Consolidated Financial Statements and Supplementary Information

St. Vincent's Health System, Inc.
Member of Ascension Health, a Subsidiary
of Ascension Health Alliance
Years Ended June 30, 2013 and 2012
With Reports of Independent Certified Public Accountants

Ernst & Young LLP

Ernst & Young

St. Vincent's Health System, Inc.

Consolidated Financial Statements and
Supplementary Information

Years Ended June 30, 2013 and 2012

Contents

Ernst & Young LLP
Suite 1701
1 Independent Drive
Jacksonville, FL 32202
Tel: +1 904 358 2000
Fax: +1 904 358 4598
www.ey.com

Report of Independent Certified Public Accountants

The Board of Directors
St. Vincent's Health System, Inc.

We have audited the accompanying consolidated financial statements of St. Vincent's Health System, Inc., which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with auditing standards generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ernst & Young

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Health Ministry at June 30, 2013 and 2012, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Vincent's Health System, Inc. changed the presentation of the provision for doubtful accounts as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowances for Doubtful Accounts for Certain Health Care Entities*, effective July 1, 2011.

Ernst & Young LLP

September 17, 2013

St. Vincent's Health System, Inc.

Consolidated Balance Sheets

	June 30 2013	June 30 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 10,907,006**	$ 9,265,647
Interest in investments held by Ascension Health Alliance	**–**	12,415,967
Accounts receivable, less allowances for doubtful accounts ($67,466,696 and $83,354,218 in 2013 and 2012, respectively)	**107,335,999**	96,514,768
Current portion of assets limited as to use	**2,356,720**	1,290,070
Estimated third-party payor settlements	**14,535,050**	5,317,001
Inventories	**14,948,970**	9,803,777
Pledges receivable, current portion	**1,508,213**	1,181,127
Other	**3,181,528**	4,400,202
Total current assets	**154,773,486**	140,188,559
Assets limited as to use and other long-term investments	**60,779,918**	60,516,819
Interest in investments held by Ascension Health Alliance	**169,554,448**	216,243,395
Property and equipment, net	**280,500,655**	241,345,124
Other assets:		
Pledges receivable, net	**7,126,837**	8,794,744
Goodwill and other intangibles	**28,731,793**	23,761,296
Other	**19,801,240**	10,510,036
Total other assets	**55,659,870**	43,066,076
Total assets	**$ 721,268,377**	$ 701,359,973

	June 30	
	2013	**2012**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 4,025,103**	$ 2,203,344
Accounts payable and accrued liabilities	**59,395,500**	75,729,409
Estimated third-party payor settlements	**1,578,603**	10,615,955
Current portion of self-insurance liabilities	**2,073,884**	2,535,282
Other	**15,649,379**	1,833,597
Total current liabilities	**82,722,469**	92,917,587
Noncurrent liabilities:		
Long-term debt	**275,599,187**	279,510,601
Self-insurance liabilities	**3,931,190**	3,572,566
Pension and other postretirement liabilities	**15,051,806**	16,597,618
Other	**16,945,397**	14,214,818
Total noncurrent liabilities	**311,527,580**	313,895,603
Total liabilities	**394,250,049**	406,813,190
Net assets:		
Unrestricted	**304,242,415**	271,655,204
Temporarily restricted	**19,143,712**	19,259,508
Permanently restricted	**3,632,201**	3,632,071
Total net assets	**327,018,328**	294,546,783
Total liabilities and net assets	**$ 721,268,377**	$ 701,359,973

See accompanying notes.

St. Vincent's Health System, Inc.

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended June 30	
	2013	**2012**
Operating revenue:		
Net patient service revenue	**$ 738,204,612**	$ 703,504,320
Less provision for doubtful accounts	**48,233,127**	49,502,025
Net patient service revenue, less provision for doubtful accounts	**689,971,485**	654,002,295
Other revenue	**24,348,936**	21,634,560
Net assets released from restrictions for operations	**934,612**	1,927,013
Total operating revenue	**715,255,033**	677,563,868
Operating expenses:		
Salaries and wages	**273,791,173**	258,278,099
Employee benefits	**56,179,106**	47,367,084
Purchased services	**73,369,177**	63,764,931
Professional fees	**43,650,691**	39,084,445
Supplies	**140,963,365**	137,887,199
Insurance	**5,899,931**	7,486,169
Interest	**8,508,772**	10,258,291
Depreciation and amortization	**30,452,842**	31,526,729
Other	**66,693,503**	64,755,733
Total operating expenses before impairment, restructuring, and nonrecurring (losses) gains, net	**699,508,560**	660,408,680
Income from operations before impairment, restructuring, and nonrecurring (losses) gains, net	**15,746,473**	17,155,188
Impairment, restructuring, and nonrecurring (losses) gains, net	**(3,266,160)**	15,976,078
Income from operations	**12,480,313**	33,131,266
Nonoperating gains (losses):		
Investment return	**21,567,817**	(4,652,010)
Other	**(2,189,882)**	(2,464,566)
Total nonoperating gains (losses), net	**19,377,935**	(7,116,576)
Excess of revenues and gains over expenses and losses	**31,858,248**	26,014,690

St. Vincent's Health System, Inc.

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

	Year Ended June 30	
	2013	**2012**
Unrestricted net assets:		
Excess of revenues and gains over expenses and losses	**$ 31,858,248**	$ 26,014,690
Transfers to sponsor and other affiliates, net	**(10,214,625)**	(25,557,508)
Contributions of property and equipment	**7,025,000**	–
Net assets released from restrictions for property acquisitions	**3,915,602**	5,381,371
Other	**2,986**	(4,170)
Increase in unrestricted net assets	**32,587,211**	5,834,383
Temporarily restricted net assets:		
Contributions and grants	**3,833,390**	10,959,771
Net change in unrealized gains/losses on investments	**105,897**	(1,721,288)
Investment return	**700,131**	1,201,498
Net assets released from restrictions	**(4,850,214)**	(7,308,384)
Other	**95,000**	–
(Decrease) increase in temporarily restricted net assets	**(115,796)**	3,131,597
Permanently restricted net assets:		
Contributions	**130**	125
Increase in permanently restricted net assets	**130**	125
Increase in net assets	**32,471,545**	8,966,105
Net assets, beginning of year	**294,546,783**	285,580,678
Net assets, end of year	**$ 327,018,328**	$ 294,546,783

See accompanying notes.

St. Vincent's Health System, Inc.

Consolidated Statements of Cash Flows

	Year Ended June 30 2013	2012
Operating activities		
Increase in net assets	**$ 32,471,545**	$ 8,966,105
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**30,452,842**	31,526,729
Provision for bad debts	**48,233,127**	49,502,025
Interest, dividends, and net (gains) losses on investments	**(21,567,817)**	4,652,010
Gain on sale of assets, net	**(77,087)**	(66,371)
Impairment and nonrecurring expenses	**–**	167,902
Transfers to sponsor and other affiliates, net	**10,214,625**	25,557,508
Restricted contributions, investment return, and other restricted activity	**(4,734,548)**	(10,440,106)
(Increase) decrease in:		
Accounts receivable	**(59,054,358)**	(72,200,869)
Estimated third-party payor settlements	**(9,218,049)**	(2,622,796)
Inventories and other current assets	**(3,926,519)**	(1,997,556)
Investments, including interest in investments held by Ascension Health Alliance	**79,342,982**	(54,745,205)
Pledge receivable	**1,340,821**	3,877,061
Other assets	**(780,860)**	(3,092,444)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(16,333,909)**	4,561,611
Estimated third-party payor settlements	**(9,037,352)**	4,641,578
Pension and other postretirement liabilities	**(1,545,812)**	2,959,843
Self-insurance liabilities	**(102,774)**	696,702
Other current liabilities	**13,815,781**	(68,847)
Other noncurrent liabilities	**1,725,790**	(12,744,494)
Net cash provided by (used in) operating activities	**91,218,428**	(20,869,614)

St. Vincent's Health System, Inc.

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30	
	2013	**2012**
Investing activities		
Property and equipment additions, net	**$ (65,441,168)**	$ (19,236,275)
Increase in other noncurrent assets	**1,212,457**	561,735
Other	**(9,137,703)**	(6,167,960)
Net cash used in investing activities	**(73,366,414)**	(24,842,500)
Financing activities		
Repayment of long-term debt	**(2,379,961)**	(2,041,342)
Transfers to sponsors and other affiliates, net	**(9,096,146)**	(6,799,401)
Restricted contributions, investment income, and other	**(4,734,548)**	10,440,106
Net cash (used in) provided by financing activities	**(16,210,655)**	1,599,363
Net increase (decrease) in cash and cash equivalents	**1,641,359**	(44,112,751)
Cash and cash equivalents at beginning of year	**9,265,647**	53,378,398
Cash and cash equivalents at end of year	**$ 10,907,006**	$ 9,265,647
Supplemental information		
Contribution of property and equipment	$ 7,025,000	$ –

See accompanying notes.

1. Organization and Mission

Organizational Structure

St. Vincent's Health System, Inc. and subsidiaries (the Health Ministry) 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 23 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, the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province, and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province.

The Health Ministry, located in Jacksonville, Florida, is a nonprofit acute care hospital. The Health Ministry provides inpatient, outpatient, and emergency care services for the residents of Northeast Florida and Southern Georgia. Admitting physicians are primarily practitioners in the local area. The Health Ministry 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 Health Ministry includes the following subsidiaries:

- St. Vincent's Medical Center, Inc. (Medical Center) – a nonprofit, acute care medical center. The Medical Center provides inpatient, outpatient, and emergency care services. Admitting physicians are primarily practitioners in the local area.

- St. Luke's – St. Vincent's Health, Inc. (St. Luke's) – a nonprofit, acute care hospital. St. Luke's provides inpatient, outpatient, and emergency care services. Admitting physicians are primarily practitioners in the local area.

1. Organization and Mission (continued)

- St. Catherine’s Labouré Manor, Inc. (Nursing Home) – a nonprofit, skilled nursing facility.
- St. Vincent’s Ambulatory Care, Inc. (Ambulatory Care) – a nonprofit, specialty physician practice that provides neurosurgery, neurology, and cardiology services.
- First Coast Primary Care, Inc. (First Coast) – a taxable entity that provides primary care services.
- St. Vincent’s Physician Enterprise, Inc. (SVPE) – a taxable entity that provides primary care services.
- Consolidated Pharmacy Services, Inc. (CPS) – a taxable entity that provides retail pharmaceutical services and ambulance transportation services.
- St. Vincent’s Foundation, Inc. (Foundation) – a nonprofit organization that supports the activities of the Medical Center, St. Luke’s, and the Nursing Home through various fund-raising activities.

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 that 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.

1. Organization and Mission (continued)

- 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 to 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).

The amount of traditional charity care provided, determined on the basis of cost, was approximately $23,194,000 and $23,149,000 for the years ended June 30, 2013 and 2012, respectively. The Health Ministry estimates the direct and indirect cost of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. 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 Health Ministry or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation.

2. Significant Accounting Policies (continued)

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

Carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of financial instruments classified other than current assets and current liabilities are disclosed in the Fair Value Measurements note.

Cash and Cash Equivalents

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

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

Prior to April 2012, the Health Ministry held a significant portion of its investments through the Ascension Legacy Portfolio (formerly the Health System Depository, or HSD), an investment pool of funds in which the System and a limited number of nonprofit health care providers participated. The Ascension Legacy Portfolio investments were managed primarily by external investment managers within established investment guidelines. The value of the Health Ministry's investment in the Ascension Legacy Portfolio represented the Health Ministry's pro rata share of the Ascension Legacy Portfolio's funds held for participants.

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 Ascension Legacy Portfolio. Catholic Healthcare Investment Management Company (CHIMCO), a wholly owned subsidiary of Ascension Health Alliance, acts as manager and serves as the principal investment advisor for the Alpha Fund, overseeing the investment strategies offered to the Alpha Fund's members. In April 2012, a significant portion of the assets in the Ascension Legacy Portfolio was transferred to the Alpha Fund, in which Ascension Health Alliance has an investment interest, as a member of the Alpha Fund. Ascension Health Alliance invests funds in the Alpha Fund on behalf of the Health Ministry. As of June 30, 2013 and 2012, the Health Ministry has an interest

2. Significant Accounting Policies (continued)

in investments held by Ascension Health Alliance, which is reflected in the accompanying consolidated balance sheets, and represents the Health Ministry’s pro rata share of Ascension Health Alliance’s investment interest in the Alpha Fund.

The Health Ministry also invests in cash equivalents, marketable equity securities, and corporate and government bonds, which are locally managed. Most of these funds are held by the Foundation.

The Health Ministry reports its interest in investments held by Ascension Health Alliance in the accompanying consolidated balance sheets as current or long-term asset, based on liquidity needs, which, prior to June 30, 2013, were directed by the Health Ministry and as of June 30, 2013, are directed by Ascension Health Alliance. The Health Ministry’s interest in investments held by Ascension Health Alliance are also classified based on whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Health Ministry. The Health Ministry reports its other investments, including Foundation investments, in the accompanying consolidated 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 Health Ministry.

The Health Ministry’s investments, excluding 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 Ascension Legacy Portfolio’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; corporate and foreign fixed income securities; asset-backed securities; and equity securities. The Alpha Fund’s and the Ascension Legacy Portfolio’s investments also include alternative investments and other investments, which are valued based on the net asset value of the investments. In addition, the Alpha Fund participates, and the Ascension Legacy Portfolio participated, in securities lending transactions whereby a portion of its investments is loaned to selected established 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 Health Ministry’s investments, as well as the Health Ministry’s return on its interest in investments held by Ascension Health Alliance, and are reported as nonoperating gains (losses) in the accompanying consolidated statements of operations and changes in net assets, unless the return is restricted by donor or law.

2. Significant Accounting Policies (continued)

Inventories

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

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including software internally developed. 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, application development stage, or post-implementation stage. Intangible assets are included in other noncurrent assets on the accompanying consolidated balance sheets and are comprised of the following:

	June 30	
	2013	**2012**
Capitalized computer software costs	**$ 46,431,817**	$ 37,370,151
Less accumulated amortization	**(26,867,452)**	(22,749,585)
Capitalized software costs, net	**19,564,365**	14,620,566
Goodwill	**9,167,428**	9,140,730
Total intangible assets, net	**$ 28,731,793**	$ 23,761,296

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, are amortized over their expected useful lives. Amortization expense for the years ended June 30, 2013 and 2012, is approximately $4,167,000 and $4,293,000, respectively.

2. Significant Accounting Policies (continued)

Estimated future amortization expense is as follows:

Year ending June 30:	
2014	$ 5,558,641
2015	4,419,296
2016	2,941,549
2017	1,761,690
2018	1,703,376
Thereafter	3,179,813
Total	$ 19,564,365

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of the gift. A summary of property and equipment at June 30, 2013 and 2012, is as follows:

	June 30	
	2013	**2012**
Land and improvements	**$ 47,341,271**	$ 47,310,721
Buildings and equipment	**631,179,189**	613,912,279
	678,520,460	661,223,000
Less accumulated depreciation	**(463,739,302)**	(438,543,805)
	214,781,158	222,679,195
Construction in progress	**65,719,497**	18,665,929
Total property and equipment, net	**$ 280,500,655**	$ 241,345,124

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2013 and 2012 was approximately $26,286,000 and $27,234,000, respectively.

2. Significant Accounting Policies (continued)

Estimated useful lives by asset category are as follows: land improvements – 2 to 40 years; buildings – 5 to 40 years; and equipment – 2 to 30 years. Interest costs incurred as part of related construction are capitalized during the period of construction.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Health Ministry 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 include 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.

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 transfers to sponsors and other affiliates, net assets released from restrictions for property acquisitions, and contributions of property and equipment.

Operating and Nonoperating Activities

The Health Ministry'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 Health Ministry's primary mission are considered to be nonoperating, consisting primarily of investment returns.

2. Significant Accounting Policies (continued)

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

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided and includes 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 $6,260,000 and $10,504,000 for the years ended June 30, 2013 and 2012, respectively.

The percentage of net patient service revenue earned by payor for the years ended June 30, 2013 and 2012, is as follows:

	Year Ended June 30	
	2013	**2012**
Medicare	**47%**	43%
Medicaid	**5**	5
Blue Cross	**18**	17
Other third-party payors	**19**	22
Self-pay	**11**	13
	100%	100%

2. Significant Accounting Policies (continued)

Significant concentrations of net accounts receivable at June 30, 2013 and 2012, is as follows:

	June 30	
	2013	**2012**
Medicare	**32%**	26%
Medicaid	**4**	5
Blue Cross	**10**	8
Other third-party payors	**28**	53
Self-pay	**26**	8
	100%	100%

The provision for doubtful accounts 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 doubtful 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 doubtful accounts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Health Ministry 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 Health Ministry's policies. See the Adoption of New Accounting Standards section for the change in accounting presentation of provision for doubtful accounts in the accompanying consolidated statements of operations and changes in net assets.

Impairment, Restructuring, and Nonrecurring Expenses

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.

2. Significant Accounting Policies (continued)

During the years ended June 30, 2013 and 2012, the Health Ministry recorded total impairment, restructuring, and nonrecurring (losses) gains of approximately $(3,266,000) and $15,976,000, respectively. The loss for the year ended June 30, 2013, was related to the Health Ministry's implementation of an enterprise resource planning solution. The gain for the year ended June 30, 2012, was comprised primarily of the Health Ministry's allocated portion of a curtailment gain related to the System's defined benefit plan in which it participates.

Health Ministry Income Taxes

The member health care entities of the Health Ministry are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). CPS, First Coast and SVPE are taxable corporations and file U.S. and Florida income tax returns. The Health Ministry 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.

Regulatory Compliance

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Health Ministry. 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 Health Ministry.

Reclassifications

Certain reclassifications were made to the 2012 consolidated financial statements to conform to the 2013 presentation. These reclassifications had no effect on the net assets as previously reported.

2. Significant Accounting Policies (continued)

Subsequent Events

The Health Ministry 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 in the financial statements as of the balance sheet date. For the year ended June 30, 2013, the Health Ministry evaluated subsequent events through September 17, 2013, 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 non-recognized subsequent events that required disclosure.

Adoption of New Accounting Standard

In July 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This accounting standards update requires health care entities that recognize significant amounts of patient service revenue at the time services are rendered to present the provision for doubtful accounts related to patient service revenue adjacent to patient service revenue in the statement of operations and changes in net assets rather than as an operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for doubtful 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 Health Ministry recognizes a significant amount of patient service revenue at the time services are rendered in certain settings, such as the emergency room, even though the patient's ability to pay is not initially assessed. The Health Ministry assessed the significance of adopting this accounting standards update at the consolidated level. The Health Ministry adopted this guidance as of July 1, 2012, and retrospectively applied the presentation requirements to all periods presented. The adoption of this guidance resulted in the reclassification of the Health Ministry's provision for doubtful accounts for the year ended June 30, 2012, decreasing total operating revenue and total operating expenses before impairment, restructuring, and nonrecurring (losses) gains, net, by approximately $49,500,000.

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, 2013 and 2012, the Health Ministry'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 Foundation. Board-designated investments represent investments designated by resolution of the Health Ministry's board to put amounts aside primarily for future capital expansion and improvements. Assets limited as to use primarily include investments restricted by donors. The Health Ministry'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	
	2013	**2012**
Cash and cash equivalents	**$ 10,907,006**	$ 9,265,647
Assets limited as to use and other long-term investments:		
Board-designated investments	**20,703,153**	23,666,726
Other long-term investments	**15,469,242**	14,181,151
Total cash and cash equivalents, assets limited as to use and other long-term investments	**47,079,401**	47,113,524
Interest in investments held by Ascension Health Alliance	**196,518,691**	252,618,374
Total	**$ 243,598,092**	$ 299,731,898

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, Board-designated investments, assets limited as to use, and other investments is summarized as follows:

	June 30	
	2013	**2012**
Cash and cash equivalents	**$ 13,272,806**	$ 10,928,610
U.S. government obligations	**817,532**	663,501
Asset-backed securities	**2,867,626**	4,195,678
Equity securities	**28,906,005**	29,765,145
Other investments	**1,215,432**	1,560,590
Amount included in cash and cash equivalents, assets limited as to use, and other long-term investments	**47,079,401**	47,113,524
Interest in investments held by Ascension Health Alliance	**196,518,691**	252,618,374
Cash and cash equivalents, interest in investments held by Ascension Health Alliance, assets limited as to use, and other long-term investments	**$ 243,598,092**	$ 299,731,898

As of June 30, 2013 and 2012, the composition of total Alpha Fund investments is as follows:

	June 30	
	2013	**2012**
Cash, cash equivalents, and short-term investments	**3.3%**	4.7%
U.S. government obligations	**24.7**	32.1
Corporate and foreign fixed income maturities	**12.0**	9.0
Asset-backed securities	**8.6**	10.3
Equity investments, private equity, and other investments	**51.4**	43.9
	100.0%	100.0%

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)

Investment return recognized by the Health Ministry is summarized as follows:

	Year Ended June 30	
	2013	**2012**
Return on interest in investments held by Ascension Health Alliance and investment return in Ascension Legacy Portfolio	**$ 17,606,562**	$ (4,365,834)
Interest and dividends	**934,969**	3,611,399
Net gains (losses) on investments reported at fair value	**3,832,314**	(4,417,365)
Total investment return	**$ 22,373,845**	$ (5,171,800)
Investment return included in nonoperating gains (losses)	**$ 21,567,817**	$ (4,652,010)
Increase (decrease) in restricted net assets	**806,028**	(519,790)
Total investment return	**$ 22,373,845**	$ (5,171,800)

4. Fair Value Measurements

The Health Ministry 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 that 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 Health Ministry'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.

4. Fair Value Measurements (continued)

The Health Ministry 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.

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2013 and 2012.

As of June 30, 2013 and 2012, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs.

U.S. Government 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.

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. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

4. Fair Value Measurements (continued)

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.

Alternative Investments and Other Investments

Alternative investments consist of hedge funds, private equity funds, commodity funds, and real estate partnerships. The fair value of alternative investments is primarily determined using techniques consistent with both the market and income approaches, based on the Health Ministry'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.

The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Derivative contracts include interest rate, credit default, and total return swaps. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

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 Investments notes, the Health Ministry has an interest in investments held by Ascension Health Alliance. As of June 30, 2013, 20%, 42%, and 37% of total Alpha Fund assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and 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, 2012, 17%, 52%, and 31% of total Alpha Fund 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 0%, 100%, and 0% of total Alpha Fund liabilities that were measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively.

4. Fair Value Measurements (continued)

The following tables summarize fair value measurements, by level, at June 30, 2013 and 2012, for all other financial assets and liabilities that are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2013				
Cash and cash equivalents	**$ 13,272,806**	**$ –**	**$ –**	**$ 13,272,806**
U.S. government obligations	**–**	**817,532**	**–**	**817,532**
Asset-backed securities	**–**	**2,867,626**	**–**	**2,867,626**
Equity securities	**28,906,005**	**–**	**–**	**28,906,005**
Other investments	**–**	**1,215,432**	**–**	**1,215,432**
Total, included in cash and cash equivalents, assets limited as to use, and other long-term investments	**$ 42,178,811**	**$ 4,900,590**	**$ –**	**$ 47,079,401**

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Cash and cash equivalents	$ 10,928,610	$ –	$ –	$ 10,928,610
U.S. government, state, municipal, and agency obligations	–	663,501	–	663,501
Asset-backed securities	–	4,195,678	–	4,195,678
Equity securities	29,765,145	–	–	29,765,145
Other investments	–	1,560,590	–	1,560,590
Total, included in cash and cash equivalents, assets limited as to use, and other long-term investments	$ 40,693,755	$ 6,419,769	$ –	$ 47,113,524

5. Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2013	**2012**
Intercompany debt with Ascension Health Alliance, payable in installments through November 2047; interest (3.5% and 3.8% at June 30, 2013 and 2012, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	**$ 279,624,290**	$ 281,713,945
Less current portion	**4,025,103**	2,203,344
Long-term debt, less current portion	**$ 275,599,187**	$ 279,510,601

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

Year ending June 30:	
2014	$ 4,025,103
2015	3,927,077
2016	3,325,603
2017	4,032,550
2018	4,072,572
Thereafter	260,241,385
Total	$ 279,624,290

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

5. Long-Term Debt (continued)

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 Health Ministry 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.

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 (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 Health Ministry 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

5. Long-Term Debt (continued)

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’s 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.

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

As of June 30, 2013, the Senior Credit Group has a line of credit of $1 billion, which may be used as a source of funding for un-remarketed variable rate debt (including commercial paper) or for general corporate purposes, toward which bank commitments totaling $1 billion extend to November 9, 2014. As of June 30, 2013 and 2012, there were no borrowings under the line of credit.

As of June 30, 2013, the Subordinate Credit Group has a $75 million revolving line of credit related to its letters of credit program toward which a bank commitment of $75 million extends to November 27, 2013. As of June 30, 2013, $49 million 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 is $5.2 billion, which represents 40% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at June 30, 2013.

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 their guarantees and other commitments at June 30, 2013, is approximately $377 million.

During the years ended June 30, 2013 and 2012, interest paid was approximately $9.7 million and $10.3 million, respectively. Capitalized interest was approximately $1.2 million and $226 thousand for the years ended June 30, 2013 and 2012, respectively.

6. Pension Plans

The Health Ministry participates in the Ascension Health Pension Plan and the Ascension Health Defined Contribution Plan. Details of these plans are as follows.

Ascension Health Pension Plan

The Health Ministry participates in the Ascension Health Pension Plan (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 (benefit) cost of approximately $(2,551,000) and $346,000 in 2013 and 2012, respectively, was charged to the Health Ministry. The service cost component of net periodic pension (benefit) cost charged to the Health Ministry is actuarially determined, while all other components are allocated based on the Health Ministry’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 became effective January 1, 2013. These changes resulted in the Health Ministry’s recognition of a nonrecurring curtailment gain of $16,144,000 during the year ended June 30, 2012. These changes also resulted in one-time decreases to the projected benefit obligation of $18,523,000. The projected benefit obligation is included in pension and other postretirement liabilities in the accompanying consolidated balance sheets.

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, 2013, the Ascension Plan had a net unfunded liability of approximately $187,000,000. The Health Ministry’s allocated share of the Ascension Plan’s net unfunded liability reflected in the accompanying consolidated balance sheets at June 30, 2013 and 2012, was approximately $15,052,000 and $16,598,000, respectively. As a result of updating the funded status of the

6. Pension Plans (continued)

Ascension Plan, the Health Ministry's allocated share of the Ascension Plan's net funded liability was increased by approximately $1,005,000 and $18,558,000 during 2013 and 2012, respectively. These transfers are included in transfers to sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets.

As of June 30, 2013 and 2012, the fair value of the Ascension Plan's assets available for benefits was approximately $3,849,706,000 and $3,984,293,000, respectively. As discussed in the Fair Value Measurements note, the Health Ministry, 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, 2013, 21%, 39%, and 40% of the Ascension Plan's assets that 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 measured at fair value on a recurring basis, 0%, 0%, and 100% were categorized as Level 1, Level 2, and Level 3, respectively, as of June 30, 2013. Additionally, as of June 30, 2012, 16%, 51%, and 33% of the Ascension Plan's assets that 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 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.

Ascension Health Defined Contribution Plan

The Health Ministry 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 and increase over specified periods of employee service. 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 approximately $7,810,000 and $5,231,000 for the years ended June 30, 2013 and 2012, respectively.

7. Self-Insurance Programs

The Health Ministry 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 2013 and 2012. 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 Health Ministry participates in Ascension Health's professional and general liability self-insured program which provides claims-made coverage through a wholly owned onshore trust and offshore captive insurance company, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of $10 million per occurrence with no aggregate. The Health Ministry has a deductible of $100,000 per claim. Excess coverage is provided through AHIL with limits up to $185 million. AHIL retains $5 million per occurrence and $5 million annual aggregate for professional liability. AHIL also retains a 20% quota share of the first $25 million of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense of approximately $5,152,000 and $6,051,000 for the years ended June 30, 2013 and 2012, respectively. For the year ended June 30, 2013, the expense has been reduced by approximately $4,338,000 of excess premiums previously retained by Ascension Health's professional and general liability self-insured program, which has been returned to the Health Ministry. Included in current and long-term self-insurance liabilities on the accompanying consolidated balance sheets are liabilities for deductibles and reserves for claims incurred but not yet reported of approximately $6,005,000 and $6,108,000 at June 30, 2013 and 2012, respectively.

7. Self-Insurance Programs (continued)

Workers' Compensation

The Health Ministry participates in the System's workers' compensation program, which provides occurrence coverage through a grantor trust. The trust provides coverage up to $1 million 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 approximately $1,264,000 and $1,567,000 for the years ended June 30, 2013 and 2012, respectively

8. Lease Commitments

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

Year ending June 30:	
2014	$ 3,185,004
2015	2,607,969
2016	1,607,357
2017	1,398,265
2018	1,298,774
Thereafter	3,058,153
Total	$ 13,155,522

8. Lease Commitments (continued)

In addition, the Health Ministry is a lessor under certain operating lease agreements, primarily ground leases related to third party owned medical office buildings on land owned by the Health Ministry. Future minimum rental receipts under all noncancelable operating leases with terms of one year or more are as follows:

Year ending June 30:	
2014	$ 2,332,502
2015	1,263,454
2016	451,635
2017	266,583
2018	203,432
Thereafter	4,414,084
Total	$ 8,931,690

Rental expense under operating leases amounted to approximately $8,988,000 and $8,407,000 in 2013 and 2012, respectively.

9. Related-Party Transactions

The Health Ministry 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, administrative services, and information technology services. The charges allocated to the Health Ministry for these services represent both allocations of common costs and specifically identified expenses that are incurred by the System on behalf of the Health Ministry. Allocations are based on relevant metrics, such as the Health Ministry's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of the System. The amounts charged to the Health Ministry for these services may not necessarily result in the net costs that would be incurred by the Health Ministry on a stand-alone basis. The charges allocated to the Health Ministry were approximately $34,375,000 and $33,148,000 for the years ended June 30, 2013 and 2012, respectively.

In addition to the charges discussed above, the Health Ministry made payments to the System of approximately $6,716,000 and $6,110,000 for the years ended June 30, 2013 and 2012, respectively, representing the Health Ministry's share of costs to fund a System-wide information technology and process standardization project that is expected to continue through December 2015. These payments are included in transfers to sponsor and other affiliates, net, in the accompanying statements of operations and changes in net assets.

9. Related-Party Transactions (continued)

The Health Ministry utilized the services of Trimedx, a subsidiary of the System, for biomedical engineering. The fees for these services, which are included in purchased services in the accompanying consolidated statements of operations and changes in net assets, were approximately $12,029,000 and $9,031,000 for the years ended June 30, 2013 and 2012, respectively.

10. Contingencies and Commitments

In addition to professional liability claims, the Health Ministry 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 Health Ministry’s consolidated balance sheets.

In March 2013, Ascension Health Alliance and some of its subsidiaries were named as defendants to litigation surrounding the Church Plan status of the Ascension Plan. The Health Ministry does not believe that this matter would have a material adverse effect on the Health Ministry’s consolidated financial position or results of operations.

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 Health Ministry 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 16, 2013, the DOJ has not asserted any claims against the Health Ministry. The System and the Health Ministry continue to fully cooperate with the DOJ in its investigation.

The maximum amount of future payments that the Health Ministry could be required to make under these guarantees is $724,000.

11. Pledges Receivable

Unconditional promises to give are initially recorded at fair value. Fair value is determined by discounting estimated future expected cash flows. The estimate of future expected cash flows is based on management's assessment of historical and expected net collections considering business and economic conditions, payment history, and other collection indicators. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not recognized until the conditions are substantially met.

Pledges receivable are comprised of the following:

	June 30	
	2013	**2012**
Unconditional promises to give before unamortized discount and allowance for uncollectible pledges	**$ 10,347,269**	$ 12,399,451
Unamortized discount	**(1,132,956)**	(1,667,234)
	9,214,313	10,732,217
Allowance for uncollectible pledges	**(579,263)**	(756,346)
Net pledges receivable	**$ 8,635,050**	$ 9,975,871

Amounts due in:	
Less than one year	$ 1,508,213
One to five years	7,799,772
More than five years	1,039,284
	$ 10,347,269

Supplementary Information

Ernst & Young LLP
Suite 1701
1 Independent Drive
Jacksonville, FL 32202

Tel: +1 904 358 2000
Fax: +1 904 358 4598
www.ey.com

Report of Independent Certified Public Accountants on Supplementary Information

The Board of Directors
St. Vincent's Health System, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of net cost of providing care of persons living in poverty and community benefit programs and the consolidating balance sheets and statements of revenues and expenses are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Ernst & Young LLP

September 17, 2013

St. Vincent's Health System, Inc.

Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs

The net cost of providing care of persons living in poverty and community benefit programs is as follows:

	Year Ended June 30	
	2013	**2012**
Traditional charity care provided	**$ 23,194,009**	$ 23,148,790
Unpaid cost of public programs for persons living in poverty	**35,130,034**	28,275,966
Other programs for persons living in poverty and other vulnerable persons	**3,847,064**	3,510,334
Community benefit programs	**7,906,053**	7,311,436
Care of persons living in poverty and community benefit programs	**$ 70,077,160**	$ 62,246,526

St. Vincent's Health System, Inc.

Consolidating Balance Sheet

June 30, 2013

	St. Vincent's Medical Center, Inc.	St. Luke's – St. Vincent's Health, Inc.	Other	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 143,356	$ 4,083	$ 10,759,567	$ –	$ 10,907,006
Accounts receivable, net	68,051,508	29,219,697	10,064,794	–	107,335,999
Current portion of assets limited as to use	2,125,176	–	231,544	–	2,356,720
Estimated third-party payor settlements	9,412,802	4,834,934	287,314	–	14,535,050
Inventories	11,126,570	3,365,862	456,538	–	14,948,970
Pledges receivable, current portion	–	–	1,508,213	–	1,508,213
Other	3,242,155	40,032,564	101,748,806	(141,841,997)	3,181,528
Total current assets	94,101,567	77,457,140	125,056,776	(141,841,997)	154,773,486
Assets limited as to use and other long-term investments	31,716,017	1,406,203	44,879,881	(17,222,183)	60,779,918
Interest in investments held by Ascension Health Alliance	125,762,958	28,219,757	15,571,733	–	169,554,448
Property and equipment, net	108,907,642	89,763,401	81,829,612	–	280,500,655
Other assets:					
Pledges receivable, net	144,595	–	6,982,242	–	7,126,837
Goodwill and other intangibles	12,724,689	2,787,387	13,219,717	–	28,731,793
Other	14,117,800	1,383,645	32,345,980	(28,046,185)	19,801,240
Total other assets	26,987,084	4,171,032	52,547,939	(28,046,185)	55,659,870
Total assets	$ 387,475,268	$ 201,017,533	$ 319,885,941	$(187,110,365)	$ 721,268,377

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St. Vincent's Health System, Inc.

Consolidating Balance Sheet (continued)

June 30, 2013

	St. Vincent's Medical Center, Inc.	St. Luke's – St. Vincent's Health, Inc.	Other	Eliminations	Total
Liabilities and net assets					
Current liabilities:					
Current portion of long-term debt	$ 2,125,176	$ 1,668,383	$ 231,544	$ –	$ 4,025,103
Accounts payable and accrued liabilities	27,763,834	12,252,559	19,379,107	–	59,395,500
Estimated third-party payor settlements	597,170	660,545	320,888	–	1,578,603
Current portion of self-insurance liabilities	1,517,500	409,040	147,344	–	2,073,884
Other	10,860,828	32,062,840	114,567,709	(141,841,998)	15,649,379
Total current liabilities	42,864,508	47,053,367	134,646,592	(141,841,998)	82,722,469
Noncurrent liabilities:					
Long-term debt	145,514,714	114,234,365	15,850,108	–	275,599,187
Self-insurance liabilities	2,071,433	798,305	1,061,452	–	3,931,190
Pension and other postretirement liabilities	15,085,259	(184,370)	150,917	–	15,051,806
Other	11,876,737	289,531	16,275,151	(11,496,022)	16,945,397
Total noncurrent liabilities	174,548,143	115,137,831	33,337,628	(11,496,022)	311,527,580
Total liabilities	217,412,651	162,191,198	167,984,220	(153,338,020)	394,250,049
Net assets:					
Unrestricted	162,141,836	37,420,132	121,230,609	(16,550,162)	304,242,415
Temporarily restricted	7,335,053	1,406,203	27,624,639	(17,222,183)	19,143,712
Permanently restricted	585,728	–	3,046,473	–	3,632,201
Total net assets	170,062,617	38,826,335	151,901,721	(33,772,345)	327,018,328
Total liabilities and net assets	$ 387,475,268	$ 201,017,533	$ 319,885,941	$(187,110,365)	$ 721,268,377

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St. Vincent's Health System, Inc.

Consolidating Statement of Revenue and Expenses

Year Ended June 30, 2013

	St. Vincent's Medical Center, Inc.	St. Luke's – St. Vincent's Health, Inc.	Other	Eliminations	Total
Operating revenue:					
Net patient service revenue	$ 452,825,298	$ 190,530,298	$ 94,849,016	$ –	$ 738,204,612
Less provision for doubtful accounts	23,247,880	18,406,890	6,578,357	–	48,233,127
Net patient service revenue, less provision for doubtful accounts	429,557,418	172,123,408	88,270,659	–	689,971,485
Other revenue	10,614,244	3,046,506	80,226,717	(69,538,531)	24,348,936
Net assets released from restrictions for operations	68,082	–	6,241,510	(5,374,980)	934,612
Total operating revenue	440,239,744	175,169,914	174,738,886	(74,913,511)	715,255,033
Operating expenses:					
Salaries and wages	133,272,337	49,465,433	91,053,403	–	273,791,173
Employee benefits	28,884,787	9,609,622	17,698,530	(13,833)	56,179,106
Purchased services	26,710,014	12,963,811	33,695,352	–	73,369,177
Professional fees	21,887,262	14,071,130	7,693,924	(1,625)	43,650,691
Supplies	95,785,107	39,368,717	5,950,954	(141,413)	140,963,365
Insurance	2,764,896	1,650,310	1,484,725	–	5,899,931
Interest	5,128,542	4,028,297	(628,562)	(19,505)	8,508,772
Depreciation and amortization	19,498,068	8,765,587	2,189,187	–	30,452,842
Other	80,134,506	24,413,249	36,882,388	(74,756,640)	66,673,503
Total operating expenses before impairment, restructuring, and nonrecurring losses, net	414,065,519	164,336,156	196,019,901	(74,933,016)	699,488,560
Income (loss) from operations before impairment, restructuring, and nonrecurring losses, net	26,174,225	10,833,758	(21,281,015)	19,505	15,746,473
Impairment, restructuring, and nonrecurring losses, net	–	–	(3,266,160)	–	(3,266,160)
Income (loss) from operations	26,174,225	10,833,758	(24,547,175)	19,505	12,480,313
Nonoperating gains (losses):					
Investment return	14,861,888	1,876,234	4,849,200	(19,505)	21,567,817
Other	91,879	(24,645)	(2,257,116)	–	(2,189,882)
Total nonoperating gains, net	14,953,767	1,851,589	2,592,084	(19,505)	19,377,935
Excess of revenues and gains over expenses and losses	$ 41,127,992	$ 12,685,347	$ (21,955,091)	$ –	$ 31,858,248

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