)
Transfers to affiliates and other changes, net	8	-	-	-	8	882
Net change in equity of joint venture	-	-	-	-	-	-
Pension and other postretirement adjustments	(4,556)	-	-	0	(4,556)	(13,114)
Increase (decrease) in unrestricted net assets	$ 3,410	(77)	(8,136)	(2)	(4,805)	(14,828)

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Schedule 2.7

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	Bon Secours New York Health System, Inc.						
	Frances Schervier Home and Hospital	Frances Schervier Housing Development	Bon Secours New York Parent Corp.	Schervier Long Term Home Health Care	Consolidation Eliminations	2010 Consolidated	2009 Consolidated
Revenues:							
Net patient service revenue	$ 43,599	-	-	10,838	0	54,437	58,491
Other revenues	603	1,783	3,024	0	(4,806)	604	923
Total revenues	44,202	1,783	3,024	10,838	(4,806)	55,041	59,414
Expenses:							
Salaries, wages, and benefits	26,519	303	1,407	2,755	(303)	30,681	30,461
Supplies	2,775	36	43	59	(36)	2,877	2,882
Purchased services and other	12,930	910	1,575	6,934	(3,935)	18,414	19,722
Provision for bad debts	58	-	-	208	0	266	1,050
Depreciation and amortization	1,865	376	-	65	(376)	1,930	1,812
Interest	2,023	661	-	-	(661)	2,023	2,085
Total expenses	46,170	2,286	3,025	10,021	(5,311)	56,191	58,012
Income (loss) from continuing operations	(1,968)	(503)	(1)	817	505	(1,150)	1,402
Non-operating gains (losses), net:							
Nonoperating investment income, net	147	1	-	-	0	148	276
Loss on early retirement of debt	-	-	-	-	-	-	-
Other nonoperating activities, net	(115)	-	-	-	(503)	(618)	(206)
Excess (deficit) of revenues over expenses before minority interest	(1,936)	(502)	(1)	817	2	(1,620)	1,472
Minority interest of consolidated subsidiaries	-	-	-	-	-	-	-
Excess (deficit) of continuing revenues over expenses	(1,936)	(502)	(1)	817	2	(1,620)	1,472
Gain on discontinued operations, net	-	-	-	-	-	-	-
Excess (deficit) of revenues over expenses	(1,936)	(502)	(1)	817	2	(1,620)	1,472
Other changes in unrestricted net assets:							
Net change in unrealized gains on other-than-trading securities	-	-	-	-	-	-	-
Change in classification of interest rate derivatives	-	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	-	-	-	-	-	-	-
Transfers to affiliates and other changes, net	-	-	-	-	-	-	52
Net change in equity of joint ventures	-	-	-	-	-	-	-
Pension and other postretirement adjustments	(587)	-	-	-	0	(587)	(829)
Increase (decrease) in unrestricted net assets	$ (2,523)	(502)	(1)	817	2	(2,207)	695

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Schedule 2.8

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	Bon Secours Charity Health System, Inc.										
	Good Samaritan Hospital	St. Anthony Community Hospital	Bon Secours Community Hospital	Schervier Pavilion	Mt. Alverno Assisted Living Facility	Good Samaritan Hospital Foundation	Good Samaritan Hospital Home Care	Other Corporations	Consolidation Eliminations	2010 Consolidated	2009 Consolidated
Revenues:											
Net patient service revenue	$ 256,818	51,062	82,641	12,165	2,982	(71)	18,064	5,004	0	428,665	435,504
Other revenues	1,372	390	611	6	183	1,066	338	304	(1,041)	3,229	3,772
Total revenues	258,190	51,452	83,252	12,171	3,165	995	18,402	5,308	(1,041)	431,894	439,276
Expenses:											
Salaries, wages, and benefits	130,009	25,334	39,577	8,009	2,468	329	11,088	8,802	0	225,616	220,874
Supplies	40,373	6,309	8,869	978	366	31	583	361	0	57,870	63,030
Purchased services and other	64,471	15,357	24,915	2,761	1,069	355	4,438	4,087	(8,295)	109,158	100,280
Provision for bad debts	13,769	2,385	6,809	216	24	-	179	437	0	23,819	29,982
Depreciation and amortization	11,083	2,605	2,906	267	232	-	123	52	0	17,268	15,798
Interest	7,126	-	923	866	-	-	-	619	0	9,534	9,755
Total expenses	266,831	51,990	83,999	13,097	4,159	715	16,411	14,358	(8,295)	443,265	439,719
Income (loss) from continuing operations	(8,641)	(538)	(747)	(926)	(994)	280	1,991	(9,050)	7,254	(11,371)	(443)
Non-operating gains (losses), net:											
Nonoperating investment losses, net	40	95	(1)	4	2	41	-	57	0	238	(506)
Loss on early retirement of debt	-	-	-	-	-	-	-	-	-	-	-
Other nonoperating activities, net	39	417	545	-	0	-	-	(57)	181	1,125	16
Excess (deficit) of revenues over expenses before minority interest	(8,562)	(26)	(203)	(922)	(992)	321	1,991	(9,050)	7,435	(10,008)	(933)
Minority interest of consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-	-
Excess (deficit) of continuing revenues over expenses	(8,562)	(26)	(203)	(922)	(992)	321	1,991	(9,050)	7,435	(10,008)	(933)
Gain on discontinued operations, net	-	-	-	-	-	-	-	-	-	-	-
Excess (deficit) of revenues over expenses	(8,562)	(26)	(203)	(922)	(992)	321	1,991	(9,050)	7,435	(10,008)	(933)
Other changes in unrestricted net assets:											
Net change in unrealized gains (losses) on other-than-trading securities	-	67	-	-	-	11	-	40	0	118	-
Change in classification of interest rate derivatives	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	324	267	29	-	40	-	-	-	(1)	659	808
Transfers to affiliabes and other changes, net	(278)	(238)	28	(293)	-	(2,202)	-	22,236	(22,558)	(3,306)	(2,061)
Net change in equity of joint ventures	-	-	-	-	-	-	-	-	-	-	-
Pension and other postretirement adjustments	100	-	-	-	-	-	-	-	0	100	112
Increase (decrease) in unrestricted net assets	$ (8,416)	70	(146)	(1,215)	(952)	(1,870)	1,991	13,226	(15,124)	(12,437)	(2,074)

See accompanying independent auditors' report

Schedule 2.9

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	Bon Secours St. Petersburg Health System, Inc.						
	Maria Manor Nursing Care Center, Inc.	Bon Secours Place at St. Petersburg	Maria Manor Health Resources	St. Petersburg Home Care Services, Inc.	Consolidation Eliminations	2010 Consolidated	2009 Consolidated
Revenues:							
Net patient service revenue	$ 21,422	-	-	1,398	(1)	22,819	27,926
Other revenues	589	4,751	-	0	0	5,340	444
Total revenues	22,011	4,751	-	1,398	(1)	28,159	28,370
Expenses:							
Salaries, wages, and benefits	12,964	2,325	-	908	0	16,197	16,154
Supplies	1,646	360	-	28	1	2,035	2,431
Purchased services and other	5,708	1,223	-	383	0	7,314	7,405
Provision for bad debts	610	21	-	(19)	0	612	432
Depreciation and amortization	488	285	-	27	0	800	808
Interest	610	159	-	-	0	769	897
Total expenses	22,026	4,373	-	1,327	1	27,727	28,127
Income (loss) from continuing operations	(15)	378	-	71	(2)	432	243
Non-operating gains (losses), net:							
Nonoperating investment income, net	0	5	-	0	0	5	35
Loss on early retirement of debt	-	-	-	-	-	-	-
Other nonoperating activities, net	(42)	-	-	-	0	(42)	(2)
Excess (deficit) of revenues over expenses before minority interest	(57)	383	-	71	(2)	395	276
Minority interest of consolidated subsidiaries	-	(132)	-	-	0	(132)	(123)
Excess (deficit) of continuing revenues over expenses	(57)	251	-	71	(2)	263	153
Gain on discontinued operations, net	-	-	-	-	-	-	-
Excess (deficit) of revenues over expenses	(57)	251	-	71	(2)	263	153
Other changes in unrestricted net assets:							
Net change in unrealized gains on other-than-trading securities	-	-	-	-	-	-	-
Change in classification of interest rate derivatives	-	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	-	-	-	-	-	-	-
Transfers to affiliates and other changes, net	(223)	4	-	0	0	(219)	111
Net change in equity of joint ventures	-	-	-	-	-	-	-
Pension and other postretirement adjustments	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	$ (280)	255	-	71	(2)	44	264

See accompanying independent auditors' report

BON SECOURS HEALTH SYSTEM, INC. AND SUBSIDIARIES

Schedule 2.10

Consolidating Schedule - Operating Information
(in thousands)

Year ended August 31, 2010
(with comparative totals for 2009)

	Bon Secours Associates, LLC		Bon Secours Assurance Company, Ltd.		Bon Secours Health System Office	
	2010	2009	2010	2009	2010	2009
Revenues:						
Net patient service revenue	$ -	-	-	-	-	-
Other revenues	-	-	28,398	11,181	133,371	110,264
Total revenues	-	-	28,398	11,181	133,371	110,264
Expenses:						
Salaries, wages, and benefits	-	-	-	-	88,230	86,171
Supplies	-	-	-	-	898	897
Purchased services and other	-	-	28,398	11,171	45,120	38,481
Provision for bad debts	-	-	-	-	-	-
Depreciation and amortization	-	-	-	-	20,923	12,273
Interest	-	-	-	10	(18,996)	(7,662)
Total expenses	-	-	28,398	11,181	136,175	130,160
Income (loss) from continuing operations	-	-	-	-	(2,804)	(19,896)
Non-operating gains (losses), net:						
Nonoperating investment losses, net	-	-	-	-	(68,652)	(96,165)
Loss on early retirement of debt	-	-	-	-	-	(14,113)
Other nonoperating activities, net	267	(269)	-	-	(3,296)	(1,004)
Excess (deficit) of revenues over expenses before minority interest	267	(269)	-	-	(74,752)	(131,178)
Minority interest of consolidated subsidiaries	-	-	-	-	-	-
Excess (deficit) of continuing revenues over expenses	267	(269)	-	-	(74,752)	(131,178)
Gain on discontinued operations, net	-	-	-	-	3,421	2,441
Excess (deficit) of revenues over expenses	267	(269)	-	-	(71,331)	(128,737)
Other changes in unrestricted net assets:						
Net change in unrealized gains (losses) on other-than-trading securities	-	-	-	-	1,072	1,079
Change in classification of interest rate derivatives	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant, and equipment	-	-	-	-	-	-
Transfers to affiliates and other changes,net	-	-	-	-	9,414	7,805
Net change in equity of joint ventures	-	-	-	-	(3,982)	(833)
Pension and other postretirement adjustments	-	-	-	-	(17,907)	(64,799)
Increase (decrease) in unrestricted net assets	$ 267	(269)	-	-	(82,734)	(185,485)

See accompanying independent auditors' report