Consolidated Financial Statements and Supplementary Information

Ascension Health Alliance
Years Ended June 30, 2012 and 2011
With Reports of Independent Auditors

Ascension Health Alliance

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011

Contents

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Report of Independent Auditors

The Board of Directors
Ascension Health Alliance

We have audited the accompanying consolidated balance sheets of Ascension Health Alliance (as identified in Note 1) as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Ascension Health Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Ernst & Young LLP

September 12, 2012

Ascension Health Alliance

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2012	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 306,469**	$ 1,107,846
Short-term investments	**216,914**	237,461
Accounts receivable, less allowances for uncollectible accounts ($1,145,935 and $1,079,706 at June 30, 2012 and 2011, respectively)	**1,962,549**	1,687,189
Inventories	**223,647**	190,514
Due from brokers *(see Notes 4 and 5)*	**789,271**	–
Estimated third-party payor settlements	**159,871**	89,747
Other *(see Notes 4 and 5)*	**756,216**	438,063
Total current assets	**4,414,937**	3,750,820
Long-term investments *(see Notes 4 and 5)*	**10,468,457**	8,117,951
Property and equipment, net	**6,603,603**	5,987,804
Other assets:		
Investment in unconsolidated entities	**946,971**	889,077
Capitalized software costs, net	**645,112**	486,842
Other	**696,814**	720,565
Total other assets	**2,288,897**	2,096,484
Total assets	**$ 23,775,894**	$ 19,953,059

	June 30, 2012	June 30, 2011
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 45,363**	$ 29,563
Long-term debt subject to short-term remarketing arrangements*	**1,094,425**	1,662,950
Accounts payable and accrued liabilities	**2,009,229**	1,814,600
Estimated third-party payor settlements	**457,030**	276,810
Due to brokers *(see Notes 4 and 5)*	**880,613**	–
Current portion of self-insurance liabilities	**206,057**	191,551
Other *(see Notes 4 and 5)*	**435,874**	103,093
Total current liabilities	**5,128,591**	4,078,567
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**3,655,406**	2,546,785
Self-insurance liabilities	**518,995**	448,624
Pension and other postretirement liabilities	**492,366**	396,058
Other *(see Notes 4 and 5)*	**1,057,644**	676,648
Total noncurrent liabilities	**5,724,411**	4,068,115
Total liabilities	**10,853,002**	8,146,682
Net assets:		
Unrestricted		
Controlling interest	**11,836,414**	11,332,631
Noncontrolling interests	**647,236**	42,739
Unrestricted net assets	**12,483,650**	11,375,370
Temporarily restricted	**336,027**	331,563
Permanently restricted	**103,215**	99,444
Total net assets	**12,922,892**	11,806,377
Total liabilities and net assets	**$ 23,775,894**	$ 19,953,059

*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2047, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to June 30, 2013. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include liquidating investments, drawing upon the $1,000,000 line of credit, and issuing commercial paper. The commercial paper program is supported by the $1,000,000 line of credit, as discussed in the Long-Term Debt note.

The accompanying notes are an integral part of the consolidated financial statements.

Ascension Health Alliance

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

	Year Ended June 30, 2012	2011
Operating revenue:		
Net patient service revenue	**$ 15,620,035**	$ 14,565,006
Other revenue	**990,613**	841,521
Total operating revenue	**16,610,648**	15,406,527
Operating expenses:		
Salaries and wages	**6,671,985**	6,188,630
Employee benefits	**1,450,458**	1,444,867
Purchased services	**771,953**	771,836
Professional fees	**1,042,327**	889,375
Supplies	**2,309,541**	2,261,568
Insurance	**102,917**	92,168
Bad debts	**1,005,844**	991,974
Interest	**135,563**	129,014
Depreciation and amortization	**674,178**	656,859
Other	**1,827,002**	1,556,110
Total operating expenses before impairment, restructuring and nonrecurring gains (losses), net	**15,991,768**	14,982,401
Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring gains (losses), net	**618,880**	424,126
Self-insurance trust fund investment return	**17,197**	90,402
Impairment, restructuring, and nonrecurring gains (losses), net	**297,548**	(92,387)
Income from operations	**933,625**	422,141
Nonoperating gains (losses):		
Investment return	**(137,383)**	1,129,859
Loss on extinguishment of debt	**(2,828)**	(1,007)
(Loss) gain on interest rate swaps	**(74,773)**	30,879
Income from unconsolidated entities	**8,802**	11,915
Contributions from business combinations	**326,333**	–
Other	**(69,510)**	(68,999)
Total nonoperating gains, net	**50,641**	1,102,647
Excess of revenues and gains over expenses and losses	**984,266**	1,524,788
Less noncontrolling interests	**15,840**	27,484
Excess of revenues and gains over expenses and losses attributable to controlling interest	**968,426**	1,497,304

Continued on next page.

Ascension Health Alliance

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

(Dollars in Thousands)

	Year Ended June 30, 2012	2011
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	**$ 968,426**	$ 1,497,304
Transfers to sponsors and other affiliates, net	**(19,947)**	(14,495)
Contributed net assets	**(400)**	(374)
Net assets released from restrictions for property acquisitions	**68,940**	70,555
Pension and other postretirement liability adjustments	**(451,555)**	793,897
Change in unconsolidated entities' net assets	**(15,890)**	1,175
Other	**9,207**	(2,778)
Increase in unrestricted net assets, controlling interest, before (loss) gain from discontinued operations and cumulative effect of change in accounting principle	**558,781**	2,345,284
(Loss) gain from discontinued operations	**(54,998)**	19,421
Cumulative effect of change in accounting principle	**–**	(45,993)
Increase in unrestricted net assets, controlling interest	**503,783**	2,318,712
Unrestricted net assets, noncontrolling interests:		
Excess of revenues and gains over expenses and losses	**15,840**	27,484
Distributions of capital	**(578,445)**	(33,854)
Contributions of capital	**1,167,102**	7,973
Increase in unrestricted net assets, noncontrolling interests	**604,497**	1,603
Temporarily restricted net assets, controlling interest:		
Contributions and grants	**100,880**	100,679
Net change in unrealized gains/losses on investments	**(5,333)**	15,714
Investment return	**4,695**	8,295
Net assets released from restrictions	**(104,028)**	(103,654)
Other	**8,250**	496
Increase in temporarily restricted net assets, controlling interest	**4,464**	21,530
Permanently restricted net assets, controlling interest:		
Contributions	**5,082**	8,030
Net change in unrealized gains/losses on investments	**(25)**	1,692
Investment return	**(217)**	(62)
Other	**(1,069)**	(87)
Increase in permanently restricted net assets, controlling interest	**3,771**	9,573
Increase in net assets	**1,116,515**	2,351,418
Net assets, beginning of year	**11,806,377**	9,454,959
Net assets, end of year	**$ 12,922,892**	$ 11,806,377

The accompanying notes are an integral part of the consolidated financial statements.

Ascension Health Alliance

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30, 2012	2011
Operating activities		
Increase in net assets	**$ 1,116,515**	$ 2,351,418
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**674,178**	656,859
Amortization of bond premiums	**(10,663)**	(9,951)
Loss on extinguishment of debt	**2,828**	1,007
Provision for bad debts	**1,005,844**	991,974
Pension and other postretirement liability adjustments	**451,555**	(793,897)
Contributed net assets	**400**	374
Contributions from business combinations	**(305,162)**	–
Interest, dividends, and net losses (gains) on investments	**122,323**	(1,245,900)
Change in market value of interest rate swaps	**77,568**	(25,257)
Deferred gain on interest rate swaps	**(303)**	(303)
Gain on sale of assets, net	**(13,950)**	(21,373)
Cumulative effect of change in accounting principle	**–**	45,993
Impairment and nonrecurring expenses	**45,956**	35,384
Contribution of noncontrolling interest in CHIMCO Alpha Fund, LLC	**(440,015)**	–
Transfers to sponsor and other affiliates, net	**19,947**	14,495
Restricted contributions, investment return, and other	**(117,621)**	(117,351)
Other restricted activity	**(7,537)**	(1,393)
Nonoperating depreciation expense	**308**	311
(Increase) decrease in:		
Short-term investments	**35,298**	(9,496)
Accounts receivable	**(1,173,282)**	(1,105,326)
Inventories and other current assets	**245,684**	18,530
Due from brokers	**(83,976)**	–
Investments classified as trading	**(985,261)**	(293,254)
Other assets	**(8,752)**	(218,609)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**51,319**	105,184
Estimated third-party payor settlements, net	**28,121**	53,294
Due to brokers	**(277,720)**	–
Other current liabilities	**(281,300)**	36,331
Self-insurance liabilities	**(45,390)**	(9,846)
Other noncurrent liabilities	**(365,398)**	235,877
Net cash (used in) provided by continuing operating activities	**(238,486)**	695,075
Net cash provided by (used in) and adjustments to reconcile change in net assets for discontinued operations	**107,776**	(15,718)
Net cash (used in) provided by operating activities	**(130,710)**	679,357

Continued on next page.

Ascension Health Alliance

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	Year Ended June 30, 2012	2011
Investing activities		
Property, equipment, and capitalized software additions, net	**$ (853,144)**	$ (728,610)
Proceeds from sale of property and equipment	**2,104**	25,701
Net cash used in investing activities	**(851,040)**	(702,909)
Financing activities		
Issuance of long-term debt	**1,832,269**	691,240
Repayment of long-term debt	**(1,779,632)**	(804,536)
Decrease in assets under bond indenture agreements	**17,513**	467
Transfers to sponsors and other affiliates, net	**(7,398)**	(34,246)
Restricted contributions, investment return, and other	**117,621**	117,351
Net cash provided by (used in) financing activities	**180,373**	(29,724)
Net decrease in cash and cash equivalents	**(801,377)**	(53,276)
Cash and cash equivalents at beginning of year	**1,107,846**	1,161,122
Cash and cash equivalents at end of year	**$ 306,469**	$ 1,107,846

The accompanying notes are an integral part of the consolidated financial statements.

1. Organization and Mission

Organizational Structure

Ascension Health Alliance is a Missouri nonprofit corporation formed on September 13, 2011. Ascension Health Alliance is the sole corporate member and parent organization of Ascension Health, a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Health Ministries, located in 21 of the United States and the District of Columbia.

In addition to serving as the sole corporate member of Ascension Health, Ascension Health Alliance serves as the member or shareholder of various other subsidiaries, including Ascension Health Global Mission; Ascension Health Insurance, Ltd.; Edessa Insurance Company, Ltd.; the Resource Group, LLC; Clinical Holdings Corporation; Catholic Healthcare Investment Management Company (CHIMCO); Ascension Health Ventures, LLC; Ascension Health Leadership Academy, LLC; and AH Holdings, LLC. Ascension Health Alliance and its member organizations are referred to collectively as the System.

Sponsorship

Ascension Health Alliance is sponsored by Ascension Health Ministries, a Public Juridic Person. The Participating Entities of Ascension Health Ministries are the Daughters of Charity of St. Vincent de Paul in the United States, St. Louise Province, the Congregation of St. Joseph, the Congregation of the Sisters of St. Joseph of Carondelet, and the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province. As more fully described in the Organizational Changes note, Alexian Brothers Health System, which was previously sponsored by the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province, became part of Ascension Health on January 1, 2012.

Mission

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

1. Organization and Mission (continued)

System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.

- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.

- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

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

The amount of traditional charity care provided, determined on the basis of net cost, excluding the provision for bad debt expense, was $468,970 and $408,894 for the years ended June 30, 2012 and 2011, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by Ascension Health Alliance or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where the System does not have operating control are recorded under the equity or cost method of accounting. Income from unconsolidated entities is included in consolidated excess of revenues and gains over expenses and losses in the accompanying Consolidated Statements of Operations and Changes in Net Assets as follows:

	Year Ended June 30, 2012	2011
Other revenue	**$ 82,473**	$ 138,469
Nonoperating gains, net	**8,802**	11,915

Use of Estimates

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

2. Significant Accounting Policies (continued)

Short-Term Investments

Short-term investments consist of investments with original maturities exceeding three months and up to one year, as well as assets limited as to use of approximately $148,000 and $146,000, at June 30, 2012 and 2011, respectively, which represent assets to be used for payment of the current portion of self-insurance liabilities.

Long-Term Investments and Investment Return

As further discussed in the Organizational Changes and Pooled Investment Fund notes, a significant portion of the System's investments historically held in the Ascension Legacy Portfolio (formerly the Health System Depository, or HSD) were transferred to the CHIMCO Alpha Fund, LLC (Alpha Fund), a limited liability company organized in the state of Delaware, in April 2012. Certain System investments continue to be held in the Ascension Legacy Portfolio. Additional System investments include those held and managed by the Health Ministries' consolidated foundations.

Investments, excluding investments in unconsolidated entities, are measured at fair value, are classified as trading securities, and include pooled short-term investment funds; U.S. government, state, municipal and agency obligations; asset-backed securities; corporate and foreign fixed income securities; and equity securities, including private equity securities. Investments also include alternative investments, including investments in hedge funds and private equity and other funds, which are valued based on the net asset value of the investments, as further discussed in the Fair Value Measurements note. Investments also include derivatives held by the Alpha Fund, also measured at fair value, as discussed in the Pooled Investment Fund note.

Long-term investments include assets limited as to use of approximately $916,000 and $848,000, at June 30, 2012 and 2011, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims and investments which are limited as to use, as designated by donors.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns consist of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. Investment returns on investments, excluding returns

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

of self-insurance trust funds, are reported as nonoperating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets, unless the return is restricted by donor or law. Investment returns of self-insurance trust funds are reported as a separate component of income from operations in the Consolidated Statements of Operations and Changes in Net Assets.

Inventories

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

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including internally developed software. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Intangible assets are included in the Consolidated Balance Sheets as presented in the table that follows. Capitalized software costs in the table below include software in progress of $363,347 and $199,137 at June 30, 2012 and 2011, respectively:

	June 30,	
	2012	**2011**
Goodwill	**$ 126,666**	$ 118,871
Other, net	**26,688**	29,404
	153,354	148,275
Capitalized software costs	**1,216,876**	972,317
Less accumulated amortization	**571,764**	485,475
	645,112	486,842
Total intangible assets, net	**$ 798,466**	$ 635,117

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets in 2012 and 2011 was $90,685 and $86,490, respectively.

During the year ended June 30, 2010, the System began a significant multi-year, System-wide enterprise resource planning project, including information technology and process standardization (Symphony), which is expected to continue through December 2014. The project is anticipated to result in a transition to a common software product for various finance, information technology, procurement, and human resources management processes, including standardization of those processes throughout the System. Capitalized costs of Symphony were approximately $279,000 and $162,000 at June 30, 2012 and 2011, respectively, and are included in capitalized software costs in the preceding table. Certain costs of this project were also expensed. See the Impairment, Restructuring, and Nonrecurring Gains (Losses) discussion below for additional information about costs associated with Symphony.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. A summary of property and equipment at June 30, 2012 and 2011, is as follows:

	June 30, 2012	June 30, 2011
Land and improvements	**$ 673,292**	$ 619,465
Building and equipment	**13,107,833**	12,329,647
	13,781,125	12,949,112
Less accumulated depreciation	**7,463,388**	7,110,865
	6,317,737	5,838,247
Construction in progress	**285,866**	149,557
Total property and equipment, net	**$ 6,603,603**	$ 5,987,804

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2012 and 2011 was $581,032 and $567,070, respectively.

2. Significant Accounting Policies (continued)

Several capital projects have remaining construction and related equipment purchase commitments of approximately $179,000.

Noncontrolling Interests

The consolidated financial statements include all assets, liabilities, revenues and expenses of entities that are controlled by the System and therefore consolidated. Noncontrolling interests in the Consolidated Balance Sheets represent the portion of net assets owned by entities outside the System, for those entities in which the System's ownership interest is less than 100%.

Temporarily and Permanently Restricted Net Assets

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

Temporarily and permanently restricted net assets consist solely of controlling interests of the System.

Performance Indicator

The performance indicator is the excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, change in unconsolidated entities' net assets, cumulative effect of a change in accounting principle, discontinued operations, and contributions received of property and equipment.

2. Significant Accounting Policies (continued)

Operating and Nonoperating Activities

The System's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, long-term care, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the System's primary mission are considered to be nonoperating.

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

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided excluding the provision for bad debt expense and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by $149,931 and $70,973 for the years ended June 30, 2012 and 2011, respectively.

During both 2012 and 2011, approximately 36% of net patient service revenue was earned under the Medicare program and 11% under various states' Medicaid programs. The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of net accounts receivable at June 30, 2012 and 2011, include Medicare (20%) and various states' Medicaid programs (10%).

2. Significant Accounting Policies (continued)

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

Impairment, Restructuring, and Nonrecurring Gains (Losses)

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

During the year ended June 30, 2012, the System recorded total impairment, restructuring and nonrecurring gains, net of $297,548. This amount was comprised primarily of pension curtailment gains of $414,294, as discussed in the Retirement Plans note, partially offset by long-lived asset impairments and restructuring charges of $61,151, and $55,595 of nonrecurring expenses associated with Symphony.

For the year ended June 30, 2011, the System recorded total impairment, restructuring and nonrecurring losses, net of $92,387, comprised of long-lived asset impairments of approximately $21,834 and restructuring and nonrecurring expenses of approximately $70,553. The restructuring and nonrecurring expenses for the year ended June 30, 2011, included approximately $44,355 of nonrecurring expenses associated with Symphony. Symphony nonrecurring expenses include project management and process reengineering costs, as well as costs to establish a shared service center and develop a business intelligence data warehouse.

2. Significant Accounting Policies (continued)

Amortization

Bond issuance costs, discounts, and premiums are amortized over the term of the bonds using a method approximating the effective interest method.

Income Taxes

The member healthcare entities of Ascension Health Alliance are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a).

Regulatory Compliance

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

Reclassifications

Certain reclassifications were made to the 2011 accompanying consolidated financial statements to conform to the 2012 presentation.

Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended June 30, 2012, the System evaluated subsequent events through September 12, 2012, representing the date on which the accompanying audited consolidated financial statements were issued. During this period, there were no material subsequent events that required recognition or disclosure in the accompanying consolidated financial statements.

3. Organizational Changes

Business Combinations

Effective January 1, 2012, Ascension Health, a subsidiary of Ascension Health Alliance, became sole corporate member of Alexian Brothers Health System (Alexian Brothers), a Catholic healthcare system that operates acute and specialty care hospitals, ambulatory care clinics, physician practices and senior living facilities in Illinois, Missouri, Tennessee, and Wisconsin. This transaction resulted in a net increase to unrestricted net assets of $326,333, reflected as contributions from business combinations in the Consolidated Statement of Operations and Changes in Net Assets during the year ended June 30, 2012. Furthermore, this addition resulted in a contribution of restricted net assets of $16,337, included in other changes in net assets in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2012.

Pooled Investment Fund

For the year ended June 30, 2011, and prior to April 2012, the System held a significant portion of its investments in the Ascension Legacy Portfolio, an investment pool of funds in which the System and a limited number of nonprofit healthcare providers participated. In April 2012, a significant portion of the assets in the Ascension Legacy Portfolio was transferred to the Alpha Fund, a separate legal entity created during the year ended June 30, 2012. Certain System assets continue to be held through the Ascension Legacy Portfolio, and subsequent to April 2012, the Ascension Legacy Portfolio no longer holds assets for unrelated entities.

Prior to April 2012, CHIMCO, a wholly owned subsidiary of Ascension Health Alliance, managed the investment portfolio of Ascension Health Alliance held in the Ascension Legacy Portfolio. CHIMCO provides expertise in the areas of asset allocation, selection and monitoring of outside investment managers, and risk management. The System did not consolidate the Ascension Legacy Portfolio prior to April 2012. Accordingly, the System's investments recorded in the consolidated financial statements consisted only of the System's pro-rata share of the Ascension Legacy Portfolio's investments held for participants prior to April 2012.

The Alpha Fund includes the investment interests of Ascension Health Alliance and other Alpha Fund members. CHIMCO manages and serves as the manager and primary investment advisor of the Alpha Fund, overseeing the investment strategies offered to the Alpha Fund's members. Ascension Health Alliance began consolidating the Alpha Fund in April 2012.

3. Organizational Changes (continued)

The portion of the Alpha Fund's net assets representing interests held by entities other than Ascension Health Alliance are reflected in noncontrolling interests in the Consolidated Balance Sheet at June 30, 2012, which amount to $589,493 at June 30, 2012.

The consolidation of the Alpha Fund by the System in April 2012 resulted in an increase of net assets of $440,015, representing the noncontrolling interests of the Alpha Fund as of the date investments were transferred into the Alpha Fund. Additional information about the Alpha Fund is included in the Pooled Investment Fund note.

Divestitures and Discontinued Operations

Effective October 1, 2011, Seton Health System, Inc. (Seton Health) in Troy, New York, separated from the System and became part of a newly formed nonprofit healthcare organization that operates in the state of New York. The operations of Seton Health are reflected in the System's consolidated financial statements as discontinued operations.

Ascension Health Alliance reported a decrease in net assets from discontinued operations of $54,998 for the year ended June 30, 2012, representing the contribution of net assets related to the separation of Seton Health and the deficit of revenues over expenses for previously discontinued lines of business in Michigan. These entities had recorded operating revenues totaling $39,659 during the period that they were operational during the year ended June 30, 2012.

Ascension Health Alliance reported an increase in net assets from discontinued operations of $19,421 for the year ended June 30, 2011, representing the excess of revenues over expenses for previously discontinued lines of business in Michigan, New York, and Tennessee. These entities had recorded operating revenues totaling $186,902 during the period that they were operational during the year ended June 30, 2011.

Other

In March 2012, Ascension Health Alliance and Daughters of Charity Health System (DCHS) entered into a non-binding 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.

3. Organizational Changes (continued)

In June 2012, Ascension Health Alliance and Marian Health System, Inc. (Marian) entered into a non-binding memorandum of understanding to explore having Marian join Ascension Health Alliance. Completion of the proposed transaction is subject to the execution of final agreements and obtaining all necessary approvals.

4. Pooled Investment Fund

As discussed in the Organizational Changes note, in April 2012, substantially all of the System's investments previously held in the Ascension Legacy Portfolio were transferred to the Alpha Fund, in which Ascension Health Alliance and certain other entities are members. At June 30, 2012, a significant portion of the System's investments consist of Ascension Health Alliance's interest in the Alpha Fund.

The Alpha Fund invests in a diversified portfolio of investments including alternative investments, such as real asset funds, hedge funds, private equity funds, commodity funds and private credit funds. Collectively, these funds have liquidity terms ranging from weekly to annual with notice periods ranging from 1 to 93 days. Due to redemption restrictions, investments in certain of these funds, whose fair value was approximately $683,000 at June 30, 2012, cannot currently be redeemed. However, the potential for the Alpha Fund to sell its interest in these funds in a secondary market prior to the end of the fund term does exist.

The Alpha Fund's investments in certain alternative investment funds also include contractual commitments to provide capital contributions during the investment period which is typically five years and can extend to the end of the fund term. During these contractual periods, investment managers may require the Alpha Fund to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2012, contractual agreements of the Alpha Fund expire between July 1, 2012 and March 31, 2018. The remaining unfunded capital commitments of the Alpha Fund total approximately $729 million for 51 individual funds as of June 30, 2012. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

In the normal course of operations and within established Alpha Fund guidelines, the Alpha Fund may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, option and forward contracts as well as warrants and swaps.

4. Pooled Investment Fund (continued)

These instruments are used primarily to adjust the portfolio duration, restructure term structure exposure, change sector exposure, and arbitrage market inefficiencies. See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined.

At June 30, 2012, the notional value of Alpha Fund derivatives outstanding was approximately $2,071,000. The fair value of Alpha Fund derivatives in an asset position was $71,936 at June 30, 2012, while the fair value of Alpha Fund derivatives in a liability position was $36,266 at June 30, 2012. These derivatives are included in long-term investments in the Consolidated Balance Sheet at June 30, 2012.

The Alpha Fund also participates in a securities lending program, whereby a portion of the Alpha Fund's investments are loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis. The fair value of collateral held by the Alpha Fund associated with such lending agreements amounts to approximately $320,000 and is included in other current assets in the Consolidated Balance Sheet at June 30, 2012, while the liability associated with the obligation to repay such collateral is also approximately $320,000, and is included in other current liabilities in the Consolidated Balance Sheet at June 30, 2012. In addition, the Alpha Fund has liabilities for investments sold, not yet purchased, representing obligations of the Alpha Fund to purchase investments in the market at prevailing prices. The fair value of this Alpha Fund liability is approximately $160,000 and is included in other noncurrent liabilities in the Consolidated Balance Sheet at June 30, 2012.

Due from brokers and due to brokers on the Consolidated Balance Sheet at June 30, 2012, represent the Alpha Fund's positions and amounts due from or to various brokers, primarily amounts for security transactions not yet settled, as well as cash held by brokers for securities sold, not yet purchased.

(Dollars in Thousands)

5. Cash and Investments

The System's cash and investments are reported in the June 30, 2012, Consolidated Balance Sheet as presented in the table that follows. Total cash and investments, net, includes both the System's membership interest in the Alpha Fund as well as the noncontrolling interests held by other Alpha Fund members. System unrestricted cash and investments, net, represent the System's cash and investments excluding the noncontrolling interests held by other Alpha Fund members and assets limited as to use.

	June 30, 2012
Cash and cash equivalents	$ 306,469
Short-term investments	216,914
Long-term investments	10,468,457
Subtotal	10,991,840
Other Alpha Fund and Ascension Legacy Portfolio assets and liabilities:	
In other current assets	360,999
In other long-term assets	2,924
In accounts payable and accrued liabilities	(12,779)
In other current liabilities	(322,873)
In other noncurrent liabilities	(157,073)
Due from (to) brokers, net	(91,342)
Total cash and investments, net	10,771,696
Less noncontrolling interests of Alpha Fund	589,493
System cash and investments, including assets limited as to use	10,182,203
Less assets limited as to use	1,064,385
System unrestricted cash and investments, net	$ 9,117,818

(Dollars in Thousands)

5. Cash and Investments (continued)

At June 30, 2012, the composition of cash and cash equivalents, short-term investments and long-term investments, which include certain assets limited as to use, is summarized as follows.

	June 30, 2012
Cash and cash equivalents and short-term investments	$ 498,902
Pooled short-term investment funds	416,087
U.S. government, state, municipal and agency obligations	3,271,474
Corporate and foreign fixed income securities	980,322
Asset-backed securities	1,057,735
Equity securities	1,574,188
Private equity, alternative investments and other investments	3,193,132
Total cash and cash equivalents, short-term investments and long-term investments	$ 10,991,840

At June 30, 2011, the System's investments consisted of its pro rata share of the Ascension Legacy Portfolio's funds held for participants and certain other investments such as those investments held and managed by foundations. The System's June 30, 2011 investments are reported in the accompanying Consolidated Balance Sheet as presented in the table that follows. Assets limited as to use are discussed in the Short-Term Investments and Long-Term Investments and Investment Return sections of the Significant Accounting Policies note. Long-term investments include investments designated for a specific purpose by resolution of the System Board or local Health Ministry Boards which were approximately $601,000 at June 30, 2011.

	June 30, 2011
Cash and cash equivalents	$ 1,107,846
Short-term investments	237,461
Long-term investments	8,117,951
System cash and investments	9,463,258
Less assets limited as to use	994,297
System unrestricted cash and investments	$ 8,468,961

(Dollars in Thousands)

5. Cash and Investments (continued)

At June 30, 2011, the composition of cash and investments classified as cash and cash equivalents, short-term investments, assets limited as to use and other long-term investments is summarized as follows:

	June 30, 2011
Cash and cash equivalents	$ 450,436
Short-term investments	60,559
U.S. government, state, municipal and agency obligations	49,958
Corporate and foreign fixed income securities	50,762
Asset-backed securities	60,280
Equity securities	314,672
Private equity and other investments	164,895
Subtotal, included in cash and cash equivalents, short-term investments, and long-term investments	1,151,562
Ascension Health Alliance's pro rata share of Ascension Legacy Portfolio funds held for participants	8,311,696
Total cash and cash equivalents, short-term investments and long-term investments	$ 9,463,258

The System's pro rata share of the Ascension Legacy Portfolio's funds held for participants was $8,311,696 at June 30, 2011, representing approximately 76.6% of the funds held for participants in the Ascension Legacy Portfolio.

(Dollars in Thousands)

5. Cash and Investments (continued)

The following is a condensed balance sheet of the Ascension Legacy Portfolio at June 30, 2011, including the interests of the System and all other participating entities:

	June 30, 2011
Assets	
Cash	$ 26,757
Loans, interest, and other receivables	88,180
Due from brokers	799,869
Securities lending collateral	378,877
Derivative asset	33,208
Investments, at fair value:	
Short-term investments	747,955
U.S. government obligations	3,056,988
Corporate and foreign fixed income securities	1,260,685
Asset-backed securities	1,764,404
Equity, private equity, and other investments	2,287,580
Equity method investments	2,026,142
Total assets	$ 12,470,645
Liabilities and funds held for participants	
Due to brokers	$ 1,032,350
Derivative liability	34,768
Investments sold, not yet purchased	166,663
Other payables	6,743
Payable under securities lending program	380,684
Total liabilities	1,621,208
Funds held for participants	10,849,437
Total liabilities and funds held for participants	$ 12,470,645

(Dollars in Thousands)

5. Cash and Investments (continued)

Net investments under CHIMCO management and held in the Ascension Legacy Portfolio at March 31, 2012, yet not included in the Alpha Fund or the Ascension Legacy Portfolio while still managed by CHIMCO at April 1, 2012, were approximately $1,820,000. As of June 30, 2012, the System's membership interest in the Alpha Fund as well as the noncontrolling interest (see Note 2) in the Alpha Fund, representing interests held by entities other than Ascension Health Alliance, total $8,840,551 and $589,493, respectively.

Investment return recognized by the System for the years ended June 30, 2012 and 2011, is summarized in the following table. Total investment return includes the System's return in the Ascension Legacy Portfolio as well as the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

	Year Ended June 30,	
	2012	**2011**
Investment return in Ascension Legacy Portfolio	**$ 57,921**	$ 1,142,327
Interest and dividends	**51,453**	17,001
Net losses on investments reported at fair value	**(233,826)**	80,409
Restricted investment income	**3,386**	6,163
Total investment return	**(121,066)**	1,245,900
Less return earned by noncontrolling interests of Alpha Fund	**(9,264)**	–
System investment return	**$ (111,802)**	$ 1,245,900

6. Fair Value Measurements

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

6. Fair Value Measurements (continued)

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

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

> Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.
>
> Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar assets and liabilities in active markets or exchanges or prices quoted for identical or similar assets and liabilities in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
>
> Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

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

Cash and cash equivalents and short-term investments

Cash and cash equivalents and certain short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates. Other short-term investments designated as Level 2 investments primarily consist of commercial paper, whose fair value is based on the income approach. Significant observable inputs include security cost, maturity, and credit rating, interest rate and par value.

6. Fair Value Measurements (continued)

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

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

Corporate and foreign fixed income securities

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

Asset-backed securities

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

Equity securities

The fair value of investments in U.S. and international equity securities is primarily determined using techniques consistent with the income approach. The values for underlying investments are fair value estimates determined by external fund managers based on quoted market prices, operating results, balance sheet stability, growth, dividend, dividend yield, and other business and market sector fundamentals.

6. Fair Value Measurements (continued)

Private equity, alternative investments and other investments

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

Alternative investments consist of hedge funds, private equity funds, commodity funds, and real estate partnerships. Alternative investments are valued using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth and other business and market sector fundamentals.

Other investments include derivative assets and derivative liabilities of the Alpha Fund, whose fair value is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity and recovery rates.

Securities lending collateral

The fair value of collateral received under the Alpha Fund's securities lending program is valued using the calculated net asset value for the commingled fund in which the collateral is invested. The underlying investments in the commingled fund are valued using techniques consistent with the market approach, which uses significant observable market inputs such as available trade, quotes, benchmark curves, sector groupings, and matrix pricing.

Benefit plan assets

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

(Dollars in Thousands)

6. Fair Value Measurements (continued)

Interest rate swap assets and liabilities

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

Investments sold, not yet purchased

The fair value of investments sold, not yet purchased is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark, constant maturity curves, and spreads.

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

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Cash and cash equivalents	$ 78,301	$ 3,419	$ –	$ 81,720
Short-term investments	14,567	79,321	–	93,888
Pooled short-term investment funds	416,087	–	–	416,087
U.S. government, state, municipal and agency obligations	–	3,264,037	7,437	3,271,474
Corporate and foreign fixed income securities	–	859,904	120,418	980,322
Asset-backed securities	–	1,042,438	15,297	1,057,735
Equity securities	1,546,579	14,491	13,118	1,574,188
Private equity, alternative investments and other investments	8,699	3,327	3,096,973	3,108,999
Assets not at fair value				407,427
Cash and investments				$ 10,991,840
Securities lending collateral, in other current assets	$ –	$ 321,937	$ –	$ 321,937
Benefit plan assets, in other noncurrent assets	136,435	–	36,932	173,367
Interest rate swaps, in other noncurrent assets	–	94,082	–	94,082
Investments sold, not yet purchased, in other noncurrent liabilities	–	157,073	–	157,073
Interest rate swaps, included in other noncurrent liabilities	–	248,511	–	248,511

(Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2012, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following. Level 3 investments of the Alpha Fund are included in transfers in the table below.

	U.S. Government, State, Municipal and Agency Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity, Alternative Investments and Other Investments	Benefit Plan Assets
June 30, 2012						
Beginning balance	$ 442	$ 5,024	$ 1,924	$ 15,515	$ 86,166	$ 31,795
Total realized and unrealized gains (losses):						
Included in income from operations	21	192	(7)	886	(391)	–
Included in nonoperating gains (losses)	6	904	(149)	(69)	(33,994)	–
Included in changes in net assets	–	–	–	–	1,290	20
Purchases	–	77,943	2,919	–	458,171	8,716
Settlements	–	–	–	–	–	(91)
Issuances	–	–	–	–	–	35
Sales	–	(57,768)	(2,700)	(3,588)	(90,500)	(5,408)
Transfers into Level 3	6,968	94,201	15,012	374	2,676,231	2,649
Transfers out of Level 3	–	(78)	(1,702)	–	–	(784)
Ending balance	$ 7,437	$ 120,418	$ 15,297	$ 13,118	$ 3,096,973	$ 36,932

The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

As discussed in the Organizational Changes and Pooled Investment Fund notes, the System recognized its pro rata share of the Ascension Legacy Portfolio’s investments held for participants in the Consolidated Balance Sheet at June 30, 2011, which represented 76.6% of the net asset value of the Ascension Legacy Portfolio as of June 30, 2011. The Ascension Legacy Portfolio’s investments at June 30, 2011, included equities, various fixed income securities, and alternative investments.

(Dollars in Thousands)

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2011, for Ascension Legacy Portfolio's financial assets and liabilities, measured at fair value on a recurring basis in Ascension Legacy Portfolio's financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2011				
Assets included in:				
Securities lending collateral	$ –	$ 378,877	$ –	$ 378,877
Derivative asset	19,649	2,303	11,256	33,208
Short-term investments	689,742	58,213	–	747,955
U.S. government obligations	–	3,046,822	10,166	3,056,988
Corporate and foreign fixed income securities	–	1,144,643	116,042	1,260,685
Asset-backed securities	–	1,719,704	44,700	1,764,404
Equity, private equity, and other investments	2,240,360	–	47,220	2,287,580
Liabilities included in:				
Derivative liability	1,162	3,116	30,490	34,768
Investments sold, not yet purchased	–	166,663	–	166,663

(Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2011, the changes in the fair value of Ascension Legacy Portfolio's assets measured using significant unobservable inputs (Level 3) consisted of the following:

	U.S. Government Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity, Private Equity, and Other Investments	Net Derivatives
June 30, 2011					
Beginning balance	$ 7,340	$ 167,473	$ 26,069	$ 423,575	$ (40,449)
Total realized and unrealized gains included in nonoperating gains (losses)	202	8,209	1,514	99,730	180,214
Purchases, issuances, and settlements	1,199	(42,171)	19,814	(476,085)	(158,999)
Transfers into (out of) Level 3	1,425	(17,469)	(2,697)	–	–
Ending balance	$ 10,166	$ 116,042	$ 44,700	$ 47,220	$ (19,234)
The amount of total gains (losses) for the period included in nonoperating gains (losses) attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2011	$ 107	$ (1,948)	$ 781	$ 5,872	$ (146,992)

(Dollars in Thousands)

6. Fair Value Measurements (continued)

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

	Level 1	Level 2	Level 3	Total
June 30, 2011				
Cash and cash equivalents	$ 86,946	$ 6,954	$ –	$ 93,900
Short-term investments	15,592	44,768	–	60,360
U.S. government, state, municipal and agency obligations	–	49,516	442	49,958
Corporate and foreign fixed income securities	–	45,738	5,024	50,762
Asset-backed securities	–	58,356	1,924	60,280
Equity securities	284,701	14,456	15,515	314,672
Private equity, alternative investments and other investments	594	3,423	86,166	90,183
Assets not at fair value				431,447
Cash and investments				$ 1,151,562
Benefit plan assets, in other noncurrent assets	$ 137,391	$ –	$ 31,795	$ 169,186
Interest rate swaps, included in other noncurrent assets	–	64,426	–	64,426
Interest rate swaps, included in other noncurrent liabilities	–	141,287	–	141,287

(Dollars in Thousands)

6. Fair Value Measurements (continued)

During the year ended June 30, 2011, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) consisted of the following:

	U.S. Government, State, Municipal and Agency Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity, Alternative Investments and Other Investments	Benefit Plan Assets
June 30, 2011						
Beginning balance	$ 442	$ 4,845	$ 189	$ 6,164	$ 68,171	$ 28,369
Total realized and unrealized gains (losses):						
Included in income from operations	–	412	(16)	231	445	–
Included in nonoperating gains (losses)	–	–	–	–	(73)	–
Included in changes in net assets	–	–	–	–	315	–
Purchases, issuances, and settlements	–	(233)	1,463	9,120	18,373	2,611
Transfers into (out of) Level 3	–	–	288	–	(1,065)	815
Ending balance	$ 442	$ 5,024	$ 1,924	$ 15,515	$ 86,166	$ 31,795

The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

7. Significant Investments in Unconsolidated Entities

The System has a 50% membership interest in Via Christi Health, Inc. (VCH). The System accounts for this membership interest under the equity method of accounting. The System's investment in VCH is $493,105 and $499,910 at June 30, 2012 and 2011, respectively, and is reported in the Consolidated Balance Sheets in investment in unconsolidated entities. The System's investment in VCH reflects the financial performance of VCH one month in arrears.

At June 30, 2012 and 2011, the difference between the amount at which the System's investment in VCH is carried in the accompanying Consolidated Balance Sheets and its interest in the underlying net assets of VCH is $30,321 and $30,568, respectively. This difference relates primarily to the excess of the fair value of VCH property and equipment and long-term debt over their carrying values at the date the System received the interest in VCH. The difference is being amortized over the remaining life of the property and equipment and term of the long-term debt.

(Dollars in Thousands)

7. Significant Investments in Unconsolidated Entities (continued)

Condensed financial information of VCH as of and for the years ended June 30, 2012 and 2011, is summarized below:

	June 30, 2012	June 30, 2011
Current assets	**$ 752,074**	$ 748,221
Noncurrent assets	**954,184**	932,313
Total assets	**$ 1,706,258**	$ 1,680,534
Current liabilities	**$ 131,366**	$ 120,335
Noncurrent liabilities	**581,391**	555,415
Total liabilities	**712,757**	675,750
Net assets	**993,501**	1,004,784
Total liabilities and net assets	**$ 1,706,258**	$ 1,680,534
Total revenues	**$ 1,096,449**	$ 1,094,925
Total expenses	**(1,063,364)**	(1,072,680)
Total investment return	**(16,482)**	97,573
Excess of revenues over expenses	**$ 16,603**	$ 119,818

(Dollars in Thousands)

8. Long-Term Debt

Long-term debt at June 30, 2012 and 2011, is comprised of the following, and is presented in accordance with the specific master trust indenture to which the debt relates. As further discussed below, certain portions of long-term debt are secured under the Alexian Brothers Health System Master Trust Indenture.

	June 30, 2012	June 30, 2011
Tax-exempt hospital revenue bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Variable rate demand bonds, subject to a put provision that provides for a cumulative 7-month notice and remarketing period, payable through November 2047; interest (0.27% at June 30, 2012) tied to a market index plus a spread	$ 308,605	$ 320,480
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2039; interest (0.15% to 0.16% at June 30, 2012) set at prevailing market rates	225,665	246,730
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2033; interest (0.15% to 0.16% at June 30, 2012) set at prevailing market rates, swapped to fixed rates of 5.454 and 5.544% through maturity	307,300	150,325
Indexed put bonds subject to weekly rate resets based on a taxable index, payable through November 2046, interest (1.505% at June 30, 2012) swapped to a variable rate tied to a tax-exempt market index plus a spread through November 2016	153,800	153,800
Fixed rate put bonds (converted from an indexed put bond mode based on a taxable index in May 2009) payable through November 2046, interest (4.10% at June 30, 2012) swapped to a variable rate tied to a market index plus a spread through November 2016	153,690	153,690
Fixed rate serial and term bonds payable in installments through November 2051; interest at 4.125% to 5.75%	1,308,105	984,635
Fixed rate serial and term bonds payable in installments through November 2039; interest at 5.00% swapped to variable rates over the life of the bonds	587,360	599,490
Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from April 2013 through May 2018; interest at 0.90% to 5.00% through the purchase dates	904,185	823,560
Fixed rate serial mode bonds payable through 2033 with purchase dates through May 2012; interest at 1.25%, swapped to fixed rates of 5.454% to 5.544% through maturity	–	156,975

(Dollars in Thousands)

8. Long-Term Debt (continued)

	June 30, 2012	2011
Tax-exempt hospital revenue bonds – unsecured under Ascension Health Alliance Subordinate Master Trust Indenture:		
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2027; interest (0.16% at June 30, 2012) set at prevailing market rates	**$ 56,060**	$ 57,815
Fixed rate serial mode bonds payable through 2027 with purchase dates through November 2012; interest at 5.00%, swapped to variable mode through the purchase dates	**49,810**	149,470
Fixed rate serial mode bonds payable through 2027 with purchase dates through May 2018; interest at 1.50% to 5.00%	**396,705**	303,270
Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture	**4,451,285**	4,100,240
Tax-exempt hospital revenue bonds – secured under Alexian Brothers Health System Master Trust Indenture:		
Fixed rate term bonds payable in installments through February 2038; interest at 3.50% to 5.50%	**161,565**	–
Total hospital revenue bonds under the Alexian Brothers Health System Master Trust Indenture	**161,565**	–
Total hospital revenue bonds under the Ascension Health Alliance Senior Master Trust Indenture, Ascension Health Alliance Subordinate Master Trust Indenture, and the Alexian Brothers Health System Master Trust Indenture	**4,612,850**	4,100,240
Other debt:		
Obligations under capital leases	**33,221**	34,865
Other	**37,936**	36,960
	4,684,007	4,172,065
Unamortized premium, net	**111,187**	67,233
Less current portion	**(45,363)**	(29,563)
Less long-term debt subject to short-term remarketing arrangements	**(1,094,425)**	(1,662,950)
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	**$ 3,655,406**	$ 2,546,785

(Dollars in Thousands)

8. Long-Term Debt (continued)

	June 30, 2012	2011
Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium, net	**$ 2,919,702**	$ 1,953,354
Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium, net	**515,278**	528,917
Alexian Brothers Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	**167,257**	–
Other	**53,169**	64,514
Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements	**$ 3,655,406**	$ 2,546,785

Scheduled principal repayments of long-term debt, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of June 30, 2012, are as follows:

	Ascension Health Alliance MTIs	Alexian Brothers Health System MTI	Other Debt	Total
Year ending June 30:				
2013	$ 22,810	$ 4,565	$ 17,989	$ 45,364
2014	57,785	3,290	5,978	67,053
2015	61,180	340	5,072	66,592
2016	51,650	7,485	2,787	61,922
2017	67,620	13,130	15,853	96,603
Thereafter	4,190,240	132,755	23,479	4,346,474
Total	$ 4,451,285	$ 161,565	$ 71,158	$ 4,684,008

The carrying amounts of variable rate bonds and other notes payable approximate fair value. The fair values of the unsecured fixed rate serial and term bonds are estimated based on discounted cash flow analyses that consider current incremental borrowing rates for similar types of borrowing arrangements. The fair value of both Ascension Health Alliance and Alexian Brothers fixed rate serial and term bonds, including the component of variable rate demand bonds subject to long-term fixed interest rates, approximates carrying value at June 30, 2012 and 2011. During the years ended June 30, 2012 and 2011, interest paid was approximately $148,300 and $146,000, respectively. Capitalized interest was approximately $2,000 and $7,100 for the years ended June 30, 2012 and 2011, respectively.

8. Long-Term Debt (continued)

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

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

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

8. Long-Term Debt (continued)

The unsecured variable rate demand bonds of both the Senior and Subordinate Credit Groups, while subject to long-term amortization periods, may be put to Ascension Health Alliance at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2012, the principal amount of such bonds has been classified as a current liability in the accompanying Consolidated Balance Sheets. Management believes the likelihood of a material amount of bonds being put to Ascension Health Alliance to be remote. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including the line of credit, commercial paper program, and maintaining unrestricted assets as a source of self-liquidity.

On January 1, 2012, Alexian Brothers became part of Ascension Health Alliance. Subsequently, Ascension Health Alliance redeemed or refinanced a portion of Alexian Brothers' debt; however, a portion of the bonds previously issued for the benefit of Alexian Brothers remains outstanding (the Alexian Brothers' Bonds). The Alexian Brothers' Bonds continue to be secured by the Alexian Brothers Health System Master Trust Indenture (As Amended and Restated), dated October 1, 1992, between the Members of the Alexian Brothers Health System Obligated Group established under this document and the Alexian Brothers Health System Master Trustee.

In May 2012, Ascension Health Alliance issued a total of $435,370 of tax-exempt bonds, Series 2012A through 2012E, through four different issuing authorities in four different states. The proceeds of the bonds, including original issue premium, were used to reimburse Ascension Health Alliance for previous capital expenditures.

Due to aggregate financing activity during the fiscal years ended June 30, 2012 and 2011, losses on extinguishment of debt of $2,828 and $1,007 were recorded, which are included in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

Ascension Health Alliance is a party to multiple interest rate swap agreements that convert the variable or fixed rates of certain debt issues to fixed or variable rates, respectively. See the Derivative Instruments note for a discussion of these derivatives.

8. Long-Term Debt (continued)

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

As of June 30, 2012, the Subordinate Credit Group has a $50,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $50,000 extends to December 27, 2012. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. Of this $50,000 revolving line of credit, letters of credit totaling $26,067 have been issued as of June 30, 2012. No borrowings were outstanding under the letters of credit as of June 30, 2012 and 2011.

9. Derivative Instruments

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At June 30, 2012 and 2011, the notional values of outstanding interest rate swaps were $2,189,232 and $2,310,187, respectively.

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. At June 30, 2012 and 2011, the fair value of interest rate swaps in an asset position was $94,082 and $64,426, respectively, while the fair value of interest rate swaps in a liability position was $248,511 and $141,287, respectively.

Prior to July 1, 2006, the System designated certain of its interest rate swaps as cash flow hedges, for accounting purposes, and accordingly deferred gains or losses associated with those swaps in net assets. As of June 30, 2012, the deferred net gain associated with these interest rate swaps was $4,660. The portion of this gain that will be reclassified into nonoperating gains (losses) over the next 12 months is immaterial.

9. Derivative Instruments (continued)

Beginning July 1, 2006, previously designated cash flow hedging relationships were de-designated for accounting purposes. Accordingly, all changes in the fair value of interest rate swaps have been recognized in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets. A net nonoperating loss of $77,568 was recognized for the year ended June 30, 2012, while a net nonoperating gain of $25,257 was recognized for the year ended June 30, 2011.

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria. The System's collateral requirements are based upon Ascension Health Alliance's Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies, as well as the net liability position of total interest rate swap agreements outstanding with each counterparty. At June 30, 2012 and 2011, based upon the System's net liability positions and Senior Debt Credit Ratings, no collateral on interest rate swap agreements was required to be posted. The aggregate net fair value of interest rate swap agreements with credit-risk-related contingent features on June 30, 2012 and 2011, was a liability of $154,429 and $76,861, respectively.

10. Retirement Plans

Defined-Benefit Plans

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans covering substantially all eligible employees of certain System entities. Benefits are based on each participant's years of service and compensation. Substantially all of the System Plans' assets are invested in a master trust (the Trust) consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants.

10. Retirement Plans (continued)

During the year ended June 30, 2012, the System approved and communicated to employees a redesign of associate retirement benefits, which affects certain System Plans, as well as provides an enhanced comprehensive defined contribution plan. These changes will become effective January 1, 2013. This redesign resulted in the recognition of one-time curtailment gains of $415,834, of which $414,294 was recognized in total impairment, restructuring and nonrecurring gains for the year ended June 30, 2012, with the remaining amount recognized in nonoperating losses for the year ended June 30, 2012. This redesign also resulted in a one-time decrease to the projected benefit obligation as of December 31, 2011. The projected benefit obligation is included in pension and other postretirement liabilities in the Consolidated Balance Sheets.

The assets of the System Plans are available to pay the benefits of eligible employees and retirees of all participating entities. In the event entities participating in the System Plans are unable to fulfill their financial obligations under the System Plans, the other participating entities are obligated to do so.

(Dollars in Thousands)

10. Retirement Plans (continued)

The following table sets forth the combined benefit obligations and assets of the System Plans at June 30, 2012 and 2011, components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements:

	Year Ended June 30,	
	2012	**2011**
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 5,734,449**	$ 5,618,553
Service cost	**194,906**	208,253
Interest cost	**311,981**	304,365
Amendments	**(5,463)**	(476)
Assumption change	**873,252**	(154,944)
Actuarial loss (gain)	**1,051**	(29,136)
Acquisitions	**131,174**	–
Curtailment	**(561,854)**	–
Benefits paid	**(242,250)**	(212,166)
Projected benefit obligation at end of year	**6,437,246**	5,734,449
Accumulated benefit obligation at end of year	**6,341,693**	5,140,261
Change in plan assets:		
Fair value of plan assets at beginning of year	**5,397,593**	4,624,393
Actual return on plan assets	**711,555**	848,439
Employer contributions	**14,421**	136,927
Acquisitions	**111,358**	–
Benefits paid	**(242,250)**	(212,166)
Fair value of plan assets at end of year	**5,992,677**	5,397,593
Net amount recognized at end of year and funded status	**$ (444,569)**	$ (336,856)

The System Plans' funded status as a percentage of the projected benefit obligation at June 30, 2012 and 2011, was 93.1% and 94.1%, respectively. The System Plans' funded status as a percentage of the accumulated benefit obligation at June 30, 2012 and 2011, was 94.5% and 105.0%, respectively.

(Dollars in Thousands)

10. Retirement Plans (continued)

Included in unrestricted net assets at June 30, 2012 and 2011, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

	Year Ended June 30, 2012	Year Ended June 30, 2011
Unrecognized prior service credit	**$ (16,230)**	$ (69,548)
Unrecognized actuarial loss	**433,352**	33,874
	$ 417,122	$ (35,674)

Changes in plan assets and benefit obligations recognized in unrestricted net assets for System Plans during 2012 and 2011, include:

	Year Ended June 30, 2012	Year Ended June 30, 2011
Current year actuarial loss (gain)	**$ 48,601**	$ (671,223)
Amortization of actuarial loss (gain)	**350,877**	(130,321)
Current year prior service credit	**(5,463)**	(476)
Amortization of prior service credit	**58,781**	11,855
	$ 452,796	$ (790,165)

	Year Ended June 30, 2012	Year Ended June 30, 2011
Components of net periodic benefit cost		
Service cost	**$ 194,906**	$ 208,253
Interest cost	**311,981**	304,365
Expected return on plan assets	**(447,703)**	(361,295)
Amortization of prior service credit	**(10,646)**	(11,855)
Amortization of actuarial loss	**16,931**	130,321
Curtailment gain	**(415,834)**	–
Settlement gain	**(111)**	–
Net periodic benefit cost	**$ (350,476)**	$ 269,789

(Dollars in Thousands)

10. Retirement Plans (continued)

The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending June 30, 2013, are approximately $6,500 and $63,900, respectively.

The assumptions used to determine the benefit obligation and net periodic benefit cost for the System Plans are set forth below:

	June 30, 2012	June 30, 2011
Weighted-average discount rate	**4.42%**	5.63%
Weighted-average rate of compensation increase	**4.00%**	4.00%
Weighted-average expected long-term rate of return on plan assets	**8.43%**	8.50%

The System Plans' assets are invested in a portfolio designed to protect principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating to funds and managers that correlate to one of three economic strategies: growth, deflation and inflation. Growth strategies include U.S. equity, emerging market equity, global equity, international equity, directional hedge funds, private equity, high yield and private credit. Deflation strategies include core fixed income, absolute return hedge funds and cash. Inflation strategies include inflation-linked bonds, commodity-related investments, and real assets. The System Plans use multiple investment managers with complementary styles, philosophies, and approaches. In accordance with the System Plans' objectives, derivatives may also be used to gain market exposure in an efficient and timely manner.

In accordance with the System Plans' asset diversification targets, as presented in the table that follows, the Trust holds certain alternative investments, consisting of various hedge funds, real asset funds, private equity funds, commodity funds, private credit funds and certain other private funds. These investments do not have observable market values. As such, each of these investments is valued at net asset value as determined by each fund's investment manager, which approximates fair value. The fair value of the System Plans' alternative investments as of June 30, 2012, is reported in the fair value measurement table that follows. Collectively, these

(Dollars in Thousands)

10. Retirement Plans (continued)

funds have liquidity terms ranging from weekly to annual with notice periods ranging from 1 to 93 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately $515,000 at June 30, 2012, cannot be redeemed. However, the potential for the System Plans to sell their interest in real asset funds and private equity funds in a secondary market prior to the end of the fund term does exist.

The investments in these alternative investment funds may also include contractual commitments to provide capital contributions during the investment period, which is typically five years, and may extend to the end of the fund term. During these contractual periods, investment managers may require the System Plans to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2012, investment periods expire between July 2012 and March 2018. The remaining unfunded capital commitments of the Trust total approximately $528,000 for 50 individual contracts as of June 30, 2012.

The weighted-average asset allocation for the System Plans at the end of fiscal 2012 and 2011 and the target allocation for fiscal 2013, by asset category, are as follows:

	Target Allocation	**Percentage of Plan Assets at Year-End**	
Asset Category	**2013**	**2012**	**2011**
Growth	50%	**49%**	52%
Deflation	30	**32**	32
Inflation	20	**19**	16
Total	100%	**100%**	100%

(Dollars in Thousands)

10. Retirement Plans (continued)

The following tables summarize fair value measurements at June 30, 2012 and 2011, by asset class and by level, for the System Plans' assets and liabilities. As also discussed in the Fair Value Measurements note, the System follows the three-level fair value hierarchy to categorize plan assets and liabilities recognized at fair value, which prioritizes the inputs used to measure such fair values. The inputs and valuation techniques discussed in the Fair Value Measurements note also apply to the System Plans' assets and liabilities as presented in the following tables.

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Short-term investments	$ 192,025	$ 5,392	$ –	$ 197,417
Derivative assets – interest rate	53,054	92,049	757	145,860
Derivative assets – other	10,937	653	13,472	25,062
U.S. government obligations	–	2,189,580	1,903	2,191,483
Corporate and foreign fixed income securities	70,238	387,734	28,308	486,280
Asset-backed securities	–	194,201	14,243	208,444
Equity securities	782,558	–	23,200	805,758
Alternative investments	–	–	1,993,923	1,993,923
Assets not at fair value				874,681
Total				6,928,908
Derivative liabilities – interest rate	1,990	51,180	33	53,203
Derivative liabilities – other	3,859	134	6,022	10,015
Investments sold, not yet purchased	–	29,342	–	29,342
Liabilities not at fair value				843,671
Total				936,231
Fair value of plan assets				$ 5,992,677

(Dollars in Thousands)

10. Retirement Plans (continued)

	Level 1	Level 2	Level 3	Total
June 30, 2011				
Short-term investments	$ 433,526	$ 12,682	$ –	$ 446,208
Derivative assets – interest rate	717	3	65,727	66,447
Derivative assets – other	74	2,939	1,159	4,172
U.S. government obligations	–	1,734,828	2,129	1,736,957
Corporate and foreign fixed income securities	–	406,793	19,462	426,255
Asset-backed securities	–	265,277	4,427	269,704
Equity securities	1,186,520	–	1,701	1,188,221
Alternative investments	–	–	1,591,483	1,591,483
Assets not at fair value				221,405
Total				5,950,852
Derivative liabilities – interest rate	17	283	258,882	259,182
Derivative liabilities – other	307	1,067	16,371	17,745
Investments sold, not yet purchased	–	56,451	–	56,451
Liabilities not at fair value				219,881
Total				553,259
Fair value of plan assets				$ 5,397,593

(Dollars in Thousands)

10. Retirement Plans (continued)

For the years ended June 30, 2012 and 2011, the changes in the fair value of the System Plans' assets measured using significant unobservable inputs (Level 3) consisted of the following:

	Net Derivatives	U.S. Government Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Alternative Investments
June 30, 2012						
Beginning balance	**$ (208,367)**	**$ 2,129**	**$ 19,462**	**$ 4,427**	**$ 1,701**	**$ 1,591,483**
Total actual return on plan assets	**167,900**	**48**	**1,431**	**(211)**	**(196)**	**(14,183)**
Purchases, issuances, and settlements	**48,641**	**(274)**	**9,662**	**10,517**	**21,690**	**416,623**
Transfers (out of) into Level 3	**–**	**–**	**(2,247)**	**(490)**	**5**	**–**
Ending balance	**$ 8,174**	**$ 1,903**	**$ 28,308**	**$ 14,243**	**$ 23,200**	**$ 1,993,923**
Actual return on plan assets relating to plan assets still held at June 30, 2012	**$ 9,095**	**$ 11**	**$ (820)**	**$ (477)**	**$ –**	**$ (49,802)**

	Net Derivatives	U.S. Government Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Alternative Investments
June 30, 2011						
Beginning balance	$ (258,049)	$ 2,241	$ 52,193	$ 4,790	$ 122,447	$ 1,163,027
Total actual return on plan assets	57,843	99	1,976	(8)	33,096	171,459
Purchases, issuances, and settlements	(8,161)	(211)	(29,882)	376	(153,343)	256,997
Transfers out of Level 3	–	–	(4,825)	(731)	(499)	–
Ending balance	$ (208,367)	$ 2,129	$ 19,462	$ 4,427	$ 1,701	$ 1,591,483
Actual return on plan assets relating to plan assets still held at June 30, 2011	$ (25,056)	$ 65	$ (195)	$ 195	$ –	$ 154,299

The Trust has entered into a series of interest rate swap agreements with a net notional amount of $948,150. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 60% of the dollar duration of the liability is subject to this economic hedge. The purpose of this strategy is to economically hedge the change in the net funded status for a significant portion of the liability that can occur due to changes in interest rates.

(Dollars in Thousands)

10. Retirement Plans (continued)

The expected long-term rate of return on the System Plans' assets is based on historical and projected rates of return for current and planned asset categories in the investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

Information about the expected cash flows for the System Plans follows:

Expected employer contributions 2013	$ 32,500
Expected benefit payments:	
2013	371,100
2014	364,200
2015	371,800
2016	384,900
2017	396,900
2018–2022	2,065,000

The contribution amount above includes amounts paid to the Trust. The benefit payment amounts above reflect the total benefits expected to be paid from the Trust.

Other Postretirement Benefit Plans

In addition to the retirement plan described above, certain Health Ministries sponsor postretirement benefit plans that provide healthcare benefits to qualified retirees who meet certain eligibility requirements. The total benefit obligation of these plans at June 30, 2012 and 2011, is $47,428 and $44,446, respectively. The net obligation included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2012 and 2011, is $12,423 and $10,086, respectively. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2012, was $6,551.

10. Retirement Plans (continued)

Defined-Contribution Plans

System entities participate in contributory and noncontributory defined-contribution plans covering all eligible associates. There are three primary types of contributions to these plans: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and, for certain entities, increases over specified periods of employee service. These benefits are funded annually and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period and participants become fully vested in these employer contributions immediately. Expenses for the defined-contribution plans were $128,250 and $113,337 during 2012 and 2011, respectively.

11. Self-Insurance Programs

Certain System hospitals and other entities participate in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Trust funds and two captive insurance companies, Ascension Health Insurance, Ltd. (AHIL) and Edessa Insurance Company, Ltd. (Edessa) are established for the self-insurance programs. Edessa was acquired as part of the Alexian Brothers business combination, as discussed in the Organizational Changes note. Actuarially determined amounts, discounted at 6% for the System, excluding Alexian Brothers which are discounted at 3%, are contributed to the trusts and the captive insurance companies to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported, which are discounted at 6% in 2012 and 2011 for the System, except for Alexian Brothers, which are not discounted. Those entities not participating in the self-insured programs are insured under separate policies.

11. Self-Insurance Programs (continued)

Professional and General Liability Programs

Professional and general liability coverage is provided on a claims-made basis through a wholly owned onshore trust and through AHIL and Edessa.

AHIL has a self-insured retention of $10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to $185,000. AHIL retains $5,000 per occurrence and $5,000 annual aggregate for professional liability. AHIL also retains a 20% quota share of the first $25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

Edessa has a self-insured retention of $1,000 per occurrence with no aggregate. Excess coverage is provided through Edessa with limits up to $110,000. Edessa retains $10,000 per occurrence and $20,000 annual aggregate for professional liability. The remaining excess coverage is reinsured by commercial carriers.

Self-insured entities in the states of Indiana and Wisconsin are provided professional liability coverage on an occurrence basis with limits in compliance with participation in the Patient Compensation Funds. The Patient Compensation Funds apply to claims in excess of the primary self-insured limit.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is professional and general liability expense of $71,687 and $69,073 for the years ended June 30, 2012 and 2011, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are professional and general liability loss reserves of approximately $596,381 and $522,489 at June 30, 2012 and 2011, respectively.

AHIL and Edessa also offer physician professional liability coverage through insurance or reinsurance arrangements to nonemployed physicians practicing at the System’s various facilities, primarily in Michigan, Indiana and Illinois. Coverage is offered to physicians with limits ranging from $100 per claim to $1,000 per claim with various aggregate limits.

(Dollars in Thousands)

11. Self-Insurance Programs (continued)

Workers' Compensation

Workers' compensation coverage is provided on an occurrence basis through a grantor trust. The self-insured trust provides coverage up to $1,000 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members. Workers' compensation coverage for Alexian Brothers is self-insured up to $400 per occurrence with no aggregate. Excess insurance against catastrophic loss is obtained through commercial insurers. Premium payments made to the trust are expensed and represent claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of $40,256 and $41,973 for the years ended June 30, 2012 and 2011, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of $110,657 and $98,867 at June 30, 2012 and 2011, respectively.

12. Lease Commitments

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

Year ending June 30:	
2013	$ 208,072
2014	191,994
2015	152,166
2016	117,939
2017	96,213
Thereafter	250,031
Total	$ 1,016,415

Certain System entities are lessees under operating lease agreements for the use of space in buildings owned by third parties, including medical office buildings (MOBs), and medical and information technology equipment. In addition, certain System entities have subleased space within buildings where the entity has a current operating lease commitment. Certain System entities are also lessors under operating lease agreements, primarily ground leases related to third-party-owned MOBs on land owned by the System entity.

(Dollars in Thousands)

12. Lease Commitments (continued)

The System's future minimum noncancelable payments associated with operating leases where a System entity is the lessee, as well as future minimum noncancelable receipts associated with operating leases where a System entity is the sublessor or lessor, are presented in the table that follows. Future minimum payments and receipts relate to noncancelable leases with terms of one year or more.

	Future Payments Where the System is Lessee	Future Receipts Where the System is Sublessor/ Lessor	Net Future Payments (Receipts)
Year ending June 30:			
2013	$ 208,072	$ 32,929	$ 175,143
2014	191,994	27,783	164,211
2015	152,166	21,691	130,475
2016	117,939	17,004	100,935
2017	96,213	13,398	82,815
Thereafter	250,031	275,190	(25,159)
Total	$ 1,016,415	$ 387,995	$ 628,420

Rental expense under operating leases amounted to $341,918 and $290,692 in 2012 and 2011, respectively.

13. Contingencies and Commitments

The System is involved in litigation and regulatory investigations arising in the ordinary course of business. Regulatory investigations also occur from time to time. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the System's Consolidated Balance Sheet.

13. Contingencies and Commitments (continued)

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, identified System hospitals are reviewing applicable medical records and responding to the DOJ. The DOJ's investigation spans a time frame beginning in 2003 and extending through the present time. Through September 12, 2012, the DOJ has not asserted any claims against any System hospitals. The System continues to fully cooperate with the DOJ in its investigation.

The System enters into agreements with nonemployed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for the System's obligation under these guarantees were $26,675 and $15,395 at June 30, 2012 and 2011, respectively, and are included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheets. The maximum amount of future payments that the System could be required to make under these guarantees is approximately $26,300 and is included in the table that follows.

The System entered into agreements with sponsors for support through January 2017. The System's obligation under these agreements totals $65,808 at June 30, 2012, and is included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheets.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 28 years.

(Dollars in Thousands)

13. Contingencies and Commitments (continued)

The following summary represents the maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under its guarantees and other commitments at June 30, 2012:

Hospital de la Concepción 2000 Series A debt guarantee	$ 31,075
St. Vincent de Paul Series 2000A debt guarantee	28,300
Rehab Hospital of Indiana, Inc. guarantee	8,210
Advantage Health Solution	5,272
Mercy Care Plan guarantee	5,000
Physician revenue guarantees	26,300
Information technology commitments	39,622
Other	27,054
Total guarantees and other commitments	$ 170,833

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Ascension Health Alliance

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs, the details of consolidated balance sheets, and the details of consolidated statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Ernst + Young LLP

September 12, 2012

Ascension Health Alliance

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

Years Ended June 30, 2012 and 2011

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

	June 30,	
	2012	**2011**
Traditional charity care provided	**$ 468,970**	$ 408,894
Unpaid cost of public programs for persons living in poverty	**406,057**	374,083
Other programs for persons living in poverty and other vulnerable persons	**75,724**	71,267
Community benefit programs	**335,436**	372,644
Care of persons living in poverty and community benefit programs	**$ 1,286,187**	$ 1,226,888

Ascension Health Alliance

Details of Consolidated Balance Sheet
(Dollars in Thousands)

June 30, 2012

	Consolidated Ascension Health Alliance	Consolidated Ascension Health Alliance Less Health Ministries Presented	Reclassification	Consolidated Baltimore	Consolidated Birmingham
Assets					
Current assets:					
Cash and cash equivalents	$ 306,469	$ 223,306	$ –	$ 13,229	$ 13,338
Short-term investments	216,914	198,848	–	–	–
Interest in investments held by Ascension Health Alliance	–	–	(90,702)	1,114	1,536
Accounts receivable, less allowances for uncollectible accounts ($1,145,935 in 2012)	1,962,549	1,390,097	–	50,344	62,608
Inventories	223,647	154,791	–	5,677	9,464
Due from brokers	789,271	789,271	–	–	–
Estimated third-party payor settlements	159,871	126,378	–	–	5,404
Other	756,216	643,027	–	8,737	9,868
Total current assets	4,414,937	3,525,718	(90,702)	79,101	102,218
Long-term investments	10,468,457	8,808,328	1,531,352	16,889	15,394
Interest in investments held by Ascension Health Alliance	–	–	(1,440,650)	180,177	156,874
Property and equipment, net	6,603,603	4,225,270	–	216,705	369,969
Other assets:					
Investment in unconsolidated entities	946,971	748,948	–	17,409	5,437
Capitalized software costs, net	645,112	529,227	–	1,699	1,770
Other	696,814	580,357	–	9,011	7,939
Total other assets	2,288,897	1,858,532	–	28,119	15,146
Total assets	$ 23,775,894	$ 18,417,848	$ –	$ 520,991	$ 659,601

Consolidated Kansas City	Consolidated Milwaukee	Consolidated Nashville	Consolidated Saginaw and Tawas	Consolidated Tucson	Consolidated Waco	Consolidated Washington D.C.
$ 3,845	$ 4,663	$ 20,770	$ 6,697	$ 12,362	$ 3,588	$ 4,671
3,853	–	603	9,094	4,516	–	–
5,772	14,229	30,632	4,629	17,961	10,705	4,124
35,328	87,310	148,817	41,401	69,569	41,201	35,874
5,049	9,631	14,197	6,801	10,984	3,990	3,063
–	–	–	–	–	–	–
166	3,696	3,758	9,837	961	8,119	1,552
4,098	32,631	28,166	5,216	17,052	1,696	5,725
58,111	152,160	246,943	83,675	133,405	69,299	55,009
16,935	18,902	30,230	5,753	20,995	303	3,376
76,249	74,110	473,140	287,265	4,636	124,253	63,946
129,685	664,628	484,636	113,007	241,399	107,722	50,582
3,224	21,657	34,862	12,501	90,675	8,678	3,580
2,516	39,124	38,578	7,182	14,572	2,275	8,169
15,189	13,275	35,304	7,736	8,947	12,348	6,708
20,929	74,056	108,744	27,419	114,194	23,301	18,457
$ 301,909	$ 983,856	$ 1,343,693	$ 517,119	$ 514,629	$ 324,878	$ 191,370

Ascension Health Alliance

Details of Consolidated Balance Sheet (continued)

(Dollars in Thousands)

June 30, 2012

	Consolidated Ascension Health Alliance	Consolidated Ascension Health Alliance Less Health Ministries Presented	Reclassification	Consolidated Baltimore	Consolidated Birmingham
Liabilities and net assets					
Current liabilities:					
Current portion of long-term debt	$ 45,363	$ 30,943	$ –	$ 626	$ 926
Long-term debt subject to short-term remarketing arrangements	1,094,425	1,094,425	–	–	–
Accounts payable and accrued liabilities	2,009,229	1,567,819	–	43,391	59,832
Estimated third-party payor settlements	457,030	330,573	–	–	19,675
Due to brokers	880,613	880,613	–	–	–
Current portion of self-insurance liabilities	206,057	185,439	–	2,106	1,733
Other	435,874	357,621	–	18,498	2,777
Total current liabilities	5,128,591	4,447,433	–	64,621	84,943
Noncurrent liabilities:					
Long-term debt (senior and subordinated)	3,655,406	2,222,312	–	79,381	117,478
Self-insurance liabilities	518,995	497,591	–	1,913	3,428
Pension and other postretirement liabilities	492,366	439,028	–	3,493	6,230
Other	1,057,644	888,409	–	6,677	66,482
Total noncurrent liabilities	5,724,411	4,047,340	–	91,464	193,618
Total liabilities	10,853,002	8,494,773	–	156,085	278,561
Net assets:					
Unrestricted					
Controlling interest	11,836,414	8,958,191	–	349,251	365,048
Noncontrolling interests	647,236	636,962	–	–	1,302
Unrestricted net assets	12,483,650	9,595,153	–	349,251	366,350
Temporarily restricted	336,027	239,002	–	15,199	13,315
Permanently restricted	103,215	88,920	–	456	1,375
Total net assets	12,922,892	9,923,075	–	364,906	381,040
Total liabilities and net assets	$ 23,775,894	$ 18,417,848	$ –	$ 520,991	$ 659,601

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Consolidated Kansas City		Consolidated Milwaukee		Consolidated Nashville		Consolidated Saginaw and Tawas		Consolidated Tucson		Consolidated Waco		Consolidated Washington D.C.
$	2,459	$	2,532	$	3,750	$	1,206	$	2,001	$	414	$	506
	–		–		–		–		–		–		–
	30,084		62,633		81,337		30,315		78,462		19,969		35,387
	294		1,738		17,614		7,617		74,337		1,302		3,880
	–		–		–		–		–		–		–
	575		3,008		7,919		1,250		2,307		465		1,255
	907		5,176		41,048		343		3,286		4,742		1,476
	34,319		75,087		151,668		40,731		160,393		26,892		42,504
	107,825		321,189		413,371		129,452		147,583		52,571		64,244
	2,046		1		2,864		1,627		5,143		1,977		2,405
	2,250		17,589		13,531		783		–		9,462		–
	3,133		16,565		15,560		5,368		40,796		8,600		6,054
	115,254		355,344		445,326		137,230		193,522		72,610		72,703
	149,573		430,431		596,994		177,961		353,915		99,502		115,207
	143,352		534,523		710,751		332,826		148,264		222,595		71,613
	6,390		–		2,582		–		–		–		–
	149,742		534,523		713,333		332,826		148,264		222,595		71,613
	2,594		13,152		31,229		5,747		9,187		2,052		4,550
	–		5,750		2,137		585		3,263		729		–
	152,336		553,425		746,699		339,158		160,714		225,376		76,163
$	301,909	$	983,856	$	1,343,693	$	517,119	$	514,629	$	324,878	$	191,370

Ascension Health Alliance

Details of Consolidated Balance Sheet
(Dollars in Thousands)

June 30, 2011

	Consolidated Ascension Health Alliance	Consolidated Ascension Health Alliance Less Health Ministries Presented	Consolidated Baltimore	Consolidated Birmingham
Assets				
Current assets:				
Cash and cash equivalents	$ 1,107,846	$ 833,991	$ 15,076	$ 44,289
Short-term investments	237,461	200,256	–	–
Accounts receivable, less allowances for uncollectible accounts ($1,079,706 in 2011)	1,687,189	1,227,240	47,922	51,681
Inventories	190,514	137,671	4,775	7,773
Estimated third-party payor settlements	89,747	68,968	–	3,304
Other	438,063	366,603	4,846	7,021
Total current assets	3,750,820	2,834,729	72,619	114,068
Long-term investments	8,117,951	6,708,408	192,942	128,626
Property and equipment, net	5,987,804	3,833,731	212,917	369,331
Other assets:				
Investment in unconsolidated entities	889,077	790,683	16,525	5,598
Capitalized software costs, net	486,842	415,099	1,068	368
Other	720,565	610,285	11,378	6,938
Total other assets	2,096,484	1,816,067	28,971	12,904
Total assets	$ 19,953,059	$ 15,192,935	$ 507,449	$ 624,929

Consolidated Kansas City	Consolidated Milwaukee	Consolidated Nashville	Consolidated Saginaw	Consolidated Waco	Consolidated Washington D.C.
$ 19,936	$ 52,383	$ 90,214	$ 23,865	$ 19,476	$ 8,616
6,048	–	9,860	13,706	–	7,591
38,974	90,391	125,712	35,233	37,686	32,350
5,136	10,029	11,146	7,093	4,046	2,845
462	2,993	1,602	5,657	5,560	1,201
5,279	22,914	19,448	6,578	2,103	3,271
75,835	178,710	257,982	92,132	68,871	55,874
97,076	62,789	449,547	302,536	112,325	63,702
127,837	687,080	487,098	110,158	108,014	51,638
2,080	20,160	32,477	10,607	7,448	3,499
1,452	34,499	27,946	2,288	1,271	2,851
12,123	15,188	34,722	8,303	12,441	9,187
15,655	69,847	95,145	21,198	21,160	15,537
$ 316,403	$ 998,426	$ 1,289,772	$ 526,024	$ 310,370	$ 186,751

Ascension Health Alliance

Details of Consolidated Balance Sheet (continued)

(Dollars in Thousands)

June 30, 2011

	Consolidated Ascension Health Alliance	Consolidated Ascension Health Alliance Less Health Ministries Presented	Consolidated Baltimore	Consolidated Birmingham
Liabilities and net assets				
Current liabilities:				
Current portion of long-term debt	$ 29,563	$ 16,789	$ 580	$ 1,080
Long-term debt subject to short-term remarketing arrangements	1,662,950	1,662,950	–	–
Accounts payable and accrued liabilities	1,814,600	1,398,196	49,799	55,306
Estimated third-party payor settlements	276,810	236,440	–	10,343
Current portion of self-insurance liabilities	191,551	171,369	2,190	1,353
Other	103,093	74,409	15,055	2,841
Total current liabilities	4,078,567	3,560,153	67,624	70,923
Noncurrent liabilities:				
Long-term debt (senior and subordinated)	2,546,785	1,246,322	80,007	120,909
Self-insurance liabilities	448,624	431,876	1,961	3,479
Pension and other postretirement liabilities	396,058	337,704	410	5,508
Other	676,648	558,549	6,444	65,622
Total noncurrent liabilities	4,068,115	2,574,451	88,822	195,518
Total liabilities	8,146,682	6,134,604	156,446	266,441
Net assets:				
Unrestricted				
Controlling interest	11,332,631	8,695,161	336,406	338,102
Noncontrolling interests	42,739	34,264	–	1,219
Unrestricted net assets	11,375,370	8,729,425	336,406	339,321
Temporarily restricted	331,563	240,743	14,168	17,800
Permanently restricted	99,444	88,163	429	1,367
Total net assets	11,806,377	9,058,331	351,003	358,488
Total liabilities and net assets	$ 19,953,059	$ 15,192,935	$ 507,449	$ 624,929

Consolidated Kansas City	Consolidated Milwaukee	Consolidated Nashville	Consolidated Saginaw	Consolidated Waco	Consolidated Washington D.C.
$ 2,982	$ 2,346	$ 3,601	$ 1,332	$ 384	$ 469
–	–	–	–	–	–
26,858	76,015	118,205	38,434	20,743	31,044
427	2,025	11,392	11,039	961	4,183
808	3,184	9,244	1,468	673	1,262
738	1,320	2,386	365	5,030	949
31,813	84,890	144,828	52,638	27,791	37,907
110,350	323,721	417,083	130,658	52,985	64,750
2,058	1	2,809	1,682	2,196	2,562
1,163	24,316	16,565	787	9,605	–
3,288	16,904	11,016	4,262	4,817	5,746
116,859	364,942	447,473	137,389	69,603	73,058
148,672	449,832	592,301	190,027	97,394	110,965
160,759	526,516	662,093	329,814	210,808	72,972
4,804	–	2,452	–	–	–
165,563	526,516	664,545	329,814	210,808	72,972
2,168	15,654	30,789	5,953	1,474	2,814
–	6,424	2,137	230	694	–
167,731	548,594	697,471	335,997	212,976	75,786
$ 316,403	$ 998,426	$ 1,289,772	$ 526,024	$ 310,370	$ 186,751

Ascension Health Alliance

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

Year Ended June 30, 2012

	Consolidated Ascension Health Alliance	Consolidated Ascension Health Alliance Less Health Ministries Presented	Consolidated Baltimore	Consolidated Birmingham
Operating revenue:				
Net patient service revenue	$ 15,620,035	$ 10,990,636	$ 413,223	$ 653,472
Other revenue	990,613	717,549	9,909	30,667
Total operating revenue	16,610,648	11,708,185	423,132	684,139
Operating expenses:				
Salaries and wages	6,671,985	4,821,577	200,322	209,474
Employee benefits	1,450,458	1,090,365	32,560	41,773
Purchased services	771,953	309,803	20,812	77,901
Professional fees	1,042,327	752,589	18,033	11,150
Supplies	2,309,541	1,536,027	64,639	129,966
Insurance	102,917	74,724	962	4,717
Bad debts	1,005,844	761,830	13,599	49,146
Interest	135,563	77,876	2,966	7,808
Depreciation and amortization	674,178	451,077	17,996	33,620
Other	1,827,002	1,268,760	29,359	87,659
Total operating expenses before impairment, restructuring, and nonrecurring gains (losses), net	15,991,768	11,144,628	401,248	653,214
Income (loss) from operations before self-insurance trust fund investment return and impairment, restructuring, and nonrecurring gains (losses), net	618,880	563,557	21,884	30,925
Self-insurance trust fund investment return	17,197	17,197	–	–
Impairment, restructuring, and nonrecurring gains (losses), net	297,548	166,713	21,547	10,819
Income (loss) from operations	933,625	747,467	43,431	41,744
Nonoperating gains (losses):				
Investment return	(137,383)	(110,412)	(3,289)	(1,456)
Loss on extinguishment of debt	(2,828)	(2,727)	–	(12)
(Loss) gain on interest rate swaps	(74,773)	(75,687)	56	82
Income from unconsolidated entities	8,802	3,785	4,889	–
Contributions from business combinations	326,333	326,333	–	–
Other	(69,510)	(63,557)	(1,176)	(364)
Total nonoperating gains, net	50,641	77,735	480	(1,750)
Excess (deficit) of revenues and gains over expenses and losses	984,266	825,202	43,911	39,994
Less noncontrolling interests	15,840	3,802	–	462
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	968,426	821,400	43,911	39,532

Consolidated Kansas City	Consolidated Milwaukee	Consolidated Nashville	Consolidated Saginaw and Tawas	Consolidated Tucson	Consolidated Waco	Consolidated Washington D.C.
$ 322,476	$ 658,781	$ 1,213,068	$ 341,003	$ 476,761	$ 305,501	$ 245,114
23,369	43,747	101,037	6,978	31,212	11,610	14,535
345,845	702,528	1,314,105	347,981	507,973	317,111	259,649
127,246	267,331	424,213	134,261	244,570	114,672	128,319
23,750	55,922	93,645	23,467	43,711	24,633	20,632
37,561	57,116	125,016	38,604	74,182	12,579	18,379
20,745	68,831	65,537	27,205	45,481	14,089	18,667
48,654	69,448	231,069	56,600	93,039	49,962	30,137
2,083	2,723	4,975	1,695	6,452	732	3,854
31,694	30,375	48,871	8,541	35,523	25,909	356
4,253	11,785	15,562	4,978	5,973	1,972	2,390
11,819	47,469	56,945	12,125	24,023	12,113	6,991
47,114	78,699	182,137	25,527	41,087	41,550	25,110
354,919	689,699	1,247,970	333,003	614,041	298,211	254,835
(9,074)	12,829	66,135	14,978	(106,068)	18,900	4,814
–	–	–	–	–	–	–
11,502	21,381	41,199	21,410	(21,887)	6,171	18,693
2,428	34,210	107,334	36,388	(127,955)	25,071	23,507
(1,722)	(1,077)	(9,495)	(6,369)	(352)	(2,021)	(1,190)
(15)	–	(2)	(72)	–	–	–
73	225	289	87	110	37	(45)
–	–	–	47	–	–	81
–	–	–	–	–	–	–
(590)	(575)	(784)	(287)	(1,776)	(487)	86
(2,254)	(1,427)	(9,992)	(6,594)	(2,018)	(2,471)	(1,068)
174	32,783	97,342	29,794	(129,973)	22,600	22,439
2,686	–	8,890	–	–	–	–
(2,512)	32,783	88,452	29,794	(129,973)	22,600	22,439

Ascension Health Alliance

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

(Dollars in Thousands)

Year Ended June 30, 2012

	Consolidated Ascension Health Alliance	Consolidated Ascension Health Alliance Less Health Ministries Presented	Consolidated Baltimore	Consolidated Birmingham
Unrestricted net assets, controlling interest:				
Excess (deficit) of revenues and gains over expenses and losses	$ 968,426	$ 821,400	$ 43,911	$ 39,532
Transfer (to) from sponsors and other affiliates, net	(19,947)	38,017	(5,111)	(7,371)
Contributed net assets	(400)	(400)	–	–
Net assets released from restrictions for property acquisitions	68,940	49,189	1,824	6,801
Pension and other postretirement liability adjustments	(451,555)	(302,473)	(27,779)	(12,027)
Change in unconsolidated entities' net assets	(15,890)	(11,623)	–	–
Other	9,207	9,891	–	11
Increase (decrease) in unrestricted net assets, controlling interest, before (loss) gain from discontinued operations	558,781	604,001	12,845	26,946
(Loss) gain from discontinued operations	(54,998)	(54,998)	–	–
Cumulative effect of change in accounting principle	–	–	–	–
Increase (decrease) in unrestricted net assets, controlling interest	503,783	549,003	12,845	26,946
Unrestricted net assets, noncontrolling interests:				
Excess of revenues and gains over expenses and losses	15,840	3,802	–	462
Distributions of capital	(578,445)	(566,545)	–	(358)
Contributions of capital	1,167,102	1,165,441	–	(21)
Increase in unrestricted net assets, noncontrolling interests	604,497	602,698	–	83
Temporarily restricted net assets, controlling interest:				
Contributions and grants	100,880	73,484	4,313	3,536
Net change in unrealized gains/losses on investments	(5,333)	(4,148)	16	(57)
Investment return	4,695	4,240	34	106
Net assets released from restrictions	(104,028)	(74,094)	(3,332)	(8,026)
Other	8,250	7,852	–	(44)
Increase (decrease) in temporarily restricted net assets, controlling interest	4,464	7,334	1,031	(4,485)
Permanently restricted net assets, controlling interest:				
Contributions	5,082	4,687	33	8
Net change in unrealized gains/losses on investments	(25)	(27)	(6)	–
Investment return	(217)	(225)	–	–
Other	(1,069)	(365)	–	–
Increase in permanently restricted net assets, controlling interest	3,771	4,070	27	8
Increase in net assets	1,116,515	1,163,105	13,903	22,552
Net assets, beginning of year	11,806,377	8,759,970	351,003	358,488
Net assets, end of year	$ 12,922,892	$ 9,923,075	$ 364,906	$ 381,040

Consolidated Kansas City	Consolidated Milwaukee	Consolidated Nashville	Consolidated Saginaw and Tawas	Consolidated Tucson	Consolidated Waco	Consolidated Washington D.C.
$ (2,512)	$ 32,783	$ 88,452	$ 29,794	$ (129,973)	$ 22,600	$ 22,439
(4,081)	(8,856)	(15,145)	(6,046)	(5,430)	(3,798)	(2,126)
–	–	–	–	–	–	–
48	3,592	3,729	1,505	2,016	209	27
(10,862)	(19,512)	(28,378)	(22,236)	–	(7,133)	(21,155)
–	–	–	–	(4,267)	–	–
–	–	–	(5)	(55)	(91)	(544)
(17,407)	8,007	48,658	3,012	(137,709)	11,787	(1,359)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
(17,407)	8,007	48,658	3,012	(137,709)	11,787	(1,359)
2,686	–	8,890	–	–	–	–
(2,828)	–	(8,714)	–	–	–	–
1,728	–	(46)	–	–	–	–
1,586	–	130	–	–	–	–
846	187	6,541	1,705	3,964	975	5,329
–	–	(842)	(140)	(111)	(51)	–
–	–	190	70	19	36	–
(90)	(3,592)	(4,926)	(1,825)	(3,821)	(472)	(3,850)
(330)	903	(523)	(16)	61	90	257
426	(2,502)	440	(206)	112	578	1,736
–	–	–	316	–	38	–
–	–	–	8	–	–	–
–	–	–	8	–	–	–
–	(674)	–	23	(50)	(3)	–
–	(674)	–	355	(50)	35	–
(15,395)	4,831	49,228	3,161	(137,647)	12,400	377
167,731	548,594	697,471	335,997	298,361	212,976	75,786
$ 152,336	$ 553,425	$ 746,699	$ 339,158	$ 160,714	$ 225,376	$ 76,163

Ascension Health Alliance

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

Year Ended June 30, 2011

	Consolidated Ascension Health Alliance	Consolidated Ascension Health Alliance Less Health Ministries Presented	Consolidated Baltimore
Operating revenue:			
Net patient service revenue	$ 14,565,006	$ 10,423,552	$ 393,245
Other revenue	841,521	654,383	7,101
Total operating revenue	15,406,527	11,077,935	400,346
Operating expenses:			
Salaries and wages	6,188,630	4,588,121	180,514
Employee benefits	1,444,867	1,075,172	34,220
Purchased services	771,836	398,856	17,242
Professional fees	889,375	669,160	17,218
Supplies	2,261,568	1,562,016	68,143
Insurance	92,168	68,915	2,464
Bad debts	991,974	734,139	18,500
Interest	129,014	80,004	373
Depreciation and amortization	656,859	465,604	15,006
Other	1,556,110	1,089,707	26,615
Total operating expenses before impairment, restructuring, and nonrecurring gains (losses), net	14,982,401	10,731,694	380,295
Income (loss) from operations before self-insurance trust fund investment return and impairment, restructuring, and nonrecurring (losses) gains, net	424,126	346,241	20,051
Self-insurance trust fund investment return	90,402	90,402	–
Impairment, restructuring, and nonrecurring (losses) gains, net	(92,387)	(60,019)	(365)
Income (loss) from operations	422,141	376,624	19,686
Nonoperating gains (losses):			
Investment return	1,129,859	916,471	30,740
Loss on extinguishment of debt	(1,007)	(1,007)	–
Gain (loss) on interest rate swaps	30,879	29,231	116
Income from unconsolidated entities	11,915	5,905	4,714
Contributions from business combinations	–	–	–
Other	(68,999)	(65,700)	(1,168)
Total nonoperating gains, net	1,102,647	884,900	34,402
Excess (deficit) of revenues and gains over expenses and losses	1,524,788	1,261,524	54,088
Less noncontrolling interests	27,484	15,154	–
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	1,497,304	1,246,370	54,088

Consolidated Birmingham	Consolidated Kansas City	Consolidated Milwaukee	Consolidated Nashville	Consolidated Saginaw	Consolidated Waco	Consolidated Washington D.C.
$ 605,768	$ 358,727	$ 702,872	$ 1,220,810	$ 328,492	$ 290,637	$ 240,903
23,600	12,447	41,492	71,337	7,235	10,286	13,640
629,368	371,174	744,364	1,292,147	335,727	300,923	254,543
198,508	145,205	288,741	429,485	129,748	106,521	121,787
46,540	28,788	72,668	111,289	29,707	22,719	23,764
73,935	36,032	62,033	118,737	39,018	8,099	17,884
8,355	17,874	68,755	58,685	15,804	14,526	18,998
124,895	57,485	78,756	224,977	57,569	55,071	32,656
4,253	2,264	3,660	4,087	1,617	838	4,070
47,164	27,827	36,594	78,234	12,612	29,151	7,753
8,542	4,699	9,363	16,127	5,366	2,123	2,417
33,384	11,595	39,125	58,862	15,270	11,425	6,588
80,505	42,669	87,019	145,362	25,419	36,619	22,195
626,081	374,438	746,714	1,245,845	332,130	287,092	258,112
3,287	(3,264)	(2,350)	46,302	3,597	13,831	(3,569)
–	–	–	–	–	–	–
(1,704)	(362)	(5,499)	(22,178)	(1,151)	(126)	(983)
1,583	(3,626)	(7,849)	24,124	2,446	13,705	(4,552)
16,623	17,472	6,662	64,812	49,740	17,661	9,678
–	–	–	–	–	–	–
171	152	447	601	180	77	(96)
–	–	–	–	99	–	1,197
–	–	–	–	–	–	–
(303)	(521)	(239)	(446)	(153)	(566)	97
16,491	17,103	6,870	64,967	49,866	17,172	10,876
18,074	13,477	(979)	89,091	52,312	30,877	6,324
487	1,848	–	9,995	–	–	–
17,587	11,629	(979)	79,096	52,312	30,877	6,324

Ascension Health Alliance

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

(Dollars in Thousands)

Year Ended June 30, 2011

	Consolidated Ascension Health Alliance	Consolidated Ascension Health Alliance Less Health Ministries Presented	Consolidated Baltimore
Unrestricted net assets, controlling interest:			
Excess (deficit) of revenues and gains over expenses and losses	$ 1,497,304	$ 1,246,370	$ 54,088
Transfer (to) from sponsors and other affiliates, net	(14,495)	57,472	(7,433)
Contributed net assets	(374)	(374)	–
Net assets released from restrictions for property acquisitions	70,555	45,746	1,517
Pension and other postretirement liability adjustments	793,897	579,620	36,593
Change in unconsolidated entities' net assets	1,175	1,175	–
Other	(2,778)	(3,701)	561
Increase in unrestricted net assets, controlling interest, before gain (loss) from discontinued operations and cumulative effect of change in accounting principle	2,345,284	1,926,308	85,326
Gain (loss) from discontinued operations	19,421	19,298	–
Cumulative effect of change in accounting principle	(45,993)	(28,381)	–
Increase (decrease) in unrestricted net assets, controlling interest	2,318,712	1,917,225	85,326
Unrestricted net assets, noncontrolling interests:			
Excess of revenues and gains over expenses and losses	27,484	15,154	–
Distributions of capital	(33,854)	(20,643)	–
Contributions of capital	7,973	6,511	–
Increase (decrease) in unrestricted net assets, noncontrolling interests	1,603	1,022	–
Temporarily restricted net assets, controlling interest:			
Contributions and grants	100,679	71,653	2,235
Net change in unrealized gains/losses on investments	15,714	12,442	662
Investment return	8,295	7,480	20
Net assets released from restrictions	(103,654)	(71,053)	(2,726)
Other	496	(2,918)	–
Increase (decrease) in temporarily restricted net assets, controlling interest	21,530	17,604	191
Permanently restricted net assets, controlling interest:			
Contributions	8,030	7,935	5
Net change in unrealized gains/losses on investments	1,692	1,639	6
Investment return	(62)	(80)	–
Other	(87)	(95)	–
Increase in permanently restricted net assets, controlling interest	9,573	9,399	11
Increase in net assets	2,351,418	1,945,250	85,528
Net assets, beginning of year	9,454,959	7,113,081	265,475
Net assets, end of year	$ 11,806,377	$ 9,058,331	$ 351,003

Consolidated Birmingham	Consolidated Kansas City	Consolidated Milwaukee	Consolidated Nashville	Consolidated Saginaw	Consolidated Waco	Consolidated Washington D.C.
$ 17,587	$ 11,629	$ (979)	$ 79,096	$ 52,312	$ 30,877	$ 6,324
(9,862)	(3,763)	(12,666)	(18,046)	(9,678)	(6,517)	(4,002)
–	–	–	–	–	–	–
2,251	742	3,287	13,662	1,236	1,776	338
16,354	13,520	49,607	37,435	27,641	9,347	23,780
–	–	–	–	–	–	–
184	27	255	(119)	(5)	(1)	21
26,514	22,155	39,504	112,028	71,506	35,482	26,461
–	–	–	123	–	–	–
–	(8,583)	(9,029)	–	–	–	–
26,514	13,572	30,475	112,151	71,506	35,482	26,461
487	1,848	–	9,995	–	–	–
(618)	(2,572)	–	(10,021)	–	–	–
208	1,729	–	(475)	–	–	–
77	1,005	–	(501)	–	–	–
10,139	1,235	(10)	8,590	2,112	460	4,265
281	–	–	2,083	190	56	–
64	–	–	540	125	66	–
(3,314)	(816)	(3,287)	(14,351)	(2,056)	(2,251)	(3,800)
(29)	(301)	3,369	408	(3)	(30)	–
7,141	118	72	(2,730)	368	(1,699)	465
–	–	–	–	57	33	–
26	–	–	–	21	–	–
13	–	–	–	5	–	–
–	–	2	–	9	(3)	–
39	–	2	–	92	30	–
33,771	14,695	30,549	108,920	71,966	33,813	26,926
324,717	153,036	518,045	588,551	264,031	179,163	48,860
$ 358,488	$ 167,731	$ 548,594	$ 697,471	$ 335,997	$ 212,976	$ 75,786