Consolidated Financial Statements and Supplementary Schedules

Daughters of Charity Health System
As of and for the Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

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Daughters of Charity Health System

Consolidated Financial Statements and Supplementary Schedules

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Contents

Report of Independent Auditors....1

Consolidated Financial Statements

Consolidated Balance Sheets....2
Consolidated Statements of Operations and Changes in Net Assets....3
Consolidated Statements of Cash Flows....5
Notes to Consolidated Financial Statements....7

Supplementary Schedules

Report of Independent Auditors on Supplementary Information....56
Consolidating Balance Sheets....57
Consolidating Statements of Operations....61

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Report of Independent Auditors

The Board of Directors
Daughters of Charity Health System

We have audited the accompanying consolidated financial statements of Daughters of Charity Health System, which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statement of operations and changes in net assets, and cash flows for the year 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audit. We conducted our audit 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.

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daughters of Charity Health System at June 30, 2013, and the consolidated results of its operations and changes in net assets, and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the combined financial statements, the Daughters of Charity Health System changed the presentation and classification of the provision for bad debts on the Consolidated Statement of Operations and Changes in Net Assets as a result of the adoption of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patent Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.*

Report of Other Auditors on June 30, 2012 Financial Statements

The consolidated financial statements of Daughters of Charity Health System for the year ended June 30, 2012, were audited by other auditors who expressed an unmodified opinion on those statements on November 27, 2012, (November 26, 2013, as to the effects of the restatement discussed in Note 8 and the Ascension Health Affiliation Agreement discussed in Note 12).

Ernst & Young LLP

November 26, 2013

Daughters of Charity Health System

Consolidated Balance Sheets
(*In Thousands*)

	June 30 2013	June 30 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 31,160**	$ 34,870
Interest in pooled investment fund – short-term	**62,478**	72,859
	93,638	107,729
Patient accounts receivable – net of allowance for doubtful accounts of $40 million and $53 million in 2013 and 2012, respectively	**153,851**	159,092
Due from government agencies	**22,336**	22,420
Other current assets	**119,354**	140,405
Total current assets	**389,179**	429,646
Assets limited as to use:		
Interest in pooled investment fund – long-term	**112,882**	169,447
Other investments	**63,491**	69,172
Under bond indenture agreements	**40,859**	41,853
	217,232	280,472
Goodwill and intangibles – net	**10,905**	7,141
Property and equipment – net	**369,530**	374,236
Other long-term assets	**13,283**	14,254
	$ 1,000,129	$ 1,105,749
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 37,234**	$ 26,463
Current portion of long-term debt	**22,915**	13,283
Due to government agencies	**20,163**	22,143
Accrued liabilities	**137,284**	169,097
	217,596	230,986
Other liabilities:		
Long-term debt – net of current portion	**437,344**	460,227
Workers' compensation and hospital professional and general liability	**43,527**	40,650
Pension obligations	**234,074**	266,997
Other long-term liabilities	**3,654**	3,782
Total other liabilities	**718,599**	771,656
Net assets:		
Unrestricted	**20,666**	60,776
Temporarily restricted	**33,988**	33,467
Permanently restricted	**9,280**	8,864
Total net assets	**63,934**	103,107
	$ 1,000,129	$ 1,105,749

See accompanying notes.

Daughters of Charity Health System

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

	Year Ended June 30	
	2013	**2012**
Unrestricted revenues and other support:		
Net patient service revenue	**$ 1,271,229**	$ 1,213,366
Provision for doubtful accounts	**(40,354)**	(34,409)
Net patient service revenue less provision for doubtful accounts	**1,230,875**	1,178,957
Premium revenue	**65,489**	41,056
Other operating revenue	**29,435**	32,799
Contributions	**16,723**	21,049
Total unrestricted revenues and other support	**1,342,522**	1,273,861
Expenses:		
Salaries and benefits	**783,586**	730,244
Supplies	**170,262**	161,876
Purchased services and other	**393,619**	360,897
Depreciation and amortization	**60,439**	56,642
Interest – net	**25,336**	25,202
Total expenses	**1,433,242**	1,334,861
Operating loss	**(90,720)**	(61,000)
Investment income – net	**16,252**	1,500
Deficit of revenues over expenses	**(74,468)**	(59,500)
Net assets released from restrictions used for purchase of property and equipment	**1,248**	2,726
Change in funded status of pension plans	**32,581**	(42,782)
Other	**529**	1,537
Decrease in unrestricted net assets	**(40,110)**	(98,019)

Daughters of Charity Health System

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

	Year Ended June 30	
	2013	**2012**
Temporarily restricted net assets:		
Contributions	**$ 17,800**	$ 24,743
Net assets released from restrictions:		
Operations	**(15,584)**	(16,263)
Property and equipment	**(1,248)**	(2,726)
Other	**(447)**	(496)
Increase in temporarily restricted net assets	**521**	5,258
Permanently restricted net assets:		
Net realized and unrealized gains (losses) on investments	**138**	(189)
Contributions	**278**	598
Increase in permanently restricted net assets	**416**	409
Decrease in net assets	**(39,173)**	(92,352)
Net assets – beginning of year	**103,107**	195,459
Net assets – end of year	**$ 63,934**	$ 103,107

See accompanying notes.

Daughters of Charity Health System

Consolidated Statements of Cash Flows

(*In Thousands*)

	Year Ended June 30	
	2013	**2012**
Operating activities		
Decrease in net assets	**$ (39,173)**	$ (92,352)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	**60,439**	56,642
Provision for and write-off of doubtful accounts	**40,354**	34,409
Changes in fair value and unrealized and realized (gains) losses on investments, net	**(13,110)**	1,017
Amortization of bond premium	**(468)**	(582)
Amortization of deferred debt issuance cost	**223**	235
Change in funded status of pension plans	**(32,581)**	42,782
Asset impairment	**10**	1,141
Gains on disposal of property and equipment	**(221)**	(10)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(35,113)**	(45,367)
Due to government agencies	**(1,896)**	18,460
Other current assets	**15,753**	(51,740)
Other long-term assets	**436**	2,135
Accounts payable	**10,771**	(2,640)
Accrued liabilities	**(23,855)**	14,514
Workers' compensation and hospital professional and general liabilities	**2,877**	5,672
Pension obligations	**(342)**	7,439
Other long-term liabilities	**(128)**	(1,239)
Net cash used in operating activities	**(16,024)**	(9,484)
Investing activities		
Purchases of investments and deposits to interest in pooled investment fund – long-term	**(348,774)**	(336,993)
Proceeds from sales of investments and withdrawals from the interest in pooled investment fund – long-term	**418,656**	377,030
Net withdrawals from (deposits to) interest in pooled investment fund – short-term	**11,102**	(27,000)
Purchase of assets for health-related activity	**(4,738)**	(7,800)
Cash and cash equivalent movements in assets limited as to use	**(2,985)**	(29)
Changes in assets under bond indenture agreements	**994**	954
Purchases to property and equipment	**(50,066)**	(40,805)
Cash proceeds from disposal of property and equipment	**271**	19
Net cash provided by (used in) investing activities	**24,460**	(34,624)
Financing activities		
Repayment of debt	**(13,283)**	(10,589)
Cash contributions received for the purchase of property and equipment	**1,137**	1,714
Net cash used in financing activities	**(12,146)**	(8,875)

Daughters of Charity Health System

Consolidated Statements of Cash Flows (continued)

(*In Thousands*)

	Year Ended June 30	
	2013	**2012**
Decrease in cash and cash equivalents	**$ (3,710)**	$ (52,983)
Cash and cash equivalents – beginning of year	**34,870**	87,853
Cash and cash equivalents – end of year	**$ 31,160**	$ 34,870
Supplemental disclosures of cash flow information		
Cash paid for interest – net of amounts capitalized	**$ 25,581**	$ 25,549
Supplemental disclosures of noncash items		
Capitalized interest	**$ 1,078**	$ 1,483
(Decrease) increase in receivable for investments sold	**$ (1,894)**	$ 3,037
(Decrease) increase in payable for investments purchased	**$ (10,125)**	$ 15,035
Accrued additions to property and equipment	**$ 4,462**	$ 2,295
Purchase of assets for health-related activity acquired through the issuance of notes payable	**$ 500**	$ 5,200

See accompanying notes.

1. Organization

The Daughters of Charity Health System (Parent), a California nonprofit religious corporation, was formed in June 2001 by the Daughters of Charity Ministry Services Corporation (Ministry Services), a California not-for-profit religious corporation. Ministry Services is the sole corporate member of DCHS. DCHS is the sole corporate member of six California not-for-profit religious corporations that operate six acute care hospitals and other facilities (the “Hospitals,” see list below) in the state of California. Daughters of Charity Health System and the following list of affiliated entities (collectively, “DCHS”) became one of the largest not-for-profit health care systems in the state of California, with approximately 1,660 licensed acute care and skilled nursing beds.

DCHS consists of Parent* and the following:

- O’Connor Hospital*
- Saint Louise Regional Hospital*
- St. Francis Medical Center Lynwood*
- St. Vincent Medical Center*
- Seton Medical Center*
- Seton Medical Center Coastside (a division of Seton Medical Center)*
- Caritas Business Services
- Marillac Insurance Company, Ltd. (Marillac)
- O’Connor Hospital Foundation
- Saint Louise Regional Hospital Foundation
- St. Francis Medical Center of Lynwood Foundation
- St. Vincent Medical Center Foundation
- Seton Health Services Foundation
- St. Vincent de Paul Ethics Corporation
- St. Vincent Dialysis Center
- De Paul Ventures, LLC (see Note 2)
- DCHS Medical Foundation (see Note 2)

* Part of the Obligated Group (see discussion below and Note 9)

The Daughters of Charity of St. Vincent de Paul (the Daughters of Charity) commenced its health care mission in California in 1856, with four of the Hospitals having been sponsored by the Daughters of Charity since their formation.

1. Organization (continued)

DCHS established an Obligated Group (see listing of entities included in the Obligated Group above) to access the capital markets. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Bond Master Indenture.

2. Summary of Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of DCHS after elimination of intercompany transactions.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and highly liquid marketable securities with original maturities, at the time of purchase, of three months or less.

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

Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payers. Settlements with third-party payers are accrued on an estimated basis in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined.

2. Summary of Significant Accounting Policies (continued)

DCHS adopted the accounting standard addressing the presentation of the provision for bad debts in 2013, and as such, patient service revenues less provision for bad debts are reported net of the provision for bad debts on the consolidated statement of operations and changes in net assets. DCHS's self-pay write-offs were $40,354,000 and $34,409,000 for the years ended June 30, 2013 and 2012, respectively. The increase in write-offs resulted from DCHS engaging a third-party collection agency to work on past due balances. The provision for bad debts for the year ended June 30, 2012 was reclassified as a reduction of patient service revenues.

DCHS manages its risks by regularly reviewing accounts and contracts and by providing appropriate allowances for uncollectible amounts. DCHS manages the receivables by regularly reviewing its patient accounts and contracts and by providing appropriate allowances for uncollectible amounts. These allowances are estimated based upon an evaluation of historical payments, negotiated contracts and governmental reimbursements. Adjustments and changes in estimates are recorded in the period in which they are determined.

Patient services revenues, net of contractual allowances and discounts, are as follows (in thousands):

	Year Ended June 30	
	2013	**2012**
Government	**$ 754,971**	$ 722,073
Contracted	**454,262**	435,496
Self-pay and others	**21,642**	21,388
	$ 1,230,875	$ 1,178,957

Significant concentrations of net patient accounts receivable are as follows:

	June 30	
	2013	**2012**
HMO/PPO/Commercial	**40%**	43%
Medicare	**30**	31
Medi-Cal	**25**	24
Other	**5**	2
Total	**100%**	100%

2. Summary of Significant Accounting Policies (continued)

Inpatient acute care services, outpatient services, and skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid using a cost reimbursement methodology.

Health care services are provided free of charge or at a significant discount based on a sliding scale to individuals who meet certain financial criteria. DCHS makes every effort to determine if a patient qualifies for charity care upon admission. If a patient is determined to qualify for charity care, services are rendered to the patient free of cost. The costs of providing these services are included in unsponsored community benefit expense (see Note 3).

After satisfaction of amounts due from insurance and the application of financial discounts to patients' balances, and after exhausting all reasonable efforts to collect from the patients, a significant portion of the DCHS's uninsured and self-pay patient accounts are referred to the third-party agencies based on DCHS's established guidelines for further collection activities. As a result, DCHS's records a significant provision for doubtful accounts related to these uninsured patients in the period the services are rendered.

Gross patient revenue is recorded based on usual and customary charges. Gross patient revenue was $5,919,043,000 and $5,788,231,000 for the years ended June 30, 2013 and 2012, respectively. The percentage of inpatient and outpatient services is as follows:

	June 30	
	2013	**2012**
Inpatient services	**65.2%**	66.0%
Outpatient services	**34.8**	34.0

2. Summary of Significant Accounting Policies (continued)

DCHS derives significant portions of its revenues from Medicare, Medicaid (Medi-Cal), and other third-party payer programs. As a result, DCHS is exposed to certain credit risks. The estimated percentage of gross patient revenues by major payer group is as follows:

	June 30	
	2013	**2012**
Medicare	**46.9%**	46.9 %
Medicare capitated	**1.4**	1.4
Medi-Cal	**23.5**	23.5
Medi-Cal capitated	**1.0**	0.9
Contracted-rate payers	**19.9**	20.8
Commercial capitated	**0.1**	0.2
Commercial insurance – self-pay and other payers	**7.2**	6.3
	100.0%	100.0%

Certain entities of DCHS have agreements with third-party payers that provide for payments to DCHS at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Medi-Cal and contracted-rate payers are paid on a per diem, per discharge, modified cost, or capitated basis or a combination of these.

Net patient revenue included $12,214,000 and $13,275,000, for the years ended June 30, 2013 and 2012, respectively, which related to prior years' reimbursement settlements from Medicare, Medi-Cal, and other programs.

DCHS's St. Francis Medical Center qualified for and received Medi-Cal funding as a disproportionate-share hospital from the state of California under Senate Bill (SB) 855. Related revenues were $31,299,000 and $26,332,000, for the years ended June 30, 2013 and 2012, respectively, and are included in net patient service revenue. Amounts to be received in future years, if any, are subject to annual determination.

2. Summary of Significant Accounting Policies (continued)

The St. Francis Medical Center also received funding for Medi-Cal disproportionate-share hospitals under Senate Bill 1255 (SB 1255). These SB 1255 funds are paid from the Emergency Services and Supplemental Payments Fund Related revenues were $7,700,000 and $9,100,000, for the years ended June 30, 2013 and 2012, respectively, and are included in net patient service revenue. This funding must be applied for and approved each year.

The St. Francis Medical Center also qualifies for Medi-Cal funding as a disproportionate-share hospital from the state of California under Senate Bill 1732 (SB 1732). This SB 1732 program permits health care facilities servicing a disproportionate share of Medi-Cal patients to receive supplemental reimbursement for a portion of their debt service for qualified capital projects. St. Francis Medical Center has an amendment to its Medi-Cal contract, which was executed on June 19, 1993, for reimbursement related to the St. Francis Medical Center Health Services Pavilion, which was completed in 1991. Related revenues were $8,052,000 and $8,204,000, for the years ended June 30, 2013 and 2012, respectively, and are included in net patient service revenue.

As part of DCHS's mission to serve the community, DCHS provides care to patients even though they may lack adequate insurance or may participate in programs that do not pay full charges. Reserves for charity care and uncollectible amounts have been established and are netted against patient accounts receivable in the consolidated balance sheets.

Industry Concentration

The receipt of future revenues by DCHS is subject to, among other factors, federal and state policies affecting the health care industry. There are future revenue uncertainties that may require that costs be controlled, which will be subject to the capability of management; future economic conditions, which may include an inability to control expenses in periods of inflation; increased competition; and other conditions, which are impossible to predict.

Inventories

Inventories consist of supplies and are stated at the lower of cost or market value, which is determined using the first-in, first-out method. Inventories are reviewed for obsolescence on a periodic basis. Amounts are included in other current assets.

2. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use represent assets designated by the board of directors for future capital improvements, other specific purposes for Marillac over which the board of directors retains control, assets held by trustees under bond indenture agreements, and investments restricted by donors. The board of directors has the full ability to utilize those Marillac assets limited as to use to satisfy the needs of on-going operations as necessary. Excluding the assets held as part of the pooled investment fund, described below, these assets include investments in cash, equity securities – domestic and foreign, U.S. federal and corporate obligations, to-be-announced (TBA) mortgage-backed securities, asset-backed securities, and fixed-income securities, which are stated at fair value. The composition and fair value of the long-term interest in the pooled investment fund also are limited as to use and are as shown below.

Fair values are based on quoted market prices, if available, or estimated quoted market prices for similar securities. Investment income or loss is included in deficit of revenues over expenses, unless the income or loss is restricted by donor or law. The assets are reflected in the assets limited as to use line item in the consolidated balance sheet.

Interest in Pooled Investment Fund

DCHS has been participating in a pooled investment fund administered by Ascension Health. This pooled investment fund is referred to as the Health System Depository (HSD). DCHS recognizes its rights to the assets held in the HSD as a beneficial interest in the pooled investment fund. Beginning April 1, 2012, Ascension Health has decided to operate its investment management activities through its subsidiary, Catholic Healthcare Investment Management Company (CHIMCO), an investment advisor registered with the Securities and Exchange Commission. Consequently, DCHS's HSD accounts were closed, and the remaining balance was then invested into the newly created CHIMCO Alpha Fund, LLC (the "Fund"). CHIMCO serves as a manager and the principal advisor of the Fund.

The fair value of DCHS beneficial interest in the HSD fund is determined using DCHS's ownership percentage of the Fund based on the net asset value (NAV) of the pool. The fair value of DCHS's investment in the Fund decreased by $66,946,000 and $453,000 as of June 30, 2013 and 2012, respectively. DCHS's total investment in the Fund, reflected at fair value, was $175,360,000 and $242,306,000 as of June 30, 2013 and 2012, respectively. The total investment in the Fund is comprised of cash, equity securities – domestic and foreign, U.S. federal and corporate obligations, TBA mortgaged-backed securities, asset-backed securities, and fixed-income securities, which are stated at fair value.

2. Summary of Significant Accounting Policies (continued)

As of June 30, 2013 and 2012, investment balances of approximately $62,478,000 and $72,859,000, respectively, in the Fund represented cash invested in a short-term pooled investment account. A centralized cash management arrangement that allows DCHS to access the Fund on demand using the Fund's short-term investments accounts.

Investments

All debt and equity securities are carried at estimated fair value using quoted market prices. Investments received through gifts are recorded at estimated fair value at the date of donation. Gains and losses that result from market fluctuations are recognized in the period that such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on an adjusted-cost basis. Adjusted-cost is the original cost of the security adjusted for any purchases or sales during the year. Dividend and interest income are accrued when earned.

Investment income includes the following (in thousands):

	Year Ended June 30	
	2013	**2012**
Interest and dividends	**$ 3,238**	$ 2,858
Investment fees	**(288)**	(253)
Unrealized gain (loss) on investments – net	**5,856**	(12,016)
Net realized gain on sales of securities	**8,025**	11,147
	16,831	1,736
Amounts included in changes in restricted net assets	**(579)**	(236)
Investment income	**$ 16,252**	$ 1,500

Derivative Financial Instruments

During the fiscal years ended June 30, 2013 and 2012, DCHS entered into forward contracts related to the purchase and sale of TBA mortgage-backed securities under a dollar-roll strategy. The contracts represent a commitment to purchase or sell the security at a fixed price on a specified future date and include net settlement provisions, therefore, meeting the definition of a derivative under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*. The Company has recorded the gross

2. Summary of Significant Accounting Policies (continued)

amounts of benefits and obligations as assets and liabilities, respectively, as the contracts are not settled daily. As of June 30, 2013 and 2012, the value of the benefits was $3,200,000 and $3,684,000, respectively, and the value of the obligations was $3,208,000 and $7,357,000, respectively. These amounts represent pending unsettled benefits and obligations, and have been included in the other current assets and the accrued liabilities line items within the consolidated balance sheets. The amount of net realized gain (loss) included in investment income within the consolidated statements of operations and changes in net assets and unrealized gains were immaterial for the years ended June 30, 2013 and 2012, respectively, to the consolidated financial statements.

DCHS enters into TBA transactions to generate short-term investment income; the aggregate notional amounts transacted during the year were approximately $46 million and $60 million for the fiscal years ended June 30, 2013 and 2012, respectively. DCHS transacts all of its TBA transactions with its custodian and does not expect any significant occurrences of counterparty default. All TBA securities are exchange-traded and subject to the credit risk associated with the underlying pool of mortgages. However, management believes that such risk associated with trading these securities is insignificant to its overall investment strategy.

Property and Equipment

Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Depreciation of property and equipment is calculated using a half-year convention and the straight-line method for financial statement purposes. Estimated useful lives by classification are as follows:

Land improvements	5–25 years
Buildings	10–40 years
Building service equipment	5–25 years
Equipment	4–20 years

2. Summary of Significant Accounting Policies (continued)

Long-Lived Asset Impairment

DCHS evaluates the carrying value of its long-lived assets for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount of the asset, or related group of assets, may not be recoverable from estimated future undiscounted cash flows generated by the underlying tangible assets. When carrying value of an asset exceeds the recoverability, an asset impairment charge is recognized. When an asset is not operating at full capacity, it is also deemed impaired. The remaining net book value is recognized as an impairment charge in the consolidated statements of operations and changes in net assets. For the years ended June 30, 2013 and 2012, impairments from the disposal of assets of $10,000 and $1,141,000, respectively, were recorded.

Goodwill and Intangible Assets

Goodwill is measured as of the effective date of a business acquisition as the excess of the aggregate of the fair value of consideration transferred over the fair value of the tangible and intangible assets acquired and liabilities assumed. There was no impairment to goodwill recorded for the years ended June 30, 2013 and 2012.

The changes in the carrying amount of goodwill are as follows (in thousands):

	Year Ended June 30	
	2013	**2012**
Beginning balance	**$ 6,779**	$ –
Addition from acquisition	**3,642**	6,779
Ending balance	**$ 10,421**	$ 6,779

DCHS, through the DCHS Medical Foundation, acquired intangible assets and goodwill valued at $3,884,000 as of June 30, 2013, as a result of various physician practice acquisitions during fiscal year 2013.

DCHS acquired intangible assets and goodwill valued at $7,141,000 as of June 30, 2012, which were part of its asset purchase agreement with San Jose Medical Group (SJMG).

2. Summary of Significant Accounting Policies (continued)

The goodwill impairment tests are based on financial projections prepared by management that incorporate anticipated results from programs and initiatives being implemented. If these projections are not met or if negative trends occur that impact outlook, the value of goodwill may be impaired. During the fiscal year ended June 30, 2013, management noted no events or indicators of impairment related to the recorded goodwill.

It is DCHS's policy to amortize intangible assets with a finite life over their useful lives.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and due to/from government agencies approximate fair value. The fair value of investments is disclosed in Notes 4 and 8, and the fair value of debt is disclosed in Note 9.

Ownership Interests in Health-Related Activities

Generally, when the ownership interest in health-related activities is more than 50%, the activities are consolidated, and a noncontrolling interest is recorded if appropriate. When the ownership interest is at least 20%, but not more than 50%, it is accounted for on the equity method, and the income or loss is reflected in the performance indicator. Activities with less than 20% ownership are carried at the lower of cost or estimated net realizable value.

Medical Foundation

The DCHS Medical Foundation (Medical Foundation) was established in December 2011 and incorporated under the California Nonprofit Religious Corporation regulations as a not-for-profit corporation exempted from IRC Section 501(c)(3). The sole member of this corporation is DCHS, acting through its board of directors. On April 1, 2012, the Medical Foundation began its operations after purchasing fixed and intangible assets from SJMG and San Jose Medical Management Inc. for $13,000,000. Of the $13,000,000 purchase consideration, $7,800,000 was paid in cash and the remaining $5,200,000 was in notes payable to SJMG, which were payable in two equal installments of $2,600,000 in fiscal years 2013 and 2014. The loan contained contingencies that would have reduced the future payments due to SJMG if it had failed to maintain the minimum number of physicians and a minimum number of

2. Summary of Significant Accounting Policies (continued)

physicians providing services on a full-time basis to the Medical Foundation's patients. The contingent loan payments to SJMG were based on a sliding scale, as defined in the asset purchase agreement between the parties. SJMG had met the provision of the first year's loan contingencies by the end of the fiscal year, ending June 30, 2013. As a result, the Medical Foundation had repaid the first installment of $2,600,000 to SJMG, which has been reflected in DCHS's consolidated financial statements as of June 30, 2013.

During the year ended June 30, 2013, the Medical Foundation has acquired nine additional independent physician practitioners (IPAs), comprising the IPAs' tangible and intangible assets. The total cost of these acquisitions amounted to $5,023,000, of which $4,523,000 was paid in cash and the remaining balance of $500,000 in notes payable in two installments of $350,000 and $150,000 in fiscal years 2014 and 2015, respectively. These acquisition costs have been reflected in DCHS's consolidated financial statements as of June 30, 2013.

The purchase consideration for the two years were allocated as follows (in thousands):

	June 30	
	2013	**2012**
Assets purchased		
Inventory	**$ 130**	$ 178
Deposit	**66**	–
Equipment	**737**	3,081
Leasehold improvements	**206**	2,600
Intangibles:		
Finite-lived intangibles	**242**	362
Goodwill	**3,642**	6,779
	$ 5,023	$ 13,000

De Paul Ventures, LLC

In August 2010, DCHS filed with the state of California to form a California limited liability company called De Paul Ventures, LLC, which is a wholly owned and operated holding company of DCHS. The company is formed as a means to support the mission of DCHS by providing multiple needs of the poor, particularly for housing, health, and social services. Around the same time, De Paul Ventures, LLC entered into an operating agreement to form De Paul Ventures – San Jose ASC, LLC, and became the sole Member of De Paul Ventures – San Jose ASC, LLC.

2. Summary of Significant Accounting Policies (continued)

In February 2011, De Paul Ventures – San Jose ASC, LLC entered into a partnership agreement with Physician Surgery Services, a California limited liability partnership, dba Advanced Surgery Center. De Paul Ventures – San Jose ASC, LLC received a 25% partnership interest, as a limited partner, in exchange for DCHS's cash investment of $1,170,250. Physician Surgery Services, LLC is made up of various physician owners and operates a freestanding surgery center in San Jose, California. DCHS's investment of $1,170,250 in the partnership interest of Physician Surgery Services, LLC is reflected under De Paul Ventures, LLC as a separate nonobligated entity in the consolidated balance sheets of DCHS as of June 30, 2013 and 2012. DCHS received a total of $554,000 and $504,000, as partnership distribution from the activities of DePaul Ventures – San Jose ASC, LLC, for the years ended June 30, 2013 and 2012, respectively.

In April 2013, De Paul Ventures, LLC formed De Paul Ventures – San Jose Dialysis, LLC, a California limited liability company, and became the sole member of De Paul Ventures San Jose Dialysis, LLC. In May 2013, De Paul Ventures – San Jose Dialysis, LLC entered into an agreement to acquire a 10% interest in Priday Dialysis, LLC, a Delaware limited liability company. The latter is an ambulatory health care center specializing in end-stage renal disease treatment. De Paul Ventures – San Jose Dialysis, LLC's investment in Priday Dialysis, LLC is valued at $215,000 and has been included in DCHS's consolidated financial statements as of June 30, 2013.

Guarantees

In the normal course of its business, DCHS enters into various types of guarantees with counterparties in connection with certain derivative, underwriting, asset sale, and other transactions. DCHS also provides indemnifications against potential losses to certain parties involved in their bond financing. The indemnifications are ordinarily documented in standard contract terms. Generally, there are no stated or notional amounts included in these indemnifications, and the events or contingences triggering the obligations to indemnify are generally not expected to occur. There have been no claims, and none are expected to occur; therefore, it is not possible to develop an estimate of the maximum payout and fair value under these guarantees and indemnifications. DCHS has not recorded any liabilities in the consolidated financial statements as of June 30, 2013 and 2012, related to any guarantees or indemnification arrangements.

2. Summary of Significant Accounting Policies (continued)

Self Insurance

DCHS is self-insured for hospital professional and general liabilities by a wholly owned self-insured captive insurance company. The provisions for estimated hospital professional and general liability claims include estimates of the ultimate costs for both uninsured reported claims and claims incurred-but-not-reported (IBNR), in accordance with actuarial projections or paid claims lag models based on past experience. Such claim reserves are based on the best data available to DCHS; however, these estimates are subject to a significant degree of inherent variability. There is at least a reasonable possibility that a material change to the estimated reserves will occur in the near term. Such estimates are continually monitored and reviewed, and as reserves are adjusted, the differences are reflected in current operations. Management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims.

DCHS has entered into reinsurance, stop loss, and excess policy agreements with independent insurance companies to limit its losses on hospital professional and general liability claims.

Hospital professional and general liabilities were $14,909,000 and $11,994,000 discounted at a rate of 3% and 5% as of June 30, 2013 and 2012, respectively. Management is not aware of any potential hospital professional and general liability claims whose settlement would have a material adverse effect on the DCHS's consolidated financial position.

Workers' Compensation Insurance

DCHS is insured for workers' compensation claims with major independent insurance companies, subject to certain deductibles of $500,000 per occurrence as of June 30, 2013 and 2012. Based on actuarially determined estimates, provisions have been made in the consolidated financial statements, with the current portion included within accrued liabilities and the noncurrent portion within workers' compensation and hospital professional and general liabilities, for all known claims and incurred but not reported claims as of June 30, 2013 and 2012. Workers' compensation liabilities were $22,891,000 and $23,418,000 discounted using a rate of 3% and 5%, as of June 30, 2013 and 2012, respectively. Estimation differences between actual payments and amounts recorded in previous years are recognized as expense in the year such amounts become determinable.

2. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those for which use by DCHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by DCHS in perpetuity.

California Hospital Fee Program

California legislation established a program that imposes a Quality Assurance Fee (QA Fee) on certain general acute-care hospitals in order to make supplemental and grant payments and increased capitation payments (Supplemental Payments) to hospitals up to the aggregate upper payment limit for various periods. There have been three such programs since inception. The first two programs were the 21-month program (21-Month Program) covering the period April 1, 2009 to December 31, 2010, and the six-month program (Six-Month Program) covering the period January 1, 2011 to June 30, 2011 (the “Original Programs”), and the third, a 30-month program covering the period from July 1, 2011 to December 31, 2013 (30-Month Program, collectively, the “Programs”). The 30-Month Program was signed into law by the Governor of California in September 2011. The Programs are designed to make supplemental inpatient and outpatient Medi-Cal payments to private hospitals, including additional payments for certain facilities that provide high-acuity care and trauma services to the Medi-Cal population. This hospital QA Fee program provides a mechanism for increasing payments to hospitals that serve Medi-Cal patients, with no impact on the state’s General Fund (GF). Payments are made directly by the state or Medi-Cal managed care plans, which will receive increased capitation rates from the state in amounts equal to the Supplemental Payments. Outside of the legislation, the California Hospital Association (CHA) has created a private program, operated by the California Health Foundation and Trust (CHFT), which was established to alleviate disparities potentially resulting from the implementation of the Programs.

The Original Programs required full federal approval (i.e. by the Centers for Medicare and Medicaid Services (CMS)) in order for them to be fully enacted. If final federal approval was not ultimately obtained, provisions in the underlying legislation allowed for the QA Fee, previously assessed, and Supplemental Payments, previously received, to be returned and recouped, respectively. As such, revenue and expense recognition was not allowed until full CMS approval was obtained. Full CMS approvals for the 21-Month Program and 6-Month Program were obtained in December 2010 and December 2011, respectively. For the year ended June 30, 2012, DCHS recognized payments to the California Department of Health Care Services (DHCS) for the QA Fee in the amount of $28,091,000 and pledge payments to the CHFT of approximately

2. Summary of Significant Accounting Policies (continued)

$1,327,000 within purchased services and other expenses. DCHS recognized Supplemental Payment revenue for the year ended June 30, 2012, in the amount of $55,237,000 pertaining to the 6-Month Program within net patient service revenues.

In June 2012, the legislation governing the 30-Month Program was amended to allow for the fee-for-service portion to be administered separately from the managed care portion. Accordingly, upon CMS approval of the fee-for-service portion of the 30-Month Program in June 2012, for the year ended June 30, 2012, DCHS recognized $51,296,000 in accrued liabilities for the 30-Month Program QA Fee payments, which was expensed within purchased services and other expenses. Additionally, Supplemental Payment revenue in the amount of $78,904,000 was recognized within net patient service revenue and as the payments were not yet received, a receivable was recorded in other current assets.

In May and June 2013, CMS approved the managed care portion of the 30-Month Program covering the period from July 1, 2011 to June 30, 2013. Accordingly, DCHS recognized the impact of the managed care portion for the approved period and continued to recognize the fee-for-service portion of the 30-Month Program. DCHS recognized payments to DHCS for the QA Fee in the amount of $97,609,000 and pledge payments to CHFT of $4,938,000 within purchased services and other expenses. During the year ended June 30, 2013, DCHS also recognized Supplemental Payment revenue in the amount of $169,454,000 pertaining to the 30-Month Program within net patient service revenues.

Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 established payments under the Medicare and Medi-Cal programs for certain professionals and hospitals that meaningfully use certified electronic health record (EHR) technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medi-Cal incentives, hospitals and physicians must annually meet EHR “meaningful use” criteria that become more stringent over three stages as determined by CMS. For the years ended June 30, 2013 and 2012, DCHS has recorded meaningful use incentive payments of $6,492,000 and $8,409,000, respectively. These incentive payments have been recorded as other operating revenue in the DCHS consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Premium Revenue

Certain entities of DCHS have at-risk agreements with various payers to provide medical services to enrollees. Under these agreements, DCHS receives monthly payments based on the number of enrollees, regardless of services actually performed by DCHS. DCHS accrues costs when services are rendered under these contracts, including estimates of IBNR claims and amounts receivable/payable under risk-sharing arrangements.

The IBNR accrual includes an estimate of the costs of services for which DCHS is responsible, including out-of-network services.

Other Operating Revenue

Included in other operating revenue are amounts from investments in health-related activities, rental income, cafeteria, and other nonpatient care revenue.

Contributions

Unconditional promises to give cash and other assets to DCHS are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets. Net assets released from restrictions used for operations are also included in other operating revenue as contribution revenue to the Hospitals.

Interest Expense

Interest expense on debt issued for construction projects, net of income earned on the funds held pending use, is capitalized from the date of the borrowing until the projects are placed in service. Interest components include the following (in thousands):

	Year Ended June 30	
	2013	**2012**
Total interest expense	**$ 26,414**	$ 26,685
Less: capitalized interest expense	**(1,078)**	(1,483)
Net interest expense	**$ 25,336**	$ 25,202

2. Summary of Significant Accounting Policies (continued)

Income Taxes

DCHS has established its status as an organization exempt from income taxes under the Internal Revenue Code (IRC) Section 501(c)(3) and the laws of California. Certain activities of the operating entities of DCHS may be subject to income taxes; however, such activities are not significant to the consolidated financial statements.

Performance Indicator

Management considers the deficit of revenues over expenses to be DCHS's performance indicator. Deficit of revenues over expenses includes all changes in unrestricted net assets, except net assets released from restrictions used for purchase of property and equipment and the change in funded status of pension plans.

Transactions Between Related Organizations

DCHS and various members of DCHS pay for sisters' services provided to it by its sponsoring congregation at amounts comparable to low-wage employees' salaries.

Certain Obligated Group members have a policy whereby assets are periodically transferred as charitable distributions to subsidiaries of DCHS that are not members of the Obligated Group. These transfers are accounted for as direct charges to the Obligated Group members' unrestricted net assets. It is anticipated that Obligated Group members will continue to make asset transfers to the subsidiaries. These transfers are eliminated upon consolidation.

Asset Retirement Obligations (AROs)

AROs are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value, and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, DCHS records period-to-period changes in the ARO liability resulting from the passage of time. DCHS's ARO liabilities recorded in the consolidated financial statements at June 30, 2013 and 2012, were $3,043,000 and $3,034,000, respectively.

2. Summary of Significant Accounting Policies (continued)

Revenue Guarantees

DCHS has agreements with physicians whereby minimum revenues are guaranteed by DCHS for stipulated dollar amounts over specified periods, as defined in the contracts. DCHS records a liability for the amount of the guaranteed revenue at the time the contract is entered into and adjusts the liability as it is expended. DCHS has recorded liabilities of $1,014,000 and $1,117,000 as of June 30, 2013 and 2012, respectively.

Recent Accounting Pronouncements

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Services Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07) which amended Accounting Standards Codification (ASC) No. 954, *Health Care Entities*, to provide greater transparency regarding a health care entity's net patient revenue and related allowance for doubtful accounts. The provisions of ASU 2011-07, which was adopted by DCHS retrospectively, beginning July 1, 2012, required a change in the presentation of the provision for bad debts associated with patient services revenue by reclassifying the provision from operating expenses to a deduction from net patient revenue and enhanced disclosures about net patient revenue and the policies for recognizing and assessing bad debts. As a result, the provision for bad debts associated with patient care has been reclassified for comparative periods presented in DCHS's financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). The update requires entities to disclose information about offsetting related transactions to enable users of its financial statements to understand the effect of those transactions on its financial position. This disclosure requirement of ASU 2011-11, which is applied retrospectively, is effective for DCHS beginning in July 1, 2013. Adoption of ASU 2011-11, is not expected to have a material impact on the consolidated financial statements of DCHS.

In October 2012, the FASB issued ASU No. 2012-05, *Statement of Cash Flows (Topic 230), Not-for-Profit-Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flow.* The amendments in this update require not-for-profit entities to classify cash receipts from the sale of donated financial assets as cash flows from operating activities, unless the donor restricted the use of contributed resources to long-term purposes, in which case cash receipts should be classified as cash flows from financing activities. The amendments in

2. Summary of Significant Accounting Policies (continued)

this update are effective for DCHS prospectively beginning July 1, 2013. The adoption of ASU 2012-05, is not expected to have a material impact on the consolidated financial statements of DCHS.

In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.* The amendments in this update are intended to clarify ASU No. 2011-11. The amendments in ASU No. 2013-01 clarify that the scope of ASU No. 2011-11, and applies to derivatives accounted for in accordance with ASC 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are subject to an enforceable master netting arrangement or similar agreements. The effective date of application of this amendment is July 1, 2013. The adoption of ASU No. 2013-01 will not materially affect DCHS's investment in forward contracts with net settlement provision related to the purchase and sale of TBA mortgage-backed securities within a dollar-roll strategy.

In July 2013, the FASB issued ASU No. 2013-09, *Fair Value Measurement (Topic 820), Deferral of the Effective Date of Certain Disclosures from Non-public Employee Benefit Plans in Update No. 2011-04.* The amendments in this update defer indefinitely the effective date of certain required disclosures in ASU No. 2011-04 of quantitative information about the significant unobservable inputs used in Level 3 fair value measurements for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities. The effective date of the application of this amendment is July 2013. The adoption of ASU No. 2013-09 is not expected to have a material impact on the consolidated financial statements, of DCHS.

In April 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities (Topic 958), Services Received from Personnel of an Affiliate*, which requires that a recipient non-for-profit entity recognize all services from personnel of an affiliate that directly benefit the recipient not-for-profit entity, and for which the affiliate does not charge the recipient not-for-profit entity. The amendments in ASU 2013-06 are effective prospectively for fiscal years beginning after June 15, 2014. The adoption of ASU 2013-06 is not expected to have a material impact on the consolidated financial statements of DCHS.

3. Unsponsored Community Benefit Expense

The following is a summary of DCHS's community service in terms of services to the poor and benefits to the broader community for the year ended June 30, 2013. The summary has been prepared in accordance with the Catholic Health Association of the United States publication, *A Guide for Planning and Reporting Community Benefit* (dollars in thousands):

	Total Community Benefit Expense – at Cost			Unsponsored Community Benefit Expense – at Cost	
	Amount	**Percentage of Total Expenses**	**Direct Offsetting Revenue**	**Amount**	**Percentage of Total Expenses**
			(Unaudited)		
Benefits for the poor:					
Traditional charity care	$ 36,718	2.6 %	$ –	$ 36,718	2.6 %
Unpaid costs of public programs – Medi-Cal	366,465	25.6	262,552	103,913	7.3
Nonbilled services	15,579	1.1	1,887	13,692	1.0
Cash and in-kind donations	15	–	–	15	–
Other	5,707	0.4	800	4,907	0.3
Total quantifiable benefits for the poor	424,484	29.7	265,239	159,245	11.2
Benefits for the broader community:					
Nonbilled services	830	0.1	604	226	–
Education and research	500	–	27	473	–
Cash and in-kind donations	339	–	32	307	–
Other	1,943	0.1	–	1,943	0.1
Total quantifiable benefits for the broader community	3,612	0.2	663	2,949	0.1
Total quantifiable community benefits	428,096	29.9	265,902	162,194	11.3
Unpaid costs of Medicare program	542,864	37.9	421,456	121,408	8.5
Total quantifiable community benefits and unpaid costs of Medicare program	$ 970,960	67.8 %	$ 687,358	$ 283,602	19.8 %

Benefits for the Poor

Benefits for the poor include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

3. Unsponsored Community Benefit Expense (Unaudited) (continued)

Benefits for the Broader Community

Benefits for the broader community include services and programs provided to other needy populations that may not qualify as poor, but that need special services and support. Examples include the elderly, substance abusers, victims of child abuse, and persons with acquired immune deficiency syndrome. They also include the cost of health promotion and education, health clinics and screenings, and medical research, which benefit the broader community.

Traditional Charity Care

Traditional charity care covers services provided to persons who cannot afford to pay and who meet DCHS's criteria for financial assistance. DCHS utilizes information obtained directly from patients as well as information from publicly available sources in determining charity care eligibility. The amounts above reflect the costs of these services (based on DCHS's relationship of costs to charges) before and after contributions and other revenues received as direct assistance for the provision of charity care. The amount of services quantified at customary charges was $121,836,000 and $108,031,000 for the years ended June 30, 2013 and 2012, respectively. The amount of traditional charity care at cost was $36,718,000 and $22,130,000 for the year ended June 30, 2013.

Unpaid Costs of Public Programs – Medi-Cal

Unpaid costs of public programs are the costs of treating indigent and Medi-Cal beneficiaries in excess of government payments. Cost is based on DCHS's relationship of costs to charges.

Nonbilled Services

Nonbilled services include the cost of services for which a patient is not billed or for which a nominal fee has been assessed. These are services that are not expected to be financially self-supporting. Examples are free clinic services and meal programs.

Cash and In-Kind Donations

Cash and in-kind donations are made by DCHS to special funds used to benefit the poor and the community.

3. Unsponsored Community Benefit Expense (Unaudited) (continued)

Education

Education includes the unpaid cost of training health professionals, such as medical residents, nursing students, and students in allied health professions.

Research

Research includes the unpaid cost of testing medical equipment and controlled studies of therapeutic protocols.

Other Benefits for the Broader Community Expenses

Other benefits for the broader community expenses include low- or negative-margin services, which are services offered because of a need in the community. They do not include services offered because they create revenues elsewhere.

Total Community Benefit Expense

Total community benefit expense is the total cost of community benefits before direct offsetting revenue, donations, or other funds used to defray such costs.

Unsponsored Community Benefit Expense

Unsponsored community benefit expense is the total cost incurred after direct offsetting revenue, if any, from patients, donations, and other sources.

Unpaid Costs of Medicare Program

Unpaid costs of the Medicare program are the costs of treating Medicare beneficiaries in excess of government payments. Cost is based on DCHS’s relationship of costs to charges.

4. Fair Value Measurements

DCHS accounts for certain assets at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest-level input that is significant to the fair value measurement in its entirety. These levels are as follows:

Level 1 — Quoted prices are available in active markets for identical assets as of the measurement date. Financial assets and liabilities in Level 1 include listed equities and money markets balances.

Level 2 — Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets in this category generally include asset-backed securities, corporate bonds, municipal bonds, and commingled investment funds.

Level 3 — Pricing inputs are generally unobservable for the assets and include situations where there is little, if any, market activity for the investment. The inputs used in determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets. Therefore, the fair values are determined using discounted cash flow models and similar techniques.

4. Fair Value Measurements (continued)

The following represents assets measured at fair value on a recurring basis (in thousands):

	June 30, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled investment funds:				
Pooled funds – short-term	$ 62,478	$ –	$ 62,478	$ –
Pooled funds – long-term	112,882	–	112,882	–
	175,360	–	175,360	–
Other investments – assets limited as to use:				
Cash equivalents	11,174	11,174	–	–
Debt securities issued by foreign corporations	2,722	–	2,722	–
Debt securities issued by the U.S. Treasury and other				
U.S. government corporations	6,780	–	6,780	–
Government mortgage-backed securities	3,205	–	3,205	–
TBA mortgage-backed securities	3,178	–	3,178	–
Commercial mortgage-backed securities	3,963	–	3,963	–
Corporate U.S. debt securities	18,382	–	18,382	–
Index funds	9,248	–	9,248	–
Convertible equity	348	–	348	–
Investment held in trust account	4,491	–	4,491	–
	63,491	11,174	52,317	–
Under bond indenture agreements – assets limited as to use:				
Cash equivalents	15,718	15,718	–	–
Debt securities issued by foreign corporations	25,141	–	25,141	–
	40,859	15,718	25,141	–
	$ 279,710	$ 26,892	$ 252,818	$ –

4. Fair Value Measurements (continued)

	June 30, 2012			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Pooled investment funds:				
Pooled funds – short-term	$ 72,859	$ –	$ 72,859	$ –
Pooled funds – long-term	169,447	–	169,447	–
	242,306	–	242,306	–
Other investments – assets limited as to use:				
Cash equivalents	9,657	9,657	–	–
Debt securities issued by foreign corporations	4,015	–	4,015	–
Debt securities issued by the U.S. Treasury and other	–	–	–	–
U.S. government corporations	17,429	–	17,429	–
Government mortgage-backed securities	2,750	–	2,750	–
TBA mortgage-backed securities	3,676	–	3,676	–
Commercial mortgage-backed securities	4,515	–	4,515	–
Corporate U.S. debt securities	12,601	–	12,601	–
Index funds	11,882	–	11,882	–
Investment held in trust account	2,647	–	2,647	–
	69,172	9,657	59,515	–
Under bond indenture agreements – assets limited as to use:				
Cash equivalents	15,716	15,716	–	–
Debt securities issued by foreign corporations	26,137	–	26,137	–
	41,853	15,716	26,137	–
	$ 353,331	$ 25,373	$ 327,958	$ –

4. Fair Value Measurements (continued)

There were no transfers to or from Levels 1, 2 or 3 during the years presented. The Level 2 financial assets listed in fair value hierarchy tables above use the following valuation techniques and inputs:

As described in Note 2, DCHS participates in Ascension Health's pooled CHIMCO fund, which is carried at fair value based on quoted market prices, quoted market prices for similar instruments, and observable and unobservable inputs. The pooled fund is composed of cash, equity securities – domestic and foreign, U.S. federal and corporate obligations, TBA mortgage-backed securities, asset-backed securities, and fixed-income securities and is designated as Level 2.

For marketable securities, such as foreign corporation and U.S. government debt securities, government and commercial mortgage-backed securities, TBA mortgaged-backed securities, corporate U.S. debt securities, index funds, and beneficial interest held in trust accounts, wherein identical quoted market prices are not readily available, the fair value of such investments is determined based on market participant pricing or other available market data for comparable instruments and transactions at the measurement date in establishing the valuation. DCHS, therefore, incorporates industry-standard valuation techniques as inputs to fair valuation of its investments designated as Level 2.

DCHS's rationale for the assignment of levels is based on types or classes of financial assets rather than an analysis of each individual asset. Key consideration in the assignment of levels was given to the determination of a security's fair valuation measurement if obtained from an active market, and then further consideration was given for the types of inputs used to evaluate the fair value price. This approach has been supported by management's analysis of the methodology, the evaluated pricing models, and inputs used by its pricing vendors. It is also consistent with industry practice.

Where quoted prices are available in an active market (exchange-traded), the securities are classified as Level 1. It is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. If quoted market prices are not readily available for a specific financial asset, then value is determined using quoted prices of assets with similar characteristics and is classified as Level 2. Examples of these categories are DCHS's investment in high-yield debt securities, collateralized mortgage obligations, and fixed-income prices provided by a broker-dealer. In cases where there is limited activity and less transparency associated with inputs to the valuation, DCHS will designate the investments as Level 3.

4. Fair Value Measurements (continued)

Included within the assets above are investments in certain securities that report fair value, using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments (in thousands):

	June 30, 2013		
	Fair Value	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Level 2			
Pooled funds – short-term (1)	**$ 62,478**	Daily	1–3 days
Pooled funds – long-term (1)	**112,882**	Daily	1–3 days
Total pooled funds	**175,360**		
TBA mortgaged-backed securities (2)	**3,178**	Daily	1–3 days
Investment held in trust account (3)	**4,491**	Not eligible	Not applicable
Total limited as to use	**7,669**		
	$ 183,029		

	June 30, 2012		
	Fair Value	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Level 2			
Pooled funds – short-term (1)	$ 72,859	Daily	1–3 days
Pooled funds – long-term (1)	169,447	Daily	1–3 days
Total pooled funds	242,306		
TBA mortgaged-backed securities (2)	3,676	Daily	1–3 days
Investment held in trust account (3)	2,647	Not eligible	Not applicable
Total limited as to use	6,323		
	$ 248,629		

(1) This category includes investments in CHIMCO Alpha Fund and is mainly invested in U.S. government, state, municipal, and agency obligations; corporate- and foreign government-fixed maturities; and U.S. government and corporate asset-backed securities.

(2) This category includes investments in forward contracts (derivative instruments) related to the purchase and sale of TBA mortgage-backed securities within a dollar roll. The contracts represent a commitment to purchase and sell the securities at a fixed price on a specified future date and include net settlement provisions. The primary objective of these funds is to seek attractive short-term risk-adjusted absolute returns. There is no redemption limitation imposed on these investments; therefore, the liquidity is not limited to beyond one to three business days.

(3) This category includes investments in equity securities, fixed-income securities, commodities, cash, and short-term investments. This includes investments in donor-restricted trust funds managed by select brokerage firms. There are no provisions for redemptions until donor restrictions are released. Distributions from some of these trust funds are received periodically; however, redemption of the fair value of the trusts (corpus) may remain restricted during the life of these funds or may be liquidated at a future date.

4. Fair Value Measurements (continued)

The investments included above are not expected to be sold at amounts that are different from their NAV. There were no unfunded commitments at June 30, 2013 and 2012.

Investment Held in Trust Accounts

DCHS is the beneficiary of a split-interest agreement from a donor. The related assets are controlled and invested by an independent third party. DCHS records the assets for its share when formal written or other verifiable documentation is received. DCHS's share of the assets is based on the present value of the estimated future distributions to be received by DCHS over the term of the agreement. The agreements are carried at fair value based on the underlying assets. The discount rates used to value split-interest agreements at June 30, 2013, ranged from 0.5% to 1.2%.

5. Property and Equipment

Property and equipment consists of the following (in thousands):

	June 30	
	2013	**2012**
Land	**$ 30,446**	$ 32,223
Land improvements	**20,244**	14,857
Buildings and service equipment	**698,645**	702,720
Equipment	**496,444**	448,496
Construction in progress	**17,122**	25,232
Total	**1,262,901**	1,223,528
Less accumulated depreciation	**(893,371)**	(849,292)
	$ 369,530	$ 374,236

DCHS's depreciation expense was $60,284,000 and $56,522,000 for the years ended June 30, 2013 and 2012, respectively.

6. Other Assets

Other current assets consist of the following (in thousands):

	June 30			
		2013		**2012**
Inventories	**$**	**18,334**	$	17,466
Prepaid expenses		**18,483**		20,533
Provider fee receivable		**54,740**		78,904
Other receivable		**5,881**		2,589
Pledges receivable		**5,641**		2,793
Other current assets		**16,275**		18,120
	$	**119,354**	$	140,405

Other long-term assets consist of the following (in thousands):

	June 30			
		2013		**2012**
Notes receivable – primarily secured	**$**	**1,943**	$	1,706
Ownership interest in health-related activities – net		**4,656**		8,811
Pledge receivable		**–**		211
Other		**6,684**		3,526
	$	**13,283**	$	14,254

7. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30			
		2013		**2012**
Wages and benefits	**$**	**64,198**	$	61,966
Out-of-network cost and IBNR		**11,680**		8,674
Provider fee payable		**25,531**		54,323
Other		**35,875**		44,134
	$	**137,284**	$	169,097

8. Pension and Other Postretirement Benefit Plans

DCHS maintains two different defined benefit retirement plans that cover substantially all eligible employees of DCHS. Benefits are generally based on age, years of service, and employee compensation. DCHS also offers postretirement health care benefits to a limited number of its employees. The postretirement health care benefits are determined based on age and years of service.

The first retirement plan is a multiemployer defined benefit pension plan called Retirement Plan for Hospital Employees (RPHE). The entities that participate in the RPHE are Seton Medical Center, Seton Medical Center Coastside, O’Connor Hospital, Saint Louise Regional Hospital, and Caritas Business Services. Benefits are generally based on years of service and the employee’s compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. DCHS contributed cash of $15,873,000 and $17,260,000 to the RPHE during the fiscal years ended June 30, 2013 and 2012, respectively.

The second retirement plan is a single-employer defined benefit pension plan (the DCHS Retirement Plan). DCHS associates at St. Francis Medical Center, St. Vincent Medical Center, and the system office are eligible to participate in this plan. DCHS contributed $13,018,000 and $11,644,000 to the DCHS Retirement Plan during the fiscal years ended June 30, 2013 and 2012, respectively.

The third retirement plan is a retiree health insurance program (the Postretirement Healthcare Plan). DCHS employees at O’Connor Hospital, St. Louise Regional Hospital, Seton Medical Center, and Seton Medical Center Coastside are eligible to participate in this plan. The Postretirement Healthcare Plan is an unfunded plan. DCHS contributed $200,000 and $238,000 to the Postretirement Healthcare Plan during the fiscal years ended June 30, 2013 and 2012, respectively.

Defined Contribution Pension Plans

In addition to the above pension plans, DCHS maintains three different defined contribution pension plans for its employees. Two of these contribution plans require employer participation based on a percentage of the employees’ contributions. A third plan was adopted by DCHS’s board of directors for all its new and existing nonunion employees in September 2010. This plan was further expanded to cover the nurses union (United Nurses Associations of California or UNAC) of St. Francis Medical Center, effective January 1, 2012 and to the Service Employees

8. Pension and Other Postretirement Benefit Plans (continued)

International Union (SEIU) on January 1, 2013. The third plan is a fully employer-paid defined contribution pension plan. During the fiscal years ended June 30, 2013 and 2012, the employer's contribution for these three defined contribution plans was $21,568,000 and $16,012,000, respectively.

Pension Plan Curtailment

In September 2011, the union representing registered nurses (RN) of St. Francis Medical Center had ratified freezing of the defined benefit pension plan for all its members, effective January 1, 2012. Upon freezing the defined benefit pension plan, DCHS had introduced an employer-paid defined contribution plan (IRC 401(a)) for St. Francis Medical Center's RNs, beginning January 1, 2012.

In April 2012, DCHS's largest union, SEIU, had ratified freezing the defined benefit pension plan belonging to all its members in DCHS's six hospitals effective January 1, 2013. Upon freezing the defined benefit pension plan, DCHS had introduced an employer-paid defined contribution plan (IRC 401(a)) for its SEIU members beginning January 1, 2013.

The funded status of the DCHS Retirement Plan and Postretirement Healthcare Plan benefits is as follows (in thousands):

	June 30, 2013		June 30, 2012	
	DCHS Retirement Plan	**Postretirement Healthcare Plan**	**DCHS Retirement Plan**	**Postretirement Healthcare Plan**
Change in benefit obligation:				
Benefit obligation – beginning of year	**$ 474,848**	**$ 6,083**	$ 410,314	$ 18,475
Service cost	**3,426**	**331**	4,940	1,109
Interest cost	**21,608**	**265**	23,159	1,027
Curtailments	**–**	**–**	(27,454)	–
Actuarial (gain) loss	**(25,934)**	**(386)**	78,501	(14,290)
Benefits paid	**(15,632)**	**(200)**	(14,612)	(238)
Plan amendments	**–**	**(1,415)**	–	–
Benefit obligation – end of year	**$ 458,316**	**$ 4,678**	$ 474,848	$ 6,083
Accumulated benefit obligation	**$ 448,001**	**$ 4,678**	$ 462,629	$ 6,083

8. Pension and Other Postretirement Benefit Plans (continued)

	June 30, 2013		June 30, 2012	
	DCHS Retirement Plan	**Postretirement Healthcare Plan**	**DCHS Retirement Plan**	**Postretirement Healthcare Plan**
Change in plan assets:				
Fair value of plan assets – beginning of year	**$ 213,934**	**$ –**	$ 212,013	$ –
Actual return on plan assets	**19,135**	**–**	4,619	–
Employer contribution	**13,021**	**200**	13,317	238
Benefits paid	**(15,632)**	**(200)**	(14,612)	(238)
Administrative expenses	**(1,538)**	**–**	(1,403)	–
Fair value of plan assets – end of year	**$ 228,920**	**$ –**	$ 213,934	$ –
Funded status	**$ (229,396)**	**$ (4,678)**	$ (260,914)	$ (6,083)

The total underfunded status of the DCHS Retirement Plan and Postretirement Healthcare Plan is recognized in the consolidated balance sheets as noncurrent pension obligations of $234,074,000 and $266,997,000 as of June 30, 2013 and 2012, respectively.

Amounts that have not yet been recognized as components of net period benefit cost are as follows (in thousands):

	June 30, 2013		June 30, 2012	
	DCHS Retirement Plan	**Postretirement Healthcare Plan**	**DCHS Retirement Plan**	**Postretirement Healthcare Plan**
Net actuarial loss (gain)	**$ 149,190**	**$ (11,144)**	$ 180,370	$ (11,732)
Prior service costs	**–**	**496**	–	2,196
Total amount not recognized	**$ 149,190**	**$ (10,648)**	$ 180,370	$ (9,536)

8. Pension and Other Postretirement Benefit Plans (continued)

The components of net period benefit cost and amounts recognized in the consolidated statements of operations and changes in net assets apart from expenses are as follows (in thousands):

	Year Ended June 30, 2013		Year Ended June 30, 2012	
	DCHS Retirement Plan	**Postretirement Healthcare Plan**	**DCHS Retirement Plan**	**Postretirement Healthcare Plan**
Components of net periodic benefit cost (income):				
Service cost	**$ 3,426**	**$ 331**	$ 4,940	$ 1,109
Interest cost	**21,608**	**265**	23,159	1,027
Expected return on plan assets	**(16,626)**	**–**	(16,650)	–
Net prior service cost amortization	**–**	**285**	–	285
Net loss (gain) amortization	**4,304**	**(974)**	7,028	68
Net periodic benefit cost (income)	**$ 12,712**	**$ (93)**	$ 18,477	$ 2,489
Change in net assets apart from periodic benefit cost:				
Net actuarial (gain) loss	**$ (26,876)**	**$ (386)**	$ 91,906	$ (14,290)
(Deduct) add:				
Impact of curtailment	**–**	**–**	(27,454)	–
Amortization of prior service cost	**–**	**(285)**	–	285
Amortization of actuarial (gain) loss	**(4,304)**	**974**	(7,028)	68
Net prior service credit (plan amendments)	**–**	**(1,415)**	–	–
Total	**$ (31,180)**	**$ (1,112)**	$ 57,424	$ (13,937)

The estimated actuarial loss and prior service cost for the DCHS Retirement Plan that will be amortized into net periodic benefit cost over the next fiscal year is $3,438,000 and $0, respectively.

8. Pension and Other Postretirement Benefit Plans (continued)

Assumptions

The weighted-average assumptions used to determine benefit obligations and net period benefit costs, are as follows:

	June 30, 2013		June 30, 2012	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	**5.20%**	**4.89%**	4.62%	4.46%
Rate of compensation increase	**3.50**	**N/A**	3.50	N/A
Weighted-average assumptions used to determine net periodic benefit costs:				
Discount rate	**4.62%**	**4.46%**	5.79%	5.60%
Expected return on plan assets	**7.25**	**N/A**	7.75	N/A
Rate of compensation increase	**3.50**	**N/A**	4.00	N/A

Expected Return on Plan Assets

The DCHS Retirement Plan's estimated long-term rate of return on pension assets is driven primarily by historical asset-class returns, an assessment of expected future performance, advice from external actuarial firms, and the incorporation of specific asset-class risk factors. Asset allocations are periodically updated using pension plan asset/liabilities studies, and DCHS's estimated long-term rates of return are consistent with these studies. The DCHS Retirement Plan portfolio return assumption is 7.25% and 7.75%, at June 30, 2013 and 2012, respectively.

Discount Rate

The discount rate assumptions used to determine the postretirement benefit plan obligations and expenses reflect the prevailing rate available on high-quality, fixed-income debt instruments. The rate was based on cash flow analysis that matched estimated future benefit payments to the noncollateralized bond discount yield curve as of June 30, 2013 and 2012.

8. Pension and Other Postretirement Benefit Plans (continued)

Other Benefit Assumptions

For the measurement of accumulated postretirement benefit obligations at June 30, 2013, the Postretirement Healthcare Plan assumed health care cost trend rates start at 11% in 2013 and decrease by 0.25–0.75 % annually, reaching an ultimate rate of 5.50% in fiscal year 2023.

Plan Assets and Investment Strategy

The following information represents DCHS's pension plan assets measured at fair value and indicate the fair value hierarchy and valuation techniques utilized to determine such fair value (in thousands):

	June 30, 2013			
	Total Balance	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	**$ 1,460**	**$ 1,460**	**$ –**	**$ –**
Common collective trust funds	**63,856**	**–**	**63,856**	**–**
Fixed-income funds	**80,485**	**–**	**80,485**	**–**
Domestic stocks	**20,290**	**20,290**	**–**	**–**
Real estate equity investments	**16,666**	**16,666**	**–**	**–**
Foreign stock funds	**46,163**	**–**	**46,163**	**–**
Total plan assets	**$ 228,920**	**$ 38,416**	**$ 190,504**	**$ –**

	June 30, 2012			
	Total Balance	**Quoted Prices in Active Markets for Identical Assets (Level 1)** *(revised)*	**Significant Other Observable Inputs (Level 2)** *(revised)*	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 3,080	$ 3,080	$ –	$ –
Common collective trust funds	88,452	–	88,452	–
Fixed-income funds	53,428	–	53,428	–
Domestic stocks	16,370	16,370	–	–
Real estate equity investments	15,439	15,439	–	–
Foreign stock funds	34,966	–	34,966	–
Total plan assets	$ 211,735	$ 34,889	$ 176,846	$ –

8. Pension and Other Postretirement Benefit Plans (continued)

Subsequent to the issuance of the 2012 consolidated financial statements, DCHS determined that direct investments in domestic stocks described as Domestic stock funds of $16,370,000 and included in Level 2 investments within the fair value hierarchy should have been described as Domestic stocks and included as Level 1 investments in the fair value hierarchy. Additionally, direct investments in real estate stocks described as Real estate funds of $15,439,000 and included in Level 2 investments within the fair value hierarchy should have been described as Real estate equity investments and included as Level 1 investments in the fair value hierarchy. As a result, the 2012 balances and descriptions have been restated to appropriately describe the investments and to reflect the investments in Level 1 as these securities are traded in active markets.

As of June 30, 2013, $1,460,000 of the plan's cash balance was held in a separate non-interest-bearing cash account for the purpose of claims disbursement by the plan's administrator.

DCHS's investment strategy for the assets of the DCHS Retirement Plan is designed to preserve principal while earning returns relative to the overall market consistent with a prudent level of risk. The strategy balances the liquidity needs of the DCHS Retirement Plan with the long-term return goals necessary to satisfy future obligations. The target asset allocation is diversified across traditional asset classes. Diversification is also achieved through participation in U.S. and non-U.S. markets, investment manager style, philosophy, and capitalization. The complementary investment styles and approaches used by investment managers are aimed at reducing volatility while capturing the equity premium from the capital markets over the long-term. Risk tolerance is established through consideration of plan liabilities, plan funded status, and DCHS's consolidated financial condition. Consistent with DCHS's fiduciary responsibilities, the fixed-income allocation generally provides for security of principal to meet near-term expenses and obligations. Periodic reviews of the market values and corresponding asset allocation percentages are performed to determine whether a rebalancing of the portfolio is necessary.

Cash Contributions and Benefit Payments

DCHS expects to contribute $13,223,000 to the DCHS Retirement Plan and $192,000 to the Postretirement Healthcare Plan in 2014.

8. Pension and Other Postretirement Benefit Plans (continued)

The benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years, and in aggregate for the next five years are as follows (in thousands):

	DCHS Retirement Plan Benefits	Postretirement Healthcare Benefits
2014	$ 15,600	$ 200
2015	17,400	300
2016	19,200	300
2017	20,800	300
2018	22,500	400
Next five years	139,200	2,300

Multiemployer Plan

Certain affiliated entities in Northern California participate in multiemployer defined benefit retirement plans as described below (in thousands):

Plan	Pension Plan Employer Identification Number/Plan Number	Pension Protection Act Zone Status June 30 2013	Pension Protection Act Zone Status June 30 2012	Funding Improvement/ Rehabilitation Plan Status June 30, 2013
Retirement Plan for Hospital Employees	94-2995676/001	**Green**	Green	No

Pension Protection Act Zone Status (from worst to best):

Critical Status	Red
Seriously Endangered	Orange
Endangered	Yellow
None of the above	Green

8. Pension and Other Postretirement Benefit Plans (continued)

Plan	Pension Plan Employer Identification Number/Plan Number	Contributions 2014 (expected)	Contributions 2013	Contributions 2012	Surcharge Imposed (during 2012)	Collective Bargaining Agreement Expiration Date
Retirement Plan for Hospital Employees	94-2995676/001	$ 16,421	**$ 15,873**	$ 17,260	No	March 13, 2014

Since March 1, 2011, participant benefits were frozen for the non-contractual employees of the two participating affiliates in the Retirement Plan for Hospital Employees. Beginning January 1, 2013 participant benefits were frozen for all Service Employees International Union (SEIU) employees. Certain affiliates will continue to make periodic contributions as needed for eligible participants.

The contributions for the multiemployer plan were approximately 55% of the total contributions to the plans for June 30, 2013 and 2012. There are no minimum contributions required for future periods by the collective-bargaining agreements, statutory obligations, or other contractual obligations for both plans.

The risks of participating in multiemployer plans are different from single-employer plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if the affiliates choose to stop participating in the multiemployer plan, the affiliates may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

9. Long-Term Debt

Long-term debt consists of the following (in thousands):

	June 30	
	2013	**2012**
California Statewide Communities Development Authority Revenue $259 million Bonds Series 2005A, payable in varying installments through 2040, fixed interest rates ranging from 5.00% to 5.25%	**$ 259,124**	$ 259,124
California Statewide Communities Development Authority Revenue $106 million Bonds Series 2005F, G, and H (St. Francis Medical Center), payable in varying annual installments through 2026, fixed interest rates ranging from 5.00% to 5.25%	**30,860**	40,720
California Statewide Communities Development Authority Revenue $143 million Bonds Series 2008A, payable in varying installments through 2039, fixed interest rates ranging from 8.00% to 8.38%	**143,655**	143,655
Notes payable to the Daughters of Charity Foundation, two, $10 million face value, payable in monthly installments of approximately $57,000 through 2032 at 0% interest	**12,578**	13,251
Notes payable for Health Center One Mortgage, $6.5 million face value, payable in monthly installments with a lump-sum payment in May 2018, fixed interest rate of 5.85%	**5,833**	5,983
Notes payable to San Jose Medical Group, payable through 2014 at 3.25% interest	**2,600**	5,200
Other	**500**	–
	455,150	467,933
Less current portion	**22,915**	13,283
	432,235	454,650
Plus bond premium	**5,109**	5,577
	$ 437,344	$ 460,227

9. Long-Term Debt (continued)

Scheduled long-term principal debt payments as of June 30, 2013, are as follows (in thousands):

2014	$ 22,915
2015	7,989
2016	8,308
2017	8,814
2018	14,290
Thereafter	392,834
	$ 455,150

Obligated Group

DCHS and the local health ministries identified in Note 1 are the members of the Obligated Group established pursuant to a Master Trust Indenture dated December 1, 2001 (the Master Indenture), with U.S. Bank, National Association, as master trustee (the Master Trustee). DCHS and such local health ministries collectively are referred to as the Obligated Group or as “Members,” and each individually is sometimes referred to herein as a “Member.” The Obligated Group is jointly and severally liable for the debt outstanding under the Master Indenture.

The Series 2005 Bonds (the Revenue Bonds) are a limited obligation of California Statewide Communities Development Authority and are payable solely from payments made by the Obligated Group. Payment of principal and interest on the Revenue Bonds is secured by the property and equipment of each Member of the Obligated Group. Each of the Obligated Group Members has executed one or more deeds of trust pursuant to which the respective Obligated Group Member has granted to the trustee hereunder, as trustee for the benefit of the Master Trustee, a first lien on, and security interest in, the Hospitals and other parcels of property owned by such Obligated Group Members, subject to permitted liens, as security for the performance of the Obligated Group Members’ obligations under the Master Indenture. Additionally, each of the Obligated Group Members has created a gross revenue fund with its depository bank to further secure its gross revenues for the benefit of the Master Trustee.

9. Long-Term Debt (continued)

The Obligated Group's financing agreements contain restrictive covenants, including maintenance of a debt ratio, limitations on the amount of any additional borrowings, and limitations on the disposal or transfer of assets to nonobligated group members. Additionally, the financing agreements require that funds are established with, and controlled by, a trustee during the period the bonds remain outstanding. The Obligated Group has complied with such financial covenants and restrictions at June 30, 2013.

The provisions of the Master Trust Indenture calculate the annual debt-service coverage ratio as "income available for debt service" divided by the debt-service requirement for the year. Under DCHS's interpretation, after consultation with bond counsel, the definition of "income available for debt service" has been interpreted to not include $6,502,000 of the increase in fair value recorded in fiscal year 2013 earnings for the change in fair value of the beneficial interest in Ascension Health's CHIMCO Alpha fund.

Fair Values

The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered for debt of the same remaining maturities. The estimated fair values of the DCHS's debt instruments as of June 30, 2013 and 2012, are $459,305,000 and $484,533,000, respectively. The reported fair value of DCHS's debt instrument includes the full value of an irrevocable principal pre-payment of $9,860,000 made as of June 30, 2013, for the year ended June 30, 2014. The fair value amounts do not represent the amount that would be required to expend to retire the indebtedness.

10. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are available for the following purposes (in thousands):

	June 30	
	2013	**2012**
Equipment and expansion	**$ 8,086**	$ 7,501
Research and education	**2,565**	5,654
Charity and other	**23,337**	20,312
Total temporarily restricted net assets	**33,988**	33,467
Permanently restricted net assets	**9,280**	8,864
Total restricted net assets	**$ 43,268**	$ 42,331

Equipment and expansion relate to assets held by DCHS, which are restricted by donors or grantors to be used specifically for equipment, capital projects, or other capital needs.

Research and education relate to assets held by DCHS, which are restricted by donors or grantors to be used in specific research or education programs.

Charity and other relate mainly to assets held by DCHS, which are restricted by donors or grantors to be used in specific health care programs for charity care and other medical and patient services.

Permanently restricted net assets of $9,280,000 and $8,864,000 at June 30, 2013 and 2012, respectively, are restricted to investments to be held in perpetuity, with the income expendable to support DCHS's mission.

Endowments

DCHS and five of its consolidated charitable foundations follow the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminates the concept of "historic dollar value" and allows an institution to spend or accumulate as the board determines is prudent for the uses, benefits, purposes, and duration of the endowment fund unless the gift instrument states a particular spending rate or formula. California's version of UPMIFA also includes a rebuttable provision that spending greater than 7% of the average fair market value (calculated at least quarterly over a minimal period of three years) is presumed to be imprudent.

10. Temporarily and Permanently Restricted Net Assets (continued)

In accordance with UPMIFA, DCHS considers the following factors when appropriating or accumulating an endowment fund: (i) general economic conditions, (ii) effects of inflation and deflation, (iii) the purposes of the institution and the endowment fund, (iv) expected total return from income and appreciation of investments, (v) DCHS's other resources, (vi) the duration and preservation of the endowment fund, and (vii) DCHS's investment policies.

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires DCHS to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were not material as of June 30, 2013 and 2012. These deficiencies resulted from unfavorable investment market fluctuations.

DCHS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the boards of trustees of the charitable foundations, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results while assuming a moderate level of investment risk.

To satisfy its long-term rate-of-return objectives, DCHS relies on a balanced investment strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). DCHS targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

10. Temporarily and Permanently Restricted Net Assets (continued)

The endowment net asset composition by type of fund consists of the following (in thousands):

	June 30, 2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	**$ 496**	**$ 781**	**$ 9,280**	**$ 10,557**
Total funds	**$ 496**	**$ 781**	**$ 9,280**	**$ 10,557**

	June 30, 2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 254	$ 364	$ 8,864	$ 9,482
Total funds	$ 254	$ 364	$ 8,864	$ 9,482

The changes in endowment net assets are as follows (in thousands):

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Balance at June 30, 2011	$ 430	$ 250	$ 8,455	$ 9,135
Net gains (losses) – realized and unrealized	(176)	114	(189)	(251)
Contributions	–	–	598	598
Balance at June 30, 2012	254	364	8,864	9,482
Net gains (losses) – realized and unrealized	**242**	**417**	**138**	**797**
Contributions	**–**	**–**	**278**	**278**
Balance at June 30, 2013	**$ 496**	**$ 781**	**$ 9,280**	**$ 10,557**

11. Commitments, and Contingent Liabilities

Standby Letter of Credit

Marillac, a subsidiary of DCHS, pledged $20,350,000 of its assets to support a standby letter of credit in favor of Old Republic Insurance Company (ORIC), one of the parent's insurers, as of June 30, 2013 and 2012.

Litigation

Certain entities of DCHS are defendants in various actions arising from their health care service activities. It is the opinion of management, after consulting with legal counsel, that such actions will not have a material adverse effect on DCHS's consolidated financial position or results of operations as of June 30, 2013. Therefore, based on the information provided by its legal counsel, DCHS has accrued $1,452,000 and $1,373,000 as of June 30, 2013 and 2012, respectively, which were related to certain of these actions. DCHS evaluates recoveries from insurance coverage separately from its liability, and when appropriate, an asset is recorded separately from the associated liability.

As part of its ongoing compliance program, DCHS routinely reviews arrangements between physicians and its hospitals. In September and October 2013, DCHS made a voluntary self-disclosure to the federal government (in accordance with federal self-disclosure guidelines) related to certain financial arrangements between physicians and one of its hospitals that might constitute potential violations of federal regulatory standards. DCHS's voluntary disclosure could result in payments to the government and/or the imposition of additional compliance requirements. At this time, management cannot accurately estimate the amounts of any payments or settlements that might result, or if additional related issues will arise. There can be no guarantee that any resulting payments or settlements will not have a material adverse impact on DCHS's consolidated financial position or results of operations.

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters, such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-referral laws, and false claims prohibitions. In recent years, government

11. Commitments, and Contingent Liabilities (continued)

activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, and anti-referral statutes and regulations by health care providers. Certain entities of DCHS are subject to such laws and regulations and to governmental investigations, whistle-blower lawsuits, and other legal proceedings concerning such laws and regulations. Violations of these laws and regulations could result in expulsion from government health care programs, as well as imposition of significant fines and penalties and significant repayments for patient services previously reimbursed.

DCHS had approximately 7,600 employees as of June 30, 2013, of whom just over 5,700 are full-time employees. Approximately 73% of these 7,600 employees are employed by DCHS entities and are represented by collective bargaining units. Of these employees, 33% are represented by a collective bargaining agreement that will expire on March 13, 2014 which is currently in the process of being negotiated. Employee strikes or other adverse labor actions may have a material adverse impact on DCHS's consolidated financial position or results of operations.

Health Care Reform

In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law will result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health coverage to approximately 32,000,000 uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medi-Cal programs. DCHS is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations or interpretive guidance. However, DCHS expects that several provisions of the Health Care Reform Legislation will have a material effect on its business beginning January 2014.

11. Commitments, and Contingent Liabilities (continued)

Lease Commitments

Future minimum lease payments under DCHS's significant noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2013, are as follows (in thousands):

	Operating Leases
2014	$ 12,152
2015	11,418
2016	9,595
2017	6,312
2018	3,447
Thereafter	6,292
	$ 49,216

Rent expense was $20,708,000 and $15,921,000 for the years ended June 30, 2013 and 2012.

Seismic Standards

DCHS is assessing its earthquake retrofit requirements for health care facilities under a state of California law (SB90) that can allow a delay of up to seven years from the January 1, 2013, deadline for Structural Performance Category 1 (SPC-1) retrofits. This affects seven buildings at three of DCHS's hospitals. Applications for the extensions have been submitted and all have been granted an interim administrative delay until January 1, 2015 to allow the Office of Statewide Health and Planning Development (OSHPD) evaluation of the applications. To date one facility has been granted an extension to January 1, 2019. The remaining are actively under review by OSHPD.

12. Ascension Health Affiliation Agreement

Ascension Health Alliance and DCHS entered into an affiliation agreement in December 2012. Pursuant to this affiliation agreement, Ascension Health Alliance will provide certain consulting and strategic services to DCHS in an effort to enhance delivery of healthcare consistent with its charitable mission. DCHS and its affiliates will remain independent from Ascension Health Alliance and will not be construed as partners or joint venturers with Ascension Health Alliance by virtue of the affiliation. The affiliation does not involve a change in corporate control of DCHS nor a transfer of its assets or an assumption of its liabilities.

13. Subsequent Events

In October 2013, the Daughters of Charity Foundation (DOCF), an organization separate and independent from DCHS, made a restricted donation for the benefit of DCHS by depositing sufficient funds with the Bond Trustee to redeem the $143,655,000 principal amount of the California Statewide Development Authority Revenue Bonds Series 2008A Bonds. The Series 2008A Bonds were redeemed at par on October 25, 2013.

In September 2013, DOCF informed DCHS that it had forgiven the outstanding balance of $12,409,000 owed to DOCF by DCHS.

DCHS is a participant, along with other health care providers, in Premier, Inc.'s group purchasing program and DCHS also holds an investment in Premier, Inc. that is accounted for under the cost method. On October 1, 2013, Premier, Inc. completed an initial public offering and was reorganized from a privately held company to a public company.

DCHS has evaluated subsequent events and disclosed all material events through November 26, 2013, which is the date these financial statements of DCHS were issued.

Supplementary Schedules

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Daughters of Charity Health System

We have audited the consolidated financial statements of Daughters of Charity Health System of and for the year ended June 30, 2013, and have issued our report thereon dated November 26, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial statement schedules for Daughters of Charity Health System are presented for the 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 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

November 26, 2013

Daughters of Charity Health System

Consolidating Balance Sheets

As of June 30, 2013
(In Thousands)

	O'Connor Hospital	Saint Louise Regional Hospital	St. Francis Medical Center Lynwood	St. Vincent Medical Center	Seton Medical Center	Seton Medical Center Coastside	DCHS System Office
Assets							
Current assets:							
Cash and cash equivalents	$ 9,336	$ 1,714	$ (2,886)	$ (417)	$ 3,181	$ (61)	$ (235)
Interest in pooled investment fund – short-term	14,128	819	30,765	3,852	6,791	–	4,354
Subtotal	23,464	2,533	27,879	3,435	9,972	(61)	4,119
Patient accounts receivable – net	34,423	10,260	45,081	24,007	32,069	2,810	–
Due from government agencies	2,625	123	13,294	5,252	1,042	–	–
Due from related organizations	8,144	6,991	64,840	14,213	22,058	4,000	49,006
Other current assets	14,424	4,917	39,228	13,005	11,191	130	22,468
Total current assets	83,080	24,824	190,322	59,912	76,332	6,879	75,593
Assets limited as to use:							
Interest in pooled investment fund – long-term	9,850	249	82,256	5,535	289	–	828
Other investments	–	–	–	1,682	–	–	–
Under bond indenture agreements	–	–	–	–	–	–	40,859
Total assets limited as to use	9,850	249	82,256	7,217	289	–	41,687
Goodwill and intangible – net							
Property and equipment – net	58,379	27,957	138,650	80,844	48,675	2,176	4,378
Other long-term assets	2,094	704	143	1,246	33	2	5,643
Total	$ 153,403	$ 53,734	$ 411,371	$ 149,219	$ 125,329	$ 9,057	$ 127,301

Daughters of Charity Health System

Consolidating Balance Sheets (continued)

As of June 30, 2013
(In Thousands)

	Eliminations	Obligated Group Subtotal	Marillac Insurance Company	Caritas Business Services	All Other Entities	Eliminations	DCHS Total
Assets							
Current assets:							
Cash and cash equivalents	$ –	$ 10,632	$ 11,162	$ 1,415	$ 7,951	$ –	$ 31,160
Interest in pooled investment fund – short-term	–	60,709	–	928	841	–	62,478
Subtotal	–	71,341	11,162	2,343	8,792	–	93,638
Patient accounts receivable – net	–	148,650	–	–	5,201	–	153,851
Due from government agencies	–	22,336	–	–	–	–	22,336
Due from related organizations	(140,509)	28,743	–	1,298	365	(30,406)	–
Other current assets		105,363	9,213	169	8,279	(3,670)	119,354
Total current assets	(140,509)	376,433	20,375	3,810	22,637	(34,076)	389,179
Assets limited as to use:							
Interest in pooled investment fund – long-term	–	99,007	–	–	13,875	–	112,882
Other investments	–	1,682	47,826	–	13,983	–	63,491
Under bond indenture agreements	–	40,859	–	–	–	–	40,859
Total assets limited as to use	–	141,548	47,826	–	27,858	–	217,232
Goodwill and intangible – net	–	–	–	–	10,905	–	10,905
Property and equipment – net	–	361,059	–	485	7,986	–	369,530
Other long-term assets	–	9,865	–	121	3,297	–	13,283
Total	$ (140,509)	$ 888,905	$ 68,201	$ 4,416	$ 72,683	$ (34,076)	$ 1,000,129

Daughters of Charity Health System

Consolidating Balance Sheets (continued)

As of June 30, 2013
(In Thousands)

	O'Connor Hospital	Saint Louise Regional Hospital	St. Francis Medical Center Lynwood	St. Vincent Medical Center	Seton Medical Center	Seton Medical Center Coastside	DCHS System Office
Liabilities							
Current liabilities:							
Accounts payable	$ 5,278	$ 910	$ 4,663	$ 6,450	$ 5,241	$ 78	$ 12,848
Current portion of long-term debt	1,090	565	3,545	1,044	1,143	–	12,578
Due to government agencies	620	3,890	3,683	9,163	2,256	551	–
Accrued liabilities	26,677	8,036	37,759	21,892	23,244	1,661	4,932
Due to related organizations	10,268	25,703	13,989	47,796	14,791	16,775	12,849
Total current liabilities	43,933	39,104	63,639	86,345	46,675	19,065	43,207
Other liabilities:							
Long-term debt – net of current portion	82,387	46,465	109,681	85,873	94,024	–	18,764
Hospital general liability and workers' compensation	–	–	–	–	–	–	5,633
Pension obligations	57,914	6,631	83,569	66,650	1,787	150	17,373
Other long-term liabilities	202	32	148	1,934	995	–	33
Total other liabilities	140,503	53,128	193,398	154,457	96,806	150	41,803
Net assets:							
Unrestricted	(32,421)	(39,417)	152,083	(96,513)	(18,564)	(14,158)	42,291
Temporarily restricted	1,388	919	2,251	2,157	412	4,000	–
Permanently restricted	–	–	–	2,773	–	–	–
Total net assets	(31,033)	(38,498)	154,334	(91,583)	(18,152)	(10,158)	42,291
Total	$ 153,403	$ 53,734	$ 411,371	$ 149,219	$ 125,329	$ 9,057	$ 127,301

Daughters of Charity Health System

Consolidating Balance Sheets (continued)

As of June 30, 2013
(In Thousands)

	Eliminations	Obligated Group Subtotal	Marillac Insurance Company	Caritas Business Services	All Other Entities	Eliminations	DCHS Total
Liabilities							
Current liabilities:							
Accounts payable	$ –	$ 35,468	$ –	$ 4	$ 1,762	$ –	$ 37,234
Current portion of long-term debt	–	19,965	–	–	2,950	–	22,915
Due to government agencies	–	20,163	–	–	–	–	20,163
Accrued liabilities	–	124,201	8,338	2,198	2,549	(2)	137,284
Due to related organizations	(140,509)	1,662	–	101	28,643	(30,406)	–
Total current liabilities	(140,509)	201,459	8,338	2,303	35,904	(30,408)	217,596
Other liabilities:							
Long-term debt – net of current portion	–	437,194	–	–	150	–	437,344
Hospital general liability and workers' compensation	–	5,633	41,580	–	–	(3,686)	43,527
Pension obligations	–	234,074	–	–	–	–	234,074
Other long-term liabilities	–	3,344	–	–	310	–	3,654
Total other liabilities	–	680,245	41,580	–	460	(3,686)	718,599
Net assets:							
Unrestricted	–	(6,699)	18,283	2,113	6,951	18	20,666
Temporarily restricted	–	11,127	–	–	22,861	–	33,988
Permanently restricted	–	2,773	–	–	6,507	–	9,280
Total net assets	–	7,201	18,283	2,113	36,319	18	63,934
Total	$ (140,509)	$ 888,905	$ 68,201	$ 4,416	$ 72,683	$ (34,076)	$ 1,000,129

Daughters of Charity Health System

Consolidating Statements of Operations

For the Year Ended June 30, 2013
(In Thousands)

	O'Connor Hospital	Saint Louise Regional Hospital	St. Francis Medical Center Lynwood	St. Vincent Medical Center	Seton Medical Center	Seton Medical Center Coastside	DCHS System Office
Unrestricted revenues and other support:							
Net patient service revenue less provision for doubtful accounts	$ 284,437	$ 78,372	$ 372,122	$ 190,727	$ 245,199	$ 20,829	$ –
Premium revenue	–	–	33,019	8,593	–	–	–
Other operating revenue	9,132	779	7,523	5,746	6,241	470	65,591
Contributions	1,582	883	4,146	1,774	593	4,001	2,110
Total unrestricted revenues and other support	295,151	80,034	416,810	206,840	252,033	25,300	67,701
Expenses:							
Salaries and benefits	188,899	57,270	190,873	100,488	159,549	16,740	19,186
Supplies	40,593	7,351	30,277	46,151	36,258	1,600	219
Purchased services and other	71,204	22,874	134,659	81,532	69,289	3,289	53,525
Depreciation	14,383	4,338	17,796	9,882	10,428	362	1,117
Interest	5,060	2,771	7,026	4,894	5,840	(10)	(245)
Asset impairment	10	–	–	–	–	–	–
Total expenses	320,149	94,604	380,631	242,947	281,364	21,981	73,802
Operating (loss) income	(24,998)	(14,570)	36,179	(36,107)	(29,331)	3,319	(6,101)
Investment income – net	2,210	49	8,394	994	1,028	1	8,218
(Deficit) excess of revenues over expenses	$ (22,788)	$ (14,521)	$ 44,573	$ (35,113)	$ (28,303)	$ 3,320	$ 2,117

Daughters of Charity Health System

Consolidating Statements of Operations (continued)

For the Year Ended June 30, 2013
(In Thousands)

	Eliminations	Obligated Group Subtotal	Marillac Insurance Company	Caritas Business Services	All Other Entities	Eliminations	DCHS Total
Unrestricted revenues and other support:							
Net patient service revenue less provision for doubtful accounts	$ –	$ 1,191,686	$ –	$ –	$ 39,189	$ –	$ 1,230,875
Premium revenue	–	41,612	–	–	23,877	–	65,489
Other operating revenue	(65,237)	30,245	11,691	16,922	2,048	(31,471)	29,435
Contributions	–	15,089	–	–	1,634	–	16,723
Total unrestricted revenues and other support	(65,237)	1,278,632	11,691	16,922	66,748	(31,471)	1,342,522
Expenses:							
Salaries and benefits	–	733,005	–	13,724	50,570	(13,713)	783,586
Supplies	–	162,449	–	176	7,813	(176)	170,262
Purchased services and other	(65,237)	371,135	11,791	2,813	25,250	(17,380)	393,609
Depreciation	–	58,306	–	245	2,133	(245)	60,439
Interest	–	25,336	–	–	–	–	25,336
Asset impairment	–	10	–	–	–	–	10
Total expenses	(65,237)	1,350,241	11,791	16,958	85,766	(31,514)	1,433,242
Operating (loss) income	–	(71,609)	(100)	(36)	(19,018)	43	(90,720)
Investment income – net	–	20,894	120	25	1,238	(6,025)	16,252
(Deficit) excess of revenues over expenses	$ –	$ (50,715)	$ 20	$ (11)	$ (17,780)	$ (5,982)	$ (74,468)

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