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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/22/11

Consolidated Financial Statements and Other Financial Information

CHRISTUS Health
Years Ended June 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

CHRISTUS Health

Consolidated Financial Statements and Other Financial Information

Years Ended June 30, 2010 and 2009

Contents

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Independent Auditors' Report

The Board of Directors of CHRISTUS Health

We have audited the consolidated balance sheets of CHRISTUS Health as of June 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of CHRISTUS Health'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of CHRISTUS Health's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CHRISTUS Health'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 and evaluating the overall financial statement presentation. We believe that our audit provides 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 CHRISTUS Health at June 30, 2010 and 2009, and the results of its consolidated operations and changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2010 on our consideration of CHRISTUS Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Ernst + Young LLP

October 8, 2010

CHRISTUS HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2010 AND JUNE 30, 2009
(In thousands)

	JUNE 30, 2010	JUNE 30, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 537,416	$ 363,366
Short-term investments	368,566	279,681
Equity investments in managed funds	114,095	95,928
Assets whose use is limited or restricted, required for current liabilities	67,383	51,216
Patient accounts receivable, net of allowance for uncompensated care of $163,715 and $207,879 at June 30, 2010 and 2009, respectively	306,119	353,919
Estimated third-party payor settlements	10,826	5,478
Notes and other receivables	89,485	199,746
Inventories	89,427	82,577
Assets held for sale	28,308	29,617
Securities pledged to creditors	48,656	53,054
Security lending collateral	49,137	53,365
Other current assets	43,847	32,783
Total current assets	1,753,265	1,600,730
ASSETS WHOSE USE IS LIMITED OR RESTRICTED—Less current portion	474,056	478,501
PROPERTY, PLANT, AND EQUIPMENT—Net of accumulated depreciation	1,816,814	1,872,654
OTHER ASSETS:		
Investments in unconsolidated organizations	174,580	159,501
Derivative financial instruments	4,824	-
Goodwill, net of amortization	125,754	113,796
Other assets	93,898	84,573
Other restricted assets	21,378	23,328
Total other assets	420,434	381,198
TOTAL	$ 4,464,569	$ 4,333,083

(Continued)

CHRISTUS HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2010 AND JUNE 30, 2009
(In thousands)

	JUNE 30, 2010	JUNE 30, 2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 303,921	$ 319,361
Accrued employee compensation and benefits	154,047	145,215
Accrued benefits current portion	5,713	8,816
Estimated third-party settlements	25,308	19,618
Current portion of long-term debt	57,483	42,222
Payable under security lending agreement	49,566	54,238
Long-term obligations subject to remarketing agreements	194,695	-
Total current liabilities	790,733	589,470
LONG-TERM DEBT—less current portion	1,001,098	1,194,743
ACCRUED PENSION BENEFITS LONG-TERM PORTION	217,148	213,672
DERIVATIVE FINANCIAL INSTRUMENTS	94,600	70,823
OTHER LONG-TERM OBLIGATIONS—Primarily related to self-funded liabilities—less current portion	174,211	145,268
Total liabilities	2,277,790	2,213,976
MINORITY INTEREST	103,714	91,791
NET ASSETS:		
Unrestricted	2,012,039	1,954,230
Temporarily restricted	57,906	59,873
Permanently restricted	13,120	13,213
Total net assets	2,083,065	2,027,316
TOTAL	$ 4,464,569	$ 4,333,083

See accompanying notes.

(Concluded)

CHRISTUS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(In thousands)

	JUNE 30, 2010	JUNE 30, 2009
UNRESTRICTED REVENUES:		
Net patient service revenue	$ 3,284,323	$ 3,128,867
Premium revenue	154,581	151,071
Other revenue	191,872	190,283
Equity in income (loss) of unconsolidated organizations	22,824	(3,895)
Total revenues	3,653,600	3,466,326
EXPENSES:		
Employee compensation and benefits	1,596,388	1,571,563
Services and other	957,780	890,292
Supplies	617,328	595,558
Depreciation and amortization	239,035	236,300
Provision for uncollectible accounts	163,058	165,740
Interest	37,767	39,988
Total expenses	3,611,356	3,499,441
OPERATING GAIN (LOSS)	42,244	(33,115)
NONOPERATING INVESTMENT GAIN (LOSS)	27,129	(223,260)
OTHER NONOPERATING LOSS	(6,190)	(10,044)
REVENUES IN EXCESS (DEFICIT) OF EXPENSES	63,183	(266,419)

(Continued)

CHRISTUS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(In thousands)

	JUNE 30, 2010	JUNE 30, 2009
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net change in unrealized gain (loss) on investments	$ 6,893	$ (8,236)
Change in pension liabilities	10,843	(129,783)
Other	(23,110)	(13,871)
CHANGES IN UNRESTRICTED NET ASSETS	57,809	(418,309)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	3,680	13,157
Net change in unrealized gain (loss) on investments	2,730	(1,873)
Net assets released from restrictions and other	(8,377)	(4,350)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	(1,967)	6,934
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	(93)	96
CHANGES IN NET ASSETS	55,749	(411,279)
NET ASSETS—Beginning of period	2,027,316	2,438,595
NET ASSETS—End of period	$ 2,083,065	$ 2,027,316

See accompanying notes.

(Concluded)

CHRISTUS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(In thousands)

	JUNE 30, 2010	JUNE 30, 2009
OPERATING ACTIVITIES:		
Changes in net assets	$ 55,749	$ (411,279)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Change in pension liabilities	3,476	127,058
Contributions of temporarily restricted net assets	(3,680)	(13,157)
Equity in (income) loss of unconsolidated organizations	(22,824)	3,895
Equity (earnings) losses on investments in managed funds	(11,023)	87,957
Depreciation and amortization	239,035	236,300
Provision for uncollectible accounts	163,058	165,740
Change in derivative fair value	18,953	50,903
Loss on early extinguishment of debt	4,399	13,062
Changes in operating assets and liabilities, net of acquisitions:		
Increase in net patient accounts receivable	(111,288)	(143,954)
(Increase) decrease in trading securities	(87,715)	211,755
Decrease (increase) in notes and other receivables	110,308	(45,243)
(Increase) decrease in inventories	(5,497)	440
Increase in other current assets	(10,411)	(1,492)
Increase (decrease) in accounts payable, accrued expenses, and accrued employee compensation and benefits	16,665	(26,075)
Increase in net third-party payor settlements	342	2,179
Increase in liability for self-funded liabilities	13,244	7,416
Net cash provided by operating activities	372,791	265,505
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(162,446)	(206,306)
Proceeds from sale or disposal of property, plant, and equipment	16,528	5,624
(Increase) decrease in equity investments in managed funds	(8,716)	133,926
Decrease in investments in unconsolidated organizations	7,745	17,940
Decrease (increase) in securities pledged to creditors	4,398	(16,552)
Increase in other assets	(9,520)	(1,543)
Decrease (increase) in security lending collateral	4,228	(13,576)
Acquisitions of health care entities, net of cash acquired	(22,031)	-
Net investing cash flows pertaining to assets held for sale	2,777	-
Net cash used in investing activities	(167,037)	(80,487)

(Continued)

CHRISTUS HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(In thousands)

	JUNE 30, 2010	JUNE 30, 2009
FINANCING ACTIVITIES:		
Contributions of temporarily restricted net assets	$ 3,680	$ 13,157
Other costs associated with debt refinancing	(6,046)	(10,437)
Proceeds from debt issuance	331,201	654,775
Payments on long-term debt	(355,867)	(668,070)
(Decrease) increase in payable under security lending agreements	(4,672)	14,449
Net cash (used in) provided by financing activities	(31,704)	3,874
NET INCREASE IN CASH AND CASH EQUIVALENTS	174,050	188,892
CASH AND CASH EQUIVALENTS—Beginning of year	363,366	174,474
CASH AND CASH EQUIVALENTS—End of period	$ 537,416	$ 363,366
NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Capital lease obligations incurred for property, plant, and equipment	$ 3,034	$ 3,648
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	$ 35,842	$ 46,478
Cash paid during the year for interest (net of amount capitalized)		

(Concluded)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009

1. MISSION, VISION, AND ORGANIZATION OF CHRISTUS HEALTH

CHRISTUS Health was incorporated as a Texas nonprofit corporation on December 15, 1998. CHRISTUS Health is sponsored by the Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas, and the Congregation of the Sisters of the Incarnate Word of San Antonio, Texas. The Congregation of the Sisters of Charity of the Incarnate Word of Houston, Texas, sponsors the Sisters of Charity Health Care System (SCH), and the Congregation of the Sisters of Charity of the Incarnate Word of San Antonio, Texas, sponsors the Incarnate Word Health System (IWHS). SCH and IWHS continue to exist and carry out their ministries.

The mission of CHRISTUS Health is to extend the healing ministry of Jesus Christ. The Gospel values underlying the mission statement challenge CHRISTUS Health to make choices that respond to the economically disadvantaged and the underserved with health care needs. The growth and development of CHRISTUS Health are determined by the health care needs of the communities that CHRISTUS Health serves, its available resources, and the interrelationship of those serving and those being served. Responsible stewardship mandates that CHRISTUS searches out new, effective means to deliver quality health care and to promote wholeness in the human person.

The vision of CHRISTUS Health is to be a leader, a partner and an advocate in the creation of innovative health and wellness solutions that improve the lives of individuals and communities so that all may experience God's healing presence and love.

The consolidated financial statements of CHRISTUS Health include activities of its affiliated market-based organizations and other related entities, all of which are wholly or majority-owned and commonly referred to as regions or entities. For purposes of these consolidated financial statements, the "System" is defined as CHRISTUS Health's affiliated market-based organizations and other related entities. The other related entities include, but are not limited to, hospital foundations, professional office buildings, management services organizations, physician groups, a collection agency, self-insurance trusts, an offshore captive insurance company, a health plan, integrated community health networks, and diagnostic imaging companies.

CHRISTUS Health controls or owns, directly or indirectly, or manages various nonprofit and for-profit corporations and other organizations that currently operate in the states of Texas, Arkansas, Georgia, Louisiana, Missouri, New Mexico, Iowa, and Utah and the Republic of Mexico.

CHRISTUS Health and certain affiliated nonprofit corporations are generally exempt from federal incom e taxes under Section 501(a) of the Internal Revenue Code, as organizations described in Section 501(c)(3).

2. COMMUNITY HEALTH

In accordance with its mission and philosophy, the System commits significant resources to improving the health of the communities it serves. In support of its mission, the System provides programs and services for entire communities but with a special consideration for those who are poor and underserved.

Programs and Services for the Poor and Underserved- represent the financial commitment to serve those who have inadequate resources and/or are uninsured or underinsured. Services are offered with the conviction that health care is a basic human right and all deserve access. The categories included as programs and services for the poor and the underserved are as follows:

Charity Care- 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.

Traditional charity care is defined by the state of Texas as the unreimbursed costs of providing, funding, or otherwise financially supporting the health care services provided to a person with income at or below 200% of the federal poverty level. Charity care services provided to these patients are not reported as revenue in the consolidated statements of operations and changes in net assets as there is minimal or no expectation of payment.

Unpaid Costs of Medicaid and Other Public Programs for the Indigent- represent the cost of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of any payments received from all sources.

Community Services for the Poor and the Underserved- represent the unpaid cost of services provided for which a patient is not billed, or for which a fee has been assessed that recovers only a portion of the cost of the rendered service. This category includes services to those in need through community health programs. The programs cover a broad spectrum of services from community health centers to immunizations for children and seniors, meals on wheels, transportation services, home repair projects, and a variety of other social services. These programs may also seek justice for the vulnerable and work to bring about changes in political and economic systems.

Examples of CHRISTUS Health Community Benefits accounted for under Community Services for the Poor and Underserved include-

The CHRISTUS Community Direct Investment (CDI) Program was established to support community-driven initiatives primarily for affordable housing and economic development by providing financing at below-market interest rates. The majority of the support is provided to programs in the CHRISTUS operating regions. The amount the System would have earned on these monies is the forgone income that is considered a community benefit.

2. COMMUNITY HEALTH (Continued)

The CHRISTUS Fund was established for the purpose of providing grants to support community planning, healthy community initiatives, and community-based programs, with a focus on the poor and underserved areas where CHRISTUS Health ministries and sponsoring congregations are involved.

Community Services provided for the Broader Community- represent the unpaid cost of services provided for the benefit of the entire community. The majority of these expenditures are for graduate medical education programs, either through CHRISTUS-sponsored or affiliated programs. Other benefits for the broader community include health promotion and wellness programs, health screenings, newsletters, and radio or television programs intended for health education. These programs are not intended to be financially self-supporting.

Education and Research- represents the direct costs associated with medical education and other health professional educational programs in excess of governmental payments.

Other Community Services- represent leadership activities, community planning, and advocacy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation- The consolidated financial statements include the accounts of all entities of the System (see Note 1). All significant inter-entity transactions and accounts have been eliminated in consolidation.

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

Cash and Cash Equivalents- Cash equivalents include short-term, highly liquid investments with original maturities of three months or less.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments- The System's investment portfolio is classified as trading, with unrealized gains and losses included in revenues in excess of expenses. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include equity investments in managed funds structured as limited liability corporations or partnerships. These investments are accounted for under the equity method.

Investment income or loss (including equity investment earnings on managed funds; realized and unrealized gains and losses, computed on the average-cost basis of the security at the time of sale; and interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

Investment income earned on assets held by trustees under bond indenture agreements, assets held by foundations, assets deposited in trust funds for self-insurance purposes, and funds held by insurance subsidiaries in accordance with industry practices is included in other revenue in the consolidated statements of operations and changes in net assets.

Derivative Financial Instruments- The System utilizes interest rate swaps to hedge interest rate exposures. Changes in the fair value of the System's interest rate swaps are recorded as a component of non-operating investment income in the consolidated statements of operations and changes in net assets. The expense representing the net of the payments made and received under the swap agreements is also recorded as a component of non-operating investment income.

Inventories- The System values inventories, which consist principally of medical supplies and pharmaceuticals, at the lower of cost (first-in, first-out, or weighted-average cost valuation method) or market basis.

Property, Plant, and Equipment- Property, plant, and equipment acquisitions are recorded at cost or, if donated, at fair value at the time of donation. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and minor equipment replacement costs are charged against operations.

Depreciation is calculated and recorded over the estimated useful life of each class of depreciable assets using the straight-line method. The *American Hospital Association-Estimated Useful Lives of Depreciable Hospital Assets* is used as a general guide in establishing depreciable lives. Amortization of capital leases is included in depreciation expense.

Assets Held for Sale- A long-lived asset or disposal group of assets and liabilities that is expected to be sold, and for which it is probable that the sale will be completed within one year, is classified as held for sale. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon discounted cash flows and incremental direct costs to transact a sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Impairment- The System periodically evaluates the carrying value of its long-lived assets for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value. Impairment write-downs are recognized in operating income at the time the impairment is identified.

Investments in Unconsolidated Organizations- The System has investments in certain organizations, of which the System does not have a majority-ownership interest or significant control, and therefore do not require consolidation. Generally, these investments are recorded using the equity method of accounting for those investments in which the System owns greater than 20%. The cost method of accounting is used for investments in which the System owns 20% or less.

Securities Lending- The System participates in securities lending transactions facilitated by the lending agent. Such loans are secured by collateral of 102% of the market value of domestic securities and 105% of the market value of foreign securities. Per the securities lending agreement, such collateral will typically be cash or debt securities issued by the U.S. Government or any of its agencies. Cash collateral received in connection with these loans is currently invested in a pooled fund of securities, which mature in no more than 13 months, and is maintained by the lending agent.

Goodwill- The cost in excess of the fair value of net assets acquired is amortized on a straight-line basis over 5 to 40 years. The System reviews goodwill when indicators suggest an impairment has occurred. An impairment is deemed to have occurred if the expected cash flows from continuing to use the asset are less than the carrying value of the asset. Any such impairment is recorded in operations. Goodwill impairment of $1,210,000 was recorded in fiscal year 2010. No goodwill impairment was recorded in fiscal year 2009. Goodwill is recorded net of accumulated amortization of $36,326,000 and $30,266,000 at June 30, 2010 and 2009, respectively.

Deferred Financing Costs- Deferred financing costs, net of accumulated amortization, included in other assets at June 30, 2010 and 2009, are $20,689,000 and $20,412,000, respectively, which are being amortized using the interest method, over the terms of the indebtedness to which they relate.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The System has adopted an uncompensated care policy whereby revenue from services provided to the uninsured is recognized at the time of payment, rather than at the time of service. This policy is a result of the lack of reasonable assurance of collection for services provided to the uninsured due to the System's historically low collection rate. Management has estimated that the difference between recording this revenue on the cash basis versus the accrual basis is immaterial to net patient service revenue for fiscal years 2010 and 2009. Accordingly, all accounts receivable from the uninsured have been fully reserved in the allowance for uncompensated care. The resulting adjustment is recorded as revenue deductions from gross charges to arrive at net patient service revenue.

Accounts Receivable Allowance- The System's recorded allowance for uncompensated care is based on expected net collections, after contractual adjustments, primarily from patients. Management routinely assesses these recorded allowances relative to changes in payor mix, cash collections, write-offs, recoveries, and market dynamics.

Premium Revenue and Associated Costs- Premium revenue represents revenues derived under capitated arrangements with third parties. In return for these premiums, the contracting entity is responsible for providing essentially all health care services to enrolled participants. Costs for providing these services, including services provided by other health care providers, are included as operating expenses in the consolidated financial statements. At June 30, 2010 and 2009, the respective contracting entities have accrued expenses for incurred but not reported claims based upon claims experience. The contracting entities maintain stop-loss insurance coverage to limit exposure for certain catastrophic claims.

Other Revenue- Other revenue is derived from services other than providing health care services or coverage to patients, residents, or enrollees. These typically include investment income from all funds held by a trustee, malpractice funds, or other miscellaneous investment activities; rental of health care facility space; sales of medical and pharmaceutical supplies to employees, physicians, and others; proceeds from sales of cafeteria meals and guest trays to employees, medical staff, and visitors; and proceeds from sales at gift shops, snack bars, newsstands, parking lots, vending machines, or other service facilities operated by the health care organization.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

International Operations- The System owns a 55.9% interest in CHRISTUS Muguerza, S.A. de C.V. (CHRISTUS Muguerza), headquartered in Monterrey, Mexico. CHRISTUS Muguerza is a private health care system and is subject to taxes in accordance with the regulations of the country of Mexico. The financial statements of CHRISTUS Muguerza are presented in accordance with accounting principles generally accepted in the United States and are consolidated in the CHRISTUS Health consolidated financial statements.

Subsequent to June 30, 2010, CHRISTUS Health increased its ownership interest in CHRISTUS Muguerza by purchasing 5,132,048 additional shares for cash consideration in the amount of $5,000,000. The transaction, which was executed on September 13, 2010, increased the System's ownership interest in CHRISTUS Muguerza to 59.6%.

Minimum Revenue Guarantees- CHRISTUS enters into agreements with non-employed physicians that include minimum revenue guarantees. These guarantees primarily arise through physician recruiting efforts and vary by physician specialty. Generally, the term of these guarantees ranges from one to two years, with the majority including a forgiveness period that begins during the second year of the guarantees. The estimated amount of the liability for CHRISTUS' obligation under these guarantees was $7,043,000 and $7,463,000 at June 30, 2010 and 2009, respectively, and is included in accrued expenses and other long-term obligations in the accompanying consolidated balance sheets.

The maximum amount of future payments that the System could be required to make under all existing guarantees is approximately $14,665,000.

Asset Retirement Obligations- CHRISTUS estimates the conditional asset retirement obligation primarily associated with asbestos abatement to be $7,524,000 and $7,583,000 as of June 30, 2010 and 2009, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertainty in Income Taxes- The authoritative guidance in Accounting Standards Codification (ASC) Topic 740, *Income Taxes* (formerly Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*), creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under the requirements of this guidance, tax-exempt organizations could now be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. Prior to the adoption of this guidance, tax liabilities were recorded as incurred. There are no material unrecorded tax liabilities as of June 30, 2010 and 2009.

New Accounting Pronouncements- In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162*. SFAS No. 168 establishes the FASB Accounting Standards Codification (the Codification) as the single source of authoritative nongovernmental generally accepted accounting principles (GAAP). The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. This pronouncement is effective for interim or fiscal periods ending after September 15, 2009. The application of this pronouncement did not have an effect on CHRISTUS' financial position or results of operations.

In January 2010, the FASB issued ASC Accounting Standards Update (ASU) No. 2010-06 (ASU 2010-06), which clarifies certain existing fair value measurement disclosure requirements of ASC Topic 820 (formerly SFAS No. 157, *Fair Value Measurements*) and also requires additional fair value measurement disclosures. Specifically, ASU 2010-06 clarifies that assets and liabilities must be categorized by major class, or level, of asset or liability, and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques, for those assets or liabilities designated as Level 2 or Level 3 instruments. Disclosures regarding transfers between Level 1 and Level 2 assets and liabilities are required, as well as a deeper level of disaggregation of activity within existing rollforwards of the fair value of Level 3 assets and liabilities. See Note 6 for these additional fair value measurement disclosure requirements for the year ended June 30, 2010, excluding the additional requirements related to Level 3 rollforward activity, which are not required to be adopted until CHRISTUS' fiscal year ended June 30, 2012. The adoption of this guidance did not have a significant impact on CHRISTUS' consolidated financial statements for the year ended June 30, 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in ASC Topic 715 (formerly FASB Staff Position FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*). This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See Note 11 for these additional disclosures for the year ended June 30, 2010. The adoption of this guidance did not have a significant impact on CHRISTUS' consolidated financial statements for the year ended June 30, 2010.

In April 2009, the FASB issued a new accounting pronouncement regarding mergers and acquisitions for not-for-profit entities (formerly SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142*). The pronouncement, found under ASC Topic 958, establishes principles and requirements for how a not-for-profit entity accounts for mergers and acquisitions. The pronouncement also makes FASB Statement No. 142, *Goodwill and Other Intangible Assets*, found under ASC Topic 350, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, found under ASC Topic 810, fully applicable to not-for-profit entities. These pronouncements were effective for CHRISTUS on July 1, 2010. CHRISTUS is currently evaluating the impact on its financial position and results of operations from the adoption of this pronouncement.

In September 2009, the FASB released ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value*. ASU 2009-12 amends ASC Topic 820 and allows a reporting entity, as a practical expedient, to estimate fair value of certain alternative investments at the net asset value as reported by the investee entity in instances where the net asset value has been calculated in a manner consistent with ASC Topic 946, *Financial Services – Investment Companies*.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in the ASU clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for CHRISTUS on January 1, 2011. CHRISTUS is currently evaluating the impact on its financial position and results of operations from the adoption of this pronouncement.

4. NET PATIENT SERVICE REVENUE

Net patient service revenue is reported at the estimated net realizable amounts from third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Amounts subject to retroactive adjustments are estimated and recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. The estimated settlements recorded at June 30, 2010 and 2009 could differ from actual settlements. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient diagnosis related group classification system that is based on clinical, diagnostic, and other factors.

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid under cost reimbursement methodologies, prospectively determined rates per discharge, and prospectively determined or negotiated rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 27.4% and 5.0%, respectively, of the System's net patient revenue for the fiscal year ended 2010 and 28.9% and 5.3%, respectively, of the System's net patient revenue for the fiscal year ended 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and negotiated daily rates.

In July 1991, the Texas Legislature passed a bill authorizing a state program (Medicaid Dispro), whereby all hospitals in the state of Texas that qualified as a disproportionate share health care provider would receive Medicaid Dispro funds. This program, with certain revisions, was extended through September 30, 2010, and is administered by the Texas Department of Health. In 1993, the Texas Legislature expanded the number of hospitals qualifying to receive Medicaid Dispro funds to include rural facilities. The source of these funds is assessments from qualifying hospitals that are matched at a specific percentage by the federal government.

4. NET PATIENT SERVICE REVENUE (Continued)

Additionally, the federal Medicaid rules allow for hospitals to be reimbursed for some of the uncompensated cost of treating Medicaid and uninsured patients up to an Upper Payment Limit (UPL). UPL programs act as mechanisms to draw federal Medicaid dollars into local communities. The Texas Medicaid program has chosen a county-specific UPL strategy to receive supplemental federal matching funds. Under these programs, various hospital participants in the respective counties have elected to provide health care services to the indigent population in the county as charity services and, as such, no third party has an obligation to pay for these services. Separately, and with no legal obligation or link to the hospitals' provision of charity services, the tax-supported governmental entity may choose, entirely at its discretion, to contribute a portion of its tax revenues into the state's Medicaid program. The amounts transferred by the governmental entity to the state Medicaid program are then matched at the federal level, and the total amount (the amount transferred to the state Medicaid program by the governmental entity and the related federal match) is then paid to the hospital participants based upon each hospital's individual applicable funding entitlement. In addition to the allocations received by the Medicaid program, hospital participants in some communities may make charity community benefit transfers to each other throughout the year to reach a previously agreed-upon sharing ratio.

Medicaid supplemental payments, which include Medicaid Dispro and UPL payments, net of settlements and amounts transferred between program participants, of approximately $265,311,000 and $230,939,000 were recorded in 2010 and 2009, respectively. Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets includes all Medicaid supplemental funds. The amounts of future reimbursements under these programs cannot be assured beyond September 30, 2010.

For fiscal years 2010 and 2009, net patient service revenue increased approximately $19,643,000 and $14,602,000, respectively, related to changes in estimates for cost report re-openings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional re-opening, and/or appeal.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, participation requirements of government health care programs, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. There are matters currently under audit and/or review by regulatory and government officials. These reviews and audits may or may not result in revisions to cost reports, resubmitted billings, unasserted possible claims that are probable of assertion, or loss contingencies. Compliance with such laws and regulations may be subject to future government review and interpretation, as well as regulatory actions.

5. CASH AND INVESTMENTS

Total cash and investments for the System at June 30, 2010 and 2009, including assets whose use is limited, are:

	In Thousands 2010	In Thousands 2009
Cash and cash equivalents	$ 797,594	$ 596,220
Fixed income mutual funds	103,444	140,167
Certificates of deposit	20,403	15,000
Domestic equities	174,722	172,633
Preferred stocks	2,868	352
Fixed income securities	167,471	71,885
International equities	97,779	55,617
U.S. Government securities	66,309	103,019
Equity in managed funds	149,916	121,499
Other investments	29,666	45,354
	$ 1,610,172	$ 1,321,746

Cash and cash equivalents include cash, money-market bank accounts, interest-bearing bank accounts, and debt securities with original maturities of less than three months. United States Government obligations include debt securities issued by the U.S. Government or a U.S. Government agency. Corporate obligations include debt securities and certificates of deposit greater than three months. Marketable equity securities include domestic and foreign stocks. Equity in managed funds includes investments in limited liability partnerships or corporations and other alternative investments. Other investments include municipal and foreign fixed income instruments and restricted investments held by the System's philanthropic foundations.

The System's equity investments in managed funds are recorded based on the System's share of the underlying value of marketable securities held by these funds, as reported to the System. Equity method investments include reported changes in value as reported to the System by the fund custodians. These investments are recorded at amounts confirmed by fund custodians. These amounts cannot be validated by the management of the System, and there can be no assurance such reported amounts will be ultimately realized.

The System's investments are subject to various types of risks, as explained below.

Fixed income – This investment class includes investments in various fixed income instruments that include investment-grade and high-yield domestic and international bonds, preferred stocks, mortgage pools, master limited partnership units, and bonds issued by U.S. government agencies. This investment class also includes investments in common trust funds, mutual funds, and exchange-traded funds that hold investments in fixed income securities. The fixed income investments are exposed to various kinds and levels of risk, including interest rate risk, credit risk, foreign exchange risk, and liquidity risk.

5. CASH AND INVESTMENTS (*Continued*)

Equities – This investment class consists primarily of common equity securities of domestic and foreign companies. These securities trade through the major public domestic and international exchanges. This investment class also includes investments in common trust funds, mutual funds, and exchange-traded funds that hold investments in equity securities. The equity securities investments are exposed to various risks, including market risk, individual security risk, foreign exchange risk, and, for common equity of companies with a small market capitalization, liquidity risk.

Equity investments in managed funds – These funds are invested with external investment managers who invest primarily in various alternative categories, including long and short equity positions, managed futures, emerging markets, distressed enterprises, and arbitrage positions. These investments are domestic and international in nature, are illiquid, and may not be realized for a period of several years after the investments are made. The risks associated with these investments are numerous, resulting in a greater likelihood of losing invested capital. The risks include the following:

Nonregulation risk – They are not required to register with the Securities and Exchange Commission (SEC) and are not subject to regulatory controls.

Managerial risk – Fund managers may fail to produce the intended returns and are not subject to oversight.

Minimal liquidity – Many funds impose lock-up periods that prevent investors from redeeming their shares or impose penalties to redeem.

Limited transparency – As unregistered investment vehicles, funds are not required to disclose the holdings in their portfolios to investors.

Investment strategy risk – The funds often employ sophisticated, risky investment strategies, are speculative, and may use leverage, which could result in volatile returns.

The System has no commitments for funding to equity investments in managed funds as of June 30, 2010.

5. CASH AND INVESTMENTS (Continued)

Assets whose use is limited or restricted consisted of the following at June 30, 2010 and 2009 (in thousands):

	2010	2009
Assets whose use is limited or restricted, required for current bond indenture and self-insurance liabilities	$ 67,383	$ 51,216
Other investments, internally designated for capital expansion and other purposes	213,917	193,816
Under bond indenture agreement-held by trustee	92,147	135,524
Under liability retention and self-insurance funding arrangement-held by trustee	9,241	6,147
Under Emerald Assurance funding arrangements	106,831	97,696
Restricted cash and investments	51,920	45,318
Total assets whose use is limited or restricted	$ 541,439	$ 529,717

Investment return and gains for assets limited as to use, cash equivalents, and other unrestricted investments consisted of the following for the years ended June 30, 2010 and 2009 (in thousands):

	2010	2009
Operating interest and dividend income	$ 4,691	$ 7,356
Operating gain (loss), realized and unrealized	9,881	(6,523)
Equity investment earnings (losses) on managed funds	1,864	(2,957)
Total operating investment income (loss)	16,436	(2,124)
Nonoperating interest and dividend income	11,094	10,539
Nonoperating gain (loss), realized and unrealized	43,713	(110,424)
Equity investment earnings (losses) on managed funds	9,159	(56,879)
Net swap agreement activity	(36,837)	(66,496)
Total nonoperating investment gain (loss)	27,129	(223,260)
Total investment gain (loss)	$ 43,565	$ (225,384)

6. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued authoritative literature that provides enhanced guidance for using fair value to measure assets and liabilities, provides a common definition of fair value, and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable among entities. This guidance also expands the required disclosures concerning the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measure on changes in net assets.

The authoritative guidance establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

> Level 1 – inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets.
>
> Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
>
> Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following tables present the financial instruments carried at fair value as of June 30, 2010 and 2009 (in thousands) by the valuation hierarchy (as described above):

2010

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and cash equivalents	$ 797,594	$ -	$ -	$ 797,594
Fixed income mutual funds	-	103,444	-	103,444
Certificates of deposit	20,403	-	-	20,403
Domestic equities	174,722	-	-	174,722
Preferred stocks	2,868	-	-	2,868
Fixed income securities	-	167,471	-	167,471
International equities	97,779	-	-	97,779
U.S. Government securities	-	66,309	-	66,309
Other investments	-	29,666	-	29,666
Total investments	1,093,366	366,890	-	1,460,256
Interest rate swap asset	-	4,824	-	4,824
Total assets at fair value	$ 1,093,366	$ 371,714	$ -	$ 1,465,080
Liabilities				
Interest rate swap agreements	$ -	$ 94,600	$ -	$ 94,600
Total liabilities at fair value	$ -	$ 94,600	$ -	$ 94,600

6. FAIR VALUE MEASUREMENTS (Continued)

2009

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and cash equivalents	$ 596,220	$ -	$ -	$ 596,220
Fixed income mutual funds	-	140,167	-	140,167
Certificates of deposit	15,000	-	-	15,000
Domestic equities	172,633	-	-	172,633
Preferred stocks	352	-	-	352
Fixed income securities	-	71,885	-	71,885
International equities	55,617	-	-	55,617
U.S. Government securities	-	103,019	-	103,019
Other investments	-	45,354	-	45,354
Total investments	839,822	360,425	-	1,200,247
Total assets at fair value	$ 839,822	$ 360,425	$ -	$ 1,200,247
Liabilities				
Interest rate swap agreements	$ -	$ 70,823	$ -	$ 70,823
Total liabilities at fair value	$ -	$ 70,823	$ -	$ 70,823

The valuation methodologies used for instruments measured at fair value as presented in the table above are as follows:

Investments – Investments are valued at quoted prices available in an active market and are classified within Level 1 of the valuation hierarchy.

Investments valued based on evaluated bid prices provided by third-party pricing services where quoted market prices are not available are classified within Level 2 of the valuation hierarchy.

Interest rate swap agreements – Interest rate swap agreements are valued using third-party models that use observable market conditions as their input and are classified within Level 2 of the valuation hierarchy.

At June 30, 2010 and 2009, the System's financial instruments included cash and cash equivalents, accounts receivable, assets limited as to use, accounts payable and accrued expenses, estimated third-party payor settlements, and long-term debt. The carrying amounts reported in the consolidated balance sheets for these financial instruments, except for long-term debt, approximate their fair value.

The System's fixed rate debt is enhanced with bond insurance. The estimated fair value of the fixed rate debt, if it was not enhanced by insurance, approximates $563,050,065 at June 30, 2010, as compared to its carrying value of $525,830,000.

6. FAIR VALUE MEASUREMENTS (Continued)

At June 30, 2010, the System has several issues of variable rate demand and auction-rate bonds outstanding. The System's continued participation in these debt programs depends on its ability to extend or replace the existing credit facilities supporting the respective standby purchase agreements. If these credit facilities are not available, the System will likely refund these outstanding series with available funds or funds derived from fixed rate series proceeds. It is not practicable to estimate the fair value of the variable rate demand and auction-rate bonds separate from the value supported by the credit facilities.

7. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2010 and 2009, consisted of the following (in thousands):

	2010	2009
Land	$ 204,160	$ 195,504
Land improvements	70,231	63,762
Buildings and fixed equipment	2,293,778	2,073,355
Major movable equipment	1,772,988	1,664,051
Less accumulated depreciation	(2,549,701)	(2,346,367)
	1,791,456	1,650,305
Construction-in-progress (estimated cost to complete is $68 million and $117 million at June 30, 2010 and 2009, respectively)	25,358	222,349
Total	$ 1,816,814	$ 1,872,654

Depreciation expense for the System for fiscal years 2010 and 2009 totaled $220,889,000 and $225,533,000, respectively.

8. INVESTMENTS IN UNCONSOLIDATED ORGANIZATIONS

The System has unrestricted investments in unconsolidated organizations of $174,580,000 and $159,501,000 at June 30, 2010 and 2009, respectively. The following investments account for 94% and 92% of the System's total investments in unconsolidated organizations in 2010 and 2009, respectively:

Baptist St. Anthony's Health System- CHRISTUS Health has a 50% membership interest in Baptist St. Anthony's Health System (BSAHS), a Texas nonprofit corporation. BSAHS is a market leader in the Amarillo area. CHRISTUS Health's recorded investment in BSAHS was $138,148,000 and $123,903,000 at June 30, 2010 and 2009, respectively. The 2010 balance includes $8,513,000 of restricted net assets that are included in other restricted assets. CHRISTUS Health recorded its share of BSAHS's gains from operations of $15,263,000 and loss from operations of $11,328,000 in 2010 and 2009, respectively. The System also recorded

8. INVESTMENTS IN UNCONSOLIDATED ORGANIZATIONS (Continued)

its share of the change in unrealized losses on investments of $197,000 and $4,000 at June 30, 2010 and 2009, respectively, as changes in unrestricted net assets. Additionally, the System has a note receivable from BSAHS resulting from the formation of the joint venture. At June 30, 2010 and 2009, the principal amount of the note receivable was $7,950,000 and $10,316,000, respectively, and is included in notes and other receivables in the consolidated balance sheets. Principal and interest payments are made on a quarterly basis. The annual interest rate is 6.1%.

Preferred Professional Insurance Company- CHRISTUS Health has a 12.1% ownership interest in Preferred Providers Insurance Company (PPIC), a taxable Nebraska corporation. This corporation, formed in 1988, was established to provide excess professional and general liability insurance. CHRISTUS Health's recorded investment in PPIC, accounted for under the cost method, was $17,059,000 in both June 30, 2010 and 2009. The System recorded income from its investment in PPIC in fiscal years 2010 and 2009 of $222,000 and $1,920,000, respectively.

CS/USP Surgery Centers, L.P.- CHRISTUS Spohn Health System Corporation has a 50% ownership interest with a Texas limited liability partnership with United Surgical Partners International, Inc. for the purpose of owning and operating ambulatory surgery centers in Corpus Christi, Texas. The venture consists of two surgery centers near the campus of Spohn Shoreline, specifically Corpus Christi Outpatient Surgery and SurgiCare. CHRISTUS Health's recorded investment was $5,947,000 and $6,012,000 at June 30, 2010 and 2009, respectively. The System recorded its share of income from operations in fiscal years 2010 and 2009 of $666,000 and $967,000, respectively.

Consolidated Catholic Casualty Risk Retention Group- CHRISTUS Health has a 23.3% ownership interest in Consolidated Catholic Casualty Risk Retention Group (CCCRRG), a tax-exempt Vermont corporation. This corporation, formed in 1987, was established to provide excess professional and general liability insurance. At June 30, 2010 and 2009, the System's recorded investment in CCCRRG was $5,891,000 and $4,809,000, respectively. The System recorded its share of CCCRRG's income from operations in fiscal years 2010 and 2009 of $18,000 and $384,000, respectively. Subsequent to June 30, 2010, this entity was dissolved and CHRISTUS received $5,543,000 in dissolution proceeds in August 2010.

Omega Lab Joint Venture- CHRISTUS Health has a 40% ownership interest in Omega Lab Joint Venture. At June 30, 2010 and 2009, the System's recorded investment in Omega Lab Joint Venture was $3,079,000 and $3,201,000, respectively. The System recorded its share of Omega Lab Joint Venture income from operations in fiscal years 2010 and 2009 of $678,000 and $767,000, respectively.

Santa Fe Imaging Center- CHRISTUS Health has a 50% ownership interest in Santa Fe Imaging Center, a for-profit New Mexico corporation. Formed in 1999, this corporation was established to provide a comprehensive array of diagnostic and therapeutic imaging services. At June 30, 2010 and 2009, CHRISTUS Health's recorded investment in Santa Fe Imaging Center was $2,121,000 and $1,515,000, respectively. The System recorded its share of Santa Fe Imaging Center's income from operations in fiscal years 2010 and 2009 of $1,430,000 and $536,000, respectively.

9. LONG-TERM DEBT

Long-term debt at June 30, 2010 and 2009 consisted of the following (in thousands):

	2010	2009
Revenue bonds, in variable rate demand mode, with weighted-average trading rates of 0.40% and 5.54% in fiscal 2010 and 2009, respectively, due beginning in 2031 through 2047	$ 269,695	$ 409,175
Revenue bonds, in variable rate demand mode, that were unmarketed and purchased by banks under liquidity agreements. The rates for bank bonds range between LIBOR and prime. The agreements provide for a five-year amortization with full payment due in 2013.	-	75,960
Revenue bonds, in auction mode, with weighted-average interest rates of 1.22% and 4.16% in fiscal 2010 and 2009, respectively, due in 2031 and in 2041	322,575	379,300
Revenue bonds, in fixed rate mode, bearing interest from 4.3% to 6.5%	517,083	245,727
Capital lease payable to Nueces County Hospital District, bearing interest at a fixed rate of 6.9%, with annual principal payments through 2026, secured by the assets of CHRISTUS Spohn Hospital Memorial	48,649	50,277
Capital lease payable to Bee County, bearing interest at a fixed rate of 6.0%, with annual principal payments through 2030, secured by the assets of CHRISTUS Spohn Hospital Beeville	9,732	10,076
Non-obligated bank notes and capital leases related to CHRISTUS Muguerza investment	55,764	53,664
Other note and capital lease note obligations	29,778	12,786
	1,253,276	1,236,965
Less current maturities on long-term obligations:		
Long-term obligations subject to remarketing agreements	(194,695)	-
Less current portion	(57,483)	(42,222)
Total	$ 1,001,098	$ 1,194,743

9. LONG-TERM DEBT (Continued)

According to the terms of the CHRISTUS Health Master Trust Indenture, the Obligated Group consists of eight CHRISTUS Health regions as follows: CHRISTUS Spohn Health System, CHRISTUS Health Gulf Coast, CHRISTUS Health Southeast Texas, CHRISTUS Santa Rosa Health Care Corporation, CHRISTUS Health Ark-La-Tex, CHRISTUS Health Northern Louisiana, CHRISTUS Health Central Louisiana, and CHRISTUS Health Southwestern Louisiana. CHRISTUS Health is the Obligated Group Agent.

Certain entities of CHRISTUS Health that are otherwise included in the consolidated financial statements of CHRISTUS Health are excluded from the CHRISTUS Health Obligated Group. These entities include, but are not limited to, the CHRISTUS Health Liability Retention Trust, Emerald Assurance, CHRISTUS St. Vincent Regional Medical Center, CHRISTUS Health Utah, CHRISTUS Provider Network, CHRISTUS Continuing Care, CHRISTUS Muguerza, S.A. de C.V., and various philanthropic foundations.

Under the provisions of the Master Trust Indenture, the obligations of CHRISTUS Health and the other members of the Obligated Group are secured by a pledge of gross revenues. Additionally, each member of the Obligated Group has undertaken certain covenants, including the following: to ensure the payment of debt service; to ensure the payment of taxes and other claims; to deliver compliance statement(s); to preserve corporate existence; to maintain books and records subject to inspection by the Master Trustee; to maintain insurance; to conform to defined lien limitations; to establish adequate service rates; to maintain a sufficient debt service coverage and indebtedness ratio; to maintain a required aggregate amount of Unrestricted Cash and Investments; and to adhere to certain defined conditions with respect to consolidation, merger, conveyance or transfer, and admission or withdrawal of Obligated Group members pursuant to the Master Trust Indenture and insurer and letter of credit bank agreements.

In August 2009, CHRISTUS Health issued debt in the amount of $231,005,000, which consisted of $156,005,000 in fixed rate bonds (Series 2009A) and $75,000,000 in variable rate demand bonds (VRDBs) (Series 2009B). The issues were used to refund the outstanding Series 2007C and Series 2008D bonds and to fund a debt service reserve fund for the Series 2009A bonds. The Series 2007C bonds were supported by a stand-by bond purchase agreement provided by Landesbank Hessen-Thüringen Girozentrale, acting through its New York branch, which was terminated as part of the transaction. The Series 2009B VRDBs were initially supported by a letter of credit issued by The Bank of New York Mellon that expired on August 13, 2010. Subsequent to June 30, 2010, the letter of credit was amended to expire on February 28, 2012.

In December 2009, CHRISTUS Health issued $72,695,000 of fixed rate bonds (Series 2009C). The issue refinanced the outstanding 2008 C-5 VRDBs. As a result of this transaction, the letter of credit supporting the Series 2005 C-5 bonds with Compass bank was terminated. CHRISTUS Health also converted $54,260,000 of auction rate securities to fixed rate bonds through a reoffering of the Series 2005 C-3 bonds. The fixed rate bonds are insured by FSA (currently Assured Guaranty).

9. LONG-TERM DEBT (Continued)

The outstanding Series 2008C VRDBs are supported by letters of credit issued by Bank of America that expire on December 17, 2010. CHRISTUS Health intends to extend the letter of credit through December 2013.

In June 2010, the System redeemed the remaining portion of the Series 1998A fixed rate bonds before the final maturity. The System anticipates completing a transaction in the fall of 2010 to convert approximately $100,000,000 of auction rate securities to insured fixed rate bonds through a reoffering of the outstanding Series 2005 A-5 and A-6 bonds.

The System recorded a loss on the early extinguishment of debt of $4,399,000 and $13,062,000 in fiscal years 2010 and 2009, respectively, which is recorded in other nonoperating loss.

In addition, the CHRISTUS Health System was obligated on approximately $143,923,000 and $126,803,000 of additional long-term debt, which included capitalized leases and notes payable to others as of June 30, 2010 and June 30, 2009, respectively.

Principal payments for all long-term debt for the next five years and thereafter are as follows (in thousands):

2011	$ 57,483
2012	42,365
2013	42,711
2014	42,793
2015	44,523
Thereafter	1,023,401
Total debt	$ 1,253,276

10. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swap contracts between the System and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and expose the System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the System's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate swap contracts contain certain collateral provisions applicable to both parties to mitigate credit risk. CHRISTUS has complied with these provisions as required. No collateral was posted at June 30, 2010. The System does not anticipate nonperformance by its counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their

10. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

blended cost of capital. As of June 2010, CHRISTUS Health has interest rate swap agreements to manage interest rate risk exposure, not designated as hedging instruments, with a total notional amount of $1,228,335,000.

At June 30, 2010, the fair value of these swap agreements was a net liability of $89,776,000, with $94,600,000 recorded as a liability and $4,824,000 recorded as an asset on the consolidated balance sheet. At June 30, 2009 the fair value of these swap agreements was a liability of $70,823,000 recorded on the consolidated balance sheet. The change in fair value of $18,953,000 and $50,903,000 for the years ended June 30, 2010 and 2009, respectively, is combined with the payments, net of receipts made under the agreements, of $17,884,000 and $15,593,000 for the years ended June 30, 2010 and 2009, respectively. This total is included in nonoperating investment gain (loss) in the statements of operations and changes in net assets.

The following tables summarize the fair value at June 30, 2010 and 2009, and the income (loss) recorded related to the interest rate swap agreements as of and for the years ended June 30, 2010 and 2009, in thousands.

		Termination	Interest Rate	Notional	Fair Value		Change in Fair Value		Paid/(Received)	
Counterparty	Description	Date	Agreements	Amount	6/30/2010	6/30/2009	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Merrill Lynch	Variable basis	2021-2023	6	$470,000	($14,410)	($15,327)	$ 917	($15,030)	$ 354	$1,027
*Citigroup	Fixed payor	2022 and 2031	2	279,075	(27,511)	(17,970)	(9,541)	(13,088)	8,465	10,403
Citigroup	Constant maturity	2022	1	200,000	4,824	(117)	4,941	(3,058)	-	(2,836)
Citigroup	Fixed payor	2047	2	166,100	(31,656)	(22,578)	(9,078)	(11,672)	5,414	4,186
Citigroup	Fixed payor	2047	1	113,160	(21,023)	(14,831)	(6,192)	(8,055)	3,651	2,813
			12	$1,228,335	($89,776)	($70,823)	($18,953)	($50,903)	$17,884	$15,593

*In FY 2009 the notional amount was $279,345 and it was adjusted to decrease by $270 on July 1, 2009.

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS

Cash Balance Plan- The System has established a noncontributory, defined-benefit retirement plan that operates as a cash balance plan and covers substantially all CHRISTUS Health employees who meet age and service requirements. The plan benefits are calculated based on a cash balance formula wherein participants earn an annual accrual of 6% of compensation and participant account balances accrue interest at a rate that tracks ten-year treasury notes; the maximum rate is 8% and the minimum rate is 2%.

Postretirement Health Care Benefits- Comprehensive medical benefits are provided to eligible active employees who, immediately upon retirement and attainment of age 55, will receive a pension under the CHRISTUS Health retirement plan. Postretirement benefits are also provided to former employees who are currently receiving pension benefits. The comprehensive medical program, which is self-insured, provides reimbursement benefits until the participant attains age 65. The program also covers dependents of retirees, in addition to former employees.

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

Contributions are required. Retirees may choose one of two self-insured indemnity plan options. Effective February 1, 1999, the CHRISTUS Health postretirement benefit plan was curtailed prospectively. As of the effective date, new employees or employees that had not vested as of that date are not eligible for the postretirement health care benefits. The liability associated with the postretirement plan will be reduced as employee participation decreases.

Simplified Early Retirement Plan (SERP)- Prior to the formation of CHRISTUS, a plan for executives was curtailed prospectively. Under this plan, eligible participants receive a cash benefit payment until death and participate in the System's retiree health, dental, and group-term life program. Fewer than two dozen participating retirees currently maintain benefit payment status. Benefits are recalculated when participants attain age 65 and remain constant thereafter. At June 30, 2010 and 2009, the total liability recorded pertaining to this SERP was $5,481,000 and $5,250,000, respectively.

Restoration Plan- The restoration plan, a nonqualified, deferred compensation plan, was designed to restore benefits that are lost under the cash balance plan due to the statutory limit on recognizable compensation. Eligibility is limited to designated executives. The plan provides benefits upon termination of employment to qualifying participants. Plan benefits are calculated using the same methodology for the cash balance plan; vesting requirements are also the same. The restoration plan is unfunded.

The measurement date for all plans is June 30. Components of net periodic benefit cost, recorded as a component of employee compensation and benefits, for the years ended June 30, 2010 and 2009, consisted of the following (in thousands):

	Cash Balance Plan		Postretirement		SERP		Restoration Plan	
	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	$ 42,660	$ 44,582	$ 607	$ 628	$ -	$ -	$ 255	$ 357
Interest cost	40,830	42,338	1,310	1,288	-	-	191	237
Expected return on assets	(39,514)	(46,434)	-	-	-	-	-	-
Amortization of prior service cost	(850)	(850)	-	-	-	-	103	103
Recognized net actuarial loss (gain)	20,201	5,881	-	-	231	(101)	11	145
Net benefit cost	$ 63,327	$ 45,517	$ 1,917	$ 1,916	$ 231	$ (101)	$ 560	$ 842

At June 30, 2010 and 2009, unrestricted net assets include $233,574,000 and $244,370,000, respectively, of amounts arising from defined benefit plans that have not yet been recognized in net periodic benefit cost. Amounts recognized in unrestricted net assets expected to be recognized in net periodic benefit cost during fiscal 2011 are $18,850,000.

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

The following table sets forth the changes in benefit obligations, changes in plan assets, and funded status of the plans measured as of June 30 (in thousands):

	Cash Balance Plan		Postretirement		SERP		Restoration Plan	
	2010	2009	2010	2009	2010	2009	2010	2009
Changes in benefit obligation:								
Benefit obligations—beginning of year	$ 732,237	$ 699,378	$ 21,698	$ 20,382	$ 5,250	$ 5,351	$ 3,378	$ 3,940
Service cost	42,660	44,582	607	628	-	-	255	357
Interest cost	40,830	42,338	1,310	1,288	-	-	192	236
Actuarial loss (gain)	20,481	(18,520)	168	219	231	(101)	(1,121)	(988)
Benefits paid	(35,937)	(35,540)	(1,796)	(819)	-	-	(330)	(167)
Benefit obligation—end of year	$ 800,271	$ 732,238	$ 21,987	$ 21,698	$ 5,481	$ 5,250	$ 2,374	$ 3,378
Change in plan assets:								
Fair value of plan assets—beginning of year	$ 521,749	$ 616,425	$ -	$ -	$ -	$ -	$ -	$ -
Actual return on plan assets	50,207	(108,136)	-	-	-	-	-	-
Employer contributions	49,000	49,000	1,796	819	-	-	330	167
Benefits paid	(35,937)	(35,540)	(1,796)	(819)	-	-	(330)	(167)
Fair value of plan assets—end of year	$ 585,019	$ 521,749	$ -	$ -	$ -	$ -	$ -	$ -
Funded status of the plans:								
Underfunded	$ (215,253)	$ (210,489)	$ (21,988)	$ (21,698)	$ (5,481)	$ (5,250)	$ (2,374)	$ (3,378)
Unrecognized net actuarial loss (gain)	236,740	247,152	(614)	(782)	-	-	(709)	422
Unrecognized prior service cost	(3,022)	(3,872)	-	-	-	-	565	668
Prepaid (accrued) benefit cost	$ 18,465	$ 32,791	$ (22,602)	$ (22,480)	$ (5,481)	$ (5,250)	$ (2,518)	$ (2,288)

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

As of June 30, 2010 and 2009, the CHRISTUS cash balance plan had accumulated benefit obligations of $747,206,000 and $687,854,000, respectively. Assumptions used to determine benefit obligations and net periodic benefit cost for the fiscal years were as follows:

	Cash Balance Plan		Postretirement		SERP		Restoration Plan	
	2010	2009	2010	2009	2010	2009	2010	2009
Benefit obligations:								
Discount rate	4.83 %	5.84 %	4.92 %	6.20 %	4.83 %	5.84 %	4.83 %	5.84 %
Rate of compensation increase	4.61	4.61	N/A	N/A	4.61	4.61	4.61	4.61
Net periodic benefit cost:								
Discount rate	5.84	6.23	4.92	6.20	5.84	6.23	5.84	6.23
Expected long-term return on plan assets	7.50	7.50	N/A	N/A	N/A	N/A	N/A	N/A
Rate of compensation increase	4.61	5.36	N/A	N/A	4.61	5.36	4.61	5.36

The investment objective with regard to the plan assets is one of long-term capital appreciation and generation of a stream of current income. This balanced approach is expected to earn long-term total returns, consisting of capital appreciation and current income, that are commensurate with the expected rate of return used by the plans.

The following information pertains only to the CHRISTUS Health postretirement plan. The first chart details information pertaining to assumed health care cost trend rates. The second chart depicts the effect of a one-percentage-point change in assumed health care cost trend rates:

	Postretirement	
	2010	2009
Assumed health care cost trend rates at June 30	8.0%	9.0%
Health care cost trend rate assumed for next year	7.0	8.0
Ratio to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0	5.0
Year that the rate reaches the ultimate trend rate	2014	2014

	Postretirement 1% Point Increase	Postretirement 1% Point Decrease
	(in thousands)	
Effect on total of service cost and interest cost components	$ 178	$ (156)
Effect on postretirement benefit obligation	1,935	(1,728)

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

Investment Policy and Asset Allocations- The investment policies and strategies for the assets of the cash balance plan incorporate a well-diversified approach that is expected to generate long-term returns from capital appreciation and a growing stream of current income. This approach recognizes that assets are exposed to risk and the market value of the plan assets may fluctuate from year to year. Risk tolerance is determined based on the plan's financial stability and the ability to withstand return volatility. In developing the expected return on plan assets, the System evaluates the historical performance of total plan assets, the relative weighting of plan assets, interest rates, economic indicators, and industry forecasts. In line with the investment return objective and risk parameters, the mix of assets includes a diversified portfolio of equity, fixed income, and alternative investments. Equity investments include international stocks and a blend of domestic growth and value stocks of various sizes of capitalization. The aggregate asset allocation is rebalanced as needed, but not less than on an annual basis.

The asset allocations for the cash balance plan at June 30, 2010 and 2009, by asset category, are detailed below (in thousands). The postretirement plan, SERP, and restoration plan are unfunded.

	2010	2009
Cash and cash equivalents	$ 95,839	$ 62,610
Domestic common stocks	106,773	87,105
Preferred stocks	291	339
Fixed income securities	138,436	125,220
International equities	86,826	69,081
Alternative investments	156,564	177,394
Total	$ 584,729	$ 521,749

The allocation of plan assets by asset category for the cash balance plan, as of June 30, is as follows:

	2010	2009
Allocation of plan assets by asset category:		
Cash and cash equivalents	16.0 %	12.0 %
Equity investments in managed funds (as discussed in Note 5)	27.0	34.0
Fixed income securities	24.0	24.0
Equity securities	33.0	30.0
Total	100.0 %	100.0 %

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

The value of the plan assets measured at fair value on a recurring basis was determined using the following inputs, as described in Note 6, at June 30, 2010 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash and cash equivalents	$ 95,839	$ -	$ -	$ 95,839
Domestic common stocks	106,773	-	-	106,773
Preferred stocks	291	-	-	291
Fixed income securities	-	138,436	-	138,436
International equities	86,826	-	-	86,826
Alternative investments	-	-	156,564	156,564
Total investments	289,729	138,436	156,564	584,729
Total assets at fair value	$ 289,729	$ 138,436	$ 156,564	$ 584,729

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy (in thousands):

	Hedge Funds	Private Equity	Real Estate	Natural Resources
Fair value at July 1, 2009	$ 103,625	$ 42,145	$ 27,065	$ 4,559
Purchases, issuances, and settlements	(37,752)	5,990	1,750	(6)
Actual return on plan assets	3,415	2,407	3,987	(621)
Fair value at June 30, 2010	$ 69,288	$ 50,542	$ 32,802	$ 3,932

The cash balance plan has $53,274,000 of funding commitments to equity investments in managed finds as of June 30, 2010.

Contributions- In fiscal year 2011, CHRISTUS expects to contribute $55,000,000 to the cash balance plan based on asset values for the plan year beginning January 1, 2010. Contributions to the cash balance plan of $49,000,000 have been made for plan years beginning January 1, 2009 and 2008, respectively. Since the postretirement plan, SERP, and restoration plan are unfunded, no cash contributions are expected.

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

Benefit Payments- The following benefit payments, which reflect expected future service relative to the cash balance plan and expected benefit payments for services previously rendered relative to the postretirement plan and the SERP, are expected to be paid as follows (in thousands):

	Cash Balance Plan	Post-Retirement	SERP	Restoration Plan
2011	$ 32,096	$ 1,041	$ 603	$ 492
2012	35,064	1,254	588	302
2013	38,890	1,408	570	240
2014	41,664	1,517	551	239
2015	44,962	1,673	530	243
Years 2016–2020	286,154	10,455	2,281	1,214

Defined-Contribution Plans- The System has a defined-contribution plan (the Matched Savings Plan) covering substantially all CHRISTUS Health employees. Annual employee contributions are limited to 50% of compensation, up to the IRS dollar limits. The System will match 50% of employee contributions, not to exceed 4% of annual compensation. Employer contributions vest to the employee over a five-year period. For the years ended June 30, 2010 and 2009, expenses attributable to the Matched Savings Plan amounted to $9,632,255 and $8,969,136, respectively.

CHRISTUS St. Vincent Regional Medical Center (St. Vincent) has two 403(b) defined-contribution plans for union and nonunion employees. St. Vincent makes a set lump-sum contribution per year for nurse union employees and a contribution of 3.5% of gross salaries for nonunion employees, as defined by the plans' agreements. For fiscal years 2010 and 2009, St. Vincent has incurred approximately $3,781,000 and $3,444,000 in expenses related to the plans, respectively.

ExecuFLEX Benefit Plan

The System established an ExecuFLEX plan (ExecuFLEX), which is limited to designated executives. Plan participants receive an ExecuFLEX allowance to be allocated among four different components: CHRISTUS Health ExecuFLEX Individual Long-Term Disability Plan, CHRISTUS Health ExecuFLEX Supplemental Survivor Plan, CHRISTUS Health ExecuFLEX Spouse Survivor Plan, and CHRISTUS Health ExecuFLEX Deferred Income Account (DIA) Plan.

CHRISTUS Health maintains a collateral interest in the individual life insurance policies under the supplemental survivor plan and the spouse survivor plan to the extent of the cumulative advanced premiums paid on behalf of the participant(s). Upon termination of employment, a participant is required to surrender any policy with a cash surrender value less than the advanced premiums.

11. CASH BALANCE PLAN AND POSTRETIREMENT HEALTH CARE BENEFITS (Continued)

The DIA Plan is a nonqualified, deferred compensation plan; eligibility is limited to designated executives. Benefits vest based on certain qualifying events and are paid to participants when fully vested. The funds contributed by participants to this component of the ExecuFLEX Plan are held in a Rabbi Trust until vesting requirements have been satisfied. The System has an asset recorded for the investments in the Rabbi Trust with a corresponding liability. As of June 30, 2010 and 2009, the total asset and the corresponding liability were $7,411,000 and $5,495,000, respectively.

12. SELF-FUNDED LIABILITIES

The System self-funds and insures for primary professional and general liability, workers' compensation, and employee medical benefits. A wholly owned, captive insurance company, Emerald Assurance Cayman Ltd. (Emerald), is used to fund primary professional and general liability. Additionally, the System internally sets aside funds for workers' compensation and employee medical benefits. Funding amounts are based on actuarial recommendations.

The assets of the captive insurance company, internally designated funds, and the estimated liability for losses are reported in the consolidated balance sheets. Investment income from the assets and the provision for estimated self-funded losses and administrative costs are reported in the consolidated statements of operations and changes in net assets. The estimated self-funded losses include expected claim payments, including settlement costs, for reported claims and an actuarial determination of expected losses related to claims that have been incurred but not reported.

Emerald was incorporated in the Cayman Islands on June 27, 2003, and operates subject to the provisions of the Companies Law (2003 Revision) of the Cayman Islands. Emerald was granted an Unrestricted Class "B" Insurer's license on June 30, 2003, which it holds subject to the provisions of the Insurance Law (2003 Revision) of the Cayman Islands. Emerald has received an undertaking from the Cayman Islands government exempting it from local income, profits, and capital gains taxes until July 29, 2023. No such taxes are currently levied in the Cayman Islands.

13. CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of whom are local residents of the geographies of the various System health care centers and are insured under third-party payor agreements. The mix of gross accounts receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	2010	2009
Medicare	24.7 %	26.0 %
Medicaid	8.8	8.8
Managed care organizations	37.4	36.0
Commercial insurance	6.5	4.4
Self-pay	11.5	13.0
Others	11.1	11.8
	100.0 %	100.0 %

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The System leases various equipment and facilities under non-cancelable operating leases expiring at various dates through May 19, 2045. Total rental expense in 2010 and 2009 for all operating leases was approximately $43,857,000 and $36,693,000, respectively.

The System's leases have varying terms, which may include renewal or purchase options and escalation clauses, that are factored into determining minimum lease payments. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2010, that have initial or remaining lease terms in excess of one year (in thousands):

2011	$ 28,614
2012	25,549
2013	22,519
2014	18,188
2015	15,238
Thereafter	34,597
Total	$ 144,705

From time to time, the System is subject to litigation in the ordinary course of operations. In management's opinion, any future settlements or judgments on asserted or unasserted claims will not have a material effect on the System's consolidated financial statements.

15. FUNCTIONAL EXPENSES

The System provides general health care services to residents throughout various geographic locations. Expenses related to providing these services at June 30, 2010 and 2009, are as follows (in thousands):

	2010	2009
Health care services	$2,647,360	$2,494,051
Physician services	158,330	156,612
General and administrative	805,666	848,778
Total	$3,611,356	$3,499,441

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 and 2009, are available for the following purposes or periods (in thousands):

	2010	2009
Purchase of equipment/capital improvement	$ 20,380	$ 22,197
Indigent care	2,034	2,104
Health education	1,671	1,625
Health care services	9,704	8,838
Community outreach	11,504	11,147
Other	12,613	13,962
Total	$ 57,906	$ 59,873

Permanently restricted net assets at June 30, 2010 and 2009, are restricted as follows (in thousands):

	2010	2009
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income)	$ 7,550	$ 7,450
Endowment requiring income to be added to original gift	3,174	3,452
Other	2,396	2,311
Total	$ 13,120	$ 13,213

17. ASSETS HELD FOR SALE

During fiscal year 2009, the System implemented a plan to monetize non-operational assets where appropriate. As a result, several properties were identified and marketing plans developed. The System classified certain long-lived assets as held for sale in fiscal years 2010 and 2009. The System has classified $28,308,000 and $29,617,000 as assets held for sale at June 30, 2010 and 2009, respectively.

Approximately $16,901,000 of the assets held for sale balance at June 30, 2010 is undeveloped land. The remaining $11,407,000 represents non-operational buildings in several regions. Approximately $19,162,000 of the assets held for sale at June 30, 2009 continue to be classified as held for sale at June 30, 2010. This classification is considered appropriate due to market conditions and length of time required to execute sale transactions. The assets are recorded at the lower of the book or estimated fair value at June 30, 2010.

18. SIGNIFICANT EVENTS

Expansion of Healthcare Operations – Santa Rosa- In July 2009, the CHRISTUS Santa Rosa Region bought a 38% ownership interest in the Foundation Surgery Affiliates of New Braunfels, LLC (FSA) for cash consideration of $2,417,000. In addition to the cash purchase price, CHRISTUS Santa Rosa paid cash consideration of $558,000 to FSA to terminate the management agreement of the facility. The FSA facility is located in New Braunfels, Texas. Subsequent to the acquisition, FSA merged with CHRISTUS Santa Rosa Outpatient Surgery - New Braunfels, LP. CHRISTUS Santa Rosa has an ownership interest of 55.95% in the merged entity. The transactions were accounted for under the pooling method of accounting. CHRISTUS Santa Rosa and CHRISTUS Santa Rosa Outpatient Surgery – New Braunfels, LP executed a management services agreement whereby CHRISTUS Santa Rosa will perform certain management services for the combined entity.

In September 2009, CHRISTUS Santa Rosa purchased a 51% ownership interest in the Foundation Surgery Center of San Antonio for an estimated cash consideration of $14,400,000 and the assumption of $23,500,000 in debt. Foundation Surgery Center has total assets of $19,500,000, including $4,600,000 in current assets and total liabilities of $27,400,000 after acquisition. Foundation Surgery Center of San Antonio has four locations in San Antonio and performs approximately 25,000 procedures annually. CHRISTUS Santa Rosa also paid cash consideration of approximately $4,600,000 to assume the management agreement. The transaction resulted in approximately $19,000,000 in goodwill.

Effective July 1, 2010, the System reorganized its post-acute operations. Certain long-term acute care facilities operated by Dubuis Health System were transferred to CHRISTUS Continuing Care, which resulted in an approximately $24,400,000 other change in unrestricted net assets at June 30, 2010. Subsequently, the System ceased to consolidate Dubuis Health System.

19. SUBSEQUENT EVENTS

The System evaluated events and transactions occurring subsequent to June 30, 2010 through October 8, 2010, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements.

Subsequent to June 30, 2010, management committed to a plan to sell CHRISTUS St. Joseph Villa in Salt Lake City, Utah and to discontinue operations once the sale has been completed. CHRISTUS St. Joseph Villa is a continuing care retirement facility with 327 beds/units offering independent and assisted living, long-term care, post-acute care and geri psych services. The assets, liabilities, and gains or losses from operations will be accounted for as discontinued operations in the year ended June 30, 2011. CHRISTUS St. Joseph Villa has total assets of $21,568,000, including $5,618,000 in current assets and total liabilities of $10,889,000 at June 30, 2010.

Other Financial Information

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Independent Auditors' Report on Other Financial Information

The Board of Directors of CHRISTUS Health

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of CHRISTUS Health as of June 30, 2010, and for the year then ended, and have issued our unqualified opinion thereon dated October 8, 2010. The accompanying community benefit information, on which we express no opinion, is presented for purposes of additional analysis and is not a required part of the basic financial statements taken as a whole.

Ernst + Young LLP

October 8, 2010

COMMUNITY BENEFIT (UNAUDITED)

CHRISTUS complies with the Catholic Health Association's (CHA), *A Guide for Planning and Reporting Community Benefits*, ©2008, and the state of Texas reporting requirements. CHA guidelines have adopted the instructions for IRS Form 990, Schedule H.

Following is a summary of the System's quantifiable costs of community benefits provided for the years ended June 30, 2010 and 2009 (in thousands):

		2010		2009
		UNAUDITED		
Programs and services for the poor and underserved:				
Charity care at unpaid cost	$	168,553	$	129,394
Unpaid cost of Medicaid and other public programs		(81,082)		(32,366)
Community services for the poor and underserved		132,616		106,692
Total for the poor and underserved		220,087		203,720
Community services for the broader community:				
Education and research		16,473		9,967
Other community services		6,536		13,263
Total for the broader community		23,009		23,230
Total community benefits	$	243,096	$	226,950

The totals are calculated following CHA guidelines and adhere to IRS Form 990, Schedule H methodology. CHRISTUS Health has multiple reporting requirements of charity care and community benefit, which vary based on the definitional and timing requirements of each requesting organization.

In addition to the community benefits reported above, the state of Texas requires that the unpaid costs of Medicare and other government-sponsored programs be reported. For the fiscal years ended 2010 and 2009, the unpaid costs of these programs were $338,689,000 and $340,969,000, respectively. The unpaid costs of the Medicare program represent the cost of providing services to primarily elderly beneficiaries of the Medicare program, in excess of governmental and managed care contract payments. The unpaid costs of other government-sponsored programs represent the cost for providing health care services to the beneficiaries of the Department of Defense (DOD) civilian care, included as per the state of Texas guidelines.

As noted, the CHRISTUS Community Direct Investment (CDI) Program was established to support community-driven initiatives, primarily for affordable housing and economic development, by providing financing at below market interest rates. At June 30, 2010 and 2009, the CDI Program had $8,147,000 and $9,281,000, respectively, in outstanding loans; approximately 82% and 83%, respectively, of these loans relate to projects in CHRISTUS Health regions. The difference between the interest rates charged on the loans and the amount that the System would have earned on these monies is the forgone interest that is considered a

COMMUNITY BENEFIT (UNAUDITED) (continued)

community benefit. In fiscal years 2010 and 2009, the amount recognized as a community benefit related to this program was $234,816 and $281,455, respectively.

As noted, the CHRISTUS Fund was established for the purpose of providing grants to support community planning, healthy community initiatives, and community-based programs, with a focus on the poor and underserved areas where CHRISTUS Health ministries and sponsoring congregations are involved. During fiscal years 2010 and 2009, the CHRISTUS Fund provided grants of $1,603,133 and $2,564,618, respectively; approximately 94% and 81% of the grants relate to programs in CHRISTUS regions in 2010 and 2009, respectively.

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CHRISTUS Health

A133 Single Audit Report: Status of Prior Year Audit Findings

For the Year Ended June 30, 2010

Finding 08-1

Federal program information:

Federal Awarding Agency: United States Department of Health and Human Services (passed through to CHRISTUS Health from various pass-through entities)

Federal Program: National Bioterrorism Hospital Preparedness Program (Bioterrorism Program)

CFDA No.: 93.889

Federal Awarding Agency: United States Department of Health and Human Services (passed through to CHRISTUS Health from Biomedical Research Foundation of Northwest Louisiana)

Federal Program: Cooperative Agreements to Improve the Health Status of Minority Populations

CFDA No.: 93.004

Criteria or specific requirement:

Recipients of federal awards are to maintain adequate controls over their books and records in order to prepare appropriate financial statements, including the Schedule of Expenditures of Federal and State Awards (OMB Circular A-133, Section .300(d)).

Condition:

The System was not appropriately complying with the requirements to record transactions in the proper period for the Bioterrorism Program and to ensure that all expenditures for other federal programs are recorded on the schedule of expenditures of federal and state awards.

Questioned costs:

$11,666

Context:

As part of our expenditure testing to review a sample of expenditures incurred within the National Bioterrorism Hospital Preparedness Program for allowable costs and activities, we selected a sample of 25 individual amounts that were recorded on the Schedule of Expenditures of Federal and State Awards. Through inquiry and observation, it was noted that one of the expenditures selected for testing was incurred in the prior fiscal year and should not have been included in the current year Schedule of Federal Expenditures of Federal and State Awards. Through our testing of the Schedule of Expenditures of Federal and State Awards, an additional grant was identified that was not previously recorded. CHRISTUS Health Central Louisiana received a grant in March 2008 and began incurring expenditures in May and June 2008. The grant was not initially identified and documented as a federal pass-through award, and the grant and its related expenditures during fiscal year 2008 were not captured in the Schedule of Expenditures of Federal and State Awards until near the end of the audit.

Effect:

The original Schedule of Expenditures of Federal and State Awards was not correct.

Cause:

CHRISTUS Health did not have adequate controls in place to record expenditures in the proper period on the Schedule of Expenditures of Federal and State Awards. CHRISTUS Health personnel did not have adequate controls in place to ensure that all grants and expenditures were properly recorded on the Schedule of Expenditures of Federal and State Awards.

Recommendation:

CHRISTUS Health should implement additional procedures and internal controls to ensure its Schedule of Expenditures of Federal and State Awards is prepared properly to include all federal expenditures and that the amounts are reported in the proper period.

Views of responsible officials and planned corrective actions:

Management Directive 49 – Reporting Requirements for Government Grants was updated during FY08 to include all requirements for reporting of expenditures in the proper period. Corporate personnel responsible for monitoring and reporting of government grants conducted formal education programs for the operational and accounting personnel responsible for administering and recording government grants in the regions. During FY08, there were additional findings relating to recording grants in the proper period. One finding related to expenditures prior to the update of the management directive and education. The other finding was related to a grant that was not reported by the region until the audit was almost complete. Corporate personnel

responsible for monitoring and reporting of government grants will conduct additional education for all personnel involved with government grant operations and reporting to ensure understanding of the requirements. In addition, a Regional Grant Coordinator will be designated for each region that will assist in coordinating and capturing all government grants to ensure proper reporting for the A133 Single Audit.

<u>Status at June 30, 2010:</u> Education sessions were presented by corporate personnel responsible for monitoring and reporting of government grants in November 2008 as planned with an additional presentation in December 2008. Regional Grant Coordinators were named for each region. An additional finding was noted in FY 2009 which recommended additional strengthening of internal control related to identification of federal awards. See status of ***Finding 09-5*** below.

Finding 08-2

<u>Federal program information:</u>

<u>Federal Awarding Agency</u>: United States Department of Health and Human Services

Federal Award Title: National Bioterrorism Hospital Preparedness Program (passed through to CHRISTUS Health from various pass-through entities)

<u>CFDA No.:</u> 93.889

<u>Criteria or specific requirement:</u>

OMB Circular A-110 Sections .40 through .48 state that the grant recipient shall perform certain procurement procedures including:

1. All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.
2. Ensure that small businesses, minority-owned firms, and women's business enterprises are used to the fullest extent practicable.

3. Recipients shall, on request, make available for the federal awarding agency pre-award review and procurement documents, such as requests for proposals or invitations for bids, independent cost estimates, etc., when (among other things) the following has occurred: the procurement is expected to exceed the small purchase threshold fixed at 41 U.S.C. 403(11) ($25,000) and is to be awarded without competition or only one bid or offer is received in response to a solicitation.
4. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action.
5. Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:
   a. Basis for contractor selection.
   b. Justification for lack of competition when competitive bids or offers are not obtained.
   c. Basis for award cost or price.
6. Recipients of federal awards shall establish written procurement procedures. These procedures shall provide for, at a minimum, that:
   a. Recipients avoid purchasing unnecessary items.
   b. Where appropriate, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the federal government.
   c. Solicitations for goods and services provide for all of the following:
      i. A clear and accurate description of the technical requirements for the material, product, or service to be produced. In competitive procurements, such a description shall not contain features which unduly restrict competition.
      ii. Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids and proposals.
      iii. A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.
      iv. The specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation.

v. The acceptance, to the extent practicable and economically feasible, of products and services dimensioned in the metric system of measurement.

vi. Preference, to the extent practicable and economically feasible, for products and services that conserve natural resources and protect the environment and are energy efficient.

Condition:

CHRISTUS Health did not perform the necessary federal procurement procedures as identified above. CHRISTUS Health failed to perform or maintain contract files, price analysis, bids, or basis for contractor selection, and the written procurement policies do not contain the minimum requirements of OMB Circular A-110.

Questioned costs:

$3,026

Context:

Based on inquiry of management and observation, it was noted that evidence was lacking to validate that the appropriate federal procurement procedures were performed, and the written procurement policies do not contain the minimum requirements of OMB Circular A-110.

Effect:

CHRISTUS Health is not in compliance with specific federal regulations related to procurements to ensure compliance with OMB Circular A-110 requirements identified above.

Cause:

CHRISTUS Health lacked sufficient/adequate procedures and controls related to federal procurements.

Recommendation:

CHRISTUS Health should review the appropriate OMB Circular A-110 federal requirements related to procurements and should establish procedures and controls to ensure procurements using federal funds are executed in accordance with the federal requirements.

Views of responsible officials and planned corrective actions:

Management Directive 49 – Reporting Requirements for Government Grants was updated during FY08 to include OMB Circular A-110 Sections .40 through .48. A System Procurement Procedure – Purchasing Requirements for Government Grant Funding is under review and will be implemented for FY09. Corporate personnel provided education to procurement staff and Materials Management personnel during FY08 as well as to regional grant contact personnel. Additional education will be provided in FY09 to ensure understanding of the new System Procurement Procedure – Purchasing Requirements for Government Grant Funding by all personnel involved with procurement of items and regional contacts involved with government grant reporting. Corporate Accounting and System Procurement will work together to develop educational programs for both procurement personnel and regional grant contacts.

Status at June 30, 2010: PUR2101 – Purchasing Procedure for Government Grant Purchases was finalized and became effective Nov 1, 2008. The policy includes the requirements outlined in OMB Circular A-110. Corporate personnel responsible for monitoring and reporting of government grants worked with Procurement personnel to develop and ensure the policy contained the required elements. The educational presentations held in November and December 2008 outlined the requirements for purchases with government grant funds.

Although this finding was addressed during FY 2009, the policy was not in effect for the entire fiscal year. As such, ***Finding 09-1*** continued to report the issue related to the beginning of the fiscal year. See further discussion below in response to ***Finding 09-1***.

Finding 08-3

Federal program information:

Federal Awarding Agency: United States Department of Health and Human Services

Federal Award Title: Special Supplemental Nutrition Program for Women, Infants, and Children

CFDA No.: 10.557

Criteria or specific requirement:

OMB Circular A-110 Sections .40 through .48 state that the grant recipient shall perform certain procurement procedures including:

1. All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.
2. Ensure that small businesses, minority-owned firms and women's business enterprises are used to the fullest extent practicable.
3. Recipients shall, on request, make available for the federal awarding agency, pre-award review and procurement documents, such as request for proposals or invitations for bids, independent cost estimates, etc., when (among other things) the following has occurred:
    a. A recipient's procurement procedures or operation fails to comply with the procurement standards in the Federal awarding agency's implementation of this Circular.
    b. The procurement is expected to exceed the small purchase threshold fixed at 41 U.S.C. 403 (11) ($25,000) and is to be awarded without competition or only one bid or offer is received in response to a solicitation.
    c. The procurement, which is expected to exceed the small purchase threshold, specifies a "brand name" product.
    d. The proposed award over the small purchase threshold is to be awarded to other than the apparent low bidder under a sealed bid procurement
    e. A proposed contract modification changes the scope of a contract or increases the contract amount by more than the amount of the small purchase threshold.
4. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action.
5. Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:
    a. Basis for contractor selection.
    b. Justification for lack of competition when competitive bids or offers are not obtained.
    c. Basis for award cost or price.

6. Recipients of federal awards shall establish written procurement procedures. These procedures shall provide for, at a minimum, that:
   a. Recipients avoid purchasing unnecessary items.
   b. Where appropriate, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the federal government.
   c. Solicitations for goods and services provide for all of the following:
      i. A clear and accurate description of the technical requirements for the material, product or service to be produced. In competitive procurements, such a description shall not contain features which unduly restrict competition.
      ii. Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids and proposals.
      iii. A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.
      iv. The specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation.
      v. The acceptance, to the extent practicable and economically feasible, of products and services dimensioned in the metric system of measurement.
      vi. Preference, to the extent practicable and economically feasible, for products and services that conserve natural resources and protect the environment and are energy efficient.

<u>Condition:</u>

CHRISTUS Health did not perform the necessary procurement procedures as identified above. For the Special Supplemental Nutritional Program for Women, Infants, and Children, CHRISTUS Health's written procurement policies do not contain the minimum requirements of OMB Circular A-110.

<u>Questioned costs:</u>

None

Context:

Based on inquiry of management and observation, it was noted that for the Special Supplemental Nutritional Program for Women, Infants, and Children, the written procurement policies do not contain the minimum requirements of OMB Circular A-110.

Effect:

CHRISTUS Health is not in compliance with specific federal regulations related to procurements to ensure compliance with OMB Circular A-110 requirements identified above.

Cause:

CHRISTUS Health lacked sufficient/adequate procedures and controls related to procurements.

Recommendation:

CHRISTUS Health should review the appropriate OMB Circular A-110 federal requirements related to procurements and should establish procedures and controls to ensure compliance with the federal requirements.

Views of responsible officials and planned corrective actions:

See corrective action plan for 08-2

Status at June 30, 2010: See responses for ***Finding 08-2*** above and ***Finding 09-1*** below.

Finding 08-4

State program information:

State Awarding Agency: The Texas Higher Education Coordinating Board

State Award Title: Family Practice Residency Program

Criteria or specific requirement:

Section _.400 (d) of the State of Texas Uniform Grant and Contract Management Standards Act of 1981, Part IV specifies that pass-through entities perform the following activities:

(1) Identify state awards made by informing each sub recipient of the state program name and state program number (if a number is used), CFDA title and number (if used to identify the state program), other relevant identifier, award name and number, award year and name of state agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the state award.

(2) Advise sub recipients of requirements imposed on them by state laws, regulations, and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity. The requirements shall either be stated in the contracts or grant agreements, or be included by specific reference in the contracts or grant agreements.

(3) Monitor the activities of sub recipients as necessary to ensure that state awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that sub recipients expending $500,000 (for fiscal years ending after December 31, 2003) or more in state awards during the sub recipient's fiscal year have met the audit.

(5) Issue a management decision on audit findings within six months after receipt of the sub recipient's audit report and ensure that the sub recipient takes appropriate and timely corrective action.

(6) Consider whether sub recipient audits necessitate adjustment of the pass-through entity's own records.

(7) Require each sub recipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this audit circular.

(8) When state awards are made with federal awards to a sub recipient, as required match, inform the sub recipient of the proportion of federal and state funds disbursed to the sub recipient to facilitate the sub recipient's separate calculations of expenditures of federal awards and state awards for its fiscal year.

(9) When state awards are made to a sub recipient to supplement federal awards, the state awards are not used to meet a federal matching requirement, and requirements of the state award differ from the requirements of the federal award (e.g., different activities are allowed or disallowed, or different allowable costs or cost principles are used), the pass through entity shall also provide information as to the amount of each award to the recipient at the time the award is made to facilitate the sub recipient's accounting for and compliance with the requirements of each award during the term of such award.

(10) Identify, at the time of award, any state awards made which are part of a state cluster of programs.

Condition:

CHRISTUS St. Michael entered into an agreement dated January 15, 2008, with the Texas Higher Education Coordinating Board (the Board) to aid in the operation and maintenance of a family medicine residency program in Texas for the state year ending August 31, 2008. The funds for this program were provided by the Board directly to the Arkansas Health Education Centers (AHEC) for administration of the program. None of the pass-through entity responsibilities required under Section _.400 (d) of the State of Texas Uniform Grant and Contract Management Standards Act of 1981, Part IV were performed. This grant was initially received by CHRISTUS St. Michael in 1996.

Questioned costs:

None.

Context:

CHRISTUS St. Michael entered into an agreement dated January 15, 2008 with the Texas Higher Education Coordinating Board (the Board) to aid in the operation and maintenance of a family medicine residency program in Texas. The funds for this program were provided by the Board directly to the Arkansas Health Education Centers (AHEC) for administration of the program. However, given that the agreement for the program was between CHRISTUS St. Michael and the Board, we inquired of management as to the performance of the pass-through entity responsibilities described in Section _.400 (d) of the State of Texas Uniform Grant and Contract Management Standards Act of 1981, Part IV. We were advised that while CHRISTUS St.

Michael had entered into an affiliation agreement with AHEC for the performance of certain activities related to the family medicine residency program; this agreement did not specifically communicate to AHEC or otherwise require compliance with the requirements mandated by the agreement between CHRISTUS St. Michael and the Board. Additionally, there was no monitoring performed during the period by CHRISTUS St. Michael of AHEC and their compliance with the requirements of the agreement. No controls were identified by management to monitor their compliance with the pass-through entity responsibilities of Section _.400 (d) of the State of Texas Uniform Grant and Contract Management Standards Act of 1981, Part IV.

Effect:

CHRISTUS St. Michael did not appropriately perform the pass-through entity responsibilities required under Section _.400 (d) of the State of Texas Uniform Grant and Contract Management Standards Act of 1981, Part IV.

Cause:

CHRISTUS St. Michael did not have adequate control procedures in place to monitor the pass-through awards for the Family Practice Residency Program provided to AHEC and ensure that these procedures are adequately performed throughout the year.

Recommendation:

CHRISTUS St. Michael should establish control procedures to monitor the pass-through awards for the Family Practice Residency Program provided to AHEC and ensure that these procedures are adequately performed throughout the year.

Views of responsible officials and planned corrective actions:

CHRISTUS St. Michael will develop control procedures to monitor the pass-through awards received from THECB for the Texarkana-CHRISTUS St Michael Hospital Family Medicine Residency Program (FMRP). CHRISTUS St. Michael has designated Area Health Education Centers (AHEC) to run the program providing education for FMRP. AHEC has run the program and has met the reporting requirements to THECB. The Affiliation Agreement between CHRISTUS St. Michael and AHEC will be amended to include the requirements for sub recipients under Section _.400 (d) of the State of Texas Uniform Grant and Contract Management Standards Act of 1981, Part IV. CHRISTUS St. Michael's control procedures will include the guidelines for monitoring the work performed by AHEC and for distribution of the grant funds to AHEC. CHRISTUS St. Michael has made arrangements for the funds from THECB to flow to CHRISTUS St. Michael. The Vice President of Medical Affairs will then distribute to AHEC upon receipt of documentation supporting the expenditures for the program. The Vice President of Medical Affairs will immediately begin oversight review of the required reports to THECB for the grant.

Status at June 30, 2010: The Affiliation Agreement between CHRISTUS St Michael and AHEC was amended to include the requirements of sub-recipients under Section_.400 (d) of the State of Texas Uniform Grant and Contract Management Standards Act of 1981, Part IV effective October 14, 2008. The Vice President of Medical Affairs is responsible for reviewing and approving all reimbursements to AHEC for expenditures to ensure they are allowable. The Vice President of Medical Affairs also reviews and approves the reports to THECB prior to submission. Additionally, CHRISTUS Health is also actively monitoring the A-133 and state reporting requirements of AHEC.

Based upon improvements implemented, this finding is considered resolved.

Finding No. 09-1

Federal program information:

Federal awarding agency: United States Department of Health and Human Services

Federal award title: National Bioterrorism Hospital Preparedness Program ("Bioterrorism

Program")

CFDA No.: 93.889

Award Year: 2008 - 2009

Pass-through Organizations: Louisiana Hospital Association; East Texas Gulf Coast Regional Trauma Advisory Council – Area R; Northeast Texas Regional Advisory Council – Trauma Services; Southeast Texas Trauma Regional Advisory Council – Area Q; Coastal Bend Regional Advisory Council – Area U; Southwest Texas Regional Advisory Council

Federal awarding agency: United States Department of Agriculture

Federal award title: Special Supplemental Nutrition Program for Women, Infants, and Children ("WIC")

CFDA No.: 10.557

Award Year: 2007 – 2008; 2008 – 2009

Pass-through Organization: Texas Department of State Health Services

Criteria or specific requirement (including statutory, regulatory, or other citation):

OMB Circular A-110 Sections .40 through .48 state that the grant recipient shall perform certain procurement procedures including:

1. All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.
2. Ensure that small businesses, minority-owned firms, and women's business enterprises are used to the fullest extent practicable.
3. Recipients shall, on request, make available for the federal awarding agency, pre-award review and procurement documents, such as request for proposals or invitations for bids, independent cost estimates, etc., when (among other things) the following has occurred:
   a. The procurement is expected to exceed the small purchase threshold fixed at 41 U.S.C. 403 (11) ($25,000) and is to be awarded without competition or only one bid or offer is received in response to a solicitation.
   b. The procurement, which is expected to exceed the small purchase threshold, specifies a "brand name" product.
   c. The proposed award over the small purchase threshold is to be awarded to other than the apparent low bidder under a sealed bid procurement.
   d. A proposed contract modification changes the scope of a contract or increases the contract amount by more than the amount of the small purchase threshold.
4. Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action.
5. Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:
   a. Basis for contractor selection.
   b. Justification for lack of competition when competitive bids or offers are not obtained.
   c. Basis for award cost or price.

6. Recipients of federal awards shall establish written procurement procedures. These procedures shall provide for, at a minimum, that:
   a. Recipients avoid purchasing unnecessary items.
   b. Where appropriate, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the federal government.
   c. Solicitations for goods and services provide for all of the following:
      i. A clear and accurate description of the technical requirements for the material, product, or service to be produced. In competitive procurements, such a description shall not contain features which unduly restrict competition.
      ii. Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids and proposals.
      iii. A description, whenever practicable, of technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards.
      iv. The specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation.
      v. The acceptance, to the extent practicable and economically feasible, of products and services dimensioned in the metric system of measurement.
      vi. Preference, to the extent practicable and economically feasible, for products and services that conserve natural resources and protect the environment and are energy efficient.

Condition:

CHRISTUS Health implemented a new procurement policy during the current fiscal year that is in compliance with the requirements of OMB Circular A-110; however, the policies in place prior to adoption of this new procurement policy do not contain the minimum requirements of OMB Circular A-110. The new policy was adopted on November 1, 2008.

Questioned costs:

None

Context:

Based on inquiry of management and observation, it was noted that for the Bioterrorism and WIC programs, the written procurement policies in place during a portion of the fiscal year (July 1, 2008 to October 31, 2008) do not contain the minimum requirements of OMB Circular A-110.

Effect:

CHRISTUS Health was not in compliance with specific federal regulations related to

procurements to ensure compliance with OMB Circular A-110 requirements identified above.

Cause:

CHRISTUS Health lacked sufficient/adequate procedures related to procurements.

Recommendation:

As the new procurement policy, implemented on November 1, 2008, is in compliance with OMB Circular A-110, no further action is required by CHRISTUS.

Views of responsible officials and planned corrective actions:

Management Directive 49 (MD0049) – Reporting Requirements for Government Grants was updated during FY08 to include all requirements for reporting of expenditures in the proper period. Corporate personnel responsible for monitoring and reporting of government grants conducted formal education programs for the operational and accounting personnel responsible for administering and recording government grants in the regions in FY08 and FY09. During FY09, CHRISTUS Health's Material Management lead team implemented a system wide government grant purchasing policy, PUR2101. Regions have accepted and implemented this policy or their own policy, which parallels the guidelines as detailed. Corporate Grant Accountant and Regional Grant Coordinator will work with Material Management to deliver education to purchasing staff and grant contacts to ensure continued adherence to the policy.

Status at June 30, 2010:

Corrective action has been completed via the adoption of new management directives and policies stated above. These policies have been in effect during the entirety of the current fiscal year (FY 2010). Education sessions have also been provided to all effected personnel regarding the directives and policies are now in place to reinforce continued compliance. We consider this issue to be resolved.

Finding No. 09-2

Federal program information:

Federal awarding agency: United States Department of Health and Human Services

Federal award title: National Bioterrorism Hospital Preparedness Program

CFDA No.: 93.889

Award Year: 2008 - 2009

Pass-through Organizations: Louisiana Hospital Association; East Texas Gulf Coast Regional Trauma Advisory Council – Area R; Northeast Texas Regional Advisory Council – Trauma Services; Southeast Texas Trauma Regional Advisory Council – Area Q; Coastal Bend Regional Advisory Council – Area U; Southwest Texas Regional Advisory Council Criteria or specific requirement (including statutory, regulatory, or other citation): OMB Circular A-110 section .34 states:

(f) The recipient's property management standards for equipment acquired with federal funds and federally owned equipment shall include all of the following:

(1) Equipment records shall be maintained accurately and shall include the following information:

(i) A description of the equipment.

(ii) Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.

(iii) Source of the equipment, including the award number.

(iv) Whether title vests in the recipient or the federal government.

(v) Acquisition date (or date received, if the equipment was furnished by the federal government) and cost.

(vi) Information from which one can calculate the percentage of federal participation in the cost of the equipment (not applicable to equipment furnished by the federal government).

(vii) Location and condition of the equipment and the date the information was reported.

(viii) Unit acquisition cost.

(ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share.

(2) Equipment owned by the federal government shall be identified to indicate federal ownership.

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

(4) A control system shall be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the federal government, the recipient shall promptly notify the federal awarding agency.

(5) Adequate maintenance procedures shall be implemented to keep the equipment in good condition.

(6) Where the recipient is authorized or required to sell the equipment, proper sales procedures shall be established which provide for competition to the extent practicable and result in the highest possible return.

Condition:

Equipment records did not adequately reflect all required information per OMB Circular A-110.

Questioned costs:

None

Context:

In order to physically inspect and observe the condition and safeguarding of assets, EY selected a sample of equipment identified as being acquired with federal awards from this program from the property records representing various regions of CHRISTUS Health. Two of the eight items selected were for disposables and could not be physically located.

Effect:

CHRISTUS Health is not in compliance with equipment management compliance requirements defined in OMB Circular A-110 consistently throughout all regions.

Cause:

CHRISTUS Health personnel did not properly update the equipment listing to reflect the documentation requirements related to equipment and real property management per OMB Circular A-110.

Recommendation:

Management should implement policies and procedures to ensure records throughout

CHRISTUS Health contains information in accordance with the federal equipment management requirements. This listing should incorporate all equipment and real property purchased with grant funds, as well as all equipment and real property donated by a federal source. Management should also ensure that the appropriate capitalization policies are being followed.

Views of responsible officials and planned corrective actions:

During FY08 CHRISTUS Health Corporate Accounting revised the MD0049 and the Grant Tracking documents to include the required information of OMB Circular A-110. The Directive expressly states both purchased and donated capital will be included in the reporting. The Capital Tracking form is the tool to capture the information and carry this information forward year after year. Corporate accounting will provide education to the grant contacts to reinforce the understanding of the capitalization policy of the system. Corporate Accounting will also provide additional education to reinforce inclusion of the donated capital. Corporate Accounting will inform the regional staff to review the capital listing annually for appropriateness. Corporate

Accounting will perform a secondary annual review of all items included in the capital-tracking file year after year for appropriate presentation. In addition, Corporate has scheduled site visits during FYE 6-30-2010 to Spohn, Santa Rosa, St. Elizabeth, and NOLA to follow up on grant tracking including equipment.

<u>Status at June 30, 2010:</u>

Corrective action has been completed via the adoption of new management directives and policies stated above. These policies have been in effect during the entirety of the current fiscal year (FY 2010). Education sessions have also been provided to all effected personnel regarding the directives and policies are now in place to reinforce continued compliance. See also status of ***Finding 09-4*** for additional procedures instituted regarding fixed asset tracking and reporting. We consider this issue to be resolved.

Finding No. 09-3

<u>Federal program information:</u>

<u>Federal awarding agency:</u> United States Department of Homeland Security

<u>Federal award title</u>: Disaster Grants – Public Assistance: Hurricane Ike Emergency Protective Measures (Texas)

<u>CFDA No.</u>: 93.036

<u>Award Year:</u> 2008

<u>Pass-through Organization:</u> Texas Department of Public Safety

<u>Location:</u> St. John's Hospital (Gulf Coast Region)

<u>Criteria or specific requirement:</u>

A cost is allowable under an award if the cost meets the following requirements:

1. Be reasonable for the performance of the award and be allocable in accordance with Title 44 CFR 206.228.
2. Conform to any limitations or exclusions set for in Title 44 CFR 206.228 or in the award.

3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.
4. Be accorded consistent treatment.
5. Be determined in accordance with generally accepted accounting principles.
6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
7. Be adequately documented.
8. Be net of all applicable credits.

Per 44 CFR 206.228 (2) *Force Account Labor Cost.* The straight- or regular-time salaries and benefits of a sub grantee's permanently employed personnel are not eligible in calculating the cost of eligible work under sections 403 and 407 of the Stafford Act, 42 U.S.C. 5170b and 5173. For the performance of eligible permanent restoration under section 406 of the Staford Act, 42 U.S.C. 5172, straight-time salaries and benefits of a sub grantee's permanently employed personnel are eligible.

Condition:

St. John did not appropriately capture its payroll related expenditures relating to disaster recovery. The facility utilized a spreadsheet provided by Murer Consultants, Inc., CHRISTUS Health's third-party consultants hired to oversee the Program reimbursement process.

Questioned Costs:

$7,000

Context:

During our testing of Forced Account Labor for St. John's Hospital (Gulf Coast Region), we selected 8 employees and pay dates per the Labor submission form and reviewed employee timecards for reasonableness of the hours submitted. In addition, we obtained the payroll register for the specific pay period and employee applicable to the date selected. We utilized this payroll register to re-calculate the pay rate per hour. It was noted the pay rate for several expenditures did not match the pay rate per the payroll register. Upon further investigation of these differences, we noted St. John was incorrectly recording the pay rate in the worksheet submitted to the program. On September 28, 2008, St. John had a merit increase of 3% in its pay rate per employee. However, when St. John populated the *Forced Account Labor* submission form, the facility utilized the new pay rate for all labor costs submitted to the program. It is noted that there were labor costs before September 28, 2008, and as such, the facility had overstated expenses submitted to the program. We performed a re-calculation for the St. John's population tested based on correct rates noting a total overstatement of $7,000.

Effect:

The schedule of expenditures of federal and state awards and expenditures recommended for reimbursement are incorrect.

Recommendation:

CHRISTUS Health should implement additional procedures and internal controls to ensure that allowable expenditures are captured correctly.

Views of responsible officials and planned corrective actions:

CHRISTUS Health Corporate Accounting will provide education to all regions regarding the submission of payroll documentation for Federal assistance. The regions will be required to incorporate additional verification measures for all computations prepared by outsourced vendors. Regional staff with knowledge of the computations involved will perform a secondary review to validate the prepared submission for accuracy. Specifically, when payroll is involved, the facilities actual payroll preparers will be responsible for validating the final product that will be submitted for reimbursement.

Status at June 30, 2010:

Corrective action regarding the questioned cost of $7,000 has been initiated with representatives of the Texas Department of Public Safety that are responsible for CHRISTUS Health's claim. As only 90% of CHRISTUS Health's overall federally declared disaster claim with the agency has been paid, the questioned costs noted above will be offset against the 10% that has currently been withheld pending final close-out and review by the agency. Corrective action regarding internal control has also been completed by providing the training described above. However, CHRISTUS Health's use of outsourced vendors has been limited to claims resulting from federally declared disasters such as hurricane Ike. Therefore, implementation of additional controls will not be fully completed and operational until the services of an outsourced vendor are once again required.

Finding No. 09-4

Federal program information:

Federal awarding agency: United States Department of Health and Human Services

Federal award title: Healthcare and Other Facilities

CFDA No.: 93.887

Award Year: 2008 – 2009

Criteria or specific requirement (including statutory, regulatory, or other citation):

OMB Circular A-110 section .34 states:

(f) The recipient's property management standards for equipment acquired with federal funds and federally owned equipment shall include all of the following.

(1) Equipment records shall be maintained accurately and shall include the following information:

(i.) A description of equipment.

(ii.) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.

(iii.) Source of the equipment, including the award number.

(iv.) Whether title vests in the recipient or the Federal Government.

(v.) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.

(vi.) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).

(vii.) Location and condition of the equipment and the date the information was reported.

(viii.)Unit acquisition cost.

(ix.) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

(2) Equipment owned by the federal government shall be identified to indicate federal ownership.

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

(4) A control system shall be in effect to ensure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the federal government, the recipient shall promptly notify the federal awarding agency.

(5) Adequate maintenance procedures shall be implemented to keep the equipment in good condition.

(6) Where the recipient is authorized or required to sell the equipment, proper sales procedures shall be established which provide for competition to the extent practicable and result in the highest possible return.

Condition:

A physical inventory or equivalent was not taken at least once every two years for the Santa Rosa location as required per OMB Circular A-110.

Questioned costs:

None

Context:

We obtained a listing of the capital assets, including Santa Rosa and St. Vincent locations, noting the Pediatric Cardiac Cath Lab was not listed on the Santa Rosa detail, although this asset was identified as Health Resources and Services Administration asset in the fixed asset module of the general ledger. Backup documentation for this asset was retained to fulfill the property records requirements per OMB Circular A-110. We noted that no physical observation had been taken on this asset since the acquisition date of January 2006. As such, a physical observation was not taken at least once every two years per OMB Circular A-110 requirements.

Effect:

CHRISTUS Health is not in compliance with equipment management compliance requirements defined in OMB Circular A-110 throughout all regions.

Cause:

CHRISTUS Health personnel did not perform an inventory observation at least once every two years per OMB Circular A-110.

Recommendation:

Management should implement policies and procedures to ensure physical inventory

observations throughout CHRISTUS Health are completed at least once every two years in accordance with the federal equipment management requirements.

Views of responsible officials and planned corrective actions:

During FY08 CHRISTUS Health Corporate Accounting revised the MD0049 and the Grant Tracking documents to include the required information of OMB Circular A-110. The Capital Tracking form is the tool to capture the information and carry this information forward year after year. The recorded assets are reconciled on the capital form on an ongoing process. Inventory information is included and accumulated as well. Corporate accounting will provide education to the grant contacts in each region to reinforce the understanding of the utility provided in the Grant Tracking document. Corporate Accounting annually sends an email reminder to alert the regional grant contacts of the impending due date. Corporate accounting will continue to review and alert the Regions of the requirement for compliance. Corporate accounting will provide an education webinar on October 19th for the Regional grant contacts on several topics including appropriate fixed asset reporting and the new required Grant Tracking document. The educational program will reinforce the understanding of the utility provided by an appropriately completed Grant Tracking document. In addition, Corporate has scheduled site visits during FYE 6-30-2010 to Spohn, Santa Rosa, St. Elizabeth, and NOLA as additional follow up on grant tracking.

Status at June 30, 2010:

Corrective action has taken place during FY 2010 by conducting additional training for all regional grant contacts via web cast as well as making site visits to our largest regions for personalized instruction. Locations visited are as described above and in addition included Central Louisiana and Ark-La-TX. Additionally, CHRISTUS Health has adopted a corporate policy that requires an annual inventory of all equipment acquired with federal funding. This inventory was conducted system-wide with a deadline of March 31, 2010. All regions completed the inventory and follow-up action was taken not only in the region but also with the appropriate agencies for any items that were missing, broken, or obsolete. All regional inventories were reviewed by corporate accounting to ensure the process had been completed and that follow-up action was underway. Corporate accounting was also present for observation and personalized guidance during the inventory process for 2 facilities within the Gulf Coast region. CHRISTUS Health continues to utilize the grant tracking tool as discussed in the corrective action narrative above. Training will continue to be conducted on a regular basis with those responsible for completing the tool at the regional level. This will help ensure continued compliance.

Finding No. 09-5

Federal program information:

Federal awarding agency: United States Department of Health and Human Services

Federal award title: Centers for Disease Control and Prevention Investigations and Technical Assistance

CFDA No.: 93.283

Award Years: 2006 – 2009

Pass-through Organization: Louisiana State University Agricultural and Mechanical College

Location: CHRISTUS Health Southwestern Louisiana

Federal awarding agency program: United States Department of Health and Human Services

Federal award title: Southwest Regional Tumor Registry Surveillance, Epidemiology & End Results

CFDA No.: 93.NCI-N01-PC

Award Years: 2007 – 2009

Pass-through Organization: Louisiana State University Agricultural and Mechanical College

Location: CHRISTUS Health Southwestern Louisiana

Criteria or specific requirement:

Recipients of federal awards are to maintain adequate controls over their books and records in order to prepare appropriate financial statements, including the schedule of expenditures of federal awards (OMB Circular A-133, Section .300(d)).

Condition:

CHRISTUS Health did not appropriately capture expenditures on the schedule of expenditures of federal and state awards. OMB Circular A-133 requires the recipient of federal awards to prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements, including in the schedule or a note to the schedule, the value of the federal awards expensed in the form of non-cash assistance.

Questioned costs:

None

Context:

Based our testing of the Schedule of Expenditures of Federal and State awards, two additional grants were identified that were not previously reported. The discovery occurred as a result of notices received by several regions informing them that the grant monies were subject to an audit under OMB Circular A-133. When this notice was received by the regions, the regional contacts informed the CHRISTUS Health Corporate Government Grant & Tax Reporting Department regarding expenditures relating to this grant. The federal grants were received as a pass-through from Louisiana State University Agricultural and Mechanical College and expenses incurred totaled $76,400. These grants were not identified and documented as a federal or state pass-through award on the preliminary schedule of federal and state awards prepared by management.

Effect:

The preliminary schedule of expenditures of federal and state awards was not correct.

Cause:

CHRISTUS Health personnel did not have adequate controls in place at the regional level to ensure the completeness of the schedule of expenditures of federal and state awards.

Recommendation:

CHRISTUS Health should implement additional procedures and internal controls at the regional level to ensure its schedule of expenditures of federal and state awards is prepared properly to include all federal expenditures.

Views of responsible officials and planned corrective actions:

Each region of CHRISTUS Health has developed revised internal control procedures to ensure the capture of all federal and state grant expenditures. The policies vary, but the necessary control is appropriately addressed. CHRISTUS Health Corporate Accounting will perform the necessary follow up to ensure the policies are actively in place and working.

Status at June 30, 2010:

Corrective action has taken place during FY 2010 at both the corporate and regional levels. Regional executives were required to institute a regional action plan (see attached summary of plans/status by region). In addition, corporate accounting instituted additional detect controls to identify any awards that may have been overlooked at the regional level, thus creating a multi-layer approach. Specifically, the following steps were taken at the corporate level:

1. Implemented a revised monthly grant tracking document/tool that must be completed by each region on a monthly basis in conjunction with the monthly close process. This document is then regularly reviewed by corporate-level grant personnel for evidence of new grants and contracts. Information in this tool is the primary evidence that supports amounts presented on the Schedule of Federal and State awards.

2. Upon the rollout of the revised tracking process, the Director of Grant and Tax Reporting conducted a live web cast to explain the template and reinforce the importance of accurate tracking of each federal and state award.
3. An external consultant was engaged to assist the corporate grant management team with improving controls over the grants compliance/monitoring process. The consultant has been available to assist with training of regional personnel and other duties at the discretion of the Director of Grant and Tax Reporting.
4. On-site training has been provided to the regions whose control environments triggered the noted findings in both FY 2008 and FY 2009 as well as other significant regions within CHRISTUS Health. These training sessions were provided not only to finance personnel responsible for grant tracking, but also to department directors throughout the individual region. Broad based education including clinical, philanthropy, and community outreach is key because CHRISTUS Health currently allows any department to initiate a grant application.
5. Additional focus in every region was placed on research and development awards.
    a. The system grant management team met with representatives of each region to determine potential exposure areas which included clinical research trials in oncology, diabetes, and cardiology.
    b. For regions with a contract management system in place a targeted review was conducted by system-level personnel searching for any arrangements with organizations which could have federal or state sourced funding (e.g. universities; foundations; federal, state or local agencies; other not-for-profit healthcare organizations, etc.).
        i. In addition to the contract reviews, inquires were also performed of the following directors to ensure that all potential governmental funding had been considered:
            1. Foundation directors
            2. Directors of Philanthropy
            3. IRB (Institutional review board) directors or region representatives
            4. Director of Oncology/Cancer Center
            5. Directors of Diabetes management
            6. Director of Cardiology (Note: in some cases the director of post-acute services was consulted as they manage multiple critical departments)

ii. Modifications were made to the contract management system to enable a coding feature that identifies when executed contracts are funded from governmental sources. In the future this "checkbox" feature will streamline the query process utilized to ensure that all applicable grants and contracts have been captured and are being monitored appropriately by their respective originating departments. Education was then provided to those responsible for entering contracts into the contract monitoring system to ensure they were familiar with the purpose of the tool and understood the importance of appropriately identifying these types of contracts and arrangements.

c. For regions without an electronic contract storage warehouse, corporate personnel performed the following:

   i. Met with regional executives to inform them of the types of arrangements that could be from a federal or state source

   ii. Based on the meeting with regional executives, met further with key clinical personnel involved in the pursuit of external funding:

      1. Foundation directors
      2. Directors of Philanthropy
      3. IRB (Institutional Review Board) directors and/or region representatives
      4. Directors of Oncology/Cancer Centers
      5. Directors of Diabetes management
      6. Director of Cardiology

   iii. Met with the regional "keeper of contracts" (e.g. A/P personnel, CEO/CFO assistant, etc.) and reviewed a log of current contracts along with a drawer of recently executed contracts not yet logged. The log contained parties to the agreement. Based on party name, actual contracts were obtained to review nature of agreements and potential governmental source funding.

   iv. Performed a detailed review of other revenue per the general ledger for the region for evidence of additional governmental grant/contract revenue.

d. Follow-up action on each identified contract has been taken. Awards determined to be from a federal/state source are appropriately identified on the monthly grant tracking tool and therefore included on the Schedule of Federal and State Awards.

6. Several regions have instituted a grant management committee which will identify all applications in process regardless of initiating department. Regional finance team members sit on this committee as well as the Corporate Director of Grant and Tax reporting.
7. A CHRISTUS Health System-wide grant management committee is also being currently developed. This committee is composed of senior leadership as well as representatives from the grant management group and the grant development group.
8. System-wide training has been developed through CHRISTUS Health's web-based educational software and will be deployed in the fall of 2010. This training will be required for all associates at the director level and above and must be taken by November 15, 2010. The training describes the A-133 audit process, why it is important to CHRISTUS Health, what constitutes an award that is subject to A-133, and what an associate should do if they are aware of an award.

Reports on Federal and State Award Programs

CHRISTUS Health
Year Ended June 30, 2010

Ernst & Young LLP

ERNST & YOUNG

1006-1165233

CHRISTUS Health

Reports on Federal and State Award Programs

Year Ended June 30, 2010

Contents

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
CHRISTUS Health

We have audited the financial statements of CHRISTUS Health as of and for the year ended June 30, 2010, and have issued our report thereon dated October 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CHRISTUS Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHRISTUS Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CHRISTUS Health's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether CHRISTUS Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

* * * * *

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 8, 2010

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Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133, and State of Texas Uniform Grant and Contract Management Standards Act of 1981, and on Schedule of Expenditures of Federal and State Awards

The Board of Directors of
CHRISTUS Health

Compliance

We have audited CHRISTUS Health's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs and the types of compliance requirements described in the State of Texas Uniform Grant and Contract Management Standards Act of 1981 (UGCMS) that could have a direct and material effect on its major state program for the year ended June 30, 2010. CHRISTUS Health's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of CHRISTUS Health's management. Our responsibility is to express an opinion on CHRISTUS Health's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and UGCMS. Those standards, OMB Circular A-133, and the UGCMS require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about CHRISTUS Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of CHRISTUS Health's compliance with those requirements.

In our opinion, CHRISTUS Health complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended June 30, 2010.

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Internal control over compliance

Management of CHRISTUS Health is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered CHRISTUS Health's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CHRISTUS Health's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal and State Awards

We have audited the consolidated financial statements of CHRISTUS Health as of and for the year ended June 30, 2010, and have issued our report thereon dated October 8, 2010. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133, the Louisiana Hospital Association Policy Number 3105-96, and the UGCMS and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

* * * * *

Ernst & Young

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

October 27, 2010

Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2010

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS				
U.S. Department of Agriculture:				
Indirect Awards:				
Pass-through the Texas Department of State Health Services:			32-0113643	
Special Supplemental Nutrition Program for Women, Infants, and Children	CHRISTUS Santa Rosa Health Care	10.557		$ 1,026,205
Total U.S. Department of Agriculture				1,026,205
U.S. Department of Energy:				
Direct Awards:				
Epidemiology and Other Health Studies Financial Assistance Program – Marshall Islands Medical Care and Logistics Program	CHRISTUS Spohn Health System	81.108		4,254,266
Total U.S. Department of Energy				4,254,266
U.S. Department of Health and Human Services:				
Direct Awards:				
Residency Training in Primary Care	CHRISTUS St. Vincent Regional Medical Center	93.884		108,986
Total Residency Training in Primary Care				108,986
Health Care and Other Facilities	CHRISTUS Santa Rosa Health Care	93.887		240,169
Health Care and Other Facilities	CHRISTUS Health Central Louisiana	93.887		12,597
Total Health Care and Other Facilities				252,766
Direct Awards total				361,752

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
Indirect Awards:				
Pass-through the Louisiana Department of Health & Hospitals:			72-141303400	
State Rural Hospital Flexibility Program	CHRISTUS Health Central Louisiana	93.241		$ 1,000
Total State Rural Hospital Flexibility Program				1,000
Pass-through Texas Department of State Health Services:			32-0113643	
Centers for Disease Control and Prevention Investigations and Technical Assistance	CHRISTUS Health Ark-La-Tex	93.283		24,801
Total Centers for Disease Control and Prevention Investigations and Technical Assistance				24,801
Pass-through Louisiana Department of Health & Hospitals:			72-141303400	
Small Rural Hospital Improvement Grant Program	CHRISTUS Health Central Louisiana	93.301		8,124
Total Small Rural Hospital Improvement Grant Program				8,124

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
U.S. Department of Health and Human Services – National Bioterrorism Hospital Preparedness Program:				
Indirect Awards:				
Pass-through Louisiana Hospital Association:			72-0489377	
National Bioterrorism Hospital Preparedness Program	Dubuis Health System	93.889		$ 4,536
Pass-through the East Texas Gulf Coast Regional Trauma Advisory Council – Area R:			72-0620280	
National Bioterrorism Hospital Preparedness Program	Dubuis Health System	93.889		47,771
Subtotal Dubuis Health System – National Bioterrorism Hospital Preparedness Program				52,307
Pass-through the Northeast Texas Regional Advisory Council – Trauma Services:			75-2553157	
National Bioterrorism Hospital Preparedness Program	CHRISTUS Health Ark-La-Tex	93.889		2,113
Pass-through the East Texas Gulf Coast Regional Trauma Advisory Council – Trauma Service Area R:			72-0620280	
National Bioterrorism Hospital Preparedness Program	CHRISTUS Health Southeast Texas	93.889		524,983
Pass-through the Southeast Texas Trauma Regional Advisory Council – Area Q:			76-0591592	
National Bioterrorism Hospital Preparedness Program	CHRISTUS Health Gulf Coast	93.889		39,770

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
Pass-through the Louisiana Hospital Association:			72-0489377	
National Bioterrorism Hospital Preparedness Program	CHRISTUS Health Central Louisiana	93.889		$ 192,861
Less: Amounts passed through to subrecipients				(32,644)
				160,217
National Bioterrorism Hospital Preparedness Program	CHRISTUS Health Southwestern Louisiana	93.889		56,866
National Bioterrorism Hospital Preparedness Program	CHRISTUS Health Northern Louisiana	93.889		99,814
Pass-through the Coastal Bend Regional Advisory Council – Area U:			74-2681638	
National Bioterrorism Hospital Preparedness Program	CHRISTUS Spohn Health System	93.889		3,750
Pass-through the State of New Mexico:			85-600565	
National Bioterrorism Hospital Preparedness Program	CHRISTUS St. Vincent Regional Medical Center	93.889		43,583
Pass-through the Southwest Texas Regional Advisory Council:			74-2896432	
National Bioterrorism Hospital Preparedness Program	CHRISTUS Santa Rosa Health Care	93.889		10,657
Total National Bioterrorism Hospital Preparedness Program				994,060

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
Pass-through the University of Texas Health Science Center at San Antonio:			74-1586031	
Maternal and Child Health Services Block Grant to the States	CHRISTUS Santa Rosa Health Care	93.994		$ 20,000
Total Maternal and Child Health Services Block Grant to the States				20,000
Research and Development Cluster:				
U.S. Department of Health and Human Services – National Institute of Health:				
Pass-through Southwest Oncology Group:			38-6006309	
Cancer Treatment Research	CHRISTUS Health Northern Louisiana	93.395		13,100
Pass-through the Gynecological Oncology Group:			03-0466352	
Cancer Treatment Research	CHRISTUS Health Northern Louisiana	93.395		15,280
Total Cancer Treatment Research				28,380
Pass-through NASBP, Inc. National Surgical Adjuvant Breast and Bowel Project:			25-1781357	
Cancer Control	CHRISTUS Health Northern Louisiana	93.399		1,000
Pass-through MD Anderson:			72-6001118	
Cancer Control	CHRISTUS Health Central Louisiana	93.399		6,000
Total Cancer Control				7,000

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
FEDERAL AWARDS (continued)				
Total U.S. Department of Health and Human Services – National Institute of Health:				$ 35,380
U.S. Department of Health and Human Services – National Cancer Institute:				
Pass-through Louisiana State University:			72-6000848	
Southwestern Regional Tumor Registry	CHRISTUS Health Southwestern Louisiana	93.SPH-E09S-AK-150		918
Southwestern Regional Tumor Registry	CHRISTUS Health Southwestern Louisiana	93.SPH-E10S-AK-139		1,088
Southwestern Regional Tumor Registry	CHRISTUS Health Southwestern Louisiana	93.SPH-E10S-BG-113		61,498
Total U.S. Department of Health and Human Services – National Cancer Institute:				63,504
Total Research and Development Cluster:				98,884
Total U.S. Department of Health and Human Services				1,508,621
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 6,789,092

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
STATE AWARDS				
Louisiana				
State of Louisiana Department of Health and Hospitals:				
Children's Health Insurance Program (CHIP)	CHRISTUS Health Central Louisiana	DHH# 053576 CFMS# 676824		$ 100,000
Children's Health Insurance Program (CHIP) – Medical Vendor Administration	CHRISTUS Health Northern Louisiana	DHH #053578 CFMS#676826		50,000
Injury Prevention	CHRISTUS Health Central Louisiana	DHH# 048675 CFMS# 652179		65,041
School-Based Health Centers:				
State of Louisiana Department of Health and Hospitals:	CHRISTUS Health Central Louisiana			
Pollock School-Based Health Center		DHH# 053994 CFMS#682135		48,649
Northwood School-Based Health Center		DHH# 053993 CFMS# 682134		132,407
Grant School-Based Health Center Dry Prong Jr. High School		DHH# 053983 CFMS# 682125		128,663
Tioga Jr. High School-Based Health Center		DHH# 053995 CFMS# 682136		125,730
Glenmora School-Based Health Center		DHH# 053986 CFMS# 682126		129,855
Buckeye School-Based Health Center		DHH# 053982 CFMS# 682124		124,486
Natchitoches Central School-Based Health Center		DHH# 053992 CFMS# 682133		126,199

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
STATE AWARDS (continued)				
Tioga Sr. High School-Based Health Center		DHH# 053996 CFMS# 682137		$ 131,591
Leslie Moore & Pineville School-Based Health Center		DHH# 053989 CFMS# 682129		138,844
Mansure Avoyelles Charter Schools – School-Based Health Center		DHH# 053990 CFMS# 682988		147,105
LaSalle – School-Based Health Center		DHH# 053987 CFMS# 682127		139,941
Lakeview Jr./Sr. High School – School-Based Health Center		DHH# 053988 CFMS# 682128		106,932
Marthaville/Cloutierville School-Based Health Center		DHH# 053991 CFMS#682191		129,288
Total CHRISTUS Health Central Louisiana – School-Based Health Centers				1,609,690
State of Louisiana Department of Health and Hospitals:	CHRISTUS Health Northern Louisiana			
Woodlawn Planning Grant Adolescent School Health Program		DHH #053679 CFMS#680697		138,503
Adolescent School Health Program – CHRISTUS Schumpert Health System – Atkins Health Center		DHH #053677 CFMS#680695		142,875
Adolescent School Health Program – CHRISTUS Schumpert Health System – Linwood Health Center		DHH #053678 CFMS#680696		141,920
Total CHRISTUS Health Northern Louisiana – School-Based Health Centers				423,298

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
STATE AWARDS (continued)				
State of Louisiana Department of Health and Hospitals:	CHRISTUS Health Southwestern Louisiana			
School-Based Clinics – Cameron Parish Schools		DHH# 053915 CFMS # 682122		$ 140,811
School-Based Health Clinic – Washington Marion High School		DHH# 053755 CFMS #682115		143,064
School-Based Health Clinic – Clifton & Combre Fondel		DHH# 053753 CFMS # 682106		137,920
School-Based Health Clinic – Molo Middle School		DHH# 053754 CFMS # 682112		117,731
Total CHRISTUS Health Southwestern Louisiana – School-Based Health Centers				539,526
Total School-Based Health Centers				2,572,514
Pass-Through Louisiana State University Health Sciences Center:		SPH-E10S-BG-100		
Southwestern Regional Tumor Registry	CHRISTUS Health Southwestern Louisiana			45,127
Total expenditures of state awards – Louisiana				2,832,682
Texas				
Family Practice Residency Program:				
Direct Awards (Texas Higher Education Coordinating Board):				
Family Practice Residency Program Operational Grant	CHRISTUS Santa Rosa Health Care	THECB Contract #2241		37,500

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
STATE AWARDS (continued)				
Family Practice Residency Program Operational Grant	CHRISTUS Santa Rosa Health Care	THECB Contract #3514		$ 254,879
Family Practice Residency Program – Primary Care	CHRISTUS Health Ark-La-Tex	THECB Contract #1811		18,447
Family Practice Residency Program Operational Grant	CHRISTUS Health Ark-La-Tex	THECB Contract #3500		145,645
Family Practice Residency Program Operational Grant	CHRISTUS Spohn Health System	THECB Contract #3493		509,758
Family Medicine Resident's Rural Rotation	CHRISTUS Spohn Health System	THECB Various physicians		12,500
Total Family Practice Residency Program				978,729
Direct Awards (Texas Department of State Health Services):				
Texas Breast and Cervical Cancer Program	CHRISTUS Health Ark-La-Tex	Grant Contract# 2009-034519		12,381
CSR – Health Worker Contract	CHRISTUS Santa Rosa Health Care	Grant Contract# CCP0410,CPP0411,CPP412,CPP0413,CPP0430		47,651
Direct Awards (Office of Rural Community Affairs):				
Capital Improvement Loan Fund Program	CHRISTUS Health Southeast Texas	CILF09006		45,000

CHRISTUS Health

Schedule of Expenditures of Federal and State Awards (continued)

Federal Grantor/State Grantor/Pass-Through Grantor/Program or Cluster Title	Location	Federal CFDA Number/ State Contract Number	Pass-Through Entity Identifying Number	Expenditures
STATE AWARDS (continued)				
Total expenditures of state awards – Texas				$ 1,083,761
New Mexico				
Indirect Awards:				
Pass-through from University of New Mexico Health Sciences Center:			85-6000642	
Northern New Mexico Family Practice Residency Program	CHRISTUS St. Vincent Regional Medical Center	Contract #160378		100,853
TOTAL EXPENDITURES OF STATE AWARDS				4,017,296
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS				$ 10,806,388

See accompanying notes to schedule of expenditures of federal and state awards.

CHRISTUS Health

Notes to Schedule of Expenditures of Federal and State Awards

Year Ended June 30, 2010

1. Basis of Accounting

The schedule of expenditures of federal and state awards presents expenditures for all federal and state programs that were in effect during the year ended June 30, 2010.

Expenditures are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and *State of Texas Uniform Grant Management Standards.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

2. Nature of Activities

CHRISTUS Health receives various grants to cover costs of specified programs. Final determination of eligibility of costs will be made by the grantors. Should any costs be found ineligible, CHRISTUS Health will be responsible for reimbursing the grantors for these amounts.

The amounts reported for the expenditures incurred for the year ended June 30, 2010, for the National Bioterrorism Hospital Preparedness Program (CFDA Number 93.889) include donated equipment and supplies received by various regions from the respective pass-through entity. Additionally, expenditures incurred for this program may exceed the amounts awarded from the respective pass-through entity. The amounts reported on the schedule of expenditures of federal and state awards are limited to the award amounts. Amounts in excess of this amount are paid out of nonfederal sources.

3. Subrecipients

Of the state expenditures related to the Family Practice Residency Program, CHRISTUS Health provided $164,092 to subrecipients. Of the federal expenditures related to the Department of Energy Program, CHRISTUS Health provided $3,869,136 to subcontractors.

Amounts passed through to subrecipients related to the National Bioterrorism Hospital Preparedness Program are reflected as a reduction in expenditures on the schedule of expenditures of federal and state awards. The reduction represents certain bioterrorism assets donated to CHRISTUS Health by the Louisiana Hospital Association, which were then passed on to other organizations at the request of the Louisiana Hospital Association. The recipient organizations are responsible for all reporting and compliance requirements associated with the donated assets.

CHRISTUS Health

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

Part I – Summary of Auditor's Results

Financial statements section

Type of auditor's report issued:	Unqualified	
	Yes	**No**
Internal control over financial reporting:		
Material weakness(es) identified?		X
Significant deficiency(ies) identified?		None reported
Noncompliance material to financial statements noted?		X

Federal awards section	**Yes**	**No**
Internal control over major programs:		
Material weakness(es) identified?		X
Significant deficiency(ies) identified?		None reported
Type of auditor's report issued on compliance for major program:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?		X

CHRISTUS Health

Schedule of Findings and Questioned Costs (continued)

Part I – Summary of Auditor's Results (continued)

State awards section	**Yes**	**No**
Internal control over major programs:		
Material weakness(es) identified?		X
Significant deficiency(ies) identified?		X
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Part IV of the State of Texas Uniform Grant and Contract Management Standards Act of 1981?		X

CFDA Number(s)	**Name of Federal/State Program or Cluster**
Identification of major federal programs:	
81.108	Epidemiology and Other Health Studies Financial Assistance Program
93.884	Grants for Training in Primary Care Medicine and Dentistry
93.889	National Bioterrorism Hospital Preparedness Program

Part I – Summary of Auditor's Results (continued)

CFDA Number(s)	Name of Federal/State Program or Cluster	
Identification of major state programs:		
No CFDA	Texas Family Practice Residency Program	
Dollar threshold to distinguish between Type A and Type B programs	$300,000	
	Yes	**No**
Auditee qualified as low-risk auditee?		X

Part II – Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the consolidated financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No findings were noted.

Part III – Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 Section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

No findings were noted.

Part IV – State Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Section __.510(a) of the State of Texas Uniform Grant Management Standards, Part IV (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving state awards that are material to a major program.

No findings were noted.