Daughters of Charity Health System

Consolidated Financial Statements as of and for the Years Ended June 30, 2012 and 2011, Supplemental Consolidating Schedules as of and for the Year Ended June 30, 2012, and Independent Auditors' Report

DAUGHTERS OF CHARITY HEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Daughters of Charity Health System:

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

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of DCHS as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The unsponsored community benefit expense information in Note 3, which is the responsibility of DCHS management, is not a required part of the basic consolidated financial statements, and we did not audit or apply limited procedures to such information and we do not express any assurances on such information.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplemental consolidating schedules listed in the table of contents are presented for the purpose of additional analysis of the basic consolidated financial statements, rather than to present the financial position and results of operations of the individual entities and are not a required part of the basic consolidated financial statements. These supplemental consolidating schedules are the responsibility of DCHS management. Such supplemental consolidating schedules have been subjected to the auditing procedures applied in our 2012 audit of the basic consolidated financial statements and, in our opinion, are fairly stated, in all material aspects, when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche LLP

November 27, 2012

DAUGHTERS OF CHARITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 34,870	$ 87,853
Interest in pooled investment fund — short-term	72,859	45,114
Subtotal	107,729	132,967
Patient accounts receivable — net of allowance for doubtful accounts of $53 million and $55 million in 2012 and 2011, respectively	159,092	148,134
Due from government agencies	22,420	31,495
Other current assets	140,405	87,162
Total current assets	429,646	399,758
ASSETS LIMITED AS TO USE:		
Interest in pooled investment fund — long term	169,447	197,645
Other investments	69,172	70,747
Under bond indenture agreements	41,853	42,807
Total assets limited as to use	280,472	311,199
INTANGIBLE ASSETS	7,141	
PROPERTY AND EQUIPMENT — Net	374,236	384,022
OTHER LONG-TERM ASSETS	14,254	16,744
TOTAL	$1,105,749	$1,111,723
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 26,463	$ 29,103
Current portion of long-term debt	13,283	10,590
Due to government agencies	22,143	12,758
Accrued liabilities	169,097	138,147
Total current liabilities	230,986	190,598
OTHER LIABILITIES:		
Long-term debt — net of current portion	460,227	468,891
Workers' compensation and hospital professional and general liability	40,650	34,978
Pension obligations	266,997	216,776
Other long-term liabilities	3,782	5,021
Total other liabilities	771,656	725,666
GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)		
NET ASSETS:		
Unrestricted	60,776	158,795
Temporarily restricted	33,467	28,209
Permanently restricted	8,864	8,455
Total net assets	103,107	195,459
TOTAL	$1,105,749	$1,111,723

See notes to consolidated financial statements.

DAUGHTERS OF CHARITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
UNRESTRICTED REVENUES AND OTHER SUPPORT:		
Net patient service revenue	$ 1,213,366	$ 1,248,580
Premium revenue	41,056	34,449
Other operating revenue	32,799	25,607
Contributions	21,049	15,823
Total unrestricted revenues and other support	1,308,270	1,324,459
EXPENSES:		
Salaries and benefits	730,244	739,710
Supplies	161,876	172,566
Provision for and write-off of doubtful accounts	34,409	38,360
Purchased services and other	359,756	341,739
Depreciation and amortization	56,642	50,777
Interest — net	25,202	25,797
Asset impairment	1,141	66
Total expenses	1,369,270	1,369,015
OPERATING LOSS	(61,000)	(44,556)
INVESTMENT INCOME — Net	1,500	40,487
DEFICIT OF REVENUES OVER EXPENSES	(59,500)	(4,069)
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR PURCHASE OF PROPERTY AND EQUIPMENT	2,726	1,018
CHANGE IN FUNDED STATUS OF PENSION PLANS	(42,782)	26,864
OTHER	1,537	(75)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(98,019)	23,738

(Continued)

DAUGHTERS OF CHARITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	$ 24,743	$ 9,102
Net assets released from restrictions:		
Operations	(16,263)	(10,061)
Property and equipment	(2,726)	(1,018)
Other	(496)	(1,641)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	5,258	(3,618)
PERMANENTLY RESTRICTED NET ASSETS:		
Net realized and unrealized (losses) gains on investments	(189)	378
Contributions	598	750
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	409	1,128
(DECREASE) INCREASE IN NET ASSETS	(92,352)	21,248
NET ASSETS — Beginning of year	195,459	174,211
NET ASSETS — End of year	$ 103,107	$ 195,459

See notes to consolidated financial statements.

(Concluded)

DAUGHTERS OF CHARITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (92,352)	$ 21,248
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	56,642	50,777
Provision for and write-off of doubtful accounts	34,409	38,360
Changes in fair value and unrealized and realized gains on investments, net	1,017	(38,093)
Amortization of bond premium	(582)	(752)
Amortization of deferred debt issuance cost	235	255
Change in funded status of pension plans	42,782	(26,864)
Asset impairment	1,141	66
Gains on disposal of property and equipment	(10)	(28)
Changes in operating assets and liabilities:		
Patient accounts receivable	(45,367)	(20,531)
Due to government agencies	18,460	(7,240)
Other current assets	(51,740)	(35,508)
Other long-term assets	2,135	(2,548)
Accounts payable	(2,640)	(9,854)
Accrued liabilities	14,514	39,753
Workers' compensation and hospital professional and general liabilities	5,672	(2,187)
Pension obligations	7,439	9,614
Other long-term liabilities	(1,239)	1,452
Net cash (used in) provided by operating activities	(9,484)	17,920
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments and deposits to interest in pooled investment fund — long term	(336,993)	(266,656)
Proceeds from sales of investments and withdrawals from the interest in pooled investment fund — long term	377,030	284,514
Net deposits and withdrawals (from) to interest in pooled investment fund — short term	(27,000)	24,945
Purchase of assets for health-related activity	(7,800)	
Cash and cash equivalents movements in assets limited as to use	(29)	80
Changes in assets under bond indenture agreements	954	961
Additions to property and equipment	(40,805)	(36,476)
Cash proceeds from disposal of property and equipment	19	37
Net cash (used in) provided by investing activities	(34,624)	7,405
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(10,589)	(10,332)
Cash contributions received for the purchase of property and equipment	1,714	1,485
Net cash used in financing activities	(8,875)	(8,847)

(Continued)

DAUGHTERS OF CHARITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ (52,983)	$ 16,478
CASH AND CASH EQUIVALENTS — Beginning of year	87,853	71,375
CASH AND CASH EQUIVALENTS — End of year	$ 34,870	$ 87,853
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest — net of amounts capitalized	$ 25,549	$ 26,164
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Capitalized interest	$ 1,483	$ 1,434
Increase in receivable for investments sold	$ 3,037	$ 645
Increase (decrease) in payable for investments purchased	$ 15,035	$ (1,931)
Accrued additions to property and equipment	$ 2,295	$ 897
Purchase of assets for health-related activity acquired through the issuance of notes payable	$ 5,200	$ -

See notes to consolidated financial statements. (Concluded)

1. ORGANIZATION

The Daughters of Charity Health System (DCHS), 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. DCHS and the following list of affiliated entities (collectively, the "System") 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.

The System consists of DCHS* 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 4)

*Part of the Obligated Group (see discussion below and Note 10)

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.

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. At June 30, 2012 and 2011, the Obligated Group's unrestricted net assets represented 58% and 84%, respectively, of the consolidated unrestricted net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation — The accompanying consolidated financial statements include the accounts of the System after elimination of intercompany transactions.

Use of Estimates — The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 — Certain entities of the System have agreements with third-party payers that provide for payments to the System at amounts different from each Hospital's established rates. Patient accounts receivable balance is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered.

As part of the System's mission to serve the community, the System provides care to patients even though they may lack adequate insurance or may participate in programs that do not pay full charges. The System manages its collection risk by regularly reviewing its accounts and policies, which are subject to change based on historical collections and industry changes, and by providing appropriate allowances. 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 System derives significant portions of its revenues from Medicare, Medicaid ("Medi-Cal"), and other third-party payer programs. As a result, the System is exposed to certain credit risks. The System manages its risks by regularly reviewing accounts and contracts and by providing appropriate allowances for uncollectible amounts. Significant concentrations of net patient accounts receivable as of June 30, 2012 and 2011, are as follows:

	2012	2011
HMO/PPO/Commercial	43 %	46 %
Medicare	31	28
Medi-Cal	24	21
Other	2	5
Total	100 %	100 %

The receipt of future revenues by the System 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.

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) securities, asset-backed securities, fixed-income securities, and alternative investments, 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, and is reflected in the assets limited as to use line item in the consolidated balance sheet.

Interest in Pooled Investment Fund — The System 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). The System 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, the System'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.

Prior to April 1, 2012, the fair value of the System's beneficial interest in the HSD fund was determined using System's ownership percentage of the Fund based on the net asset value (NAV) of the pool. Subsequent to this transition, the fair value of the System's direct ownership in the pooled fund is based on the FV of underlying securities quoted at market prices, quoted market prices for similar instruments, and other observable and unobservable inputs. The fair value of the System's investment in the Fund decreased by $453,000 and increased by $35,678,000 as of June 30, 2012 and 2011, respectively. This change in fair value is reported in the consolidated statements of operations and changes in net assets under investment income. The System's total investment in the Fund, reflected at fair value, was $242,306,000 and $242,759,000 as of June 30, 2012 and 2011, 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, fixed-income securities, and alternative investments, which are stated at fair value.

As of June 30, 2012 and 2011, investment balances of approximately $72,859,000 and $45,114,000, respectively, in the Fund represented cash invested in a short-term pooled investment account. A centralized cash management arrangement allows the System to access the Fund on demand from 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 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 during the year. Dividend and interest income are accrued when earned.

Investment Income — Investment income represents changes in the fair value of the interest in pooled investment, realized and unrealized gains and losses, investment income, and management fees.

Derivative Financial Instruments — During the fiscal years ended June 30, 2012 and 2011, the System 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 amounts of benefits and obligations as assets and liabilities, respectively. As of June 30, 2012 and 2011, the value of the benefits was $3,684,000 and $646,000, respectively, and the value of the obligations was $7,357,000 and $3,263,000, 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 is included in investment income within the consolidated statements of operations and changes in net assets equaled $68,000 and $172,000 for the years ended June 30, 2012 and 2011, respectively. The unrealized gains for the years ended June 30, 2012 and 2011, were immaterial to the consolidated financial statements.

The System enters into TBAs to generate short-term investment income; the aggregate notional amounts transacted during the year were approximately $60 million and $40 million for the fiscal years ended June 30, 2012 and 2011, respectively. The System 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 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

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. The impairment tests are based on financial projections prepared by management that incorporate anticipated results from program and initiatives being implemented. If these projections are not met or if negative trends occur that impact the future outlook, the value of long-lived assets may be impaired. 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, 2012 and 2011, impairments from the disposal of assets of $1,141,000 and $66,000, respectively, were recorded.

Goodwill and Intangible Assets Impairment — The System 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. 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, 2012, management noted no events or indicators of impairment related to the recorded goodwill and intangible assets.

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 5 and 9, and the fair value of debt is disclosed in Note 10.

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 minority 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.

De Paul Ventures, LLC — In August 2010, the System filed papers with the State of California to form a California limited liability company called De Paul Ventures, LLC. It is a wholly owned and operated holding company of the System, which is the sole Member of De Paul Ventures, LLC. The company is formed as a means to support the mission of the System 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. The former became the sole Member of De Paul Ventures — San Jose ASC, LLC.

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 System's cash equity 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. The System'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 sheet of the System as of June 30, 2012 and 2011. The System received a total of $504,000 and $0, as partnership distribution from the activities of DePaul Ventures — San Jose ASC, LLC, in the fiscal years ended June 30, 2012, and 2011, respectively.

Workers' Compensation Liabilities — Workers' compensation exposure is covered via a high-deductible program supplemented by commercial coverage. DCHS retains the first $500,000 of each claim. Claims exceeding $500,000 are covered by a policy purchased from a commercial insurance carrier.

As of December 31, 2003, the liability for these self-retained limits was novated to a new, wholly owned, single-parent captive insurance company, Marillac. Marillac is consolidated in the accompanying consolidated financial statements as of and for the years ended June 30, 2012 and 2011.

Hospital Professional and General Liabilities — DCHS is self-insured, via Marillac, for the first $2,000,000 of each claim, up to an aggregate of $10,000,000. Claims exceeding these limits, up to a maximum of $80,000,000, are covered by policies purchased from excess commercial insurance carriers.

Medical Benefits — The System provides insurance coverage for employee medical benefits under HMO/PPO plans purchased from Blue Shield of California for all its covered employees.

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 the System in perpetuity.

Net Patient Service Revenue — Net patient service revenue is 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 adjusted in future periods as final settlements are determined.

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. The costs of providing these services are included in unsponsored community benefit expense (see Note 3).

Gross patient revenue is recorded on the basis of usual and customary charges. Gross patient revenue was $5,788,231,000 and $5,672,227,000 for the years ended June 30, 2012 and 2011, respectively. The percentage of inpatient and outpatient services is as follows:

	2012	2011
Inpatient services	66.0 %	66.2 %
Outpatient services	34.0	33.8

The estimated percentage of gross patient revenues by major payer group for the years ended June 30, 2012 and 2011, is as follows:

	2012	2011
Medicare	46.9 %	46.9 %
Medicare capitated	1.4	1.2
Medi-Cal	23.5	23.6
Medi-Cal capitated	0.9	0.8
Contracted-rate payers	20.8	21.6
Commercial capitated	0.2	0.2
Commercial insurance — self-pay and other payers	6.3	5.7
Total	100.0 %	100.0 %

Certain entities of the System have agreements with third-party payers that provide for payments to the System 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.

For the years ended June 30, 2012 and 2011, net patient revenue included $13,275,000 and $9,581,000, respectively, relating to prior years' reimbursement settlements from Medicare, Medi-Cal, and other programs, including $13,212,000 for the settlement of an appeal with CMS related to underpayments that occurred between 1998 and 2011 as a result of errors in the Medicare inpatient wage index calculation.

The System'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. For the years ended June 30, 2012 and 2011, such revenues were $26,332,000 and $32,288,000, respectively, and are included in net patient service revenue. Amounts to be received in future years, if any, are subject to annual determination.

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 and are determined by contract negotiation and amendment. For the years ended June 30, 2012 and 2011, such revenues were $9,100,000 and $8,100,000, 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. This hospital 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. For the years ended June 30, 2012 and 2011, such revenues were $8,204,000 and $8,417,000, respectively, and are included in net patient service revenue.

California Hospital Fee Program — In January 2010, the State of California enacted legislation that provided for supplemental Medi-Cal payments to certain hospitals funded by a quality assurance fee paid by participating hospitals and matching federal funds. The initial and subsequent legislations cover the period from April 1, 2009 through December 31, 2013.

Net patient revenue includes $134,141,000 related to supplemental Medi-Cal payments received and receivable under the California provider fee program in 2012. In 2011, $136,601,000 of the net patient revenue received was related to the California provider fee program. Quality assurance fees paid by hospital and federal matching grants funded the provider fee program. The System recorded $79,388,000 in quality assurance fees paid and payable to the State of California in 2012. In 2011, the quality assurance fees paid to the State was $83,263,000. Grant payments paid and payable to the California Health Foundation Trust (CHFT) were recognized in connection with the provider fee program, which resulted in additional purchased services and other expense of $4,354,000 and $4,066,000 in 2012 and 2011, respectively.

The latest legislation passed and enacted by the California legislature in September 2011, provided for an additional 30-month program covering from July 1, 2011 through December 31, 2013. The System anticipates receiving $117,733,000 in payment, which is net of quality assurance fees and CHFT payment, under this 30-month program. A portion of this 30-month program, known as fee-for-service component, was approved by Centers for Medicare & Medicaid Services (CMS) in June 2012. As a result, the 2012 amount of $134,141,000 reported above includes $78,904,000 in other receivable within the other assets line item (Note 7). Additionally, a payable of $51,296,000 recorded in the accrued liabilities line item is a part of the above $79,388,000 in quality assurance fees (Note 8). Fees due to CHFT, as mentioned above, totaled $3,027,000 which was included in other payable under the accrued liabilities line item (Note 8). Advocacy efforts are currently underway to promote the enactment of the provider fee as a Medi-Cal supplemental payment for periods beyond December 2013.

Premium Revenue — Certain entities of the System have at-risk agreements with various payers to provide medical services to enrollees. Under these agreements, the System 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 incurred but not reported (IBNR) claims and amounts receivable/payable under risk-sharing arrangements.

The IBNR accrual includes an estimate of the costs of services for which the System 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. Net assets released from restrictions used for operations are also included in other operating revenue as contribution revenue to the Hospitals.

Contributions — Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the 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 for the years ended June 30, 2012 and 2011, include the following (in thousands):

	2012	2011
Total interest expense	$ 26,685	$ 27,231
Less: capitalized interest expense	1,483	1,434
Net interest expense	$ 25,202	$ 25,797

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 the System may be subject to income taxes; however, such activities are not significant to the consolidated financial statements.

Performance Indicator — Management considers the excess (deficit) of revenues over expenses to be the System's performance indicator. Excess (deficit) of revenues over expenses includes all changes in unrestricted net assets, except for net assets released from restrictions used for purchase of property and equipment, the change in funded status pension plans, the effect of changes in accounting principles, and the results of discontinued operations.

Transactions Between Related Organizations — DCHS and various members of the System 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.

At June 30, 2012 and 2011, the System was owed approximately $281,000 and $559,000, respectively, related to housing loans given to certain executives of the System. These loans are included in other assets in the consolidated balance sheets.

Asset Retirement Obligations (ARO) — ARO 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, the System records period-to-period changes in the ARO liability resulting from the passage of time. The System's ARO liabilities recorded in the consolidated financial statements at June 30, 2012 and 2011, were $3,034,000 and $2,919,000, respectively. The change of $115,000 reported during the period was recorded as a charge to operations at June 30, 2012.

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 liability of $1,117,000 and $0 as of June 30, 2012 and 2011, respectively.

Recent Accounting Pronouncements — In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954), Measuring Charity Care for Disclosure*, which requires that cost be used as a measurement for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. It also requires disclosure of the method used to identify or determine such costs. DCHS adopted ASU No. 2010-23 beginning July 1, 2011. The adoption of ASU No. 2010-23 did not have a material impact on the consolidated financial statements of DCHS.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS'*, which amended ASC 820, *Fair Value Measurement* to change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. DCHS will adopt the provisions of ASU No. 2011-04 beginning July 1, 2012. The adoption of ASU No. 2011-04 will not have a material impact on the consolidated financial statements of DCHS.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Services Revenue, Provisions for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities*, which amended ASC 954, *Health Care Entities* to provide greater transparency regarding a health care entity's net patient revenue and the related allowance for doubtful accounts. ASU No. 2011-07 requires certain health care entities to change the presentation of the provision for bad debts associated with patient services revenue by reclassifying the provision from operating expense to a deduction from net patient revenue and require enhanced disclosures about net patient revenue and policies for recognizing revenue and assessing bad debts. DCHS will adopt ASU No. 2011-07 beginning July 2012. The adoption of ASU No. 2011-07 is not expected to have a material impact on the consolidated financial statements of DCHS.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment*. The objective of ASU No. 2011-08 is to simplify how entities test goodwill for impairment. The update permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The provisions of ASU No. 2011-08, which are to be applied prospectively, are effective for DCHS as of July 1, 2012. The adoption of ASU No. 2011-08 is not expected to have a material impact on the consolidated financial statements of DCHS.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210), Disclosure about offsetting assets and liabilities*. The amendments in ASU No. 2011-11 require entities to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position. The disclosure requirements of ASU No. 2011-11, which are to be applied prospectively, are effective for DCHS beginning July 1, 2013. The adoption of ASU No. 2011-11 is not expected to have a material impact on the consolidated financial statements of DCHS.

3. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

The following is a summary of the System's community service for the year ended June 30, 2012, in terms of services to the poor and benefits to the broader community. 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
Benefits for the poor:					
Traditional charity care	$ 22,130	1.6 %	$ -	$ 22,130	1.6 %
Unpaid costs of public programs — Medi-Cal	321,741	23.4	236,940	84,801	6.2
Nonbilled services	15,090	1.1	1,416	13,674	1.0
Cash and in-kind donations	96			96	
Other	2,601	0.2		2,601	0.2
Total quantifiable benefits for the poor	361,658	26.3	238,356	123,302	9.0
Benefits for the broader community:					
Nonbilled services	1,134	0.1	319	815	0.1
Education and research	1,006	0.1	51	955	0.1
Cash and in-kind donations	339		28	311	
Other	1,363	0.1		1,363	0.1
Total quantifiable benefits for the broader community	3,842	0.3	398	3,444	0.3
Total quantifiable community benefits	365,500	26.6	238,754	126,746	9.3
Unpaid costs of Medicare program	518,960	37.7	407,417	111,543	8.1
Total quantifiable community benefits and unpaid costs of Medicare program	$884,460	64.3 %	$646,171	$238,289	17.4 %

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.

Benefits for the Broader Community — Benefits for the broader community includes 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 the System's criteria for financial assistance. The System 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 the System'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 $108,031,000 and $105,772,000 for the years ended June 30, 2012 and 2011, respectively.

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 the System'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 the System to special funds used to benefit the poor and the community.

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 cost of treating Medicare beneficiaries in excess of government payments. Cost is based on the System's relationship of costs to charges.

4. FORMATION OF MEDICAL FOUNDATION

DCHS Medical Foundation ("Medical Foundation") was established in December 2011, and incorporated under the California Nonprofit Religious Corporation 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 San Jose Medical Group (SJMG) and San Jose Medical Management Inc., for $13,000,000. Of the $13,000,000 million, $7,800,000 was paid in cash, and the remaining $5,200,000 was in notes payable to SJMG, which are payable in two equal installments of $2,600,000 in fiscal years 2013 and 2014. The loan contains contingencies that will reduce the future payments due to the SJMG if it fails to maintain the minimum number of physicians and a minimum number of physicians providing services on a full-time basis to the Medical Foundation's patients. The contingent loan payments to SJMG are based on a sliding scale, as defined in the asset purchase agreement between the parties. The acquisition-date fair value of the contingent note payable of $5,200,000 has been included as part of the purchase consideration and was determined using a cash flow model based on the expected two future contingent payments. The fair value of the contingent consideration is measured at each reporting period with the change in fair value recognized as purchased services and other. The liability was measured using Level 3 inputs as defined by the authoritative guidance for fair value measurements.

The operational results of the Medical Foundation for the period from April 1, 2012 through June 30, 2012, are included in the accompanying consolidated financial statements. The purchase consideration was allocated as follows:

Assets Purchased	Amount
Inventory	$ 178,000
Equipment	3,081,000
Leasehold improvements	2,600,000
Intangibles:	
Finite-lived intangibles	362,000
Goodwill	6,779,000
Total purchase price	$ 13,000,000

5. 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 U.S. Treasury securities, listed equities, and money markets.

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.

The following represents assets measured at fair value on a recurring basis as of June 30, 2012 and 2011 (in thousands):

	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	
Total pooled investment funds	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	
Total other investments — assets limited as to use	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	
Total under bond indenture agreements	41,853	15,716	26,137	-
Total	$ 353,331	$ 25,373	$ 327,958	$ -

	June 30, 2011			
	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	$ 45,114	$ -	$ 45,114	$ -
Pooled funds — long term	197,645		197,645	
Total pooled investment funds	242,759	-	242,759	-
Other investments — assets limited as to use:				
Cash equivalents	11,151	11,151		
Debt securities issued by foreign corporations	2,182		2,182	
Debt securities issued by the U.S. Treasury and other U.S. government corporations*	25,880		25,880	
Government mortgage-backed securities	1,838		1,838	
TBA mortgage-backed securities	2,650		2,650	
Commercial mortgage-backed securities	2,737		2,737	
Corporate U.S. debt securities	14,355		14,355	
Index funds	7,257		7,257	
Investment held in trust account	2,697		2,697	
Total other investments — assets limited as to use	70,747	11,151	59,596	-
Under bond indenture agreements — assets limited as to use:				
Cash equivalents	15,713	15,713		
Debt securities issued by foreign corporations	27,094		27,094	
Total under bond indenture agreements	42,807	15,713	27,094	-
Total	$ 356,313	$ 26,864	$ 329,449	$ -

* Subsequent to the issuance of the 2011 consolidated financial statements, DCHS determined that the debt securities issued by U.S. Treasury and other government corporations had previously been incorrectly categorized as Level 1 investments within the fair value hierarchy. As a result, the 2011 amounts have been restated to reflect the investments as Level 2 as these securities are not traded in active markets, but have other significant observable inputs.

Excluding the Medical Foundation's contingent loan of $5,200,000 for purchase consideration, there were no additional liabilities measured at fair value on recurring basis as of June 30, 2012 and 2011.

The Level 2 financial assets listed in fair value hierarchy tables above use the following valuation techniques and inputs:

As described in Note 2, the System 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 securities, asset-backed securities, fixed-income securities, and alternative investments, and are designated at 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, fair value of such investments are determined based on market participant pricing or other available market data for comparable instruments and transactions at the measurement date in establishing the valuation. The System, therefore, incorporates industry-standard valuation techniques as inputs to fair valuation of its investments designated as Level 2.

The System'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 was obtained from an active market and then further consideration 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 System'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, the System will designate the investments as Level 3.

The following table presents the change in the balance of financial assets using significant unobservable inputs (Level 3) measured on a recurring basis and identified for reclassification from assets limited as to use to other long-term assets; total amount being reclassified from input Level 3 relates to System's interest in various endowment trusts (in thousands):

	2012	**2011**
Balance at beginning of year	$ -	$ 4,087
Addition due to new endowment trust		750
Change in fair valuation of trust		(34)
Total transfer-out		(4,803)
Total transfer-in		
Balance at June 30	$ -	$ -

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 as of June 30, 2012 and 2011 (in thousands):

		June 30, 2012			
Level 2		**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Ascension pooled funds — short term	(1)	$ 72,859	$ -	Daily	1–3 days
Ascension pooled funds — long term	(2)	169,447		Daily	≤ $10M, 1–3 days > $10M, 1–7 days
Total pooled funds		242,306	-		
TBA mortgaged-backed securities	(3)	3,676		Daily	1–3 days
Investment held in trust account	(4)	2,647		Not eligible	Not applicable
Total limited as to use		6,323	-		
Total Level 2		$248,629	$ -		

		June 30, 2011			
Level 2		**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Ascension pooled funds — short term	(1)	$ 45,114	$ -	Daily	1–3 days
Ascension pooled funds — long term	(2)	197,645		Daily	≤ $10M, 1–3 days > $10M, 1–30 days
Total pooled funds		242,759	-		
TBA mortgaged-backed securities	(3)	2,650		Daily	1–3 days
Investment held in trust account	(4)	2,697		Not eligible	Not applicable
Total limited as to use		5,347	-		
Total Level 2		$248,106	$ -		

(1) This category includes investments in Ascension Health's HSD accounts, as of June 30, 2011 and CHIMCO Alpha Fund as of June 30, 2012, and is mainly invested in short-term investment and fixed-income funds.
(2) This category includes investments in Ascension Health's HSD accounts, as of June 30, 2011 and CHIMCO Alpha Fund as of June 30, 2012, and is mainly invested in U.S. government, state, municipal, agency obligations; corporate- and foreign government-fixed maturities; and U.S. government and corporate asset-backed securities.
(3) This category includes investment 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.
(4) 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.

The investments included above are not expected to be sold at amounts that are different from their NAV.

As of June 30, 2012 and 2011, approximately $169,447,000 and $197,645,000, respectively, of the System's assets limited to use balances were invested in a long-term investment pool with the Fund, of which the underlying securities held in the pool are included within the classifications in the table above.

Investment Held in Trust Accounts — The System is the beneficiary of a split-interest agreement from a donor. The related assets are controlled and invested by an independent third party. The System records the assets for its share when formal written or other verifiable documentation is received. The System'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, 2012, ranged from 0.5% to 1.0%.

6. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2012 and 2011 consist of the following (in thousands):

	2012	2011
Land	$ 32,223	$ 32,223
Land improvements	14,857	14,983
Buildings and service equipment	702,720	688,567
Equipment	448,496	443,651
Construction in progress	25,232	31,924
Total	1,223,528	1,211,348
Less accumulated depreciation	(849,292)	(827,326)
Property and equipment — net	$ 374,236	$ 384,022

System depreciation expense was $56,522,000 and $50,505,000 for the years ended June 30, 2012 and 2011, respectively.

7. OTHER ASSETS

Other current assets as of June 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Inventories	$ 17,466	$ 17,164
Prepaid expenses	20,533	22,019
Other receivable (see Note 2)	81,493	
Deposit (see Note 2)		28,379
Pledges receivable	2,793	4,472
Other current assets	18,120	15,128
Total other current assets	$ 140,405	$ 87,162

Other long-term assets as of June 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Notes receivable — primarily secured	$ 1,706	$ 2,195
Ownership interest in health-related activities — net	8,811	8,983
Pledge receivable	211	4,004
Other	3,526	1,562
Total other long-term assets	$ 14,254	$ 16,744

8. ACCRUED LIABILITIES

Accrued liabilities as of June 30, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Wages and benefits	$ 61,966	$ 60,562
Accrued referral claims cost	8,674	8,650
Unearned revenue (see Note 2)		41,851
Other (see Note 2)	98,457	27,084
Total accrued liabilities	$ 169,097	$ 138,147

9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

DCHS maintains two different defined benefit retirement plans that cover substantially all eligible employees of the System. Benefits are generally based on age, years of service, and employee compensation. The System 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 associates' compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. The System contributed cash of $17,260,000 and $19,425,000 to the RPHE during the fiscal years ended June 30, 2012 and 2011, respectively.

The second retirement plan is a single-employer defined benefit pension plan (the "DCHS Retirement Plan"). The System associates at St. Francis Medical Center, St. Vincent Medical Center, and the System Office are eligible to participate in this plan. The System contributed $11,644,000 and $16,028,000 to the DCHS Retirement Plan during the fiscal years ended June 30, 2012 and 2011, respectively.

The third retirement plan is a retiree health insurance program (the "Postretirement Healthcare Plan"). The System associates 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. The System contributed $238,000 and $38,000 to the Postretirement Healthcare Plan during the fiscal years ended June 30, 2012 and 2011, 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 new third plan was adopted by the System'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. The new plan is a fully employer-paid defined contribution pension plan. During the fiscal years ended June 30, 2012 and 2011, the employer's contribution for these three defined contribution plans was $16,012,000 and $9,379,000, 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, the System 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, the System's largest union, Service Employees International Union (SEIU), had ratified freezing the defined benefit pension plan belonging to all its members in the System's six hospitals. The effective date of this freeze is January 1, 2013. Upon freezing the defined benefit pension plan, System agreed to introduce a new employer-paid defined contribution plan (IRC 401(a)) for its SEIU members, which will be effective January 1, 2013.

The funded status of the DCHS Retirement Plan and Postretirement Healthcare Plan benefits for the years ended June 30, 2012 and 2011, are as follows (in thousands):

	2012		2011	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Change in benefit obligation:				
Benefit obligation — beginning of year	$ 410,314	$ 18,475	$ 394,010	$ 15,689
Service cost	4,940	1,109	8,715	1,032
Interest cost	23,159	1,027	23,097	1,024
Curtailments	(27,454)		(20,119)	(1,169)
Actuarial loss	78,501	(14,290)	16,584	1,365
Benefits paid	(14,612)	(238)	(11,973)	(38)
Loss due to recognition of excise tax				572
Benefit obligation — end of year	$ 474,848	$ 6,083	$ 410,314	$ 18,475
Accumulated benefit obligation	$ 462,629	$ 6,083	$ 375,570	$ 18,475
Change in plan assets:				
Fair value of plan assets — beginning of year	$ 212,013	$ -	$ 175,673	$ -
Actual return on plan assets	4,619		33,536	
Employer contribution	13,317	238	16,028	38
Benefits paid	(14,612)	(238)	(11,973)	(38)
Administrative expenses	(1,403)		(1,251)	
Fair value of plan assets — end of year	$ 213,934	$ -	$ 212,013	$ -
Funded status	$ (260,914)	$ (6,083)	$ (198,301)	$ (18,475)

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 $266,997,000 and $216,776,000 as of June 30, 2012 and 2011, respectively.

Amounts that have not yet been recognized as components of net period benefit cost as of June 30, 2012 and 2011, are as follows (in thousands):

	2012		2011	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Net actuarial loss	$ 180,370	$ (11,732)	$ 122,946	$ 2,625
Prior service costs		2,196		2,481
Total amount not recognized	$ 180,370	$ (9,536)	$ 122,946	$ 5,106

The components of net period benefit cost and amounts recognized in the consolidated statements of operations and changes in net assets apart from expenses as of June 30, 2012 and 2011, are as follows (in thousands):

	2012		2011	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Components of net periodic benefit cost:				
Service cost	$ 4,940	$ 1,109	$ 8,715	$ 1,032
Interest cost	23,159	1,027	23,097	1,024
Expected return on plan assets	(16,650)		(15,927)	
Net prior service cost amortization		285	1	329
Net loss amortization	7,028	68	6,802	128
Cost of special events			2	
Net periodic benefit cost	$ 18,477	$ 2,489	$ 22,690	$ 2,513
Change in net assets apart from periodic benefit cost:				
Net actuarial loss	$ 91,906	$ (14,290)	$ 226	$ 1,365
(Deduct) add:				
Impact of curtailment	(27,454)		(20,122)	(1,556)
Impact of excise tax				572
Amortization of prior service cost		285	(1)	(329)
Amortization of actuarial loss	(7,028)	68	(6,802)	(128)
Total	$ 57,424	$ (13,937)	$ (26,699)	$ (76)

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 are $4,264,000 and $0, respectively.

Assumptions — The weighted-average assumptions used to determine benefit obligations and net period benefit costs as of June 30, 2012 and 2011 are as follows:

	2012		2011	
	DCHS Retirement Plan	Postretirement Healthcare Plan	DCHS Retirement Plan	Postretirement Healthcare Plan
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.62 %	4.46 %	5.79 %	5.60 %
Rate of compensation increase	3.50	N/A	4.00	N/A
Weighted-average assumptions used to determine net periodic benefit costs:				
Discount rate	5.79 %	5.60 %	5.79 %	5.75 %
Expected return on plan assets	7.75	N/A	7.75	N/A
Rate of compensation increase	4.00	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 the System's estimated long-term rates of return are consistent with these studies. At June 30, 2012 and 2011, DCHS Retirement Plan portfolio return assumption is 7.75% and 7.75%, 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, 2012 and 2011.

Other Benefit Assumptions — For the measurement of accumulated postretirement benefit obligations at June 30, 2012, for the Postretirement Healthcare Plan assumed health care cost trend rates start with 10 % in 2012 and grading down by 0.50% annually, until reaching an ultimate rate of 5.50% in fiscal year 2021.

Plan Assets and Investment Strategy — The following information represents the System's pension plan assets measured at fair value as of June 30, 2012 and 2011, and indicate the fair value hierarchy and valuation techniques utilized to determine such fair value (in thousands):

	Total Balance as of June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	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 stock funds	16,370		16,370	
Real estate stock funds	15,439		15,439	
Foreign stock funds	34,966		34,966	
Total plan assets	$ 211,735	$ 3,080	$ 208,655	$ -

As of June 30, 2012, $2,199,000 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.

	Total Balance as of June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 6,978	$ 6,978	$ -	$ -
Common collective trust funds	98,083		98,083	
Fixed-income funds	42,388		42,388	
Domestic stock funds	18,097		18,097	
Real estate stock funds	26,501		26,501	
Foreign stock funds	19,966		19,966	
Total plan assets	$ 212,013	$ 6,978	$ 205,035	$ -

The changes during the 12 months ended June 30, 2012 and 2011, in the Level 3 fair value measurements of the System's pension plan assets are as follows (in thousands):

	2012	2011
Balance at beginning of year	$ -	$ 14,524
Total realized and unrealized gain		432
Total transfer-out		(17,705)
Total transfer-in		2,749
Balance at June 30	$ -	$ -

For information regarding the fair valuation techniques and inputs used to measure the fair value of the plan assets, see the narratives regarding the fair value measurement in Note 5.

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 the System'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 — The System expects to contribute $11,209,000 to its defined benefit DCHS Retirement Plan and $304,000 to the Postretirement Healthcare Plan in 2013.

The benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2012, as follows (in millions):

	DCHS Retirement Plan Benefits	Multiemployer Retirement Plan	Postretirement Healthcare Benefits
2013	$ 14.2	$ 9.2	$ 0.3
2014	16.0	10.5	0.3
2015	17.7	12.0	0.4
2016	19.4	13.4	0.4
2017	20.9	14.8	0.4
Next five years	130.3	97.4	2.8

10. LONG-TERM DEBT

Long-term debt as of June 30, 2012 and 2011, consists of the following (in thousands):

	2012	2011
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%	40,720	50,395
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	13,251	13,924
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%	5,983	6,123
Notes payable to San Jose Medical Group, payable through 2014 at 3.25% interest	5,200	
Other		101
Total	467,933	473,322
Less current portion	13,283	10,590
Total long-term debt — excluding bond premium	454,650	462,732
Plus bond premium	5,577	6,159
Total long-term debt	$460,227	$468,891

Scheduled long-term principal debt payments as of June 30, 2012, are as follows (in thousands):

Years Ending June 30	
2013	$ 13,283
2014	8,941
2015	8,356
2016	8,816
2017	9,307
Thereafter	419,230
Total	$ 467,933

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 are 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.

The Obligated Group's financing agreements contain restrictive covenants, including maintenance of certain debt and liquidity ratios, 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, 2012. 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 $10,806,000 of the increase in fair value recorded in fiscal year 2012 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 System's debt instruments as of June 30, 2012 and 2011, are $484,533,000 and $420,712,000, respectively. The reported fair value of the System's debt instrument includes the full value of an irrevocable principal payment of $9,675,000 made as of June 30, 2012, for the fiscal year 2013. The fair value amounts do not represent the amount that would be required to expend to retire the indebtedness.

11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets are available as of June 30, 2012 and 2011, for the following purposes (in thousands):

	2012	2011
Equipment and expansion	$ 7,501	$ 8,536
Research and education	5,654	5,458
Charity and other	20,312	14,215
Total temporarily restricted net assets	33,467	28,209
Permanently restricted net assets	8,864	8,455
Total restricted net assets	$ 42,331	$ 36,664

Equipment and expansion relate to assets held by the System, 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 the System, 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 the System, 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 $8,864,000 and $8,455,000 at June 30, 2012 and 2011, respectively, are restricted to investments to be held in perpetuity with the income expendable to support the System's mission.

12. GUARANTEES, COMMITMENTS, AND CONTINGENT LIABILITIES

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, 2012, related to any guarantees or indemnification arrangements.

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 parent's insurers, at June 30, 2012 and 2011.

Litigation — Certain entities of the System 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 the System's consolidated financial position or results of operations as of June 30, 2012. Therefore, based on the information provided by its legal counsel, DCHS has accrued $1,373,000 and $1,000,000 as of June 30, 2012 and 2011, respectively, which were related to certain of these actions. The System evaluates recoveries from insurance coverage separately from its liability, and when appropriate, an asset is recorded separately from the associated liability.

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 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 the System 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.

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 million 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. The System 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, the System expects that several provisions of the Health Care Reform Legislation will have a material effect on its business beginning 2014.

Lease Commitments — Future minimum lease payments under the System's significant noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2012, are as follows (in thousands):

	Operating Leases
2013	$ 7,981
2014	5,813
2015	4,454
2016	3,870
2017	2,453
Thereafter	3,469
Total minimum lease payments	$ 28,040

Seismic Standards — The System is assessing its earthquake retrofit requirements for health care facilities under a State of California law (SB 1953) that requires compliance with certain seismic standards by 2008. An extension of this seismic compliance deadline to 2013 has been granted for most of the System's facilities. In October 2008, two of the System's facilities met the eligibility requirements under newly passed SB 306 legislation that allows qualifying hospitals to forego the interim seismic improvements mandate for 2013 in exchange for attaining full compliance by 2020, rather than 2030 as in the SB 1953 legislation. Formal applications for such eligibility have been approved by the State of California.

Planning measures are under way that may result in certain of the seismically noncompliant facilities being withdrawn from use.

13. POTENTIAL TRANSFER OF INTERST

In March 2012, DCHS and Ascension Health Alliance entered into a nonbinding memorandum of understanding to explore having DCHS join Ascension Health, a subsidiary of Ascension Health Alliance. Completion of the proposed transaction is subject to the execution of final agreements and obtaining all necessary approvals.

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SUPPLEMENTAL CONSOLIDATING SCHEDULES

DAUGHTERS OF CHARITY HEALTH SYSTEM

SUPPLEMENTAL CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF JUNE 30, 2012
(In thousands)

ASSETS	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
CURRENT ASSETS:							
Cash and cash equivalents	$ 568	$ 1,530	$ 706	$ 153	$ 5,489	$ 11	$ (1,597)
Interest in pooled investment fund — short-term	6,471	1,885	27,845	8,849	8,320		16,942
Subtotal	7,039	3,415	28,551	9,002	13,809	11	15,345
Patient accounts receivable — net	36,016	11,248	49,345	25,913	30,547	2,620	
Due from government agencies	2,212		10,634	7,790	1,784		
Due from related organizations	8,462	7,155	22,164	9,492	24,837	8,000	34,692
Other current assets	15,256	4,939	55,782	16,888	12,052	139	25,527
Total current assets	68,985	26,757	166,476	69,085	83,029	10,770	75,564
ASSETS LIMITED AS TO USE:							
Interest in pooled investment fund — long-term	38,071	226	89,340	9,551	18,387		787
Other investments				1,609			
Under bond indenture agreements							41,853
Total assets limited as to use	38,071	226	89,340	11,160	18,387	-	42,640
INTANGIBLE ASSETS							
PROPERTY AND EQUIPMENT — Net	66,487	25,894	142,614	77,897	48,738	2,359	3,632
OTHER LONG-TERM ASSETS	2,214	817	111	702	33	1	6,027
TOTAL	$175,757	$ 53,694	$398,541	$158,844	$150,187	$ 13,130	$127,863

(Continued)

DAUGHTERS OF CHARITY HEALTH SYSTEM

SUPPLEMENTAL CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF JUNE 30, 2012
(In thousands)

ASSETS	Eliminations	Obligated Group Subtotal	Marillac Insurance Company	Caritas Business Services	All Other Entities	Eliminations	DCHS Total
CURRENT ASSETS:							
Cash and cash equivalents	$ -	$ 6,860	$ 16,527	$ 1,191	$ 10,292	$ -	$ 34,870
Interest in pooled investment fund — short-term		70,312		778	1,769		72,859
Subtotal	-	77,172	16,527	1,969	12,061	-	107,729
Patient accounts receivable — net		155,689			3,403		159,092
Due from government agencies		22,420					22,420
Due from related organizations	(87,919)	26,883	1,309	1,588		(29,780)	
Other current assets		130,583	7,103	147	4,825	(2,253)	140,405
Total current assets	(87,919)	412,747	24,939	3,704	20,289	(32,033)	429,646
ASSETS LIMITED AS TO USE:							
Interest in pooled investment fund — long-term		156,362			13,085		169,447
Other investments		1,609	56,867		10,696		69,172
Under bond indenture agreements		41,853					41,853
Total assets limited as to use	-	199,824	56,867	-	23,781	-	280,472
INTANGIBLE ASSETS					7,141		7,141
PROPERTY AND EQUIPMENT — Net		367,621		528	6,087		374,236
OTHER LONG-TERM ASSETS		9,905		119	4,230		14,254
TOTAL	$ (87,919)	$990,097	$ 81,806	$ 4,351	$ 61,528	$ (32,033)	$ 1,105,749

(Continued)

DAUGHTERS OF CHARITY HEALTH SYSTEM

SUPPLEMENTAL CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS	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
CURRENT LIABILITIES:							
Accounts payable	$ 5,332	$ 1,342	$ 3,469	$ 4,193	$ 4,369	$ 181	$ 6,464
Current portion of long-term debt	149		9,860				674
Due to government agencies	1,237	3,622	5,462	5,344	3,610	2,868	
Accrued liabilities	29,346	8,654	50,360	24,455	27,162	1,543	4,997
Due to related organizations	4,210	9,147	7,292	26,936	6,680	21,872	13,364
Total current liabilities	40,274	22,765	76,443	60,928	41,821	26,464	25,499
OTHER LIABILITIES:							
Long-term debt — net of current portion	83,478	47,030	113,226	86,917	95,167		31,809
Hospital general liability and workers' compensation							5,238
Pension obligations	63,918	7,045	97,602	75,445	2,200	179	20,608
Other long-term liabilities	168		140	1,850	1,069		33
Total other liabilities	147,564	54,075	210,968	164,212	98,436	179	57,688
NET ASSETS:							
Unrestricted	(13,436)	(23,963)	108,890	(70,633)	9,728	(17,513)	42,305
Temporarily restricted	1,355	817	2,240	1,688	202	4,000	2,371
Permanently restricted				2,649			
Total net assets	(12,081)	(23,146)	111,130	(66,296)	9,930	(13,513)	44,676
TOTAL	$175,757	$ 53,694	$398,541	$158,844	$150,187	$ 13,130	$127,863

(Continued)

DAUGHTERS OF CHARITY HEALTH SYSTEM

SUPPLEMENTAL CONSOLIDATING SCHEDULE — BALANCE SHEET INFORMATION
AS OF JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS	Eliminations	Obligated Group Subtotal	Marillac Insurance Company	Caritas Business Services	All Other Entities	Eliminations	DCHS Total
CURRENT LIABILITIES:							
Accounts payable	$ -	$ 25,350	$ -	$ 2	$ 1,111	$ -	$ 26,463
Current portion of long-term debt		10,683			2,600		13,283
Due to government agencies		22,143					22,143
Accrued liabilities		146,517	18,412	2,168	1,991	9	169,097
Due to related organizations	(87,919)	1,582		57	26,826	(28,465)	-
Total current liabilities	(87,919)	206,275	18,412	2,227	32,528	(28,456)	230,986
OTHER LIABILITIES:							
Long-term debt — net of current portion		457,627			2,600		460,227
Hospital professional and general liability		5,238	38,989			(3,577)	40,650
Pension obligations		266,997					266,997
Other long-term liabilities		3,260	142		380		3,782
Total other liabilities	-	733,122	39,131	-	2,980	(3,577)	771,656
NET ASSETS:							
Unrestricted		35,378	24,263	2,124	(989)		60,776
Temporarily restricted		12,673			20,794		33,467
Permanently restricted		2,649			6,215		8,864
Total net assets	-	50,700	24,263	2,124	26,020	-	103,107
TOTAL	$ (87,919)	$990,097	$ 81,806	$ 4,351	$ 61,528	$ (32,033)	$ 1,105,749

(Concluded)

DAUGHTERS OF CHARITY HEALTH SYSTEM

SUPPLEMENTAL CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012
(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	$278,375	$ 87,087	$344,604	$225,679	$249,390	$ 16,493	$ -
Premium revenue			28,509	6,994			
Other operating revenue	7,578	1,342	9,934	7,212	7,343	382	57,499
Contributions	537	230	2,666	1,876	1,039	4,005	10,319
Total unrestricted revenues and other support	286,490	88,659	385,713	241,761	257,772	20,880	67,818
EXPENSES:							
Salaries and benefits	182,117	55,486	189,849	97,119	156,132	16,503	18,926
Supplies	38,023	8,223	30,149	47,539	33,558	1,558	115
Provision and write-off for doubtful accounts	7,351	1,872	6,936	10,271	7,215	608	
Purchased services and other	64,338	21,785	119,456	75,591	63,928	3,100	62,500
Depreciation	15,429	2,840	17,059	9,142	9,924	372	1,136
Interest	5,067	2,803	6,976	5,078	5,633	(8)	(347)
Asset impairment	1,046	4	2	86	3		
Total expenses	313,371	93,013	370,427	244,826	276,393	22,133	82,330
OPERATING (LOSS) INCOME	(26,881)	(4,354)	15,286	(3,065)	(18,621)	(1,253)	(14,512)
INVESTMENT (LOSS) INCOME — Net	(443)	4	(443)	(152)	(155)		7,909
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES	$ (27,324)	$ (4,350)	$ 14,843	$ (3,217)	$ (18,776)	$ (1,253)	$ (6,603)

(Continued)

DAUGHTERS OF CHARITY HEALTH SYSTEM

SUPPLEMENTAL CONSOLIDATING SCHEDULE — STATEMENT OF OPERATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012
(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	$ -	$ 1,201,628	$ -	$ -	$ 11,738	$ -	$ 1,213,366
Premium revenue		35,503			5,553		41,056
Other operating revenue	(57,303)	33,987	11,774	16,855	626	(30,443)	32,799
Contributions		20,672			377		21,049
Total unrestricted revenues and other support	(57,303)	1,291,790	11,774	16,855	18,294	(30,443)	1,308,270
EXPENSES:							
Salaries and benefits		716,132		13,470	14,112	(13,470)	730,244
Supplies		159,165		137	2,711	(137)	161,876
Provision and write-off for doubtful accounts		34,253			156		34,409
Purchased services and other	(57,303)	353,395	12,897	2,885	7,052	(16,473)	359,756
Depreciation		55,902		374	740	(374)	56,642
Interest		25,202					25,202
Asset impairment		1,141					1,141
Total expenses	(57,303)	1,345,190	12,897	16,866	24,771	(30,454)	1,369,270
OPERATING (LOSS) INCOME	-	(53,400)	(1,123)	(11)	(6,477)	11	(61,000)
INVESTMENT (LOSS) INCOME — Net		6,720	1,083	11	(303)	(6,011)	1,500
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES	$ -	$ (46,680)	$ (40)	$ -	$ (6,780)	$ (6,000)	$ (59,500)

(Concluded)