KPMG

ASANTE HEALTH SYSTEM

Consolidated Financial Statements

September 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Asante Health System:

We have audited the accompanying consolidated balance sheets of Asante Health System (Asante) as of September 30, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Asante's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Asante Health System as of September 30, 2010 and 2009, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedules that accompany these financial statements are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position or results of operations of the individual companies. The consolidating schedules have been subjected to the auditing procedures applied in the audits 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.

KPMG LLP

December 10, 2010

ASANTE HEALTH SYSTEM

Consolidated Balance Sheets

September 30, 2010 and 2009

(In thousands)

Assets		**2010**	**2009**
Current assets:			
Cash and cash equivalents	$	17,411	59,916
Assets whose use is limited, current portion		3,885	2,820
Patient accounts receivable (less allowance for doubtful accounts of $4,986 and $9,183 in 2010 and 2009, respectively)		65,485	62,287
Accrued interest and other receivables		1,853	1,412
Inventories		4,040	3,204
Prepaid expenses		3,804	2,323
Total current assets		96,478	131,962
Assets whose use is limited:			
Collateral held by swap counterparty		—	7,138
Restricted by donors		4,001	4,060
Board-designated assets and assets held by trustees		35,887	16,651
		39,888	27,849
Less amount required to meet current obligations		3,885	2,820
		36,003	25,029
Property, plant, and equipment, net		235,949	246,464
Land held for future use		12,960	12,234
Marketable securities		355,060	249,739
Other assets, net		20,690	18,479
Total assets	$	757,140	683,907

(Continued)

ASANTE HEALTH SYSTEM

Consolidated Balance Sheets

September 30, 2010 and 2009

(In thousands)

Liabilities and Net Assets		2010	2009
Current liabilities:			
Accounts payable	$	6,417	11,047
Payroll, payroll taxes, and related benefits		23,506	22,111
Self insurance liability, current portion		7,245	8,584
Estimated reimbursement due to governmental agencies		6,040	2,400
Other current liabilities		8,131	5,251
Long-term debt subject to short-term remarketing agreements		—	101,600
Current portion of long-term debt and capital lease obligations		4,206	3,131
Total current liabilities		55,545	154,124
Long-term debt and capital lease obligations, net of current portion		325,093	186,369
Other long-term liabilities		12,892	49,901
Total liabilities		393,530	390,394
Net assets:			
Unrestricted		359,609	289,453
Temporarily restricted		1,060	1,147
Permanently restricted		2,941	2,913
Total net assets		363,610	293,513
Commitments and contingencies (note 13)			
Total liabilities and net assets	$	757,140	683,907

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM

Consolidated Statements of Operations

Years ended September 30, 2010 and 2009

(In thousands)

		2010	2009
Unrestricted revenues, gains, and other support:			
Net patient service revenue	$	478,732	476,684
Other operating revenue		17,987	16,017
Total revenues, gains, and other support		496,719	492,701
Operating expenses:			
Salaries and benefits		253,301	251,943
Supplies		92,853	88,409
Purchased services		25,438	25,320
Professional fees		4,027	4,752
Repairs and maintenance		9,381	8,108
Insurance		4,405	6,145
Rent and utilities		7,795	6,625
Bad debts		8,195	21,803
Interest		13,853	15,092
Depreciation		27,036	25,847
Other		16,477	7,263
Total operating expenses		462,761	461,307
Operating income		33,958	31,394
Nonoperating income:			
Investment income (losses), net of fees		11,201	(15,495)
Change in unrealized gains on trading investments		21,252	23,705
Loss on refinancing of debt		(1,848)	(3,000)
Change in valuation of swap agreement		6,930	(16,125)
Other, net		(2,386)	(2,061)
Total nonoperating income (loss)		35,149	(12,976)
Excess of revenues over expenses		69,107	18,418
Net assets released from restriction used for purchases of property, plant, and equipment		1,050	2,113
Other		(1)	(5)
Increase in unrestricted net assets	$	70,156	20,526

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2010 and 2009

(In thousands)

		2010	2009
Unrestricted net assets:			
Excess of revenues over expenses	$	69,107	18,418
Net assets released from restriction used for purchases of property, plant, and equipment		1,050	2,113
Other		(1)	(5)
Increase in unrestricted net assets		70,156	20,526
Temporarily restricted net assets:			
Contributions and investment income		1,496	2,062
Net assets released from restrictions		(1,583)	(2,445)
Decrease in temporarily restricted net assets		(87)	(383)
Permanently restricted net assets:			
Contributions and investment income		28	25
Increase in permanently restricted net assets		28	25
Increase in net assets		70,097	20,168
Net assets, beginning of year		293,513	273,345
Net assets, end of year	$	363,610	293,513

See accompanying notes to consolidated financial statements.

ASANTE HEALTH SYSTEM

Consolidated Statements of Cash Flows

Years ended September 30, 2010 and 2009

(In thousands)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	70,097	20,168
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		28,822	27,550
Provision for bad debts		8,195	21,803
Net change in realized and unrealized gains and losses on marketable securities		(23,679)	691
Valuation of swap agreement		(6,930)	16,125
Equity in earnings on investments in healthcare ventures		(3,126)	(3,618)
Distributions from investments in healthcare ventures		3,391	4,780
Investment in healthcare ventures		(2)	16
Restricted donations and investment income		(1,500)	(2,372)
Gain on sale of assets		(4,774)	(1,854)
Loss on refinancing of debt		1,848	3,000
Change in operating assets and liabilities:			
Patient accounts receivable, accrued interest, other receivables, and other assets		(11,885)	(12,713)
Inventories and prepaid expenses		(2,317)	(272)
Accounts payable, accrued payroll, payroll taxes and related benefits, self-insurance liability, estimated reimbursement due to governmental agencies, other current liabilities, and other long-term liabilities		1,783	(2,567)
Net cash provided by operating activities		59,923	70,737
Cash flows from investing activities:			
Purchases of property, plant, and equipment		(19,613)	(12,621)
Sales of marketable securities and assets whose use is limited		299,596	249,115
Purchases of marketable securities and assets whose use is limited		(393,277)	(260,025)
Notes receivable issuance		(944)	—
Proceeds on sale of assets		8,133	2,343
Net cash used in investing activities		(106,105)	(21,188)
Cash flows from financing activities:			
Principal payments on long-term debt and capital lease obligations		(131,183)	(105,892)
Proceeds from new debt		169,360	102,700
Payment of swap liability		(29,916)	—
Proceeds from restricted donations and investment income		1,500	2,372
Payments for deferred financing costs		(6,084)	(1,072)
Net cash provided by (used in) financing activities		3,677	(1,892)
Net (decrease) increase in cash and cash equivalents		(42,505)	47,657
Cash and cash equivalents, beginning of year		59,916	12,259
Cash and cash equivalents, end of year	$	17,411	59,916
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	11,519	13,965

See accompanying notes to consolidated financial statements.

(1) Organization

Asante Health System (Asante) was founded as a private, not-for-profit, community-based healthcare organization to provide health-related services to the residents of Southern Oregon and Northern California. Asante includes the operations of the following affiliates and operating units:

Asante (Parent Company)

Asante provides various support services to its operating units.

Operating Units (which comprise the Obligated Group):

Rogue Valley Medical Center (RVMC)

A regional tertiary not-for-profit healthcare facility providing for the healthcare needs of Southern Oregon and Northern California.

Three Rivers Community Hospital (TRCH)

A community not-for-profit hospital in Josephine County providing inpatient and outpatient healthcare services to the Grants Pass community and surrounding area.

Hearthstone

A not-for-profit skilled nursing facility that provides a wide spectrum of rehabilitative services, short-term and long-term stays, as well as providing dementia care expertise. Asante terminated operations of Hearthstone effective December 31, 2009 with the sale of the facility occurring on January 1, 2010.

Asante Community Services

Freestanding outpatient facilities that provide occupational health services, work performance through Asante Work Health, chemical dependency treatment through Genesis along with child development, home infusion, outpatient pharmacy, outpatient physician services, and employee assistance programs. Genesis ceased operations effective April 2009, and the Child Development Services contract was not renewed subsequent to June 30, 2009.

AIM Real Property, LLC

An Oregon Limited Liability Company (the LLC) owned by Asante and a local physician. The LLC owns and maintains a medical clinic building for the purpose of leasing the building to providers of integrative medicine services. Asante owns 65% of the LLC.

Sleep Center of Southern Oregon

An Oregon LLC, which provides sleep lab management, staff, and equipment for RVMC patients. Asante owns 51% of the LLC, with local physicians owning the remaining 49%.

Other Affiliates:

The following are affiliates of Asante and are not part of the Asante obligated group.

Asante Foundation (the Foundation)

The Foundation is a not-for-profit public benefit corporation of Asante, responsible for fund-raising and development.

Southern Oregon Insurance, Inc. (SOII)

SOII is a not-for-profit single parent direct issue captive, incorporated in the state of Hawaii, providing healthcare professional and commercial general liability insurance and claims management services for Asante.

Southern Oregon Trauma and Emergency Services, LLC (SOTES)

SOTES is an Oregon LLC that coordinates trauma and emergency medical services provided at RVMC and TRCH.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Asante and other affiliates (note 1). All significant intercompany account balances and transactions have been eliminated.

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cash equivalent balances included in cash and cash equivalents in the consolidated balance sheet at September 30, 2010 and September 30, 2009 were $5,976,000 and $30,609,000, respectively.

Asante maintains cash and cash equivalents on deposit at various institutions, which at times exceed the insured limits by the Federal Deposit Insurance Corporation. This exposes Asante to potential risk of loss in the event the institution becomes insolvent.

(d) Patient Accounts Receivable

Accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Credit is granted without collateral to Asante patients, most of whom are local residents and are insured under third-party payor agreements. Asante manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts. Asante estimates this allowance based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. The mix of receivables from significant third-party payor classifications is as follows:

	September 30	
	2010	**2009**
Medicare	37%	35%
Medicaid	19	18
Private pay	19	18
Others	25	29
	100%	100%

(e) Inventories

Inventories are stated at the lower of average cost or market.

(f) Assets Whose Use Is Limited

Assets whose use is limited are carried at fair value and are accounted for as trading securities and primarily include assets held by trustees under indenture agreements, collateral held by swap counterparty (at September 30, 2009), and designated assets set aside by the Board of Trustees (the Board) for certain purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Assets held by trustees and collateral consists of treasury or agency securities. Amounts required to meet current liabilities of Asante have been reclassified as current assets in the consolidated balance sheets at September 30, 2010 and 2009. Gains and losses on sales of assets whose use is limited are computed on the specific-identification method. Interest income or loss (including realized gains and losses on investments, interest, and dividends) is included in income unless the income or loss is restricted by donor or law. Unrealized gains and losses on trading securities are included in nonoperating income in the accompanying consolidated statements of operations.

(g) Marketable Securities

Marketable securities are accounted for as trading securities and consist principally of U.S. government agency obligations, corporate obligations, and equity securities that are stated at fair value. Gains and losses on sales of marketable securities are computed on the specific-identification method. Interest income or loss (including realized gains and losses on investments, interest, and dividends) is included in income unless the income or loss is restricted by donor or law. Unrealized gains and losses on trading securities are included in nonoperating income in the accompanying consolidated statements of operations. Asante adopted FASB ASC 820-10, which was previously referenced as Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), during 2009 which is disclosed further at note 2(t).

(h) Property, Plant, and Equipment

Property, plant, and equipment additions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, which ranges from 3 to 40 years for buildings, improvements, and equipment, and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the accompanying consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring the assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Asante assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying amount of the asset.

(i) Financing Costs

Financing costs incurred in connection with debt agreements are deferred and amortized over the life of the respective debt.

(j) Investments in Healthcare Ventures

Investments in healthcare-related joint ventures, where Asante does not have a controlling interest, have been accounted for using the equity method and are included in other assets in the accompanying consolidated balance sheets (note 12).

(k) Self-Insurance

Workers' Compensation

Asante carries an excess coverage policy for its workers' compensation program. The annual self-insured retention under the workers' compensation program is $400,000 per claim. The accrued liabilities for the self-insured components of this plan include the unpaid portion of claims that have been reported and estimates for claims that have been incurred but not reported. Asante has recorded a liability, discounted at 5%, for workers' compensation claims of $5,817,000 and $5,444,000 at September 30, 2010 and 2009, respectively. The current portion of the accrued liability for workers' compensation is reported as part of the self-insurance liability. The long-term portion of the accrued liability is included in other long-term liabilities.

Medical and Dental Programs

Asante maintains a self-insured medical plan for its employees and provided a self-insured dental plan that terminated on December 31, 2009, and was replaced by a third-party fully insured plan. The accrued liabilities for the self-insured components of these plans include estimates of the costs for the incurred but not paid claims as well as related claims administration expense. A reinsurance agreement with a third party to cover claims for medical expenses was terminated in 2009.

The estimated liability for health and dental plans was $3,263,000 and $3,489,000 at September 30, 2010 and 2009, respectively, and is recorded in self insurance, current portion.

Professional Liability

Asante maintains its basic professional liability insurance coverage in the form of claims-made policies. Should the claims-made policies not be renewed or replaced with equivalent insurance, claims related to occurrences during the terms of the policies, but reported subsequent to their termination, may be uninsured. Asante records reserves for deductibles, as well as the potential tail liability related to these policies, based on actuarial studies. Asante's deductible amount under its claims-made policy is $1,000,000 per claim. This deductible is the responsibility of SOII, a consolidated subsidiary of Asante.

The estimated self-insurance obligation recorded for professional liability at the expected value, undiscounted, was $8,660,000 and $9,782,000 at September 30, 2010 and 2009, respectively. Management is not aware of any potential professional liability claims whose settlement would be in excess of amounts provided for or would otherwise have a material adverse effect on Asante's consolidated financial position. The current portion of the accrued liability for self-insurance is included in the consolidated balance sheets in self-insurance liability. The long-term portion of the accrued liability is included in other long-term liabilities. Asante has purchased insurance with third party carriers for amounts in excess of the deductible amount.

(l) Oregon State Provider Tax

Effective July 1, 2004, the State of Oregon instituted a provider tax on certain patient service revenues at certain qualifying hospitals including RVMC and TRCH. During the year ended September 30, 2010, the State of Oregon adjusted the provider tax rate, resulting in increased taxes paid by the Company. Asante recorded provider taxes of approximately $11,852,000 and $2,083,000 for the years ended September 30, 2010 and 2009, respectively, which is included in other operating expenses in the accompanying consolidated statements of operations. In addition, Asante has entered into an agreement with the Oregon Association of Hospitals and Health Systems (OAHHS), which provides that all payments to Asante related to beneficiaries of the Oregon Medical Assistance Program are to be remitted directly to OAHHS. OAHHS aggregates these payments, returning a portion to Asante. The remaining funds are pooled by OAHHS with like amounts received on behalf of other hospitals subject to the provider tax, and OAHHS redistributes such funds to the qualifying hospitals. Asante estimates the amount to be received from OAHHS for the years ended September 30, 2010 and 2009 is approximately $11,852,000 and $2,083,000, respectively, which is reflected as a component of net patient service revenue in the accompanying consolidated statements of operations.

(m) Net Assets

Unrestricted

All resources that are not restricted by donors are included in unrestricted net assets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Asante 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 Asante in perpetuity. Based on Asante policy, income earned on permanently restricted funds is transferred to temporarily restricted net assets and used to support specific programs with either a restricted or unrestricted purpose. When spent, the funds are released to unrestricted net assets. Spending may not exceed 5% of the corpus in any fiscal year.

Unconditional promises to give cash and other assets to Asante 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 restricted funds to be used for operations are expended for their restricted purposes, these amounts are reflected in unrestricted net assets as net assets released from restrictions for operations and are included in other income. When restricted funds are expended for the acquisition of property, plant, and equipment, these amounts are reported as released from restriction for capital in the statements of changes in net assets.

Temporarily restricted and permanently restricted net assets are maintained for the following purposes as stipulated by donors at September 30 (in thousands):

		2010	2009
Temporarily restricted:			
Capital	$	288	295
Child and infant health (capital)		198	286
Others		574	566
	$	1,060	1,147
Permanently restricted:			
Education	$	562	562
Francis Cheney family place		1,645	1,619
Others		734	732
	$	2,941	2,913

(n) Net Patient Service Revenue

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated settlements under third-party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods, primarily as a result of final settlements.

(o) ***Charity Care***

Asante provides care to patients who meet poverty guidelines under its charity care policy. Asante does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenue (note 9).

(p) ***Nonoperating Income***

Nonoperating income includes certain items that management deems to be outside the scope of its primary business. Items consist primarily of investment income, net contributions from the Foundation, swap valuation adjustments, and other income. Investment income consists of investment income from marketable securities offset by investment management fees, and unrealized (loss) gain. The change in valuation of swap agreements includes adjustments for the market value of interest rate swap agreements.

(q) ***Net Contributions from the Foundation***

Asante reports the net contributions from the Foundation activities as part of nonoperating income under the "other, net" classification. Net results from the Foundation for the years ended September 30 (in thousands) follows:

	2010	2009
Other operating revenue, including investment income (loss)	$ 625	(1,205)
Total operating revenue (expenses)	625	(1,205)
Salaries and benefits	727	815
Supplies	85	75
Purchased services	353	201
Rent and utilities	35	46
Other	72	131
Total operating expenses	1,272	1,268
Operating loss	(647)	(2,473)
Unrealized gains on trading investments	904	1,591
Excess (deficit) of revenues over expenses	$ 257	(882)

(r) ***Excess of Revenues over Expenses***

The consolidated statements of operations report the excess of revenues over expenses and other changes in unrestricted net assets. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets).

(s) Federal and State Income Taxes

Asante has received a determination letter from the Internal Revenue Service stating that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income. Management believes Asante is operated in a manner that qualifies it for tax-exempt status. Income taxes are provided for the tax effects of transactions unrelated to Asante's tax-exempt purpose reported in the consolidated financial statements; however, such activities are not significant to the consolidated financial statements. Asante has not adopted any uncertain tax positions as defined by FASB ASC Subtopic 740-10 – *Income Taxes – Overall.*

(t) Recently Adopted Accounting Standards

In September 2006, the FASB issued FASB ASC 820-10, which was previously referenced as SFAS 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Asante adopted the provisions of SFAS 157 as of October 1, 2008, which resulted in a decrease to the swap liability of $3,889,000. See note 3 for the disclosure of the fair value of qualifying investments required by SFAS 157. FASB ASC 820-10-05, which was previously referenced as FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

On October 1, 2009, Asante was required to apply the provisions of FSP FAS 157-2 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. This did not have a significant impact on the financial position or results of operations of Asante.

(u) Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

(3) Marketable Securities and Assets Whose Use Is Limited

The composition of marketable securities and assets whose use is limited at fair value at September 30 is as follows (in thousands):

	2010	2009
Convertible preferred securities	$ 3,666	4,502
Corporate equity securities	156,042	111,540
Mutual funds	19,771	16,698
Exchange traded funds	57,578	43,415
Corporate bonds	73,043	37,790
U.S. government obligations	16,333	1,665
U.S. government agency obligations	48,299	41,830
Convertible bonds	2,786	3,434
Collateralized mortgage obligations	4,753	6,313
Cash, short-term deposits and other	12,677	10,401
	394,948	277,588
Less:		
Assets whose use is limited, current portion	3,885	2,820
Assets whose use is limited, net of current portion	36,003	25,029
Marketable securities	$ 355,060	249,739

Investment income for the years ended September 30 comprised the following elements (in thousands):

	2010	2009
Interest and dividends	$ 9,703	9,651
Realized gains (losses), net	2,427	(24,396)
	12,130	(14,745)
Less:		
Investment fees	(1,010)	(1,205)
Other	81	455
	$ 11,201	(15,495)

As discussed in note (2)(t), Asante adopted SFAS 157 (now ASC 820) in fiscal year 2009. In accordance with ASC 820, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels are:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Level 2 valuations are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2010 (in thousands):

	Level 1	Level 2	Level 3	Fair value
Assets:				
Convertible preferred securities	$ 3,666	—	—	3,666
Corporate equity securities:				
Small/mid cap growth	57,189	—	—	57,189
Mid cap	13,200	—	—	13,200
Large cap value	61,407	—	—	61,407
Large cap growth	24,246	—	—	24,246
Total	156,042	—	—	156,042
Mutual funds:				
Money market	8,059	—	—	8,059
Small cap fund	11,712	—	—	11,712
Total	19,771	—	—	19,771
Exchange traded international index funds	57,578	—	—	57,578
Corporate bonds	—	73,043	—	73,043
U.S. government obligations	16,333	—	—	16,333
U.S. government agency obligations	48,299	—	—	48,299
Convertible bonds	—	2,786	—	2,786
Collateralized mortgage obligations	—	4,753	—	4,753
Certificates of deposit	—	1,285	—	1,285
Cash and cash equivalents	11,392	—	—	11,392
Total	$ 313,081	81,867	—	394,948

The following table presents the balances of assets measured at fair value on a recurring basis at September 30, 2009 (in thousands):

	Level 1	Level 2	Level 3	Fair value
Assets:				
Convertible preferred securities	$ 4,502	—	—	4,502
Corporate equity securities:				
Small/mid cap growth	40,341	—	—	40,341
Mid cap	8,134	—	—	8,134
Large cap value	46,243	—	—	46,243
Large cap growth	16,822	—	—	16,822
Total	111,540	—	—	111,540
Mutual funds:				
Money market	9,146	—	—	9,146
Small cap fund	7,552	—	—	7,552
Total	16,698	—	—	16,698
Exchange traded international index funds	43,415	—	—	43,415
Corporate bonds	—	37,790	—	37,790
U.S. government obligations	1,665	—	—	1,665
U.S. government agency obligations	41,830	—	—	41,830
Convertible bonds	—	3,434	—	3,434
Collateralized mortgage obligations	—	6,313	—	6,313
Certificates of deposit	—	689	—	689
Cash and cash equivalents	9,712	—	—	9,712
Total	$ 229,362	48,226	—	277,588
Liabilities:				
Interest rate swaps	$ —	—	36,534	36,534

All investments held at September 30, 2010 and 2009 are able to be redeemed or liquidated on a daily basis with one or two days' notice.

Additionally, the cash and cash equivalents balance on the consolidated balance sheets includes $5,976,000 and $30,609,000 in money market mutual funds, which are considered Level 1 investments, as of September 30, 2010 and 2009, respectively.

(4) Property, Plant, and Equipment

Property, plant, and equipment as of September 30 consist of the following (in thousands):

		2010	2009
Land and land improvements	$	14,382	14,340
Buildings		273,522	272,956
Equipment and furniture		238,171	228,192
Leasehold improvements		82	2,170
Buildings under capital leases		5,234	5,234
		531,391	522,892
Less allowance for depreciation		308,610	282,924
		222,781	239,968
Construction in progress		13,168	6,496
	$	235,949	246,464

Depreciation expense, including depreciation expense on rental properties classified as nonoperating, for the years ended September 30, 2010 and 2009 was $28,154,000 and $26,975,000, respectively. Accumulated amortization for assets under capital lease obligations was $2,352,000 and $2,019,000 at September 30, 2010 and 2009, respectively.

(5) Other Assets

Other assets at September 30 consist of the following (in thousands):

		2010	2009
Unamortized bond issue costs	$	11,966	8,087
Investments in healthcare ventures		2,792	5,161
Other		5,932	5,231
	$	20,690	18,479

(6) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations at September 30 consist of the following (in thousands):

		2010	2009
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 1998-A (net of unamortized discount of $0 and $45, respectively) maturing in varying annual amounts, due August 2024	$	—	26,960
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2002-A (net of unamortized discount of $1 and $1, respectively) maturing in varying annual amounts, due August 2015		2,209	2,599
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2002-B maturing in varying annual amounts, due August 2034		84,525	85,025
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2005-A, (net of unamortized discount of $1,577 and $0, respectively) varying annual amounts, due August 2040		68,123	70,000
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2008, maturing in varying annual amounts, due August 2038		—	102,700
The Hospital Facilities Authority of the City of Medford, Oregon Revenue Bonds Series 2010, (net of unamortized premium of $2,793 and $0, respectively) maturing in 2040		170,913	—
Capital lease obligations		3,529	3,816
Total long-term debt and capital lease obligations		329,299	291,100
Long-term debt subject to short-term remarketing agreements, current portion		—	(101,600)
Long-term debt and capital lease obligations, current portion		(4,206)	(3,131)
Less total current portion		(4,206)	(104,731)
Total long-term debt and capital lease obligations, net of current portion	$	325,093	186,369

Annual maturities of long-term debt and the future minimum capital lease obligations, excluding net bond premium/discounts of $1,215,000 are as follows as of September 30, 2010 (in thousands):

		Long-term debt	Capital lease obligations
2011	$	3,885	462
2012		4,005	463
2013		4,125	467
2014		4,265	499
2015		4,395	500
Thereafter		303,880	2,431
		324,555	4,822
Less amounts representing interest – 4% and 8%		—	1,293
Net present value		324,555	3,529
Less current portion		(3,885)	(321)
Total long-term debt and capital lease obligations	$	320,670	3,208

A summary of interest cost and investment income on borrowed funds held by the trustee under the 1998 Series A and B Bond Indentures, the 2002 Series A and B Bond Indentures, and the 2005 A, the 2008 and the 2010 Bond Indentures during the years ended September 30, 2010 and 2009 are as follows (in thousands):

		2010	2009
Bond interest and amortization cost	$	13,672	14,796
Other interest		181	296
	$	13,853	15,092
Bond investment income	$	91	29

At September 30, 2010 and 2009, there were approximately $19,730,000 and $7,328,000 in bond funds held with the trustee.

2010 Debt Restructure

In February 2010, Asante completed a debt restructuring that altered the nature of its outstanding long term debt. Asante exercised the option of converting the Series 2005A Bonds to the fixed rate mode, keeping the previously purchased insurance in place. At the same time, Asante paid down $300,000 of the 2005A debt issue to account for the sale of assets whose use had changed.

The 2010 Bonds were issued as insured, fixed rate 30-year bonds, for the purpose of refunding the 2008 Bonds, terminating the three swap agreements, and establishing a project fund for future capital construction. The effect was to convert this debt from variable rate (auction) to fixed rate debt and to eliminate the volatility produced by the swap agreements. The letter of credit agreement related to the 2008 Bonds was terminated at the same time.

1998 Series A Bonds

The Series A Bonds were issued in May 1998. The bonds bear interest at rates ranging from 4.10% to 5.38% payable semiannually, on August 15 and February 15. In November 2005, in conjunction with the issue of the 2005 Bonds, 60.27% of these bonds were legally defeased in the amount of $58,880,000. The bonds mature on August 15 in the following years: 2008 through 2013, 2018, and 2024. Bonds maturing on August 15, 2018 are subject to mandatory redemption prior to maturity on August 15 of the years 2014 through 2018. Bonds maturing on August 15, 2024 are subject to mandatory redemption prior to maturity on August 15 of the years 2019 through 2024. Beginning in 2014, Asante is required to make annual sinking fund and principal payments ranging from $1,630,000 to $2,530,000 to a debt service reserve fund for bond maturities in 2018 and 2024. Asante fully repaid these bonds on September 29, 2010.

2002 Series A Bonds

The Series A Bonds were issued in February 2002. The bonds bear interest rates ranging from 4.0% to 4.6% payable annually on August 15. Bonds mature annually on August 15.

2002 Series B Bonds

The Series B Bonds were issued in February 2002. The bonds are currently issued as seven-day auction rate bonds. Conversion to a different maturity period or to a fixed rate is available at Asante's option. The interest rate in effect on September 30, 2010 was 0.23% with rates ranging between 0.06% and 0.35% during the year.

2005 Series A Bonds

The Series A Bonds were issued in November 2005. The bonds were converted from seven-day auction rate bonds to fixed rate bonds in February 2010. The bonds bear interest at a rate of 5.0%.

2008 Series Bonds

In October 2008, Asante issued $102,700,000 of Revenue Bonds Series 2008 (Series 2008 Bonds), which were unsecured, variable rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of the City of Medford, Oregon. The proceeds from Series 2008 Bonds were used to defease the outstanding Series 2005B Bonds. In conjunction with the issuance, Asante entered into a three-year Letter of Credit and Reimbursement Agreement with a financial institution. The Series 2008 Bonds, while subject to a long-term amortization period, could be put to the underlying letter of credit upon a failed remarketing. In the event of a draw under this agreement, and amounts remain outstanding after 60 days, such amounts could be converted to a term loan due in six semiannual payments. A subjective acceleration clause in the form of a material adverse change clause potentially allows the letter of credit bank to deem the loan payable on short notice. As a result, the Series 2008 Bonds were classified as current as of September 30, 2009. These bonds were refinanced as part of the February 2010 bond issue. The letter of credit and associated restrictions were terminated at that time.

2010 Series Bonds

The 2010 Bonds were issued in February 2010. The bonds were issued as fixed rate securities, with maturities beginning in 2011 and final maturity in 2040. The bonds bear interest ranging from 3.0% to 5.5%. Bonds mature on August 15 annually.

Auction Rate Bonds

The 2002 Series B Bonds are currently issued as seven-day auction rate bonds. The interest on these bonds is reset every seven days by the auction process. Should current bondholders desire to sell more bonds than bids are received to purchase them, this would result in a failed auction. Failed auctions result in a reset of the interest rate for that issue at the failed auction rate (a calculated rate not to exceed 15.0% for 2002 Series B Bonds). A failed auction on these bonds does not result in a default or failure, but could result in higher interest costs.

The 2002 Series B Bond auctions failed February 14, 2008, and for each weekly auction thereafter through September 30, 2010. The average rate paid by Asante for the failed auction interest rate during the year was 0.22%. The rates for those failed auctions ranged between 0.06% and 0.35%.

Interest Rate Swaps

Asante entered into three interest rate swap agreements with Merrill Lynch. These agreements set a fixed rate Asante would pay each month, in exchange for receiving a variable rate from Merrill Lynch. Each of these agreements was in effect for the full term of the respective bond issues and the notional amount was close to the full amount of the respective outstanding bonds. For the Series 2002B Bonds, Asante paid 4.18% in exchange for a variable rate based on 67% of one-month LIBOR. Asante paid 3.49% for the Series 2005A Bonds in exchange for a variable rate based on 63% of one-month LIBOR plus 0.21%. Asante paid 3.45% for the Series 2005B Bonds in exchange for a variable rate based on 63% of one-month LIBOR plus 0.21%. The swap contained provisions for posting of collateral. Asante has reflected the current value of these swap agreements within the other long-term liabilities classification in the accompanying consolidated balance sheets. The change in value has been included as part of nonoperating income in the accompanying consolidated statements of operations. The values were determined by long-term interest rate differences between Asante’s fixed rate and the variable rate as adjusted for the credit rating of issuer and counterparty. Asante terminated these three swap agreements in January 2010 as part of the 2010 bond issue. The valuation of the swap agreements liability as of September 30, 2010 and 2009 is $0 and $36,534,000, respectively.

Line of Credit and Guarantees

Asante has a $5,000,000 revolving line-of-credit arrangement with a commercial bank. The line of credit has as an interest rate of the daily LIBOR plus 0.90% (1.13% at September 30, 2010). No amounts were drawn on this line of credit as of September 30, 2010. The line of credit expires on July 1, 2011.

Asante guarantees a loan for CVI Real Property, LLC, which owns a building on the RVMC campus. The amount of this loan was $4,070,000 and $4,175,000 at September 30, 2010 and September 30, 2009, respectively.

Asante has a 25% guarantee of indebtedness for CVISO Management Company, LLC. This guarantee is for cardiac catheterization equipment and furnishings in an amount up to $3,000,000 for the loan and operating line of credit in an amount up to $500,000. The loan balance was $80,000 and $549,000 at September 30, 2010 and 2009, respectively. There was no balance outstanding on the line of credit at September 30, 2010.

Debt Covenants

The bond indentures and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios. Management believes that Asante is in compliance with these covenants as of September 30, 2010.

(7) Retirement Plan

Asante sponsors the Asante Retirement Plan and Trust, a defined contribution plan, which has two components, the Matching Plan and the Basic Plan. In the Matching Plan, Asante matches the employee’s pretax contributions with $0.50 for each dollar, capped at 3% of salary. Under the Basic Plan, Asante contributes 3% of the employee’s salary to a tax deferred account. All eligible employees receive this contribution, whether or not they contribute to a tax deferred account. To be eligible for both the Basic and Matching Plans, employees must work at least one year and maintain a work level of at least 1,000 hours a year. Contributions are funded every two weeks and are fully and immediately vested. Pension costs related to these defined contribution plans by Asante totaled approximately $8,700,000 and $8,346,000 for the years ended September 30, 2010 and 2009, respectively.

(8) Net Patient Service Revenue

Asante has agreements with Medicare and Medicaid programs and various other payors, which provide for payments to Asante at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare/Medicaid – Inpatient acute care services rendered to these program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The majority of Medicare outpatient services are reimbursed based on the prospective payment system known as Ambulatory Payment Classification. Asante is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Asante and audits thereof by the third-party payors. Outpatient services are reimbursed by Medicaid based on the lower of costs or charges.

Adjustments from finalization and adjustment of prior years’ cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of approximately $764,000 and $2,034,000 for the years ended September 30, 2010 and 2009, respectively.

In fiscal year 2010, the Centers for Medicare and Medicaid Services (CMS) began recovery audits (RAC) to identify and recover overpayments to providers. Asante has recorded an estimated settlement liability of approximately $2,500,000 for potential RAC audit findings.

The composition of significant third-party payors for the years ended September 30, as a percentage of patient service revenues, is as follows:

	2010	2009
Medicare	52%	52%
Commercial and other insurance	27	29
Medicaid	15	14
Self-pay	6	5
	100%	100%

(9) Charity and Community Benefit

Asante provides service to patients covered under government programs that pay less than established costs. The estimated unpaid costs for some of these programs, plus other educational and community programs provided at no cost at September 30, are summarized in the chart below (in thousands):

		2010	2009
Cost of unpaid services:			
Charity care services	$	24,683	16,115
Medicaid services		17,780	22,235
Other public services		2,766	2,672
Total charity and government programs		45,229	41,022
Cost of other programs:			
Sponsorships and donations		196	178
Community education and other		10,626	8,108
Total direct community programs		10,822	8,286
Total community benefit	$	56,051	49,308

In addition to the community benefit summarized above, Asante provides services to Medicare patients for which reimbursement is estimated by management to be less than cost by approximately $50,189,000 and $49,352,000 for the years ended September 30, 2010 and 2009, respectively. Asante also provides services, in addition to the charity services described above, to patients who did not pay net charges billed. The estimated cost of these services was approximately $3,247,000 and $9,144,000 as of September 30, 2010 and 2009, respectively.

Asante prides itself on providing high quality, accessible, and cost-effective care in all areas, thus allowing it to achieve its mission, which includes offering a broad range of health programs and services to the community. In some cases, the revenues from these needed programs do not cover the costs of the program. These programs are offered due to community need, and so reflect additional support provided by Asante to the community. Among these services are Behavioral Health programs, Obstetrics, Maternal Fetal Medicine, Lab Outreach programs, and Child Development Services.

Sponsorships and donations include funds donated to social service and community agencies for healthcare and community related activities.

Community education includes programs offered by Asante to support and improve the quality of healthcare programs and services available to the residents of Southern Oregon and Northern California. The programs are low cost or free to participants. Examples include health programs for women and children, senior wellness services, health screenings, and immunizations.

Significant changes to economic conditions resulted in more patients meeting eligibility requirements in FY2010. Improvements in recognizing those patients who met eligibility requirements of the charity care policy also led to a higher percentage of patients receiving free or discounted care compared to prior years.

(10) Functional Classification of Operating Expenses

The following is a summary of management's functional classification of operating expenses for the years ended September 30 (in thousands):

		2010	2009
Patient care services	$	356,984	356,972
Support services and administrative costs		105,777	104,335
	$	462,761	461,307

(11) Fair Value of Financial Instruments

The estimated fair value of certain financial instruments is reflected in the accompanying consolidated balance sheets in the following manner: the carrying amount of cash and cash equivalents, accounts receivable, inventory, accounts payable, accrued payroll, payroll taxes and related benefits, other current liabilities, and estimated reimbursement due to governmental agencies approximates fair value of these instruments due to short-term maturities. Fair values of marketable securities and assets whose use is limited are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

The fair value of long-term debt is shown below (in thousands):

		2010		2009	
		Carrying Amount	Fair value	Carrying Amount	Fair value
Long-term debt and capital lease obligations	$	329,299	343,126	291,100	291,241

(12) Investments in Healthcare Ventures

Asante has the following investments in healthcare ventures at September 30 (in thousands):

	Ownership	2010	2009
Grants Pass Surgery Center, LLC	35%	$ 482	593
Surgery Center of Southern Oregon, LLC	20	901	1,022
CVI Real Property, LLC	25	443	398
CVISO Management Company, LLC	25	143	26
Siskiyou Imaging, LLC	33	245	303
Oregon Advanced Imaging, LLC	—	—	2,351
Southern Oregon Linen Services	34	532	456
Others	varies	46	12
		$ 2,792	5,161

The investments in these ventures are accounted for on the equity method and are included in other assets, net, on the accompanying consolidated balance sheets. Income (net) from the equity investments in joint ventures, which was $2,701,000 and $3,618,000 for the years ended September 30, 2010 and 2009, respectively, is included in other operating revenue in the accompanying consolidated statements of operations. During the year ended September 30, 2010, Asante sold its ownership in Oregon Advanced Imaging, LLC and recorded a gain of approximately $4,260,000 associated with this transaction.

Unaudited condensed financial information relating to Asante's investments in joint ventures as of and for the year ended September 30, 2010 is as follows (in thousands):

		Grants Pass Surgery Center, LLC	Surgery Center of Southern Oregon, LLC	CVI Real Property, LLC
Assets:				
Cash	$	301	1,827	557
Accounts receivable, net		671	1,068	—
Property, net		250	6,711	6,249
Other assets		449	912	15
Total assets	$	1,671	10,518	6,821
Liabilities:				
Accounts payable and accrued expenses	$	216	374	—
Line of credit and notes payable		78	5,638	5,050
Equity		1,377	4,506	1,771
Total liabilities and equity	$	1,671	10,518	6,821
Results from operations:				
Net revenue	$	2,751	9,288	846
Expenses		(2,658)	(6,678)	(418)
Net income	$	93	2,610	428

Unaudited condensed financial information relating to Asante's investment in joint ventures as of and for the year ended September 30, 2010 is as follows (in thousands) continued:

		CVISO Management Company, LLC	Siskiyou Imaging, LLC	Southern Oregon Linen Service
Assets:				
Cash	$	329	333	163
Accounts receivable, net		272	176	303
Property, net		58	200	1,520
Other assets		37	32	810
Total assets	$	696	741	2,796
Liabilities:				
Accounts payable and accrued expenses	$	44	7	174
Line of credit and notes payable		80	—	797
Equity		572	734	1,825
Total liabilities and equity	$	696	741	2,796
Results from operations:				
Net revenue	$	2,335	1,023	2,946
Expenses		(1,220)	(703)	(2,886)
Net income	$	1,115	320	60

(13) Commitments and Contingencies

(a) Operating Leases

Asante leases various buildings, office space, and equipment under noncancelable operating leases. These leases expire at various times and have various renewal options. Rent expense related to these leases was $3,494,000 and $1,523,000 for the years ended September 30, 2010 and 2009, respectively. Future minimum lease commitments at September 30, 2010 under noncancelable operating leases with initial terms of one year or more are as follows (in thousands):

2011	$	2,623
2012		1,481
2013		1,104
2014		426
2015		233
Thereafter		894

(b) Litigation

Asante is involved in litigation and other routine regulatory investigations arising in the ordinary course of business. In management's opinion, after consultation with legal counsel, these matters will be resolved without material adverse effect on Asante's consolidated financial position or results from operations.

(c) Regulatory Environment

The healthcare 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, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Asante is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

(d) Collective Bargaining Agreements

Approximately 18.3% of Asante employees are covered by a collective bargaining agreement. All are bedside nurses with the Oregon Nurses Association. One contract covers all of the employees in this bargaining unit, and the current contract expires June 30, 2011.

(e) Health Care Reform

As a result of recently enacted and pending federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal health care reform legislation does not affect the 2010 financial statements.

(14) Subsequent Events

Asante has evaluated the impact of subsequent events through December 10, 2010, the date on which the consolidated financial statements were issued, and has determined that all subsequent events have been appropriately reflected in the accompanying consolidated financial statements.

OTHER FINANCIAL INFORMATION

ASANTE HEALTH SYSTEM

Consolidating Schedule – Balance Sheet Information

September 30, 2010

(In thousands)

Assets		Asante obligated group	Other affiliates	Eliminations	Consolidated total
Current assets:					
Cash and cash equivalents	$	15,569	1,842	—	17,411
Assets whose use is limited, current portion		3,885	—	—	3,885
Patient accounts receivable, net		65,439	46	—	65,485
Accrued interest and other receivables		1,808	45	—	1,853
Inventories		4,040	—	—	4,040
Prepaid expenses		3,794	10	—	3,804
Total current assets		94,535	1,943	—	96,478
Intercompany		2,355	(2,355)	—	—
Assets whose use is limited:					
Restricted by donors		—	4,001	—	4,001
Board-designated assets and assets held by trustees		19,731	16,156	—	35,887
Less amount required to meet current obligations		3,885	—	—	3,885
		15,846	20,157	—	36,003
Property, plant, and equipment, net		235,949	—	—	235,949
Land held for future use		12,960	—	—	12,960
Marketable securities		339,079	15,981	—	355,060
Beneficial interest in the Foundation		18,190	—	(18,190)	—
Other assets, net		20,396	294	—	20,690
Total assets	$	739,310	36,020	(18,190)	757,140

ASANTE HEALTH SYSTEM

Consolidating Schedule – Balance Sheet Information

September 30, 2010

(In thousands)

Liabilities and Net Assets		Asante obligated group	Other affiliates	Eliminations	Consolidated total
Current liabilities:					
Accounts payable	$	6,415	2	—	6,417
Payroll, payroll taxes, and related benefits		23,474	32	—	23,506
Self insurance liability, current portion		6,030	1,215	—	7,245
Estimated reimbursement due to governmental agencies		6,040	—	—	6,040
Other current liabilities		7,965	166	—	8,131
Current portion of long-term and capital lease obligations		4,206	—	—	4,206
Total current liabilities		54,130	1,415	—	55,545
Long-term debt and capital lease obligations, net of current portion		325,093	—	—	325,093
Other long-term liabilities		9,785	3,107	—	12,892
Total liabilities		389,008	4,522	—	393,530
Net assets:					
Unrestricted		346,301	27,497	(14,189)	359,609
Temporarily restricted		1,060	1,060	(1,060)	1,060
Permanently restricted		2,941	2,941	(2,941)	2,941
Total net assets		350,302	31,498	(18,190)	363,610
Total liabilities and net assets	$	739,310	36,020	(18,190)	757,140

See accompanying independent auditors’ report.

ASANTE HEALTH SYSTEM

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2010

(In thousands)

	Asante obligated group	Other affiliates	Eliminations	Consolidated total
Unrestricted revenues, gains, and other support:				
Net patient service revenue	$ 478,594	138	—	478,732
Other operating revenue	17,941	2,850	(2,804)	17,987
Total revenues, gains, and other support	496,535	2,988	(2,804)	496,719
Operating expenses:				
Salaries and benefits	253,301	—	—	253,301
Supplies	92,853	—	—	92,853
Purchased services	25,420	18	—	25,438
Professional fees	3,540	487	—	4,027
Repairs and maintenance	9,381	—	—	9,381
Insurance	5,889	956	(2,440)	4,405
Rent and utilities	7,795	—	—	7,795
Bad debts	8,195	—	—	8,195
Interest	13,853	—	—	13,853
Depreciation	27,036	—	—	27,036
Others	16,354	123	—	16,477
Total operating expenses	463,617	1,584	(2,440)	462,761
Operating income	32,918	1,404	(364)	33,958
Nonoperating gain	33,149	1,893	107	35,149
Excess of revenues over expenses	66,067	3,297	(257)	69,107
Net assets released from restrictions used for purchases of property, plant, and equipment, and other	1,049	—	—	1,049
Increase in unrestricted net assets	67,116	3,297	(257)	70,156

ASANTE HEALTH SYSTEM

Consolidating Schedule – Operations and Changes in Net Assets Information

Year ended September 30, 2010

(In thousands)

		Asante obligated group	Other affiliates	Eliminations	Consolidated total
Temporarily restricted net assets:					
Contributions and investment income	$	1,496	1,496	(1,496)	1,496
Net assets released from restrictions		(1,583)	(1,583)	1,583	(1,583)
Decrease in temporarily restricted net assets		(87)	(87)	87	(87)
Permanently restricted net assets:					
Contributions and investment income		28	28	(28)	28
Increase in permanently restricted net assets		28	28	(28)	28
Increase in net assets		67,057	3,238	(198)	70,097
Net assets, beginning of year:					
Unrestricted net assets		279,185	24,200	(13,932)	289,453
Temporarily and permanently restricted net assets		4,060	4,060	(4,060)	4,060
Net assets, end of year	$	350,302	31,498	(18,190)	363,610

See accompanying independent auditors' report.