



CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

St. Vincent Health, Inc.
Member of Ascension Health, a subsidiary
of Ascension Health Alliance
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

St. Vincent Health, Inc.

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
St. Vincent Health, Inc.

We have audited the accompanying consolidated balance sheets of St. Vincent Health, Inc. as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of St. Vincent Health, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 St. Vincent Health, Inc.'s internal control over financial reporting. Our audits 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 St. Vincent Health, Inc.'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Vincent Health, Inc. at June 30, 2012 and 2011, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

September 11, 2012

St. Vincent Health, Inc.

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,714	\$ 125,982
Short-term investments	34,820	37,093
Interest in investments held by Ascension Health Alliance	39,018	-
Accounts receivable, less allowances for uncollectible accounts (\$76,835 and \$78,503 in 2012 and 2011, respectively)	266,705	248,265
Current portion of assets limited as to use	2,244	2,200
Estimated third-party payor settlements	41,816	6,022
Inventories	22,648	20,881
Other	39,539	31,393
Total current assets	<u>478,504</u>	471,836
Assets limited as to use and other long-term investments	70,564	1,748,905
Interest in investments held by Ascension Health Alliance	1,762,133	-
Property and equipment:		
Land and improvements	60,199	59,481
Building and equipment	1,444,709	1,407,510
Construction in progress	40,415	14,600
Less accumulated depreciation	1,039,823	986,472
Total property and equipment, net	<u>505,500</u>	495,119
Other assets:		
Goodwill and other intangible assets	189,562	182,121
Investment in unconsolidated entities	76,940	75,854
Other	27,289	31,259
Total other assets	<u>293,791</u>	289,234
Total assets	<u><u>\$ 3,110,492</u></u>	<u><u>\$ 3,005,094</u></u>

See accompanying notes.

	June 30	
	2012	2011
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 11,779	\$ 2,419
Accounts payable and accrued liabilities	259,475	246,909
Estimated third-party payor settlements	41,037	28,136
Current portion of self-insurance liabilities	3,380	3,217
Other	12,967	14,279
Total current liabilities	<u>328,638</u>	<u>294,960</u>
Noncurrent liabilities:		
Long-term debt	331,266	343,044
Pension and other postretirement liabilities	88,156	78,365
Other	31,224	38,901
Total noncurrent liabilities	<u>450,646</u>	<u>460,310</u>
Total liabilities	<u>779,284</u>	<u>755,270</u>
Net assets:		
Unrestricted:		
Controlling interest	2,263,544	2,183,135
Noncontrolling interests	10,281	9,772
Unrestricted net assets	<u>2,273,825</u>	<u>2,192,907</u>
Temporarily restricted – controlling interest	40,888	40,468
Permanently restricted – controlling interest	16,495	16,449
Total net assets	<u>2,331,208</u>	<u>2,249,824</u>
Total liabilities and net assets	<u><u>\$ 3,110,492</u></u>	<u><u>\$ 3,005,094</u></u>

See accompanying notes.

St. Vincent Health, Inc.

Consolidated Statements of Operations and Changes in Net Assets
(Dollars in Thousands)

	Year Ended June 30	
	2012	2011
Operating revenue:		
Net patient service revenue	\$ 2,181,825	\$ 2,078,088
Other revenue	104,415	87,310
Income from unconsolidated entities, net	19,227	16,898
Net assets released from restrictions for operations	3,086	3,355
Total operating revenue	<u>2,308,553</u>	<u>2,185,651</u>
Operating expenses:		
Salaries and wages	873,518	817,374
Employee benefits	212,662	227,800
Purchased services	189,741	172,384
Professional fees	112,486	100,550
Supplies	281,315	284,134
Insurance	8,539	8,447
Bad debts	120,284	142,051
Interest	12,966	15,502
Depreciation and amortization	86,815	86,380
Medicaid tax	57,761	-
Other	194,794	185,278
Total operating expenses before impairment and nonrecurring gains (losses), net	<u>2,150,881</u>	<u>2,039,900</u>
Income from operations before impairment and nonrecurring gains (losses), net	157,672	145,751
Impairment and nonrecurring gains (losses), net	52,336	(2,286)
Income from operations	<u>210,008</u>	<u>143,465</u>
Nonoperating (losses) gains:		
Investment (loss) return	(33,255)	262,149
Loss from unconsolidated entities	(2,484)	(191)
Other	(6,172)	(13,148)
Total nonoperating (losses) gains, net	<u>(41,911)</u>	<u>248,810</u>
Excess of revenues and gains over expenses and losses	168,097	392,275
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interest	7,484	6,901
Excess of revenues and gains over expenses and losses attributable to controlling interest	<u>160,613</u>	<u>385,374</u>

Continued on next page.

St. Vincent Health, Inc.

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)

	Year Ended June 30	
	2012	2011
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	\$ 160,613	\$ 385,374
Pension and other postretirement liability adjustments	(44,314)	68,149
Transfers to sponsor and other affiliates, net	(40,782)	(60,992)
Net assets released from restrictions for property acquisitions	4,071	2,734
Other	821	(4,953)
Increase in unrestricted net assets, controlling interest	<u>80,409</u>	390,312
Unrestricted net assets, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	7,484	6,901
Distributions of capital	(7,000)	(7,463)
Other	25	(1,139)
Increase (decrease) in unrestricted net assets, noncontrolling interest	<u>509</u>	(1,701)
Temporarily restricted net assets:		
Contributions and grants	8,160	11,356
Net change in unrealized (losses) gains on investments	(1,600)	2,699
Investment return	1,590	1,731
Net assets released from restrictions	(7,157)	(6,089)
Other	(573)	(855)
Increase in temporarily restricted net assets	<u>420</u>	8,842
Permanently restricted net assets:		
Contributions	102	98
Net change in unrealized (losses) gains on investments	(117)	315
Investment return	109	87
Other	(48)	(6)
Increase in permanently restricted net assets	<u>46</u>	494
Increase in net assets	81,384	397,947
Net assets, beginning of the year	2,249,824	1,851,877
Net assets, end of the year	<u>\$ 2,331,208</u>	<u>\$ 2,249,824</u>

See accompanying notes.

St. Vincent Health, Inc.

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30	
	2012	2011
Operating activities		
Increase in net assets	\$ 81,384	\$ 397,947
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	86,815	86,380
Provision for bad debts	120,284	142,051
Deferred pension costs	44,314	(68,149)
Interest, dividends, and net losses (gains) on investments	34,972	(265,163)
Loss on sale of assets, net	31	1,027
Impairment and nonrecurring (gains) losses, net	(52,336)	2,286
Transfers to sponsor and other affiliates, net	40,782	60,992
Restricted contributions, investment return, and other	(9,340)	(12,411)
Income from unconsolidated entities, net	(16,743)	(16,707)
Distributions from unconsolidated entities	21,359	20,847
Noncontrolling interest activity	6,975	8,602
(Increase) decrease in:		
Short-term investments	2,273	(1,691)
Accounts receivable	(138,724)	(179,195)
Inventories and other current assets	(10,874)	(110)
Investments, including interest in investments held by Ascension Health Alliance	(157,665)	(17,574)
Other assets	5,993	(13,081)
Increase (decrease) in:		
Accounts payable and accrued liabilities	12,301	41,221
Estimated third-party payor settlements, net	(22,893)	681
Other current liabilities	(1,312)	16,243
Other noncurrent liabilities	15,851	28,646
Net cash provided by operating activities	<u>63,447</u>	<u>232,842</u>
Investing activities		
Property and equipment and software additions	(98,737)	(65,431)
Proceeds from sale of property and equipment and other assets	212	318
Capital contributions to unconsolidated entities	(5,702)	(4,488)
Acquisition of assets	(5,038)	-
Net cash used in investing activities	<u>(109,265)</u>	<u>(69,601)</u>
Financing activities		
Repayment of long-term debt	(2,419)	(85,312)
Purchase of units from noncontrolling members	-	(1,139)
Distributions to noncontrolling interest partners	(7,000)	(7,463)
Other noncontrolling interest activity	25	-
Other financing activities	(7,614)	6,964
Transfers to sponsor and other affiliates, net	(40,782)	(60,992)
Restricted contributions, investment return, and other	9,340	12,411
Net cash used in financing activities	<u>(48,450)</u>	<u>(135,531)</u>
Net (decrease) increase in cash and cash equivalents	(94,268)	27,710
Cash and cash equivalents at beginning of year	125,982	98,272
Cash and cash equivalents at end of year	<u>\$ 31,714</u>	<u>\$ 125,982</u>

See accompanying notes.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (Dollars in Thousands)

Years Ended June 30, 2012 and 2011

1. Organization and Mission

Organizational Structure

St. Vincent Health, Inc. (the Corporation) is a member of Ascension Health. In December 2011, Ascension Health Alliance became the sole corporate member and parent organization of Ascension Health, a Catholic, national health system consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 21 of the United States and the District of Columbia. In addition to serving as the sole corporate member of Ascension Health, Ascension Health Alliance serves as the member or shareholder of various other subsidiaries. Ascension Health Alliance, its subsidiaries, and the Health Ministries are referred to collectively from time to time hereafter as the System.

Ascension Health Alliance is sponsored by Ascension Health Ministries, a Public Juridic Person. The Participating Entities of Ascension Health Ministries are the Daughters of Charity of St. Vincent de Paul in the United States, St. Louise Province, the Congregation of St. Joseph, the Congregation of the Sisters of St. Joseph of Carondelet, and the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province.

The Corporation, located in Indianapolis, Indiana, is a nonprofit acute care hospital system. The Corporation's hospitals provide inpatient, outpatient, and emergency care services for the residents of central Indiana. Admitting physicians are primarily practitioners in the local area. The Corporation is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services.

The Corporation is continuing to enhance its development as an integrated health care delivery system through relationships and affiliations with other providers, practitioners, and insurers throughout the states of Indiana and Ohio. In this connection, the Corporation has formed separate affiliation arrangements with Cardinal Health System, Inc. (Delaware County) and Columbus Regional Hospital, Inc. (Bartholomew County) to develop joint services in the communities they commonly serve. In addition, the Corporation entered into an agreement with Cincinnati Children's Medical Center to enhance the pediatric subspecialty services to Peyton Manning Children's Hospital at St. Vincent. The Corporation has also entered into an agreement with the Cleveland Clinic to manage the renal transplant program at the St. Vincent Indianapolis Hospital. None of these affiliations have resulted in significant asset transfers and have not resulted in consolidation of the related entities.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

The Corporation includes the following not-for-profit hospitals and health care entities:

Acute Care Hospitals:

St. Vincent Hospital and Health Care Center, Inc., d/b/a St. Vincent Hospital and Health Services (SVHHS) includes the following hospitals in Indianapolis, Indiana:

St. Vincent Indianapolis Hospital
St. Vincent Women's Hospital
St. Vincent Stress Center
St. Vincent Medical Center Northeast
Peyton Manning Children's Hospital at St. Vincent

- *St. Vincent Carmel Hospital, Inc. (St. Vincent Carmel)*, Carmel, Indiana.
- *St. Joseph Hospital & Health Center, Inc. (St. Joseph-Kokomo)*, Kokomo, Indiana.
- *Saint John's Health System (Saint John's)*, Anderson, Indiana.
- *St. Vincent Seton Specialty Hospital, Inc. (Seton)*: Seton is a long-term acute care hospital with locations in Indianapolis and Lafayette, Indiana.
- *St. Vincent New Hope, Inc. (New Hope)*: New Hope is a residential treatment facility primarily providing residential and rehabilitation services for adults with a variety of developmental disabilities and is located in Indianapolis, Indiana.

The following acute care facilities are designated by Medicare as critical access hospitals:

- *St. Vincent Williamsport Hospital, Inc. (Williamsport)*: Williamsport is an acute care hospital located in Williamsport, Indiana.
- *St. Vincent Jennings Hospital, Inc. (Jennings)*: Jennings is an acute care hospital located in North Vernon, Indiana.
- *St. Vincent Frankfort Hospital, Inc. (Frankfort)*: Frankfort is an acute care hospital located in Frankfort, Indiana.
- *St. Vincent Randolph Hospital, Inc. (Randolph)*: Randolph is an acute care hospital located in Winchester, Indiana.
- *St. Vincent Clay Hospital, Inc. (Clay)*: Clay is an acute care hospital located in Brazil, Indiana.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

- *St. Vincent Mercy Hospital (Mercy)*: Mercy is an acute care hospital located in Elwood, Indiana.
- *St. Vincent Salem Hospital, Inc. (Salem)*: Salem is an acute care hospital located in Salem, Indiana.
- *St. Vincent Dunn Hospital, Inc. (Dunn)*: Dunn is an acute care hospital located in Bedford, Indiana.

Other Health Care Entities:

- *St. Vincent Hospital Foundation, Inc., Saint John's Foundation, Inc., St. Joseph Foundation of Kokomo, Indiana, Inc., St. Vincent Frankfort Hospital Foundation, Inc., St. Vincent Randolph Hospital Foundation, Inc., St. Vincent Williamsport Hospital Foundation, Inc., St. Vincent Jennings Hospital Foundation, Inc., St. Vincent Clay Hospital Foundation, Inc., and St. Vincent Mercy Hospital Foundation, Inc. (the Foundations)*: The Foundations provide fund-raising efforts to support the charitable, religious, scientific, and educational purposes of charitable works of SVHHS, Saint John's, St. Joseph-Kokomo, Frankfort, Randolph, Williamsport, Jennings, Clay, Mercy, and other health facilities in accordance with the mission and values of Ascension Health.
- *Central Indiana Health System Cardiac Services, Inc. (CIHSCS)*: CIHSCS is a 49% joint venture partner in Lafayette Heart Program Holdings, LLC, a cardiac program in Lafayette, Indiana. CIHSCS also owns a controlling 74.1% of St. Vincent Heart Center of Indiana, LLC (SVHCI), a freestanding cardiac hospital in Carmel, Indiana.
- *St. Vincent Health, Inc. (SVH)*: SVH provides the corporate support functions for the Corporation.
- *St. Vincent Physician Network, LLC (SPN)*: SPN is the Corporation's primary and specialty care network of physicians.
- *St. Vincent Medical Center Northeast, Inc. (SVMCNE)*: SVMCNE is a real estate holding company that is holding land for future expansion of health care services.
- *St. Vincent Medical Group, Inc. (SVMG)*: SVMG is the Corporation's multi-specialty physician network consisting primarily of cardiology physicians and cardiovascular surgeons. SVMG became part of the Corporation effective July 1, 2010.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

- *Quality Healthcare Solutions, LLC DBA Navion Healthcare Solutions (Navion)*: Navion aims to optimize patient care with its physicians and hospital partners by advancing quality, improving operational performance, and reducing costs through data-driven solutions. Navion's services include data management and abstraction, performance improvement, service line management, and consulting.

Acquisitions

Effective July 1, 2010, the Corporation acquired certain assets owned by The Care Group, LLC (TCG), Northside Cardiac Cath Lab Partnership (Northside), The Care Labs, LLC (TCL), Care Group Cardiovascular Management, LLC (CGC), and Indiana Heart Institute, LLC (IHI). Ultimate owners from these entities included physicians and non-physicians affiliated with multiple physician practices. Such acquired assets were used in the operation of a medical practice, several cardiac and vascular catheterization laboratories, a management services company, and a data collections company. In addition, CIHSCS acquired approximately four additional units of ownership interest in SVHCI, bringing its total ownership interest to approximately 74.1%. The companies were acquired as part of the Corporation's strategy to continue to enhance its services and mission by aligning with physician practices. The Corporation allocated the total purchase price of \$96,711 to assets acquired and liabilities assumed based upon estimated fair value on the acquisition date, in accordance with generally accepted accounting principles. The transaction was financed primarily through a promissory note with a final payment made on July 1, 2012.

The Corporation purchased CorVasc MD's, PC (CorVasc), a cardiovascular physician group, effective July 1, 2011, for a total purchase price of \$2,907. CorVasc is operated under the Corporation's subsidiary SVMG.

The Corporation purchased Women's Health Alliance, PC (WHA) and Coest Laboratories, Inc. (COEST) effective April 1, 2012, for a total purchase price of \$1,548. WHA is a group of obstetrics and gynaecology physicians. WHA and COEST are operated under the Corporation's subsidiary St. Vincent Carmel Hospital, Inc.

Consistent with the Corporation's policy and historical practice, the Corporation utilized independent third-party appraisers and advisors in estimating the fair market value of acquired assets and liabilities assumed, as well as the commercial reasonableness of the transactions.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay. The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.
- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.
- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and community benefit programs. The cost of providing care of persons living in poverty and community benefit programs is estimated using internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association (CHA) and the Internal Revenue Service (IRS).

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately \$61,943 and \$52,740 for the years ended June 30, 2012 and 2011, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the Corporation or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation.

Investments in entities where the Corporation does not have operating control are recorded under the equity or cost method of accounting. The following reflects the Corporation's interest in unconsolidated entities in the consolidated balance sheets, as well as income or loss for such entities included in the consolidated excess of revenues and gains over expenses and losses in the accompanying consolidated statements of operations and changes in net assets:

	Investment Recorded in Consolidated Balance Sheets as of		Effect on Consolidated Excess of Revenues and Gains Over Expenses and Losses for the	
	2012	2011	2012	2011
Mid America Clinical Laboratories, LLC	\$ 5,664	\$ 5,366	\$ 2,659	\$ 2,924
Naab Road Surgery Center, LLC	1,678	1,549	3,356	2,787
The Surgery Center of Indianapolis, LLC	1,735	1,067	2,411	1,955
Advantage Health Solutions, Inc.	6,237	8,380	(2,143)	223
Carmel Ambulatory Surgery Center, LLC	2,008	2,073	5,785	4,898
Lafayette Heart Program Holdings, LLC	8,000	7,800	-	-
Indiana Orthopaedic Hospital, LLC	39,824	40,394	6,012	6,221
Rehabilitation Hospital of Indiana, Inc.	1,569	212	1,356	-
Other	10,225	9,013	(2,693)	(2,301)
	<u>\$ 76,940</u>	<u>\$ 75,854</u>	<u>\$ 16,743</u>	<u>\$ 16,707</u>

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

The Corporation purchased an equity interest in Indiana Orthopaedic Hospital, LLC effective October 23, 2009, for a purchase price of \$40,000. The transaction resulted in approximately \$37,788 of goodwill. As of July 1, 2010, the remaining goodwill balance of \$36,109 is no longer amortized and is maintained within the investment in unconsolidated entities in the accompanying consolidated balance sheets.

The Corporation's equity in the net income (loss) of unconsolidated entities is recorded in other operating revenue if the investment relates to providing health care services and is recorded in other nonoperating gains (losses) if the investment relates to activities not related to providing health care services. The Corporation recorded \$19,227 and \$16,898 in other operating revenue for the years ended June 30, 2012 and 2011, respectively. The Corporation recorded \$(2,484) and \$(191) in other nonoperating gains (losses) for the years ended June 30, 2012 and 2011, respectively.

Use of Estimates

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximates fair value. The fair values of financial instruments classified as other than current assets and current liabilities are disclosed in the Fair Value Measurements, Long-Term Debt, Pension Plans, and Related-Party Transactions notes.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Interest in Investments held by Ascension Health Alliance, Investments and Investment Return

At June 30, 2011 and prior to April 2012, the Corporation held a significant portion of its investments through the Health System Depository (HSD), an investment pool of funds in which the System and a limited number of nonprofit health care providers participated. The HSD investments were managed primarily by external investment managers within established investment guidelines. The value of the Corporation's investment in the HSD represented the Corporation's pro rata share of the HSD's funds held for participants. At June 30, 2011, the Corporation's investment in the HSD was \$1,737,672, reflected in cash and cash equivalents, assets limited as to use and other long term investments in the consolidated balance sheet.

During the year ended June 30, 2012, the CHIMCO Alpha Fund, LLC (Alpha Fund) was created to hold primarily all investments previously held through the HSD. Catholic Healthcare Investment Management Company (CHIMCO), a wholly owned subsidiary of Ascension Health Alliance, acts as a manager and serves as the principal investment advisor for the Alpha Fund within established investment guidelines, including socially responsible investment guidelines. In April 2012, a significant portion of the HSD's funds held for participants was transferred to the Alpha Fund, in which Ascension Health Alliance invests funds in the Alpha Fund on behalf of the Corporation. As of June 30, 2012, the Corporation has an interest in investments held by Ascension Health Alliance, which is reflected in the consolidated balance sheet, and represents the Corporation's pro rata share of Ascension Health Alliance's investment interest in the Alpha Fund.

The Corporation also invests in cash and short-term investments, U.S. government obligations, corporate obligations, marketable equity securities, international securities, and real estate investments which are locally managed. Most of these funds are held in locally managed foundations where the Corporation has control over foundation assets.

The Corporation reports its interest in investments held by Ascension Health Alliance in the accompanying consolidated June 30, 2012 balance sheet as a current or long-term asset, based on liquidity needs as directed by the Corporation and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Corporation. The Corporation reports its other investments, including Foundation investments, in the accompanying balance sheets based upon the long- or short-term nature of the investments and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Corporation.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

The Corporation's investments, including its interest in investments held by Ascension Health Alliance, are measured at fair value and are classified as trading securities. The Alpha Fund's and the HSD's investments, which are required to be recorded at fair value, are classified as trading securities and include pooled short-term investment funds; U.S. government, state, municipal and agency obligations; asset-backed securities; corporate and foreign fixed income maturities; and equity securities, including private equity securities. The Alpha Fund's and HSD's investments also include alternative investments, including investments in real assets, hedge funds, private equity funds, commodity funds and private credit funds, which are valued based on the net asset value of the investments. In addition, the Alpha Fund participates, and the HSD participated, in securities lending transactions whereby a portion of its investments is loaned to selected brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns are comprised of dividends, interest, and gains and losses on the Corporation's investments, as well as the Corporation's return on its interest in investments held by Ascension Health Alliance and the HSD, and are reported as nonoperating gains (losses) in the consolidated statements of operations and changes in net assets, unless the return is restricted by donor or law.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value utilizing the first-in, first-out (FIFO) method.

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including internally developed software. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage (expensed), application development stage (capitalized), or post-implementation stage (expensed). Intangible assets are included in other noncurrent assets in the accompanying consolidated balance sheets and are comprised of the following:

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

2. Significant Accounting Policies (continued)

	June 30	
	2012	2011
Goodwill	\$ 103,838	\$ 101,694
Capitalized computer software costs	134,779	110,516
Accumulated amortization computer software costs	(67,519)	(50,977)
Other finite life intangibles	24,948	24,021
Accumulated amortization of other finite life intangibles	(6,484)	(3,133)
Total intangible assets	<u>\$ 189,562</u>	<u>\$ 182,121</u>

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs and other intangibles, are amortized over their expected useful lives.

Computer software costs are amortized over a range of 3 to 7 years. Other finite life intangibles include lease acquisition costs and assumed contracts and are amortized over a range of 5 to 10 years. Total amortization expense for 2012 and 2011 was \$19,893 and \$17,353, respectively. The five-year amortization of computer software and other finite life intangibles is as follows: 2013 – \$19,574, 2014 – \$16,059, 2015 – \$13,509, 2016 – \$12,368, and 2017 – \$8,009.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2012 and 2011 was \$66,922 and \$69,027, respectively.

Estimated useful lives by asset category are as follows: land improvements – 10 to 15 years; buildings – 20 to 40 years; and equipment – 3 to 10 years. Interest costs incurred as part of related construction are capitalized during the period of construction. Net interest capitalized in 2012 was \$175.

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$16,055 as of June 30, 2012.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

The Corporation recognizes the fair value of asset retirement obligations, including conditional asset retirement obligations, if the fair value can be reasonably estimated in the period in which the liability is incurred. Asset retirement obligations include, but are not limited to, certain types of environmental issues which are legally required to be remediated upon an asset's retirement, as well as contractually required asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be conditional on a future event and/or where the timing or method of such settlement may be uncertain. Subsequent to initial recognition, accretion expense is recognized until the asset retirement liability is estimated to be settled.

The Corporation's most significant asset retirement obligation relates to required future asbestos remediation in certain hospital buildings. Asset retirement obligations of \$9,053 and \$8,598 as of June 30, 2012 and June 30, 2011, respectively, are recorded in other noncurrent liabilities in the accompanying consolidated balance sheets. During 2012 and 2011, there were no retirement obligations incurred and settled. Accretion expense of \$455 and \$435 was recorded in 2012 and 2011, respectively.

Noncontrolling Interest

The consolidated financial statements include all assets, liabilities, revenue and expenses of less than 100% owned or controlled entities the Corporation controls in accordance with applicable accounting guidance. Accordingly, the Corporation has reflected a noncontrolling interest for the portion of net assets not owned or controlled by the Corporation separately on the consolidated balance sheets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which includes endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes, primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, contributions of property and equipment, and other transfers between funds.

Operating and Nonoperating Activities

The Corporation's primary mission is to meet the health care needs in its market area through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation's primary mission are considered to be nonoperating, consisting primarily of investment return and income (loss) from certain unconsolidated joint ventures, offset by grants.

Net Patient Service Revenue, Accounts Receivable, and Allowance for Uncollectible Accounts

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided, excluding the provision for bad debt expense and including estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by approximately \$22,483 and \$20,664 for the years ended June 30, 2012 and 2011, respectively.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

During 2012 and 2011, approximately 29% of net patient service revenue was received under the Medicare program. During 2012 and 2011, approximately 10% and 7%, respectively, was received under various state Medicaid programs. The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of net accounts receivable at June 30, 2012 include Medicare (17%), Medicaid (8%), Blue Cross (18%), managed care and commercial (42%), and self-pay (15%). Significant concentrations of net accounts receivable at June 30, 2011 include Medicare (17%), Medicaid (9%), Blue Cross (19%), managed care and commercial (36%), and self-pay (19%).

The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Corporation follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies.

The Corporation has an agreement to transfer certain patient receivables with recourse to a third party in exchange for cash at a discounted rate. The Corporation is deemed to have retained the risk of ownership of the receivables, which serve as collateral for the cash advanced to the Corporation, and the Corporation continues to reflect the receivables and related liability to the third party on its consolidated balance sheets. As of June 30, 2012 and 2011, receivables subject to this arrangement were \$21,280 and \$18,245, respectively, and are included in other current assets. The Corporation estimates its recourse obligation, which is reflected in accounts payable and other accrued liabilities.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Hospital Assessment Fee

The Indiana Hospital Association (IHA) and the Office of Medicaid Policy and Planning (OMPP) worked together to develop and implement a hospital assessment fee program as enacted by the 2011 Session of the Indiana General Assembly. The Centers for Medicare and Medicaid Services (CMS) approved the state plan amendment necessary to implement these changes with an effective date of July 1, 2011. The program will continue through June 30, 2013. Under this program, OMPP will collect an assessment fee from eligible hospitals. The fee will be used in part to increase reimbursement to eligible hospitals for services provided in both fee-for-service and managed care programs, and as the state share of disproportionate share hospital (DSH) payments. During 2012, the Corporation incurred \$57,761 in Medicaid tax under this program, which is reflected in total operating expenses in the accompanying 2012 consolidated statement of operations and changes in net assets. The Corporation earned additional Hospital Assessment Fee (HAF) reimbursement of \$103,741, which is reflected in net patient service revenue in the accompanying 2012 consolidated statement of operations and changes in net assets.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The Corporation recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling \$2,908 for the year ended June 30, 2012, are included in total operating revenue in the accompanying consolidated statement of operations and changes in net assets.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Impairment and Nonrecurring Gains (Losses), Net

Long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on discounted net cash flows or other estimates of fair value.

During the years ended June 30, 2012 and 2011, the Corporation recorded total impairment expense, offset by nonrecurring gains of \$52,336 and \$(2,286), respectively. For the year ended June 30, 2012, this amount was comprised of long-lived asset impairments of approximately \$(1,830) related to the termination of an information technology service contract and nonrecurring pension curtailment gain of approximately \$54,166. For the year ended June 30, 2011, this amount was comprised of long-lived asset impairments of approximately \$(2,286) related to the termination of an information technology service contract.

Income Taxes

The member health care entities of the Corporation, an Indiana not-for-profit corporation, are primarily tax-exempt organizations under Internal Revenue Code (the Code) Section 501(c)(3) or 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The Corporation accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

At June 30, 2012, the Corporation has a net operating loss carryforward of \$12,500 which results in a deferred tax asset of \$4,577 for federal and state income tax purposes. These losses expire in varying amounts from 2024 through 2031. A valuation allowance has been recorded for the full amount of the deferred asset related to the net operating loss carryforwards due to the uncertainty regarding their use.

SVHCI members have elected, under the applicable provisions of the Code, to be taxed as a partnership, whereby taxable income is taxed directly to the members and not to SVHCI. The allocable share of earnings from SVHCI is also exempt from income tax because it is related to the Corporation's tax-exempt purpose. Accordingly, the consolidated financial statements do not include any provision for federal or state income taxes.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Regulatory Compliance

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Corporation. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of these investigations will not have a material adverse impact on the consolidated financial statements of the Corporation.

Reclassifications

Certain reclassifications were made to the 2011 consolidated financial statements to conform to the 2012 presentation. Such reclassifications had no impact on the change in net assets.

Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition or disclosure in the financial statements as of the balance sheet date. For the year ended June 30, 2012, the Corporation evaluated subsequent events through September 11, 2012, representing the date on which the financial statements were available to be issued. During this period, there were no subsequent events that required recognition or disclosure in the financial statements. Additionally, there were no nonrecognized subsequent events that required disclosure other than those disclosed in the Subsequent Events note.

Adoption of New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued its accounting standards update (ASU) entitled *Improving Disclosure about Fair Value Measurements* in ASU No. 2010-06. This standard update clarified certain fair value measurement guidance and required that additional fair value measurement disclosures be made. The Corporation adopted a portion of this guidance during the fiscal year ended June 30, 2010, and the remaining requirements as of July 1, 2011, as required. The disclosure updates adopted as of July 1, 2011 result in the provision of additional detail within the reconciliation of beginning and ending balances for assets and liabilities measured at fair value, whose fair value inputs are based on significant unobservable inputs (i.e. Level 3 assets and liabilities). Those additional disclosure requirements are provided in the Fair Value Measurements notes. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2012.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

In August 2010, the FASB issued its accounting standards update entitled *Measuring Charity Care for Disclosure* in ASU No. 2010-23. The provisions of this update require health care entities to disclose charity care based on cost measurements, defined as the direct and indirect costs of providing the charity care. The Corporation adopted this guidance on July 1, 2011; however, as the Corporation has historically used cost-based measure for the calculation and disclosure of its charity care, the adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2012.

Also, in August 2010, the FASB issued its accounting standards update entitled *Presentation of Insurance Claims and Related Insurance Recoveries* in ASU No. 2010-24. This update applies to health care entities, and clarifies that the liabilities associated with malpractice claims or other similar liabilities must not be presented net of related anticipated insurance recoveries. Additionally, this guidance requires that such claim liabilities be calculated without consideration of insurance recoveries. The Corporation adopted the guidance in this accounting standards update as of July 1, 2011. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2012.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)*. This accounting standards update provides clarifications to certain existing fair value measurements guidance, and includes updated guidance for certain fair value measurement principles and disclosures. The Corporation adopted this guidance as of January 1, 2012. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended June 30, 2012.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This accounting standards update requires healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the statement of operations rather than as operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for uncollectible accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011. The Corporation plans to adopt the provisions of this accounting standards update as of and for the year ended June 30, 2013, and retrospectively apply the presentation requirements to all periods presented.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-Term Investments

At June 30, 2012, the Corporation's investments are comprised of its interest in investments held by Ascension Health Alliance and certain other investments, including investments held and managed by the Corporation's foundations. At June 30, 2011, the Corporation's investments were comprised of the Corporation's pro rata share of the HSD's funds held for participants and certain other investments, including investments held and managed by foundations. Board-designated investments represent investments designated by resolution of the Board of Trustees to put amounts aside primarily for future capital expansion and improvements. Assets limited as to use primarily include investments restricted by donors. In June 2011, the Board of Trustees released the board designation on a majority of the funded depreciation accounts. The Corporation's cash, cash equivalents, interest in investments held by Ascension Health Alliance and assets limited as to use and other long-term investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	June 30	
	2012	2011
Cash and cash equivalents	\$ 31,714	\$ 125,982
Short-term investments	34,820	37,093
Current portion of assets limited as to use	2,244	2,200
Board-designated investments	15,425	15,112
Assets limited as to use:		
Temporarily or permanently restricted	55,139	54,717
Other long-term investments	–	1,679,076
Total assets limited as to use and other long-term investments	139,342	1,914,180
Interest in investments held by Ascension Health Alliance	1,801,151	–
Total	\$ 1,940,493	\$ 1,914,180

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-Term Investments (continued)

The composition of cash and investments classified as cash and cash equivalents, short-term investments, assets limited as to use, and other investments is summarized as follows:

	June 30	
	2012	2011
Cash and cash equivalents	\$ 37,468	\$ 68,601
Short-term investments	34,820	37,093
U.S. government obligations	2,471	4,149
Corporate and foreign fixed income investments	17,229	8,889
Asset-backed securities	111	3,358
Equity securities	31,996	37,976
International securities	10,625	11,591
Private equity and other investments	1,460	1,351
Other assets limited as to use	3,162	3,500
Subtotal, included in cash and cash equivalents, short-term investments, assets limited as to use and other long-term investments	139,342	176,508
Interest in investments held by Ascension Health Alliance	1,801,151	–
Pro rata share of HSD funds held for participants	–	1,737,672
Cash and cash equivalents, short-term investments, interest in investments held by Ascension Health Alliance, assets limited as to use and other long-term investments	\$ 1,940,493	\$ 1,914,180

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-Term Investments (continued)

As of June 30, 2012 and 2011, the composition of total Alpha Fund and HSD investments is as follows:

	June 30	
	2012	2011
Cash, cash equivalents and short-term investments, including pooled short-term investment funds	4.7%	6.9%
U.S. government obligations	32.1	27.4
Asset-backed securities	10.3	15.8
Corporate and foreign fixed income maturities	9.0	11.3
Equity, private equity and other investments	43.9	38.6
	100.0%	100.0%

Investment return recognized by the Corporation is summarized as follows:

	Year Ended June 30	
	2012	2011
Return on interest in investments held by Ascension Health Alliance and investment return in HSD	\$ (34,825)	\$ 250,281
Interest and dividends	2,960	2,090
Net (losses) gains on investments reported at fair value	(1,489)	12,792
Restricted investment income	81	1,818
Total investment return	\$ (33,273)	\$ 266,981
Investment return included in nonoperating (losses) gains	\$ (33,255)	\$ 262,149
(Decrease) increase in restricted net assets	(18)	4,832
Total investment return	\$ (33,273)	\$ 266,981

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Fair Value Measurements

The Corporation categorizes, for disclosure purposes, assets and liabilities measured at fair value in the consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Corporation follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar investments in active markets or exchanges or prices quoted for identical or similar investments in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Fair Value Measurements (continued)

As of June 30, 2012 and 2011, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables on the following pages utilize the following valuation techniques and inputs:

Cash and cash equivalents and short-term investments

Short-term investments designated as Level 2 investments are primarily comprised of commercial paper, whose fair value is based on amortized cost. Significant observable inputs include security cost, maturity, and credit rating, interest rate and par value. Cash and cash equivalents and additional short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

Guaranteed pooled fund

The fair value of guaranteed pooled fund investments is based on cost plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying the annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

U.S. government, state, municipal and agency obligations

The fair value of investments in U.S. government, state, municipal and agency obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Corporate and foreign fixed income maturities

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds and foreign government bonds, is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Fair Value Measurements (continued)

Asset-backed securities

The fair value of U.S. agency and corporate asset-backed securities is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Equity securities

The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Private equity and other investments

The fair value of private equity investments is primarily determined using techniques consistent with both the market and income approaches, based on the Corporation's estimates and assumptions in the absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including, but not limited to, restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

Alternative investments consist of hedge funds, private equity funds, and real estate partnerships. Alternative investments are valued using net asset values as determined by external investment managers.

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-Term Investment notes, the Corporation has an investment in investments held by Ascension Health Alliance and certain other investments, such as those investments held and managed by foundations. As of June 30, 2012, 17%, 52%, and 31% of total Alpha Fund assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Fair Value Measurements (continued)

Level 3 inputs, respectively, while 0%, 100%, and 0% of total Alpha Fund liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2, and Level 3 inputs, respectively.

As of June 30, 2011, 31%, 67%, and 2% of total HSD assets that were measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively, while 1%, 84%, and 15% of total HSD liabilities that were measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively.

The following table summarizes fair value measurements, by level, at June 30, 2012, for all other financial assets and liabilities which are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Cash and cash equivalents	\$ 5,424	\$ 294	\$ –	\$ 5,718
Short-term investments	10,512	24,308	–	34,820
U.S. government obligations	–	2,471	–	2,471
Corporate and foreign fixed income investments	–	17,229	–	17,229
Asset-backed securities	–	111	–	111
Equity investments	28,968	3,028	–	31,996
International securities	10,625	–	–	10,625
Subtotal of assets at fair value	55,529	47,441	–	102,970
Assets not measured at fair value				<u>36,372</u>
Subtotal, included in cash and cash equivalents, short-term investments, assets limited as to use and other long-term investments				<u>\$ 139,342</u>
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	\$ 9,123	\$ –	\$ –	\$ 9,123
Guaranteed pooled fund	\$ –	\$ –	\$ 1,543	\$ 1,543

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2011, for all other financial assets and liabilities that are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2011				
Cash and cash equivalents	\$ 11,805	\$ 322	\$ –	\$ 12,127
Short-term investments	11,329	25,764	–	37,093
U.S. government obligations	–	4,149	–	4,149
Corporate and foreign fixed income investments	–	8,889	–	8,889
Asset-backed securities	–	3,358	–	3,358
Equity investments	35,076	2,900	–	37,976
International securities	11,591	–	–	11,591
Subtotal of assets at fair value	69,801	45,382	–	115,183
Assets not measured at fair value				<u>61,325</u>
Subtotal, included in cash and cash equivalents, short-term investments, assets limited as to use and other long-term investments				<u>\$ 176,508</u>
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	\$ 7,599	\$ –	\$ –	\$ 7,599
Guaranteed pooled fund	\$ –	\$ –	\$ 1,161	\$ 1,161

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

4. Fair Value Measurements (continued)

During the years ended June 30, 2012 and 2011, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) were comprised of the following. Transfers in or out of Level 3 are recognized as of the beginning of the reporting period. The balance at July 1, 2010, was \$963; purchases, issuances, and settlements were \$149; and transfers into Level 3 were \$49. The balance at July 1, 2011, was \$1,161; purchases, issuances, and settlements were \$239; and transfers into Level 3 were \$143, resulting in an ending balance at June 30, 2012, of \$1,543.

5. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2012	2011
Intercompany debt with Ascension Health Alliance, payable in installments through November 2051; interest (3.79% and 3.88% at June 30, 2012 and 2011, respectively) adjusted based on the prevailing blended market interest rate of underlying debt obligations	\$ 333,878	\$ 336,296
Notes payable with The Care Group, LLC and other related entities, payable July 2, 2012, interest at 4.25%	9,167	9,167
	343,045	345,463
Less current portion	(11,779)	(2,419)
Long-term debt, less current portion	\$ 331,266	\$ 343,044

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Long-Term Debt (continued)

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

Year ending June 30:	
2013	\$ 11,779
2014	4,942
2015	5,090
2016	4,249
2017	5,238
Thereafter	311,747
Total	<u>\$ 343,045</u>

Certain members of Ascension Health Alliance formed the Ascension Health Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, senior designated affiliate, or senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by Ascension Health Alliance. Though senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI, Ascension Health Alliance may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including repayment of the outstanding obligations. Additionally, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health Alliance with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation. The Corporation is a senior obligated group member under the terms of the Senior MTI.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

5. Long-Term Debt (continued)

A Subordinate Credit Group, which is comprised of subordinate obligated group members, subordinate designated affiliates and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (the Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by Ascension Health Alliance. Though subordinate designated affiliates and subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI, Ascension Health Alliance may cause each subordinate designated affiliate to transfer such amounts as are necessary to enable the obligated group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with Ascension Health Alliance, with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation. The Corporation is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper and other obligations, the proceeds of which are in turn loaned to the Senior and Subordinate Credit Group members subject to a long-term amortization schedule of 1 to 39 years.

Certain portions of Senior and Subordinate Credit Group borrowings may be periodically subject to interest rate swap arrangements to effectively convert borrowing rates on such obligations from a floating to a fixed interest rate or vice versa based on market conditions. Additionally, Senior and Subordinate Credit Group borrowings may, from time to time, be refinanced or restructured in order to take advantage of favorable market interest rates or other financial opportunities. Any gain or loss on refinancing, as well as any bond premiums or discounts, are allocated to the Senior and Subordinate Credit Group members based on their pro rata share of the Senior and Subordinate Credit Group obligations. Senior and Subordinate Credit Group refinancing transactions rarely have a significant impact on the outstanding borrowings or intercompany debt amortization schedule of any individual Senior and Subordinate Credit Group member.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

5. Long-Term Debt (continued)

The carrying amounts of intercompany debt with Ascension Health Alliance and other debt approximate fair value based on a portfolio market valuation provided by a third party.

The Senior and Subordinate Credit Group financing documents contain certain restrictive covenants, including a debt service coverage ratio.

As of June 30, 2012, the Senior Credit Group has a line of credit of \$1,000,000, which may be used as a source of funding for unremarketed variable rate debt (including commercial paper) or for general corporate purposes, toward which bank commitments totaling \$1,000,000 extend to November 9, 2014. As of June 30, 2012 and 2011, there were no borrowings under the line of credit.

As of June 30, 2012, the Subordinate Credit Group has a \$50,000 revolving line of credit related to its letters of credit program, toward which a bank commitment of \$50,000 extends to December 27, 2012. As of June 30, 2012, \$26,607 of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

The outstanding principal amount of all hospital revenue bonds of Senior and Subordinate Credit Group members is \$4,451,285, which represents 41% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at June 30, 2012.

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements, such as commercial paper issuances, bond financing and similar transactions. The term of the guarantee is equal to the term of the related debt, which can be as short as 30 days or as long as 27 years. The maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under its guarantees and other commitments at June 30, 2012, is approximately \$170,000.

As discussed in the Organization and Mission note to the consolidated financial statements, St. Vincent Health completed the purchase of The Care Group, LLC (TCG) and related entities, effective July 1, 2010, which resulted in the issuance of \$91,711 of promissory notes with TCG and related entities, of which \$82,544 was paid in 2011. The remaining \$9,167 is payable in July 2012. The promissory notes bear interest at 4.25% and are secured by certain fixed assets of the Corporation.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

5. Long-Term Debt (continued)

During the years ended June 30, 2012 and 2011, interest paid was approximately \$13,141 and \$15,502, respectively. Capitalized interest was approximately \$175 for the year ended June 30, 2012.

6. Pension Plans

The Corporation participates in the Ascension Health Pension Plan (the Ascension Plan), the Ascension Health Defined Contribution Plan, and the St. Vincent Heart Center of Indiana Retirement Plan. Details of these plans are as follows.

Ascension Health Pension Plan

The Corporation participates in the Ascension Plan, a noncontributory defined benefit pension plan, which covers substantially all eligible employees of certain System entities. Benefits are based on each participant's years of service and compensation. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust (the Trust), a master trust consisting of cash and cash equivalents, equity, fixed income funds and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Net periodic pension cost of \$18,156 in 2012 and \$46,785 in 2011 was charged to the Corporation. Additionally, net periodic pension cost for non-Ascension Health Pension Plans of \$491 in 2012 and \$144 in 2011 was charged to the Corporation. The service cost component of net periodic pension cost charged to the Corporation is actuarially determined, while all other components are allocated based on the Corporation's pro rata share of Ascension Health's overall projected benefit obligation.

During the year ended June 30, 2012, the System approved and communicated to employees a redesign of associate retirement benefits, which affects the Ascension Plan, as well as provides an enhanced comprehensive defined contribution plan. These changes will become effective January 1, 2013. These changes resulted in the Corporation's recognition of a nonrecurring curtailment gain of \$54,166 during the year ended June 30, 2012. These changes also resulted in one-time decreases to the projected benefit obligation of \$74,664. The projected benefit obligation is included in pension and other postretirement liabilities in the accompanying consolidated balance sheets.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Pension Plans (continued)

The assets of the Ascension Plan are available to pay the benefits of eligible employees of all participating entities. In the event participating entities are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so. As of June 30, 2012, the Ascension Plan had a net unfunded liability of \$267,828. The Corporation's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at June 30, 2012 and 2011, was \$85,367 and \$76,365, respectively. Additionally, the Corporation's allocated share of the non-Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at June 30, 2012 and 2011, was \$2,789 and \$2,000, respectively. As a result of updating the funded status of the Ascension Plan, Ascension Health transferred an additional pension liability of \$65,166 to the Corporation during 2012. As a result of updating the funded status of the Ascension Plan, the Corporation's allocated share of the Ascension Plan's net funded liability was reduced by \$51,342 during 2011. These transfers are included in pension and other postretirement liability adjustments in the accompanying consolidated statements of operations and changes in net assets.

As of June 30, 2012 and 2011, the fair value of the Ascension Plan's assets available for benefits was \$3,948,293 and \$3,616,141, respectively. As discussed in the Fair Value Measurements note, the Corporation, as well as the System, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of June 30, 2012, 16%, 51%, and 33% of the Ascension Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3, respectively. With respect to the Ascension Plan's liabilities that are measured at fair value on a recurring basis, 6%, 87%, and 7% were categorized as Level 1, Level 2, and Level 3, respectively, as of June 30, 2012. Additionally, as of June 30, 2011, 27%, 45%, and 28% of the Ascension Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3, respectively. With respect to the Ascension Plan's liabilities that are measured at fair value on a recurring basis, 0%, 17%, and 83% were categorized as Level 1, Level 2, and Level 3, respectively, as of June 30, 2011.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Pension Plans (continued)

Ascension Health Defined Contribution Plan

The Corporation participates in the Ascension Health Defined Contribution Plan (the Defined Contribution Plan), a contributory and noncontributory, defined contribution plan sponsored by Ascension Health which covers all eligible associates. There are three primary types of contributions to the Defined Contribution Plan: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary. These benefits are funded annually, and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period and participants become fully vested in all employer contributions immediately. Defined contribution expense, representing both employer automatic contributions and employer matching contributions, was \$13,886 and \$13,114 for the years ended June 30, 2012 and 2011, respectively.

St. Vincent Heart Center of Indiana Retirement Plan

SVHCI has established a defined contribution retirement plan which covers substantially all employees. SVHCI makes a nonelective contribution which is based on the participating employee's compensation. Employees are immediately vested in this portion of the plan. In addition, SVHCI matches the participating employee's elective 401(k) contributions up to 3% of the employee's compensation. Vesting in SVHCI matching contributions is based on years of service, and such contributions are 100% vested to the employee after five years of service. Defined contribution expense, representing both employer automatic contributions and employer matching contributions, was \$1,471 and \$1,409 for the years ended June 30, 2012 and 2011, respectively.

7. Self-Insurance Programs

The Corporation participates in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2012 and 2011.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Self-Insurance Programs (continued)

In the event that sufficient funds are not available from the self-insurance programs, each participating entity may be assessed its pro rata share of the deficiency. If contributions exceed the losses paid, the excess may be returned to participating entities.

Professional and General Liability Programs

The Corporation participates in Ascension Health's professional and general liability self-insured program. Professional liability coverage is provided on an occurrence basis through a wholly owned onshore trust with a self-insured retention of \$250 per occurrence and up to \$7,500 in aggregate in compliance with participation in the Patient Compensation Fund. The Patient Compensation Fund applies to claims in excess of the primary self-insured limit. General liability coverage is provided on a claims-made basis through a wholly owned on-shore trust and offshore captive insurance company, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of \$10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to \$185,000. AHIL also retains a 20% quota share of the first \$25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers. The Corporation has a deductible of up to \$100 per claim for both professional and general liability claims depending on the size of the hospital. One entity obtains professional liability coverage through a commercial policy on a claims-made basis with limits up to \$250 per occurrence and \$750 in aggregate in compliance with participation in the Patient Compensation Fund. The Patient Compensation Fund applies to claims in excess of the primary limit.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense through Ascension Health of \$3,091 and \$5,345 for the years ended June 30, 2012 and 2011, respectively. Included in current self-insurance liabilities on the accompanying consolidated balance sheets are professional and general liability loss reserves of approximately \$3,380 and \$3,217 at June 30, 2012 and 2011, respectively.

In addition, the Corporation maintains professional and general liability coverage for its physician groups through outside insurance agencies. Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense related to physician coverage of \$3,330 and \$1,277 for the years ended June 30, 2012 and 2011, respectively.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Self-Insurance Programs (continued)

Workers' Compensation

The Corporation participates in Ascension Health's workers' compensation program, which provides occurrence coverage through a grantor trust. The trust provides coverage up to \$1,000 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members. Excess insurance against catastrophic loss is obtained through commercial insurers. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of \$5,288 and \$5,810 for the years ended June 30, 2012 and 2011, respectively.

Medical and Dental Claims

The Corporation is self-insured for medical and dental claims. The Corporation estimates its liability for covered medical and dental claims, including claims incurred but not reported, based upon historical costs incurred and payment processing experience. At June 30, 2012 and 2011, the liability for such covered medical and dental claims was \$9,700 and \$7,630, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

8. Lease Commitments

Future minimum payments under noncancelable operating leases with terms of one year or more are as follows:

Year ending June 30:	
2013	\$ 31,808
2014	27,930
2015	22,852
2016	18,728
2017	16,246
Thereafter	19,828
Total	<u>\$ 137,392</u>

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)
(Dollars in Thousands)

8. Lease Commitments (continued)

The Corporation has subleased certain of its space under the operating leases reported on the previous page. Total future minimum rents to be received under noncancelable subleases with terms of one year or more are \$1,932.

In addition, the Corporation is a lessor under certain operating lease agreements, primarily ground leases related to third-party owned medical office buildings on land owned by the Corporation. The Corporation also leases space to others in some buildings it owns. Future minimum rental receipts under all noncancelable operating leases with terms of one year or more are as follows:

Year ending June 30:	
2013	\$ 1,030
2014	1,022
2015	1,008
2016	1,008
2017	1,008
Thereafter	33,429
Total	<u>\$ 38,505</u>

Rental expense under operating leases amounted to \$53,016 and \$53,028 in 2012 and 2011, respectively.

In May 2003, the Corporation sold various outpatient and professional medical office buildings (MOBs) to a real estate investment trust (REIT) and contemporaneously leased back certain space in those buildings to support ongoing ministry operations for a period of 12 years with leases extending through 2015. These space leases are being accounted for as operating leases based on their terms, and future minimum lease payments under these leases are included in the amounts reported above. The building sales were accounted for as sale-leaseback transactions, and as such, certain gains on the sales were deferred. As of June 30, 2012 and 2011, net deferred gains of \$1,050 and \$1,598, respectively, were included in other noncurrent liabilities in the accompanying consolidated balance sheets. These gains are being recognized as operating income over the related leaseback terms. In connection with that sale, the Corporation entered into a long-term ground lease for the property underlying the buildings, whereby the REIT is able to take control of the buildings for 50 years with one 25-year renewal at the option of the REIT.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Related-Party Transactions

The Corporation utilized various centralized programs and overhead services of the System or its other sponsored organizations, including risk management, retirement services, treasury, debt management, executive management support, internal audit services, administrative services, biomedical engineering and information technology services. The charges allocated to the Corporation for these services represent both allocations of common costs and specifically identified expenses that are incurred by the System on behalf of the Corporation. Allocations are based on relevant metrics, such as the Corporation's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of the System. The amounts charged to the Corporation for these services may not necessarily result in the net costs that would be incurred by the Corporation on a stand-alone basis. The charges allocated to the Corporation were approximately \$112,528 and \$101,208 for the years ended June 30, 2012 and 2011, respectively.

In addition to the charges discussed above, the Corporation made payments to the System of \$35,819 and \$35,505 for the years ended June 30, 2012 and 2011, representing the Corporation's share of costs to fund a System-wide information technology and process standardization project that is expected to continue through December 2014. Also, during the years ending June 30, 2012 and 2011, the Corporation transferred cash and investments of \$4,935 and \$25,487, respectively, in support of Ascension Health's strategic initiatives and Sister services. These payments are included in transfers to sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets.

The Corporation purchased \$31,008 of laboratory services in 2012 (\$28,581 in 2011) from Mid America Clinical Laboratories, LLC (MACL). SVHHS is a 25% owner of MACL.

The Corporation paid \$577 and \$802 to Suburban Health Organization (SHO) in 2012 and 2011, respectively, for items such as physician recruitment dues, third-party administration (TPA) services, and network development. SHO processed \$45,303 and \$34,150 in claim payments for the Corporation in 2012 and 2011, respectively. SVH is a Class D stockholder of SHO.

The Corporation paid \$1,688 and \$708 to NeuroOncology Equipment, LLC (Novalis) in 2012 and 2011, respectively, for rental of equipment. SVHHS is a 50% owner of Novalis.

The Corporation paid \$1,800 and \$1,635 to United Hospital Services, LLC (UHS) in 2012 and 2011, respectively, for laundry services. SVHHS is a 16.7% owner of UHS.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Related-Party Transactions (continued)

The Corporation paid \$615 to Breast MRI Leasing Company, LLC (Breast MRI) in both 2012 and 2011 for rental of equipment. SVHHS is a 50% owner of Breast MRI.

The Corporation paid \$2,400 and \$3,000 to Orthopaedic Consulting Services, LLC (OCS) in 2012 and 2011, respectively, for management fees. SVHHS is a 5% owner of OCS.

The Corporation participates in a joint venture arrangement for the operation of the Rehabilitation Hospital of Indiana, Inc. (RHI), a free-standing, not-for-profit, comprehensive rehabilitation facility. The Corporation guarantees 50% of the outstanding bonds and line-of-credit amounts (\$8,210 at June 30, 2012), using a supporting letter of credit for payment of principal and interest on certain debt issued on behalf of RHI. The guarantee extends through the term of the debt and expires on November 1, 2020. A long-term liability has been recorded in the accompanying consolidated balance sheets of \$90 and \$212 in 2012 and 2011, respectively, representing the fair value of this guarantee determined using a discounted cash flow analysis. The Corporation also provided RHI with a working capital loan of \$1,500 in June 2010.

The Corporation is a 34.5% owner of Advantage Health Solutions, Inc. (Advantage). SVHHS is a 50% guarantor on the minimum statutory net worth requirement with the Indiana Department of Insurance. The guarantee amount approximates \$5,272 at June 30, 2012; however, because Advantage is well in excess of the minimum statutory net worth requirements, the Corporation estimates the fair value of this guarantee to be zero.

As part of the formation of the Meridian Heights Associates, LLC joint venture with St. Vincent Carmel, St. Vincent Carmel pledged 9.51 acres of land as collateral for the financing of the joint venture. St. Vincent Carmel is a 50% owner of the Meridian Heights Associates, LLC joint venture.

The Corporation provides professional services to some of its joint ventures. The revenue received for these services was \$41,747 and \$33,194 in 2012 and 2011, respectively, and is included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

The Corporation provides professional services to other members of Ascension Health. The revenue recorded for these services was \$1,710 and \$1,458 in 2012 and 2011, respectively.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Contingencies and Commitments

In addition to professional liability claims, the Corporation is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the Corporation's consolidated balance sheets.

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICDs) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, the Corporation will be reviewing applicable medical records for response to the DOJ. The DOJ's investigation spans a time frame beginning in 2004 and extending through the present time. Through September 11, 2012, the DOJ has not asserted any claims against the Corporation. Ascension Health and the Corporation continue to fully cooperate with the DOJ in its investigation.

The Corporation enters into agreements with non-employed physicians that include minimum revenue guarantees. These guarantees provide financial incentives to induce physicians to relocate their practices to a health ministry that serves an area with a demonstrated community need. Guarantees are designed to assist a physician in establishing a viable medical practice in a community in order to promote the health of the community. The Corporation agrees to make payments to the physician at the end of specific time periods if the gross receipts generated by the practice do not equal or exceed a specific dollar amount. The Corporation has also entered into agreements with physician groups to provide emergency room and anesthesia coverage in areas with demonstrated community need. The Corporation guarantees to cover the costs of providing coverage if there are not sufficient patient billings that exceed the cost of providing the coverage. The carrying amounts of the liability for the Corporation's obligation under these guarantees were \$6,836 and \$3,208 at June 30, 2012 and 2011, respectively, and are included in other current and noncurrent liabilities in the accompanying consolidated balance sheets.

The maximum amount of future payments that the Corporation could be required to make under these guarantees is \$7,217. However, the Corporation is entitled to proceeds of receivables collected to offset guarantee amounts paid, which reduces the total maximum guarantee amount.

The Corporation has certain supply commitments totaling \$4,157 at June 30, 2012.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)

(Dollars in Thousands)

11. Subsequent Events

St. Mary's Health, Inc. (SMH) transferred its corporate membership from Ascension Health to the Corporation effective July 1, 2012. As of this date, the Corporation serves as the sole corporate member of SMH. The fiscal year 2013 financial statements will include SMH's financial results and assets and liabilities. The 2012 financial statements will be restated to include the historical operations and balances of SMH when the comparative 2013 financial statements are issued.

Supplementary Information

Report of Independent Auditors on Supplementary Information

The Board of Directors
St. Vincent Health, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet as of June 30, 2012, consolidating statement of operations and changes in net assets, and schedule of net cost of providing care of persons living in poverty and community benefit programs for the years ended June 30, 2012 and 2011, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

September 11, 2012,
except for Note 1 on the Schedule of Net Cost of Providing Care of Persons Living in Poverty
and Community Benefit Programs, as to which the date is
October 29, 2012

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2012
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC
Assets								
Current assets:								
Cash and cash equivalents	\$ 31,714	\$ —	\$ 3,438	\$ —	\$ 2,615	\$ 455	\$ 692	\$ 11,331
Short-term investments	34,820	—	—	—	4,004	—	—	27,816
Interest in investments held by Ascension Health Alliance	39,018	—	739	—	2,358	1,324	63	—
Accounts receivable, less allowances for uncollectible accounts of \$76,835	266,785	—	—	—	14,386	25,289	—	13,481
Current portion of assets limited as to use	2,244	—	—	—	—	456	—	—
Estimated third-party payor settlements	41,816	—	—	—	1,326	4,169	—	29
Inventories	22,648	—	10	—	1,707	3,559	—	1,227
Other	39,539	(71,654)	61,470	—	1,261	3,733	—	1,723
Total current assets	478,504	(71,654)	65,657	—	27,657	38,985	755	55,607
Assets limited as to use and other long-term investments	70,564	—	51	—	1,433	4,673	—	20
Interest in investments held by Ascension Health Alliance	1,762,133	—	12,930	—	122,348	63,161	47,097	—
Property and equipment:								
Land and improvements	60,199	—	1,084	—	3,716	7,723	7,139	—
Building and equipment	1,444,709	—	118,811	—	133,996	131,080	—	66,157
Construction in progress	40,415	—	1,557	—	1,977	1,314	—	256
Less accumulated depreciation	1,039,823	—	101,483	—	104,788	106,192	1,540	41,673
Total property and equipment, net	505,500	—	19,969	—	34,901	33,925	5,599	24,740
Other assets:								
Goodwill and other intangible assets	189,562	—	65,756	—	18	7	46,756	275
Investment in unconsolidated entities	76,940	—	10,084	—	357	—	8,000	—
Other	27,289	(39,173)	53,511	535	134	301	—	67
Total other assets	293,791	(39,173)	129,351	535	509	308	54,756	342
Total assets	\$ 3,110,492	\$ (110,827)	\$ 227,958	\$ 535	\$ 186,848	\$ 141,052	\$ 108,207	\$ 80,709

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2012

(Dollars in Thousands)

	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.
Assets								
Current assets:								
Cash and cash equivalents	\$ 5,728	\$ 683	\$ 297	\$ 1,036	\$ 28	\$ 834	\$ 1,038	\$ 432
Short-term investments	—	—	438	—	17	10	—	147
Interest in investments held by Ascension Health Alliance	11,037	3,082	2,097	3,795	473	1,673	1,378	1,370
Accounts receivable, less allowances for uncollectible accounts of \$76,835	145,521	5,638	2,713	19,357	2,614	2,759	1,932	1,908
Current portion of assets limited as to use	—	—	6	—	—	—	—	—
Estimated third-party payor settlements	28,817	—	660	1	1,097	636	4	1,050
Inventories	11,690	157	170	832	412	424	—	381
Other	28,633	1,627	461	6,952	1,069	606	21	378
Total current assets	231,426	11,187	6,842	31,973	5,710	6,942	4,373	5,666
Assets limited as to use and other long-term investments	113	—	147	—	944	273	—	156
Interest in investments held by Ascension Health Alliance	827,001	10,705	9,878	481,645	19,567	27,616	273	30,624
Property and equipment:								
Land and improvements	31,112	24	1,003	4,376	722	315	939	226
Building and equipment	719,671	11,268	28,266	101,406	23,959	18,540	7,862	8,706
Construction in progress	26,943	84	—	7,227	55	224	—	—
Less accumulated depreciation	524,405	8,812	17,403	63,055	11,381	12,219	5,974	5,940
Total property and equipment, net	253,321	2,564	11,866	49,954	13,355	6,860	2,827	2,992
Other assets:								
Goodwill and other intangible assets	35,268	—	8	1,705	5	—	—	—
Investment in unconsolidated entities	53,972	—	—	4,527	—	—	—	—
Other	4,755	397	507	89	1,705	939	—	14
Total other assets	93,995	397	515	6,321	1,710	939	—	14
Total assets	\$ 1,405,856	\$ 24,853	\$ 29,248	\$ 569,893	\$ 41,286	\$ 42,630	\$ 7,473	\$ 39,452

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2012

(Dollars in Thousands)

	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Medical Group, Inc.	Quality Healthcare Solutions, LLC (Navion)	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Assets								
Current assets:								
Cash and cash equivalents	\$ 1,112	\$ 347	\$ 33	\$ 115	\$ 432	\$ 109	\$ 608	\$ 351
Short-term investments	—	—	—	—	—	—	—	2,388
Interest in investments held by Ascension Health Alliance	1,342	456	459	1,357	1,634	1,262	1,730	1,389
Accounts receivable, less allowances for uncollectible accounts of \$76,835	2,314	1,860	2,153	3,018	10,728	—	11,034	—
Current portion of assets limited as to use	—	—	—	—	—	—	—	1,782
Estimated third-party payor settlements	679	614	526	1,817	—	—	391	—
Inventories	244	207	275	606	198	—	549	—
Other	115	152	979	322	535	1,284	264	(392)
Total current assets	5,806	3,636	4,425	7,235	13,527	2,655	14,576	5,518
Assets limited as to use and other long-term investments	610	204	63	31	—	—	13	61,833
Interest in investments held by Ascension Health Alliance	26,999	3,494	3,701	507	—	13,694	57,622	3,271
Property and equipment:								
Land and improvements	280	529	—	160	—	—	851	—
Building and equipment	12,493	17,804	1,601	9,194	10,867	68	22,960	—
Construction in progress	109	46	51	368	154	—	50	—
Less accumulated depreciation	7,192	8,799	342	2,607	6,683	52	9,283	—
Total property and equipment, net	5,690	9,580	1,310	7,115	4,338	16	14,578	—
Other assets:								
Goodwill and other intangible assets	—	—	1,080	9	21,849	16,826	—	—
Investment in unconsolidated entities	—	—	—	—	—	—	—	—
Other	437	889	1,667	295	207	—	13	—
Total other assets	437	889	2,747	304	22,056	16,826	13	—
Total assets	\$ 39,542	\$ 17,803	\$ 12,246	\$ 15,192	\$ 39,921	\$ 33,191	\$ 86,802	\$ 70,622

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2012
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC
Liabilities and net assets								
Current liabilities:								
Current portion of long-term debt	\$ 11,779	\$ (3,561)	\$ 357	\$ —	\$ 132	\$ 126	\$ 696	\$ 3,561
Accounts payable and accrued liabilities	259,475	—	28,039	—	10,833	15,309	51	10,586
Estimated third-party payor settlements	41,037	—	—	—	1,934	2,486	—	2,092
Current portion of self-insurance liabilities	3,380	—	—	—	1	48	—	—
Other	12,967	(71,654)	2,051	—	2,874	2,105	8,479	1,092
Total current liabilities	328,638	(75,215)	30,447	—	15,774	20,074	9,226	17,331
Noncurrent liabilities:								
Long-term debt	331,266	(35,612)	45,235	—	16,799	15,965	—	35,611
Pension and other postretirement liabilities	88,156	—	85,972	—	—	—	—	—
Other	31,224	—	12,399	—	1,661	675	—	—
Total noncurrent liabilities	450,646	(35,612)	143,606	—	18,460	16,640	—	35,611
Total liabilities	779,284	(110,827)	174,053	—	34,234	36,714	9,226	52,942
Net assets:								
Unrestricted:								
Controlling interest	2,263,544	—	53,854	535	151,181	99,209	78,448	41,088
Noncontrolling interests	10,281	—	—	—	—	—	20,533	(13,341)
Unrestricted net assets	2,273,825	—	53,854	535	151,181	99,209	98,981	27,747
Temporarily restricted – controlling interest	40,888	—	51	—	1,037	4,620	—	20
Permanently restricted – controlling interest	16,495	—	—	—	396	509	—	—
Total net assets	2,331,208	—	53,905	535	152,614	104,338	98,981	27,767
Total liabilities and net assets	\$ 3,110,492	\$ (110,827)	\$ 227,958	\$ 535	\$ 186,848	\$ 141,052	\$ 108,207	\$ 80,709

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2012

(Dollars in Thousands)

	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.
Liabilities and net assets								
Current liabilities:								
Current portion of long-term debt	\$ 4,790	\$ 2	\$ 92	\$ 168	\$ 114	\$ 63	\$ 14	\$ 4
Accounts payable and accrued liabilities	117,349	6,528	2,099	14,644	2,198	2,068	1,419	3,603
Estimated third-party payor settlements	19,590	—	3,145	1,437	1,184	1,711	29	1,526
Current portion of self-insurance liabilities	3,123	—	1	206	1	—	—	—
Other	6,476	46,969	477	1,437	361	734	747	1,025
Total current liabilities	151,328	53,499	5,814	17,892	3,858	4,576	2,209	6,158
Noncurrent liabilities:								
Long-term debt	172,039	291	11,681	21,342	14,518	7,998	1,729	500
Pension and other postretirement liabilities	—	—	—	—	—	110	918	349
Other	11,039	—	21	907	1,540	814	—	—
Total noncurrent liabilities	183,078	291	11,702	22,249	16,058	8,922	2,647	849
Total liabilities	334,406	53,790	17,516	40,141	19,916	13,498	4,856	7,007
Net assets:								
Unrestricted:								
Controlling interest	1,068,330	(28,937)	11,610	529,405	18,437	27,733	2,344	32,289
Noncontrolling interests	—	—	—	240	2,399	—	—	—
Unrestricted net assets	1,068,330	(28,937)	11,610	529,645	20,836	27,733	2,344	32,289
Temporarily restricted – controlling interest	3,120	—	122	107	500	1,399	273	156
Permanently restricted – controlling interest	—	—	—	—	34	—	—	—
Total net assets	1,071,450	(28,937)	11,732	529,752	21,370	29,132	2,617	32,445
Total liabilities and net assets	\$ 1,405,856	\$ 24,853	\$ 29,248	\$ 569,893	\$ 41,286	\$ 42,630	\$ 7,473	\$ 39,452

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2012

(Dollars in Thousands)

	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Medical Group, Inc.	Quality Healthcare Solutions, LLC (Navion)	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Liabilities and net assets								
Current liabilities:								
Current portion of long-term debt	\$ 33	\$ 85	\$ —	\$ 62	\$ 2,963	\$ 2,075	\$ 3	\$ —
Accounts payable and accrued liabilities	1,745	1,317	1,593	2,878	31,116	1,401	4,674	25
Estimated third-party payor settlements	1,255	1,429	768	1,380	—	—	1,071	—
Current portion of self-insurance liabilities	—	—	—	—	—	—	—	—
Other	647	312	464	5,128	759	747	1,699	38
Total current liabilities	3,680	3,143	2,825	9,448	34,838	4,223	7,447	63
Noncurrent liabilities:								
Long-term debt	4,153	10,768	—	7,817	—	—	432	—
Pension and other postretirement liabilities	—	134	303	—	370	—	—	—
Other	43	882	1,166	—	—	—	—	77
Total noncurrent liabilities	4,196	11,784	1,469	7,817	370	—	432	77
Total liabilities	7,876	14,927	4,294	17,265	35,208	4,223	7,879	140
Net assets:								
Unrestricted:								
Controlling interest	31,291	2,223	7,889	(2,104)	4,713	28,968	78,910	26,128
Noncontrolling interests	—	450	—	—	—	—	—	—
Unrestricted net assets	31,291	2,673	7,889	(2,104)	4,713	28,968	78,910	26,128
Temporarily restricted – controlling interest	375	203	63	31	—	—	13	28,798
Permanently restricted – controlling interest	—	—	—	—	—	—	—	15,556
Total net assets	31,666	2,876	7,952	(2,073)	4,713	28,968	78,923	70,482
Total liabilities and net assets	\$ 39,542	\$ 17,803	\$ 12,246	\$ 15,192	\$ 39,921	\$ 33,191	\$ 86,802	\$ 70,622

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2012
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC	St. Vincent Hospital and Health Care Center, Inc.
Operating revenue:								
Net patient service revenue	\$ 2,181,825	\$ (25)	\$ —	\$ 134,886	\$ 205,799	\$ —	\$ 133,902	\$ 1,117,023
Other revenue	104,415	(9,924)	3,832	1,994	14,469	154	621	58,520
Income (loss) from unconsolidated entities	19,227	—	1,698	—	—	—	—	11,711
Net assets released from restrictions for operations	3,086	—	20	83	140	—	13	2,293
Total operating revenue	2,308,553	(9,949)	5,550	136,963	220,408	154	134,536	1,189,547
Operating expenses:								
Salaries and wages	873,518	—	(1,693)	45,546	72,799	1,328	31,392	378,970
Employee benefits	212,662	(298)	(959)	12,505	20,724	404	8,533	95,390
Purchased services	189,741	(9)	87,817	7,142	5,937	—	6,184	53,739
Professional fees	112,486	(9,228)	19,028	3,878	20,855	12	6,807	49,953
Supplies	281,315	—	977	14,677	32,858	—	30,169	151,250
Insurance	8,539	—	—	408	239	—	155	3,799
Bad debts	120,284	—	1,800	12,060	13,674	—	808	51,720
Interest	12,966	—	(540)	630	599	352	2,236	6,426
Depreciation and amortization	86,815	—	19,081	5,202	4,865	50	3,959	33,816
Medicaid tax	57,761	—	—	6,304	8,812	—	3,772	28,557
Other	194,794	(414)	(133,283)	13,654	26,133	5,260	15,712	192,615
Total operating expenses before impairment and nonrecurring gains (losses), net	2,150,881	(9,949)	(7,772)	122,006	207,495	7,406	109,727	1,046,235
Income (loss) from operations before impairment and nonrecurring gains (losses), net	157,672	—	13,322	14,957	12,913	(7,252)	24,809	143,312
Impairment and nonrecurring gains (losses), net	52,336	—	3,192	3,230	5,075	—	—	24,115
Income (loss) from operations	210,008	—	16,514	18,187	17,988	(7,252)	24,809	167,427
Nonoperating (losses) gains:								
Investment (loss) return	(33,255)	—	(58)	(2,353)	(1,304)	(1,242)	1,584	(17,123)
(Loss) income from unconsolidated entities	(2,484)	—	(2,143)	(5)	—	—	—	169
Other	(6,172)	—	(2,361)	(60)	(246)	—	—	(1,284)
Total nonoperating (losses) gains, net	(41,911)	—	(4,562)	(2,418)	(1,550)	(1,242)	1,584	(18,238)
Excess (deficit) of revenues and gains over expenses and losses	168,097	—	11,952	15,769	16,438	(8,494)	26,393	149,189
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interest	7,484	—	—	—	—	6,841	—	—
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	160,613	—	11,952	15,769	16,438	(15,335)	26,393	149,189

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2012
(Dollars in Thousands)

	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.	St. Vincent Williamsport Hospital, Inc.
Operating revenue:								
Net patient service revenue	\$ 74,376	\$ 25,175	\$ 144,924	\$ 28,888	\$ 23,229	\$ 21,509	\$ 29,009	\$ 24,418
Other revenue	1,357	392	13,740	334	248	3	460	482
Income (loss) from unconsolidated entities	—	—	5,818	—	—	—	—	—
Net assets released from restrictions for operations	—	13	136	126	27	86	11	1
Total operating revenue	75,733	25,580	164,618	29,348	23,504	21,598	29,480	24,901
Operating expenses:								
Salaries and wages	65,916	10,135	43,995	10,894	7,161	13,616	9,047	9,808
Employee benefits	14,205	2,802	12,265	3,001	2,029	5,422	2,509	2,633
Purchased services	1,271	1,730	6,123	1,229	1,914	358	2,738	952
Professional fees	2,696	937	3,264	1,775	1,416	247	1,466	994
Supplies	6,105	2,946	18,446	2,688	2,355	400	2,001	1,197
Insurance	1,331	36	289	25	46	76	28	101
Bad debts	5,958	1,116	7,092	1,854	1,946	—	3,645	2,423
Interest	11	438	800	545	300	65	19	156
Depreciation and amortization	682	1,015	4,527	976	604	372	523	430
Medicaid tax	—	727	3,981	779	790	—	801	854
Other	15,496	2,622	17,449	3,166	3,310	2,165	4,714	2,872
Total operating expenses before impairment and nonrecurring gains (losses), net	113,671	24,504	118,231	26,932	21,871	22,721	27,491	22,420
Income (loss) from operations before impairment and nonrecurring gains (losses), net	(37,938)	1,076	46,387	2,416	1,633	(1,123)	1,989	2,481
Impairment and nonrecurring gains (losses), net	3,127	1,260	3,358	842	470	1,030	520	891
Income (loss) from operations	(34,811)	2,336	49,745	3,258	2,103	(93)	2,509	3,372
Nonoperating (losses) gains:								
Investment (loss) return	143	(154)	(9,713)	(330)	(439)	13	(636)	(419)
(Loss) income from unconsolidated entities	—	—	(505)	—	—	—	—	—
Other	—	(134)	15	(146)	(10)	1	—	3
Total nonoperating (losses) gains, net	143	(288)	(10,203)	(476)	(449)	14	(636)	(416)
Excess (deficit) of revenues and gains over expenses and losses	(34,668)	2,048	39,542	2,782	1,654	(79)	1,873	2,956
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interest	—	—	616	27	—	—	—	—
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	(34,668)	2,048	38,926	2,755	1,654	(79)	1,873	2,956

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2012
(Dollars in Thousands)

	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Medical Group, Inc.	Quality Healthcare Solutions, LLC (Navion)	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Operating revenue:							
Net patient service revenue	\$ 18,269	\$ 21,662	\$ 30,341	\$ 90,777	\$ -	\$ 57,663	\$ -
Other revenue	304	231	778	5,099	12,509	173	(1,361)
Income (loss) from unconsolidated entities	-	-	-	-	-	-	-
Net assets released from restrictions for operations	40	16	1	55	3	22	-
Total operating revenue	18,613	21,909	31,120	95,931	12,512	57,858	(1,361)
Operating expenses:							
Salaries and wages	6,245	7,035	12,097	119,080	5,229	24,918	-
Employee benefits	1,966	2,162	3,187	16,583	1,168	6,431	-
Purchased services	2,210	2,285	2,540	1,735	2	3,844	-
Professional fees	1,131	1,254	1,097	2,100	1,969	835	-
Supplies	998	1,549	3,440	3,405	13	5,839	2
Insurance	40	110	166	1,620	-	70	-
Bad debts	1,927	3,535	3,396	6,609	-	721	-
Interest	405	-	296	124	88	16	-
Depreciation and amortization	505	698	1,296	4,097	2,645	1,472	-
Medicaid tax	562	460	1,362	-	-	-	-
Other	2,616	2,760	3,916	11,775	(2,350)	6,303	(1,697)
Total operating expenses before impairment and nonrecurring gains (losses), net	18,605	21,848	32,793	167,128	8,764	50,449	(1,695)
Income (loss) from operations before impairment and nonrecurring gains (losses), net	8	61	(1,673)	(71,197)	3,748	7,409	334
Impairment and nonrecurring gains (losses), net	545	23	471	2,553	62	1,572	-
Income (loss) from operations	553	84	(1,202)	(68,644)	3,810	8,981	334
Nonoperating (losses) gains:							
Investment (loss) return	(29)	11	21	13	-	(1,133)	(107)
(Loss) income from unconsolidated entities	-	-	-	-	-	-	-
Other	8	-	5	-	-	-	(1,963)
Total nonoperating (losses) gains, net	(21)	11	26	13	-	(1,133)	(2,070)
Excess (deficit) of revenues and gains over expenses and losses	532	95	(1,176)	(68,631)	3,810	7,848	(1,736)
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interest	-	-	-	-	-	-	-
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	532	95	(1,176)	(68,631)	3,810	7,848	(1,736)

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2012
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC
Unrestricted net assets, controlling interest:								
Excess (deficit) of revenues and gains over expenses and losses	\$ 160,613	\$ -	\$ 11,952	\$ -	\$ 15,769	\$ 16,438	\$ (15,335)	\$ 26,393
Pension and other postretirement liability adjustments	(44,314)	-	(40,994)	-	-	-	-	-
Transfers (to) from sponsor and other affiliates, net	(40,782)	-	42,900	-	(5,977)	(7,980)	18,349	(18,138)
Net assets released from restrictions for property acquisitions	4,071	-	27	-	253	677	-	15
Other	821	-	(137)	-	(15)	-	(4)	(9)
Increase (decrease) in unrestricted net assets, controlling interest	80,409	-	13,748	-	10,030	9,135	3,010	8,261
Unrestricted net assets, noncontrolling interest:								
Excess of revenues and gains over expenses and losses	7,484	-	-	-	-	-	6,841	-
Distributions of capital	(7,000)	-	-	-	-	-	-	(6,350)
Other	25	-	-	-	-	-	4	-
Increase (decrease) in unrestricted net assets, noncontrolling interest	509	-	-	-	-	-	6,845	(6,350)
Temporarily restricted net assets:								
Contributions and grants	8,160	-	49	-	229	501	-	20
Net change in unrealized (losses) gains on investments	(1,600)	-	-	-	-	(225)	-	-
Investment return	1,590	-	-	-	(4)	154	-	-
Net assets released from restrictions	(7,157)	-	(47)	-	(336)	(817)	-	(28)
Other	(573)	-	47	-	13	-	-	9
Increase (decrease) in temporarily restricted net assets	420	-	49	-	(98)	(387)	-	1
Permanently restricted net assets:								
Contributions	102	-	-	-	4	-	-	-
Net change in unrealized (losses) gains on investments	(117)	-	-	-	-	-	-	-
Investment return	109	-	-	-	-	-	-	-
Other	(48)	-	-	-	-	-	-	-
Increase (decrease) in permanently restricted net assets	46	-	-	-	4	-	-	-
Increase (decrease) in net assets	81,384	-	13,797	-	9,936	8,748	9,855	1,912
Net assets, beginning of the year	2,249,824	-	40,108	535	142,678	95,590	89,126	25,855
Net assets, end of the year	\$ 2,331,208	\$ -	\$ 53,905	\$ 535	\$ 152,614	\$ 104,338	\$ 98,981	\$ 27,767

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2012
(Dollars in Thousands)

	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.
Unrestricted net assets, controlling interest:								
Excess (deficit) of revenues and gains over expenses and losses	\$ 149,189	\$ (34,668)	\$ 2,048	\$ 38,926	\$ 2,755	\$ 1,654	\$ (79)	\$ 1,873
Pension and other postretirement liability adjustments	—	—	(626)	—	(248)	—	(1,006)	(259)
Transfers (to) from sponsor and other affiliates, net	(141,589)	22,445	—	(12,240)	—	—	169	—
Net assets released from restrictions for property acquisitions	2,436	—	104	38	34	11	90	31
Other	(4,416)	—	(3)	162	—	—	(169)	—
Increase (decrease) in unrestricted net assets, controlling interest	5,620	(12,223)	1,523	26,886	2,541	1,392	(995)	1,645
Unrestricted net assets, noncontrolling interest:								
Excess of revenues and gains over expenses and losses	—	—	—	616	27	—	—	—
Distributions of capital	—	—	—	(650)	—	—	—	—
Other	—	—	—	21	—	—	—	—
Increase (decrease) in unrestricted net assets, noncontrolling interest	—	—	—	(13)	27	—	—	—
Temporarily restricted net assets:								
Contributions and grants	319	—	81	20	300	63	—	89
Net change in unrealized (losses) gains on investments	(211)	—	—	(8)	—	(115)	—	—
Investment return	150	—	—	6	—	58	3	—
Net assets released from restrictions	(4,729)	—	(117)	(174)	(160)	(38)	(176)	(42)
Other	4,294	—	8	158	(1)	—	169	—
Increase (decrease) in temporarily restricted net assets	(177)	—	(28)	2	139	(32)	(4)	47
Permanently restricted net assets:								
Contributions	—	—	—	—	—	—	—	—
Net change in unrealized (losses) gains on investments	—	—	—	—	—	—	—	—
Investment return	—	—	—	—	—	—	—	—
Other	(10)	—	—	—	—	—	—	—
Increase (decrease) in permanently restricted net assets	(10)	—	—	—	—	—	—	—
Increase (decrease) in net assets	5,433	(12,223)	1,495	26,875	2,707	1,360	(999)	1,692
Net assets, beginning of the year	1,066,017	(16,714)	10,237	502,877	18,663	27,772	3,616	30,753
Net assets, end of the year	\$ 1,071,450	\$ (28,937)	\$ 11,732	\$ 529,752	\$ 21,370	\$ 29,132	\$ 2,617	\$ 32,445

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2012

(Dollars in Thousands)

	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Medical Group, Inc.	Quality Healthcare Solutions, LLC (Navion)	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Unrestricted net assets, controlling interest:								
Excess (deficit) of revenues and gains over expenses and losses	\$ 2,956	\$ 532	\$ 95	\$ (1,176)	\$ (68,631)	\$ 3,810	\$ 7,848	\$ (1,736)
Pension and other postretirement liability adjustments	(555)	(266)	(53)	(34)	—	—	—	—
Transfers (to) from sponsor and other affiliates, net	—	(19)	18	27	65,257	3	6	(4,013)
Net assets released from restrictions for property acquisitions	139	43	92	60	—	—	21	—
Other	—	—	(11)	(8)	(55)	(3)	(4)	5,493
Increase (decrease) in unrestricted net assets, controlling interest	2,540	290	141	(1,131)	(3,429)	3,810	7,871	(256)
Unrestricted net assets, noncontrolling interest:								
Excess of revenues and gains over expenses and losses	—	—	—	—	—	—	—	—
Distributions of capital	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—
Increase (decrease) in unrestricted net assets, noncontrolling interest	—	—	—	—	—	—	—	—
Temporarily restricted net assets:								
Contributions and grants	147	92	109	51	—	—	13	6,077
Net change in unrealized (losses) gains on investments	—	—	—	—	—	—	—	(1,041)
Investment return	—	—	—	—	—	—	—	1,223
Net assets released from restrictions	(140)	(83)	(108)	(61)	(55)	(3)	(43)	—
Other	—	—	11	9	55	3	4	(5,352)
Increase (decrease) in temporarily restricted net assets	7	9	12	(1)	—	—	(26)	907
Permanently restricted net assets:								
Contributions	—	—	—	—	—	—	—	98
Net change in unrealized (losses) gains on investments	—	—	—	—	—	—	—	(117)
Investment return	—	—	—	—	—	—	—	109
Other	—	—	—	—	—	—	—	(38)
Increase (decrease) in permanently restricted net assets	—	—	—	—	—	—	—	52
Increase (decrease) in net assets	2,547	299	153	(1,132)	(3,429)	3,810	7,845	703
Net assets, beginning of the year	29,119	2,577	7,799	(941)	8,142	25,158	71,078	69,779
Net assets, end of the year	\$ 31,666	\$ 2,876	\$ 7,952	\$ (2,073)	\$ 4,713	\$ 28,968	\$ 78,923	\$ 70,482

St. Vincent Health, Inc.

Schedule of Net Cost of Providing Care of Persons
Living in Poverty and Community Benefit Programs
(Dollars in Thousands)

AS CORRECTED

The net cost excluding the provision for bad debt expense of providing care of persons living in poverty and community benefit programs is as follows:

	Year Ended June 30	
	2012	2011
Traditional charity care provided (Note 1)	\$ 59,980	\$ 52,740
Unpaid cost of public programs for persons living in poverty (Note 1)	95,440	97,100
Other programs for persons living in poverty and other vulnerable persons	5,749	4,523
Community benefit programs	35,226	36,967
Care of persons living in poverty and community benefit programs	<u>\$ 196,305</u>	<u>\$ 191,330</u>

Note 1 – These line items for the year ended June 30, 2012 have been corrected as of October 29, 2012, to consider the Medicaid provider tax and should replace the amounts previously reported. The amounts previously reported for the year ended June 30, 2012, were \$61,943 and \$46,096, respectively.

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