

Financial Highlights

For Fiscal Years Ended June 30, 2009, and June 30, 2008 (\$ in thousands)

	June 30, 2009	June 30, 2008
Accounts receivable, net	\$ 448,987	\$ 455,398
Other current assets	343,143	350,549
Assets limited as to use or restricted, current and long-term	1,062,413	957,705
Property and equipment, net	2,081,749	2,022,986
Other assets	224,589	294,564
Total Assets	\$ 4,160,881	\$ 4,081,202
Long term debt, including current maturities	\$ 822,684	\$ 534,256
Other liabilities	1,220,159	1,148,482
Total liabilities	2,042,843	1,682,738
Total net assets	2,118,038	2,398,464
Total Liabilities and Net Assets	\$ 4,160,881	\$ 4,081,202
Operating Revenues:		
Net patient service revenues	\$ 3,181,187	\$ 3,004,441
Other operating revenues	726,020	743,364
Total operating revenues	\$ 3,907,207	\$ 3,747,805
Operating Expenses:		
Salaries and benefits	\$ 1,929,605	\$ 1,799,127
Supplies and other	1,469,861	1,468,285
Interest	5,835	3,910
Provision for doubtful accounts	234,034	202,656
Operating expenses before depreciation & amortization	\$ 3,639,335	\$ 3,473,978
Operating income before depreciation & amortization	\$ 267,872	\$ 273,827
Depreciation and amortization	243,458	218,927
Operating income	\$ 24,414	\$ 54,900

Mercy's Financial Performance

Mercy has a strong commitment to exhibit good stewardship over all of its resources. Mercy's financial strength enables us to carry out our mission of providing quality healthcare services, reinvest in its communities and respond to the needs of the most vulnerable in those communities. A clear strategic direction and a rigorous focus on accountability have contributed to our solid financial position over the years.

During FY 2009, Mercy continued to experience industry challenges, including escalating medical and pharmaceutical costs and increasing self-pay bad debts. Several facilities experienced a decline in discharges, while others had minimal growth. There was a downward trend in patient days consistent with Mercy's length of stay initiatives. Physician office visits and other outpatient visits (imaging, lab, etc.) increased, while emergency room visits decreased slightly.

Mercy's net patient service revenues increased 5.9% in 2009 as compared to 2008. The operating margin was 0.6% for FY 2009, compared to 1.5% for FY 2008. The decrease in operating margin is primarily due to an increase in the provision for uncollectible receivables and an increase in depreciation expense, which is heavily impacted by the implementation of an electronic health record system. Days in accounts receivable decreased from 52.0 days in FY 2008 to 48.8 days in FY 2009.

Mercy also experienced financial market challenges during FY 2009. Mercy experienced a loss of 12.8% on its investment portfolio, compared to a benchmark loss of 10.6%. Although Mercy's investment loss was worse than the benchmark, Mercy finished in the top 10% of its benchmark peers. Mercy's asset allocation by investment pool at June 30, 2009, is comprised of domestic

equities (31%), foreign equities (19%), fixed income (30%), alternative investments (2%), private equities (4%), and cash (14%).

In FY 2009, Mercy issued variable rate tax-exempt revenue bonds aggregating \$300 million with liquidity facilities in the form of standby bond purchase agreements with several banks. The proceeds from these bonds were used to fund certain capital projects. Mercy's average interest rate for total debt was 3.1% in FY 2009.

Mercy is committed to ensuring that our healthcare facilities will continue to meet the needs of the communities we serve. As such, the health ministry invested more than \$271 million during FY 2009 for facility replacements, renovations, expansions and information technology. Significant capital projects that were commenced and/or completed during FY 2009 include, but are not limited to, the construction of a data center, and patient towers in St. Louis, Missouri, and Ardmore, Oklahoma. Mercy also continued its focus on enhancing the facilities across Mercy serving specialties such as heart and orthopedics. In light of recent economic volatility experienced during FY 2009, Mercy deferred or suspended certain capital projects, as necessary, to manage the negative impact of the economy on Mercy's ability to fund such projects.

Summary of Audit

Ernst and Young LLP (E&Y) issued an unqualified audit opinion on the health system for the fiscal year ended June 30, 2009. There were no audit adjustments posted to the financial statements. E&Y concluded that accounting principles were consistently applied with prior years. E&Y encountered no serious difficulties in performing the audit and there were no disagreements with management.