Combined Financial Statements and Obligated Group Supplementary Information

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combined Financial Statements and
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Years Ended December 31, 2012 and 2011

Contents

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Report of Independent Auditors

The Board of Trustees
Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

We have audited the accompanying combined financial statements of Sylvania Franciscan Health and Subsidiaries (the Corporation), which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Sylvania Franciscan Health and Subsidiaries at December 31, 2012 and 2011, and the combined results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

May 17, 2013

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combined Statements of Financial Position

	December 31	
	2012	**2011**
Assets		
Current assets:		
Cash and cash equivalents	**$ 36,464,001**	$ 31,764,478
Investments	**144,062**	5,135,646
Current portion of trustee-held funds	**5,777,015**	5,161,294
Accounts and notes receivable:		
Patients and residents	**128,246,635**	126,311,963
Less allowances for doubtful accounts	**42,701,911**	44,822,650
	85,544,724	81,489,313
Other receivables	**5,992,856**	5,727,497
	91,537,580	87,216,810
Due from affiliate	**811,346**	954,816
Inventories	**10,893,816**	10,376,122
Prepaid expenses and other	**5,288,322**	6,657,167
Total current assets	**150,916,142**	147,266,333
Assets whose use is limited:		
Board-designated and restricted funds	**81,204,180**	72,367,186
Trustee-held funds, less current portion	**56,151,002**	28,014,950
Self-Insurance Program	**18,303,190**	40,273,598
Foundation investments	**37,943,310**	13,452,791
Other investments	**1,476,283**	1,391,577
	195,077,965	155,500,102
Net property and equipment	**379,516,002**	361,497,871
Other assets:		
Financing costs, net of amortization	**5,672,058**	5,994,009
Notes and other receivables	**3,979,736**	23,709,703
Goodwill	**3,873,161**	2,573,161
Certificate of need, net of amortization	**3,451,995**	3,101,994
Long-term investments	**217,171,484**	178,909,139
Other	**1,071,287**	1,545,840
	235,219,721	215,833,846
Total assets	**$ 960,729,830**	$ 880,098,152

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	December 31	
	2012	**2011**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses:		
Accounts payable	**$ 44,611,629**	$ 35,727,743
Compensation, fees, and amounts withheld from compensation	**17,600,179**	19,377,129
Accrued interest	**4,927,176**	5,009,789
Due to affiliate	**–**	51,013
Other	**1,380,730**	1,985,000
	68,519,714	62,150,674
Deferred revenue	**119,383**	1,334,210
Settlements payable under third-party reimbursement contracts	**10,879,065**	10,394,019
Lines of credit	**2,778,635**	1,998,968
Current portion of reserve for insurance claims	**2,205,135**	2,020,901
Current portion of retirement and post-retirement obligation	**245,421**	235,038
Current portion of refundable and non-refundable entrance fees	**1,302,265**	1,250,411
Current portion of long-term debt and capital lease obligations	**5,815,908**	4,928,868
Total current liabilities	**91,865,526**	84,313,089
Long-term liabilities:		
Retirement plans	**25,406,885**	21,480,392
Post-retirement benefit obligation	**1,088,548**	1,078,011
Reserve for insurance claims	**8,820,542**	8,083,598
Derivative liability, net	**14,048,674**	14,025,621
Non-refundable and refundable entrance fees, less current portion	**18,436,221**	18,611,664
Long-term debt and capital lease obligations, less current portion	**320,456,825**	283,777,330
Other	**2,337,738**	2,850,967
Total liabilities	**482,460,959**	434,220,672
Net assets:		
Unrestricted	**463,603,406**	431,607,724
Temporarily restricted	**10,465,778**	10,084,962
Permanently restricted	**4,199,687**	4,184,794
Total net assets	**478,268,871**	445,877,480
Total liabilities and net assets	**$ 960,729,830**	$ 880,098,152

See accompanying notes.

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combined Statements of Operations

	Year Ended December 31	
	2012	**2011**
Revenue, gains, and other support		
Net patient service revenue, net of contractual allowances and discounts	**$ 634,065,518**	$ 603,465,171
Provision for bad debts	**46,922,880**	53,981,535
Net patient service revenue less provision for bad debts	**587,142,638**	549,483,636
Other revenue	**21,003,891**	18,446,509
Rental revenue	**9,264,796**	9,782,537
Net assets released from restrictions	**321,331**	659,739
Total revenue, gains, and other support	**617,732,656**	578,372,421
Expenses		
Salaries and wages	**258,357,724**	244,446,329
Employee benefits	**75,941,595**	66,847,078
Purchased services, utilities, and other	**112,399,595**	102,995,287
Supplies and pharmaceuticals	**98,155,211**	92,612,686
Provision for bad debts	**271,348**	560,186
Depreciation and amortization	**35,265,594**	32,116,703
Professional fees	**20,794,934**	18,487,686
Interest	**13,341,586**	11,393,120
Total expenses	**614,527,587**	569,459,075
Operating income	**3,205,069**	8,913,346
Nonoperating gains (losses)		
Investment income	**20,958,882**	8,922,314
Net unrealized gains (losses) on investments	**8,078,703**	(7,295,150)
Contributions	**1,759,658**	1,500,084
Fundraising expenses	**(1,342,357)**	(1,806,958)
Gains under interest rate swap agreements	**2,074,264**	1,880,645
(Losses) gains on disposal of assets	**(95,438)**	2,475,385
Gain from insurance proceeds	**613,572**	2,217,521
Other	**(520,431)**	–
Excess of fair value of net assets acquired over consideration paid in acquisition of Trinity Hospital Twin City	**–**	9,786,997
Nonoperating gains, net	**31,526,853**	17,680,838
Excess of revenue over expenses	**$ 34,731,922**	$ 26,594,184

See accompanying notes.

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combined Statements of Changes in Net Assets

	Year Ended December 31	
	2012	**2011**
Unrestricted net assets		
Excess of revenue over expenses	**$ 34,731,922**	$ 26,594,184
Other changes:		
Change in pension liability	**(3,801,639)**	(6,944,098)
Net assets released from restriction	**1,065,399**	898,151
Increase in unrestricted net assets	**31,995,682**	20,548,237
Temporarily restricted net assets		
Contributions	**1,388,945**	1,717,202
Investment income	**198,059**	46,183
Net unrealized gains (losses) on investments	**265,630**	(361,927)
Net assets released from restrictions	**(1,471,818)**	(1,725,012)
Increase (decrease) in temporarily restricted net assets	**380,816**	(323,554)
Permanently restricted net assets		
Investment income	**(1,424)**	157
Net unrealized losses on investments	**366**	(394)
Donations and other, net	**15,951**	(21,667)
Increase (decrease) in permanently restricted net assets	**14,893**	(21,904)
Increase in net assets	**32,391,391**	20,202,779
Net assets at beginning of year	**445,877,480**	425,674,701
Net assets at end of year	**$ 478,268,871**	$ 445,877,480

See accompanying notes.

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combined Statements of Cash Flows

	Year Ended December 31	
	2012	**2011**
Operating activities and nonoperating (losses) gains		
Increase in net assets	**$ 32,391,391**	$ 20,202,779
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating (losses) gains:		
Gain on acquisition of Trinity Hospital Twin City	**–**	(10,131,893)
Write off of financing costs	**238,109**	–
Amortization of entrance fees	**(1,319,962)**	(1,257,006)
Change in fair value of interest rate swaps	**(196,069)**	(360,673)
Change in unrealized (gains) losses on investments	**(8,344,699)**	7,288,471
Provision for bad debts	**47,194,228**	54,541,721
Restricted contributions and investment income received	**(1,424,019)**	(1,720,536)
Depreciation and amortization	**35,265,594**	32,246,948
Losses (gains) on disposal of assets	**95,438**	(2,475,385)
Gain from insurance proceeds	**(613,572)**	(2,217,521)
Changes in operating assets and liabilities:		
Decrease in restricted cash	**–**	1,770,237
Increase in patients and residents accounts receivable	**(51,249,639)**	(61,080,007)
Decrease (increase) in inventories and other current assets	**769,307**	(4,399,119)
Decrease (increase) in other assets	**693,675**	(9,559,504)
Increase in investments	**(28,207,713)**	(17,703,584)
Increase in accounts payable and other current liabilities	**6,328,995**	8,785,820
Increase in net settlements from third party	**485,046**	4,809,343
Increase in reserve for insurance claims	**921,178**	3,123,542
Increase in other liabilities	**7,084,343**	17,480,490
Net cash provided by operating activities and nonoperating (losses) gains	**40,111,631**	39,344,123

Combined Statements of Cash Flows (continued)

	Year Ended December 31	
	2012	**2011**
Investing activities		
Payments received on notes receivable	**$ 19,729,967**	$ 613,814
Purchases of property and equipment	**(52,807,826)**	(50,920,994)
Purchases of certificate of needs	**(433,316)**	(58,580)
(Increase) decrease in assets whose use is limited	**(36,911,933)**	20,392,198
Acquisition of Trinity Hospital Twin City, net of cash received	**–**	(4,925,251)
Acquisition of physician practice	**(1,300,000)**	(1,500,000)
Proceeds from insurance claim	**613,572**	2,217,521
Proceeds from sale of assets	**–**	4,629,002
Net cash used in investing activities	**(71,109,536)**	(29,552,290)
Financing activities		
Payments on capital leases	**(582,692)**	(261,339)
Entrance obligation remitted	**(3,354,442)**	(2,605,328)
Repayments of long-term debt	**(11,444,944)**	(10,177,200)
Proceeds from issuance of long term debt	**49,280,000**	6,000,000
Net proceeds from line of credit	**779,667**	1,528,000
Restricted contributions and investment income received	**1,424,019**	1,720,536
Financing costs paid	**(404,180)**	(127,873)
Net cash provided by (used in) financing activities	**35,697,428**	(3,923,204)
Increase in cash and cash equivalents	**4,699,523**	5,868,629
Cash and cash equivalents at beginning of year	**31,764,478**	25,895,849
Cash and cash equivalents at end of year	**$ 36,464,001**	$ 31,764,478
Non-cash activity		
The Corporation acquired $0 and $1,374,695 of equipment capital leases in 2012 and 2011, respectively.	**$ –**	$ 1,374,695

See accompanying notes.

1. Basis of Presentation

Sylvania Franciscan Health (the Combined Group or Corporation) is the formal expression of the sponsored health and human services ministry of the Sisters of St. Francis of Sylvania, Ohio (the Sisters). Among the member organizations in Ohio, Kentucky, and Texas are six hospitals, seven long-term care facilities, four assisted-living facilities, independent senior housing, a counseling center, domestic violence shelter, and other supporting organizations.

The Combined Group includes the accounts of the following:

- Sylvania Franciscan Health (corporate office; Franciscan Services Self-Insurance Program, which was dissolved in November 2012; SFH Assurance, LTD.; and SFH Foundation)

- Franciscan Shelters (d.b.a. Bethany House)

- Sophia Center

- Franciscan Living Communities (corporate office; Providence Care Centers and Subsidiaries, which include Providence Care Centers, The Commons of Providence, Providence Residential Community, and The Providence Care Centers; Franciscan Care Center; Rosary Care Center; St. Leonard and Subsidiaries, which includes St. Leonard, Joseph Bernadine Residence, LLC. and St. Leonard Foundation; Franciscan Properties; Madonna Manor, Inc.; and St. Clare Commons). Effective April 1, 2012, Rosary Care Center was no longer a wholly owned subsidiary of Franciscan Living Communities, and instead became a member of the Corporation.

- St. Joseph Services Corporation d.b.a. St. Joseph Health System and Subsidiaries (St. Joseph Regional Health Center of Bryan, Texas; St. Joseph Foundation of Bryan, Texas; Burleson St. Joseph Health Center; Madison St. Joseph Health Center; Alliance Health Providers of Brazos Valley, Inc.; St. Joseph Physician Network; St. Joseph Physician Associates, Tau Enterprises, Inc. (dissolved effective September 30, 2012); St. Joseph Manor; and Burleson St. Joseph Manor). On March 1, 2013, St. Joseph Services Corporation began transitioning the operations of Bellville General Hospital to itself and will be renaming it Bellville St. Joseph Health Center. The facility and land will continue to be leased from the Bellville Hospital District. In 2012, Belville General Hospital generated approximately $9.5 million in net revenue and had minimal net assets based on unaudited information.

1. Basis of Presentation (continued)

- Trinity Health System Corporation and Subsidiaries (Trinity Hospital Holding Company, including Trinity East and Trinity West; Trinity Health Foundation; and its wholly owned for-profit subsidiary Trinity Management Services Organization, Inc.).

- The Corporation established Trinity Hospital Twin City and on May 9, 2011, it acquired substantially all of the assets of Trinity Twin City, a critical access hospital located in Dennison, Ohio, which had previously been in bankruptcy. This acquisition enabled the Corporation to expand their healthcare services in eastern Ohio. This 2011 acquisition resulted in a gain of approximately $10.1 million based on the excess of net assets acquired of $15.1 million over the acquisition price paid of $5.0 million and was included in excess of revenue over expenses. This gain was reduced by transactions costs of $345,000 paid by the corporate office in 2011. All activity since the date of acquisition has been included in the combined financial statements.

All of the assets, liabilities, revenues, expenses, nonoperating gains and losses, and other changes in net assets of Trinity Health System are reflected in the combined statement of financial position. The Corporation maintains a 50% ownership interest in Trinity Health System.

Significant intercompany balances and transactions between these entities have been eliminated in combination.

2. Significant Accounting Policies

The accounting principles followed by the Combined Group and the methods of applying those principles that materially affect the determination and reporting of combined financial position, results of operations, and cash flows are summarized below.

Operating Activity

The Combined Group's primary mission is to provide health care services through its acute care, specialty care facilities, and other organizations. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

2. Significant Accounting Policies (continued)

Other activities that result in gains and losses unrelated to the Combined Group's primary mission are considered to be nonoperating. Nonoperating gains and losses include investment income, net realized and unrealized gains and losses on sale of investments other than trustee-held investments related to borrowed funds, unrestricted contributions, fundraising expenses, change in the fair value of interest rate swaps, gains and losses from insurance proceeds, gains and losses from acquisitions, gains and losses on disposals of property and equipment, and other extraordinary items.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Adjustments to estimates are recorded, as appropriate, in the periods in which they are determined.

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand, demand deposits with financial institutions, and liquid investments with a maturity of three months or less. Assets whose use is limited by board designation or other arrangements under trust agreements are excluded from cash and cash equivalents in the statement of cash flows.

Investments

Investments are carried at fair value and accounted for as trading securities. Investment income, including realized gains and losses and unrealized gains and losses, is included in excess of revenues over expenses unless restricted by the donor in connection with a gift. In December 2012, the Corporation established a master investment pool (Master Investment Pool) in which certain affiliated organizations participate. The accompanying combined financial statements reflect the total net assets and transactions of the Master Investment Pool. At December 31, 2012 and 2011, certain investments totaling $1,380,757, are carried at cost, adjusted for impairment deemed to be other than temporary, and are included in long-term investments. Management deemed it not practical to estimate the fair value of these investments.

2. Significant Accounting Policies (continued)

Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable consist of amounts due from third-party payors, including federal and state indemnity and managed care programs, managed care health plans and commercial insurance companies, and individual patients for health care services rendered. The Corporation does not require collateral or other security on its patient receivables. Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Corporation analyzes its historical and expected net collections, considering business and economic conditions, trends in health care coverage, and other collection indicators for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon specific accounts, historical write-off experience, and current market conditions. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible receivables.

For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make realization of amounts due unlikely. For receivables associated with self-pay residents, which includes both residents without insurance and residents with deductibles and copayment balances due for which third-party coverage exists for part of the bill, the Corporation records a provision for bad debts on the basis of its past experience. The difference between the standard rates and the amount actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Corporation’s allowance for doubtful accounts decreased from 35 percent of accounts receivable at December 31, 2011, to 33 percent of accounts receivable at December 31, 2012. In addition, the Corporation’s self-pay write-offs decreased approximately $6 million from $51 million in fiscal year 2011 to $45 million in fiscal year 2012. This decrease was mainly the result of a shift from bad debt to charity as well as Trinity Health System Corporation and Subsidiaries change in their uninsured discount policy for self-pay patients in fiscal year 2012.

2. Significant Accounting Policies (continued)

The Corporation does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

The provision for bad debts is included with net patient service revenue for the Corporation's acute care facilities as they do not assess the patient's ability to pay prior to providing the service, while the long-term care facilities' provision for bad debts is presented as an operating expense as they do assess the residents' ability to pay prior to providing the services and therefore the subsidiaries presentation is retained in the combined financial statements.

The reimbursement of certain inpatient services under the Medicare and Medicaid programs is subject to final determination by the respective agencies. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Provision is made currently in the combined financial statements for estimated settlements under third-party reimbursement contracts and adjusted in future periods as final settlements are determined. These provisions and settlements are included in net patient service revenue. Management is of the opinion that adequate provision has been made for unsettled cost reports and for any adjustments that may result from settlements. Prior-year settlements increased the excess of revenues over expenses by approximately $7,373,200 in 2012 and $4,698,900 in 2011.

For uninsured residents that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates for services provided, or on the basis of discounted rates if negotiated. On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

2. Significant Accounting Policies (continued)

Patient service revenue, net of contractual allowances and discounts, recognized as of December 31, 2012 and 2011, from these major payor sources, are approximate vales of the following:

2012	Medicare	Medicaid	Commercial	Self-Pay	Other	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	**$243,000,000**	**$ 52,000,000**	**$155,000,000**	**$113,000,000**	**$ 71,000,000**	**$634,000,000**
2011						
Patient service revenue (net of contractual allowances and discounts)	$ 232,000,000	$ 60,000,000	$136,000,000	$102,000,000	$73,000,000	$603,000,000

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Combined Group believes that it is in compliance with all applicable laws and regulations. Noncompliance with such laws and regulation can be subject to regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity Care

The members of the Corporation accept all patients regardless of their ability to pay. A patient is determined to be a charity patient by reference to certain established policies of the hospitals. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient’s inability to pay, the members utilize generally recognized poverty income levels, but also include certain cases where incurred charges are significant when compared to income. Charity care is reported as an adjustment to revenue in the statements of operations.

Contributions and Pledges

Contributions and pledges are recorded at fair value. Contributions not restricted by donors are included in unrestricted net assets. Contributions that are received with donor stipulations that limit the use of the donated asset are recorded as temporarily restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Allowances for uncollectible pledges are provided for as deemed necessary.

2. Significant Accounting Policies (continued)

Inventories

Inventories of supplies are stated at the lower of cost, using the first-in, first-out method, or market.

Assets Whose Use is Limited

Certain funds are board-designated for acquisition of property and equipment. Trustee-held funds are for the retirement of revenue bonds and to fund construction programs. The funds for the Self-Insurance Program, as defined in Note 6, are for current and future malpractice claims. Accordingly, these assets have been classified as noncurrent, except for amounts held for current payments on revenue bonds and payments for capital-related expenditures. Foundation investments are used to fund special projects and support the Corporation's activities.

Financing Costs

Financing costs are primarily amortized over the period the obligations are outstanding.

Certificates of Need

The certificates of need relate to Franciscan Living Communities and Rosary Care Center and are recorded at cost. Amortization is based on the straight-line method over the estimated useful life.

Goodwill

Goodwill is the excess of the acquisition cost of a business over the fair value of the identifiable net assets acquired. Goodwill is subject to annual impairment assessments.

Impairment of Long-Lived Assets

When events, circumstances, or operating results indicate that the carrying value of certain long-lived assets that are expected to be held and used might be impaired, the Combined Group prepares projections of the undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate that the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value.

2. Significant Accounting Policies (continued)

Fair value may be estimated based upon internal evaluations of each market that include quantitative analyses of revenues and cash flows, review of recent sales of similar facilities, and independent appraisals.

Property and Equipment

Property and equipment are carried at cost or fair value at date of gift. Expenditures for renewals or betterments are capitalized and expenditures for maintenance and repairs are charged to expense. Depreciation of property and equipment and amortization of assets acquired under capital leases are provided by the straight-line method at rates based on the estimated lives or the terms of the leases. Amortization of assets under capital leases is included with depreciation expense. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Entrance Fees

Residents of Providence Residential Community and St. Leonard may pay an entrance fee prior to occupancy. The residency agreements provide that 90% or 50% of entrance fees for Providence Residential Community and 100% or 75% of entrance fees for St. Leonard are refunded after the departure of a resident. Refunds are paid to the former resident within 90 days of departure for Providence Residential Community and once the unit has been reoccupied for St. Leonard. The refundable portion of the St. Leonard entrance fee is amortized on the straight-line method over the expected life of the respective facilities. The nonrefundable portion of entrance fees (10% or 50% for Providence and 25% for St. Leonard) and rental fees paid in advance are deferred and amortized into revenue using the straight-line method over the estimated lives of the residents.

Net Assets

Unrestricted net assets generally result from revenues derived from providing services, producing and delivering goods, receiving unrestricted contributions, and receiving dividends or interest from investing in income-producing assets, less expenses incurred in providing services, producing and delivering goods, raising contributions, and performing administrative functions.

2. Significant Accounting Policies (continued)

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

Net assets were released from temporary restriction from continuing operations by incurring expenses and purchasing assets to satisfy the restrictions in the amounts of $1,471,818 and $1,725,012 during the years ended December 31, 2012 and 2011, respectively.

Derivatives

The Corporation uses derivatives to modify the interest rates and manage risks associated with its outstanding debt. The Corporation recognizes all derivatives on the combined statements of financial position at fair value and changes in fair value are recorded through income in excess of revenue over expenses.

Income Taxes

The Combined Group is comprised mostly of nonprofit organizations affiliated with the Sisters. Each nonprofit member of the Combined Group has been granted an exemption from federal income taxes under Section 501(c)(3) or Section 501(a) of the Internal Revenue Code. Alliance Health Providers of Brazos Valley, Inc. is a for-profit corporation and files a federal income tax return on a separate-entity basis. There are no material unrecorded tax liabilities at December 31, 2012 or 2011.

Electronic Health Record Incentive Payments

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

2. Significant Accounting Policies (continued)

The Corporation accounts for HITECH incentive payments under a grant accounting model. Income from Medicare incentive payments is recognized as revenue after the Corporation has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and there is reasonable assurance the grants will be received. The Corporation recognized revenue from Medicaid incentive payments after it has demonstrated compliance with the meaningful use criteria. Incentive payments totaling approximately $6,325,000 for the year ended December 31, 2012, are included in total other operating revenue in the accompanying combined statement of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Corporation's compliance with the meaningful use criteria is subject to audit by the federal government.

Adoption of New Accounting Standard

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The amendments in the ASU clarify the FASB's intent regarding the application of existing fair value measurement requirements and change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The pronouncement was effective for annual periods beginning after December 15, 2011, and therefore, was adopted effective January 1, 2012. The adoption of ASU 2011-04 has been reflected in the footnote disclosures included in the combined financial statements.

In July 2012, the FASB issued ASU 2012-01, *Health Care Entities, Continuing Care Retirement Communities-Refundable Advance Fees*. The ASU clarifies that a continuing care retirement community should classify a refundable advance fee as deferred revenue only when its resident contract provides for repayment of the fee upon re-occupancy, and repayment is limited to the proceeds it receives from the new occupant; otherwise, the advance fee is classified as a liability. The pronouncement is effective for fiscal periods beginning after December 15, 2012. The ASU is not expected to have a material impact on the combined financial statements.

2. Significant Accounting Policies (continued)

In July 2012, the FASB issued ASU 2012-02, *Intangibles-Goodwill and Other, Testing Indefinite-Lived Intangible Assets for Impairment*. The ASU adds an optional qualitative assessment for determining whether an indefinite-lived intangible asset is impaired. If it is determined that it is more likely than not that the fair value of such an asset exceeds its carrying amount, it would not need to calculate the fair value of the asset in that year. If it is concluded otherwise, then the fair value of the asset must be calculated and compared to the carrying value. The pronouncement is effective for fiscal periods beginning after September 15, 2012; however, as early adoption is permitted, this was adopted effective January 1, 2012, and did not have an impact on the amounts reported in the combined financial statements.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. The ASU provided source literature amendments, guidance clarifications, reference corrections, and relocated guidance. The amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. The ASU is not expected to have a material impact on the combined financial statements.

In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows, Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The amendments require cash receipts from the sale of donated financial assets that had no restrictions and were immediately converted to cash to be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which cash those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. The pronouncement is effective for fiscal years beginning after June 15, 2013. The ASU is not expected to have a material impact on the combined financial statements.

2. Significant Accounting Policies (continued)

Subsequent Events

The Combined Group evaluates subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended December 31, 2012, the Combined Group evaluated the impact of subsequent events through May 17, 2013, representing the date on which the financial statements were available to be issued. No recognized subsequent events were identified for recognition or disclosure in the combined statements of financial position or the accompanying notes to the combined financial statements. A non-recognized subsequent event was identified for disclosure in Note 1 in the accompanying notes to the combined financial statements.

Reclassification

Certain amounts in 2011 have been reclassified to conform to the 2012 presentation.

Immaterial Error Correction

The 2011 unrestricted and temporarily restricted components of net assets have been corrected to reflect the appropriate classification of certain contributions received from 2008 through 2011, which were initially recorded as unrestricted and should have been designated as temporarily restricted. Total net assets are unchanged in 2011.

3. Charity Care

The members of the Combined Group maintain records to identify and monitor the level of charity care they provide. These records include the amount of costs for services and supplies furnished under their charity care policy and equivalent service statistics. The costs of providing care is estimated using the Combined Group's internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association and the Internal Revenue Service. The amount of traditional charity care provided, determined on the basis of cost, was approximately $23,159,000 and $19,176,000 for the years ended December 31, 2012 and 2011, respectively.

4. Assets and Liabilities Measured at Fair Value

Assets whose use is limited are recorded at fair value and consist of the following:

	December 31	
	2012	**2011**
Board-designated funds	**$ 81,204,180**	$ 72,367,186
Trustee-held funds, including current portion of $5,777,015 and $5,161,294 for 2012 and 2011, respectively	**61,928,017**	33,176,244
Self Insurance Program	**18,303,190**	40,273,598
Foundation investments	**37,943,310**	13,452,791
Other investments	**1,476,283**	1,391,577
Total	**200,854,980**	160,661,396
Less amounts in current assets	**5,777,015**	5,161,294
Total assets whose use is limited	**$ 195,077,965**	$155,500,102
Cash and cash equivalents	**$ 24,659,818**	$ 19,860,299
U.S. government securities	**34,110,946**	30,910,243
Corporate bonds	**32,726,884**	16,000,965
Mutual funds	**80,541,824**	60,886,424
Equities	**27,992,063**	31,802,202
Other	**823,445**	1,201,263
Total	**$ 200,854,980**	$ 160,661,396

4. Assets and Liabilities Measured at Fair Value (continued)

Long-term investments consist of the following:

	December 31	
	2012	**2011**
Cash and cash equivalents	**$ 20,658,451**	$ 10,621,493
U.S. government securities	**1,524,025**	6,580,518
Corporate bonds	**5,884,238**	7,361,177
Mutual funds	**138,902,144**	125,063,414
Equities	**48,862,857**	32,830,525
Other	**1,483,831**	1,587,658
Total investments	**217,315,546**	184,044,785
Less amounts in current assets	**144,062**	5,135,646
Total long-term investments	**$ 217,171,484**	$ 178,909,139

The following schedule summarizes the investment return and its classification in the combined statements of operations and changes in unrestricted net assets from continuing operations:

	Year Ended December 31	
	2012	**2011**
Income:		
Interest and dividends	**$ 7,820,354**	$ 5,247,635
Net realized gains	**13,829,376**	3,750,910
Net unrealized gains (losses)	**8,344,699**	(7,288,471)
Total investment return	**$ 29,994,429**	$ 1,710,074
Interest income included in operations	**$ 494,213**	$ 398,891
Nonoperating investment income, realized and unrealized gains	**29,500,216**	1,311,183
Total investment return	**$ 29,994,429**	$ 1,710,074

The Combined Group designates investment return on trustee-held funds related to borrowed funds for support of current operations. The remainder is classified as nonoperating.

4. Assets and Liabilities Measured at Fair Value (continued)

Accounting Standards Codification 820, *Fair Value Measurement,* includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that is either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities that are not active, inputs other than quoted prices that are observable, and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

As of December 31, 2012 and 2011, the assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

U.S. government securities – The fair value of investments in U.S. government, state, and municipal 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.

4. Assets and Liabilities Measured at Fair Value (continued)

Corporate bonds – The fair value of investments in U.S. and international corporate bonds are 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 redemption options.

Equities – The fair value of investments in U.S. and international equity securities is based on the closing price reported on the active market on which the individual securities are traded.

Mutual funds – The fair value of mutual funds are primarily determined using the calculated net asset value. The values of the underlying investments are fair value estimates determined by external fund managers.

Certificates of deposit – The fair value of certificates of deposit is primarily based on cost plus accrued interest.

Derivatives – The fair value of the Corporation's derivatives are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved.

4. Assets and Liabilities Measured at Fair Value (continued)

The following tables represent the Combined Group's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012, and December 31, 2011, and the basis for that measurement:

	Total Fair Value Measurement	Fair Value Measurement at December 31, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets whose use is limited:				
Cash and cash equivalents	**$ 24,659,818**	**$ 24,659,818**	**$ –**	**$ –**
U.S. government securities	**34,110,946**	**–**	**34,110,946**	**–**
Fixed income:				
International	**1,419**	**–**	**1,419**	**–**
Domestic	**32,725,465**	**–**	**32,725,465**	**–**
Mutual funds:				
International	**8,867,130**	**8,867,130**	**–**	**–**
Domestic	**71,674,694**	**71,674,694**	**–**	**–**
Equities:				
International	**2,242,851**	**2,242,851**	**–**	**–**
Domestic	**25,749,212**	**25,749,212**	**–**	**–**
Other	**823,445**	**313,916**	**82,423**	**427,106**
	200,854,980	**133,507,621**	**66,920,253**	**427,106**
Other long-term investments:				
Cash and cash equivalents	**20,658,451**	**20,658,451**	**–**	**–**
U.S. government securities	**1,524,025**	**–**	**1,524,025**	**–**
Fixed income:				
Domestic	**5,884,238**	**–**	**5,884,238**	**–**
International				
Mutual funds:				
International	**58,681**	**58,681**	**–**	**–**
Domestic	**138,843,463**	**138,843,463**	**–**	**–**
Equities:				
International	**9,935,887**	**9,935,887**	**–**	**–**
Domestic	**38,926,970**	**38,926,970**	**–**	**–**
Certificate of deposits	**103,074**	**-**	**103,074**	**–**
	215,934,789	**208,423,452**	**7,511,337**	**–**
Total investments	**$ 416,789,769**	**$ 341,931,073**	**$ 74,431,590**	**$ 427,106**
Other assets:				
Derivative asset	**$ 378,955**	**$ –**	**$ 378,955**	**$ –**
Other long-term liabilities:				
Derivative obligation	**$ 14,048,674**	**$ –**	**$ 14,048,674**	**$ –**

4. Assets and Liabilities Measured at Fair Value (continued)

		Fair Value Measurement at December 31, 2011 Using:		
	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets whose use is limited:				
Cash and cash equivalents	$ 19,860,299	$ 19,860,299	$ –	$ –
U.S. government securities	30,910,243	–	30,910,243	–
Corporate bonds:				
International	337,051	–	337,051	–
Domestic	15,663,914	–	15,663,914	–
Mutual funds:				
International	6,466,216	6,466,216	–	–
Domestic	54,420,208	54,420,208	–	–
Equities:				
International	836,629	836,629	–	–
Domestic	30,965,573	30,965,573	–	–
Other	1,201,263	358,213	552,612	290,438
	160,661,396	112,907,138	47,463,820	290,438
Other long-term investments:				
Cash and cash equivalents	10,621,493	10,621,493	–	–
U.S. government securities	6,580,518	–	6,580,518	–
Corporate bonds:				
Domestic	7,259,813	–	7,259,813	–
International	101,364	–	101,364	–
Mutual funds:				
International	1,204,377	1,204,377	–	–
Domestic	123,859,037	123,859,037	–	–
Equities:				
International	6,019,523	6,019,523	–	–
Domestic	26,811,002	26,811,002	–	–
Certificate of deposits	206,901	–	206,901	–
	182,664,028	168,515,432	14,148,596	–
Total investments	$ 343,325,424	$ 281,422,570	$ 61,612,416	$ 290,438
Other assets:				
Derivative asset	$ 159,833	$ –	$ 159,833	$ –
Other long-term liabilities:				
Derivative obligation	$ (14,025,621)	$ –	$ (14,025,621)	$ –

4. Assets and Liabilities Measured at Fair Value (continued)

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments are recorded at fair value. The carrying value and fair value of the Combined Group's long-term debt, as estimated by discounted cash flow analyses using the current borrowing rate for similar types of borrowing arrangements and adjusted for credit, respectively, were $326,273,000 and $336,367,000, respectively, at December 31, 2012, and $288,706,000 and $288,417,000, December 31, 2011. Other financial instruments reported as noncurrent assets and liabilities have carrying values that approximate fair value.

5. Net Property and Equipment

Net property and equipment consist of the following:

	December 31	
	2012	**2011**
Land and land improvements	**$ 39,095,993**	$ 39,629,096
Buildings and fixed equipment	**464,375,533**	455,935,464
Major movable equipment	**217,200,614**	206,859,089
Construction in progress	**27,220,580**	23,360,986
	747,892,720	725,784,635
Less allowances for depreciation	**(368,376,718)**	(364,286,764)
Totals	**$ 379,516,002**	$ 361,497,871

The estimated cost to complete construction in progress projects was approximately $37,700,000 and $60,800,000 at December 31, 2012 and 2011, respectively.

6. Professional Liability Insurance

The Franciscan Services Self-Insurance Trust (the Self Insurance Program) was established by the Corporation to provide up to $4 million of professional liability, malpractice, and comprehensive general liability insurance coverage on a group basis to the affiliated entities of the Combined Group. Effective April 1, 2012, SFH Assurance, LTD. was established and took over this function. The Self Insurance Program has a claims-made policy and provides for primary level funding. Each affiliated entity makes an annual contribution to the Self Insurance Program which is actuarially determined. The Corporation has also purchased excess coverage insurance.

6. Professional Liability Insurance (continued)

Losses are paid from the Self Insurance Program for covered claims on behalf of each participant in any policy year, assuming the self-insurance limit is not exceeded. Also, if the Self Insurance Program contains insufficient amounts to pay the maximum that can be paid in any policy year, each participant will be assessed the amount of the shortfall based on its historical contributions to the Trust.

The Self Insurance Program accrues for estimated losses attributable to reported claims, the development of these known claims, incurred but not reported claims, and legal expenses for periods covered by the claims-made insurance using a discount rate of 3.12%. The Self Insurance Program accrued approximately $11,026,000 and $10,104,000 at December 31, 2012 and 2011, respectively, related to amounts which potentially will be paid from assets presently held in the Self Insurance Program. Although management believes that the Self Insurance Program's reserves are adequate, there can be no assurance that the reserves will not require material adjustment in future years.

7. Lines of Credit

The Corporation has an unsecured $10 million line of credit through May 31, 2013, with a local bank of which the outstanding balance was $703,635 and $425,000 at December 31, 2012 and 2011. The interest rate was 1.25% and 1.31% at December 31, 2012 and 2011, respectively.

Trinity Hospital Twin City has an unsecured $2,000,000 line of credit, with a local bank of which the outstanding balance was $2,000,000 and $1,500,000 at December 31, 2012 and 2011. The interest rate was 1.7% and 2.3% at December 31, 2012 and 2011.

Rosary has a $100,000 line of credit, with a bank at an interest rate of prime (3.25% at December 31, 2012 and 2011, respectively) and secured by the assets of Rosary. The amount outstanding as of December 31, 2012 and 2011, is $75,000 and $73,968, respectively.

The Trinity Hospital Twin City and Rosary line of credit are guaranteed by the Corporation.

8. Long-Term Debt and Interest Rate Swaps

Long-term debt and capital lease obligations consist of the following:

	December 31 2012	December 31 2011
Revenue Bonds		
Brazos County (TX) Health Facilities Development Corporation:		
Series 1993B – St. Joseph Regional Health Center	**$ 17,057,800**	$ 17,057,800
Series 1997A – St. Joseph Regional Health Center	**47,672,000**	47,672,000
Series 1997B – St. Joseph Manor	**13,895,000**	13,895,000
Series 2002 – St. Joseph Regional Health Center	**27,500,000**	27,500,000
Series 2008 – St. Joseph Regional Health Center	**28,090,000**	28,610,000
Series 2009 – Burleson St. Joseph Manor	**7,140,000**	7,445,000
County of Erie, Ohio:		
Series 1996A – Providence Care Centers	**895,000**	1,310,000
Series 2009C – Providence Care Centers	**4,505,000**	4,525,000
Series 2009B – The Commons of Providence	**3,484,250**	3,503,500
Series 2009A – Providence Residential Community Corporation	**7,315,000**	7,350,000
Series 2009B – The Commons of Providence	**2,850,750**	2,866,500
County of Montgomery, Ohio:		
Series 2010 – St. Leonard	**40,575,000**	41,110,000
St. Clare Commons 2012A Project	**33,200,000**	-
County of Lucas, Ohio:		
Series 2002 – Franciscan Care Center, Sylvania	**-**	6,075,000
Village of Botkins, Ohio		
Series 2012–Franciscan Care Center	**9,760,000**	-
Kentucky Economic Development Finance Authority:		
Series 2010 – Madonna Manor, Inc.	**28,440,000**	28,440,000
City of Steubenville, Ohio:		
Series 2010 – Trinity	**41,085,000**	42,540,000
County of Tuscarawas, Ohio		
Trinity Hospital Twin City	**5,760,000**	6,000,000
City of Sylvania, Ohio		
Series 2012–Rosary Care Center	**4,395,000**	-
Other		
Notes payable to financial institutions, various interest rates with final installments due at various dates from 2012 to 2024	**4,202,096**	4,058,505
Other notes payable	**175,000**	193,798
Charitable gift annuity	**150,450**	171,404
Capital lease obligations collateralized by equipment	**541,881**	1,113,356
	328,689,227	291,436,863
Less current portion	**(5,815,908)**	(4,928,868)
Less original discount	**(2,416,494)**	(2,730,665)
Total long-term debt and capital lease obligations	**$ 320,456,825**	$ 283,777,330

8. Long-Term Debt and Interest Rate Swaps (continued)

The current members of the Sylvania Franciscan Health Obligated Group (the Obligated Group) are St. Joseph Regional Health Center of Bryan, Texas (St. Joseph); the corporate office of the Corporation; St. Joseph Manor, and St. Joseph Physician Associates (SJPA) effective June 30, 2012, which have adopted a common plan of financing under a Master Trust Indenture.

Under the Master Trust Indenture, each member of the Obligated Group is jointly and severally liable for payment of debt issued pursuant to the Master Indenture. The Obligated Group has issued several series of revenue bonds through Brazos County (Texas) Health Facilities Development Corporation (BCHFDC) in connection with various financing and construction projects. Under a Master Trust Indenture, the Obligated Group is jointly and severally liable for payment of Series 1993B, 1997A, 1997B, 2002, and 2008 Bonds, as a result of each having pledged to meet the principal and interest on each note for so long as any bonds are outstanding. In addition, the Obligated Group has agreed to certain operational and financial restrictions to limit additional indebtedness and guarantees, maintain specified financial ratios, and fulfill sinking fund requirements in various trustee-held accounts, among other covenants. The assets and other accounts of the Franciscan Services Self-Insurance Trust or SFH Assurance, LLC are not subject to the provisions of the Master Trust Indenture.

In addition, the Obligated Group has issued Notes to secure the guaranty by St. Joseph of obligations under the reimbursement agreement relating to the letter of credit securing the BCHFDC Series 2009 Burleson St. Joseph Manor Bonds and the guaranty by Sylvania Franciscan Health of the Kentucky Economic Development Finance Authority Madonna Manor Series 2010 Bonds, St. Clare Commons and the Trinity Hospital Twin City direct financing.

The Series 1993B Bonds consist of term bonds that mature in varying amounts through January 1, 2019, with interest ranging from 4.875% to 6% payable semiannually. Bonds outstanding may be redeemed at par. During 2011, St. Joseph executed an early redemption of $4,355,000 of the Series 1993B Bonds.

The Series 1997A Bonds consist of term bonds that mature in varying amounts annually through January 1, 2028, and bear interest ranging from 4.30% to 5.37%, payable semiannually. Outstanding bonds maturing on or after January 1, 2017, are subject to optional redemption equal to the principal plus accrued interest, if any, to the redemption date.

8. Long-Term Debt and Interest Rate Swaps (continued)

The Series 1997B Bonds consist of term bonds that mature in varying amounts annually beginning January 1, 2020 through January 1, 2028, and bear interest at 5.37%, payable semiannually. Outstanding bonds maturing on or after January 1, 2022, are subject to optional redemption equal to the principal plus accrued interest.

The Series 2002 Bonds consist of term bonds that mature in varying amounts annually beginning January 1, 2029, and bear interest at 5.38%, payable semiannually. Outstanding bonds maturing on or after January 1, 2013, are subject to optional redemption at a premium of 1% plus accrued interest. Bonds outstanding on or after January 1, 2014, may be redeemed at par plus accrued interest.

The Series 2008 Bonds consist of term bonds that mature in varying amount annually through January 1, 2038, and bear interest at a fixed rate ranging from 4.0% to 5.5%.

In connection with the refinancing of its Series 1999 Bonds, BCHFDC issued the Series 2009 Bonds on behalf of Burleson St. Joseph Manor (BSJM), which mature on July 1, 2029, and bear interest at a variable rate. Bond proceeds were borrowed under a loan agreement, with the issuer under which BSJM agrees to make payments sufficient to pay principal and interest as they become due. St. Joseph has been named as guarantor pursuant to the loan agreement. The Series 2009 Bonds are supported by a letter of credit issued by Wells Fargo Bank, N.A. The letter of credit expires on February 26, 2015. As of December 31, 2012, there have been no draws on the letter of credit. The interest rate for the 2009 Bonds, which is determined weekly, averaged approximately 0.27% for 2012, and was 0.25% at December 31, 2012. BSJM may select other interest rate modes for the 2009 Bonds, subject to certain limitations. Outstanding bonds are subject to optional redemption at a price equal to par plus accrued interest to the date of redemption.

Effective February 3, 2004, St. Joseph and Merrill Lynch Capital Services, Inc. (MLCS) entered into a basis swap agreement. The basis swap provides that St. Joseph will receive from MLCS a variable amount of interest based upon the Bond Marketing Association (BMA) Municipal Bond Index and pay MLCS a variable rate of interest at a rate of 76.75% of the London Interbank Offered Rate (LIBOR) on the notional amount of $13,750,000.

8. Long-Term Debt and Interest Rate Swaps (continued)

Effective August 30, 2005, St. Joseph and MLCS entered into two fixed receiver swap agreements (the 2005 Swaps). The 2005 Swaps provide that St. Joseph will receive from MLCS a fixed amount of interest of 5.35% and pay to MLCS a variable rate of interest based upon the BMA Municipal Bond Index on the initial notional amounts of $15,665,000 and $16,555,000. These notional amounts decline each year by the same amount as the amortization of the Series 1993B Bonds.

Effective August 16, 2007, St. Joseph and MLCS entered into five total return swaps and one fixed-payor swap (the 2007 swaps) related to the outstanding 1997A and 1997B Bonds. The total return swaps provide that St. Joseph will receive from MLCS a fixed amount of interest of 4.945% and pay to MLCS a variable rate of interest based upon the SIFMA Index on each notional amount. The fixed payor swap expires on January 1, 2028, and provides that St. Joseph will receive from MLCS a variable rate of interest of three-month LIBOR and pay to MLCS a fixed rate of interest of 3.864% on the notional amount of $48,500,000. Effective March 12, 2008, St. Joseph and MLCS entered into a fixed spread basis swap (2008 Swap) related to the outstanding 2008 Bonds. The 2008 Swap expires on March 1, 2028, and provides that St. Joseph will receive from MLCS a variable rate of interest based upon LIBOR and pay to MLCS a variable rate of interest based upon the BMA Municipal Bond Index on the initial notional amount of $30,000,000. On September 21, 2009, BSJM entered into a swap agreement with respect to the Series 2009 Bonds (the 2009 Swap) with Wells Fargo Bank N.A. The 2009 Swap, which is scheduled to mature on September 1, 2014, provides that BSJM will receive from Wells Fargo a variable rate of interest based upon the SIFMA Municipal Swap Index and pay to Wells Fargo a fixed rate of interest of 2.42% on the initial notional amount of $8,025,000. The notional amount of the swap is reduced each year consistent with the principal payments made on the 2009 Bonds, and the notional amount at December 31, 2012, is $7,140,000.

Interest rate swap contracts between St. Joseph and swap counterparties expose St. Joseph Health to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparty will not be fulfilled. Counterparty credit risk is managed by requiring high credit standards for the St. Joseph's counterparty. The counterparty to these contracts is a financial institution that carries investment-grade credit ratings. The interest rate swap contracts contain certain collateral provisions applicable to both parties to mitigate credit risk; collateral was not required at December 31, 2012 and 2011. St. Joseph may be required to post additional collateral to secure obligations that would be owed to the counterparty under the agreements if terminated,

8. Long-Term Debt and Interest Rate Swaps (continued)

regardless of whether the agreements are actually terminated. St. Joseph does not anticipate nonperformance by its counterparty. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degrees of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its derivative positions in the context of its blended cost of capital.

At December 31, 2012 and 2011, the market value of these interest rate swap agreements was a liability of $13,290,750 and $13,267,665, respectively.

The County of Erie, Ohio, issued its Series 1996A Bonds on behalf of Providence Care Centers. In connection with the issuance of the Series 1996A Bonds, Providence Care Centers entered into lease and sublease agreements with Erie County, which extend through the term of the Bonds. Payments under the sublease are equal to the principal and interest on the bonds, consisting of serial bonds which are subject to mandatory redemption on each October 1 in increasing annual amounts through October 1, 2014, bearing interest at a variable rate (.20% and 2.19% at December 31, 2012 and 2011, respectively). The bonds are supported by an irrevocable letter of credit of JPMorgan Chase Bank, N.A., which expires on October 15, 2014. The Series 1996A Bonds are secured by property.

The Series 2009A, B, and C bonds consist of serial bonds, which are subject to mandatory redemption on each October 15 in increasing annual amounts through October 5, 2034, bearing interest at a variable rate (2.15% and .12% at December 31, 2012 and 2011, respectively). Each Series of the 2009 bonds is secured by the property of Providence Care Centers, a pledge of the gross revenues of accounts receivable, inventory, equipment, and an assignment of lease rentals, and is cross-collateralized by a grant of subordinate interests in the real property and a pledge of personal properties of the other subsidiaries of Providence Care Centers.

Providence Care Centers has an interest rate swap agreement for $10,023,000 of the total borrowings outstanding. The swap is recorded at fair value, which is a liability of $757,924 and $757,956 at December 31, 2012 and 2011, respectively.

In addition, Providence Care Centers and its subsidiaries have agreed to certain operational and financial restrictions to limit additional indebtedness, guarantees, maintain specified financial ratios, and fulfill sinking fund requirements in various trustee accounts, among other covenants, which have been met.

8. Long-Term Debt and Interest Rate Swaps (continued)

In June 2010, the County of Montgomery, Ohio, issued $41.1 million Demand Revenue Bonds, Series 2010 (Series 2010 Bonds) on behalf of St. Leonard. In connection with the issuance of the Series 2010 Bonds, St. Leonard entered into lease and sublease agreements with Montgomery County, which extend through the term of the bonds. Payments under the sublease are equal to the principal and interest on the bonds. The 2010 bonds are secured by the property of St. Leonard and a pledge of the gross revenues of St. Leonard. The Series 2010 Bonds consist of serial bonds, which are subject to mandatory redemption on each April 1 in increasing annual amounts through April 1, 2040, bearing interest at a fixed rate ranging from 6% to 6.625%. To secure its obligation under the sublease, St. Leonard delivered to the Trustees its Series 2010 Note in the amount of $41.1 million issued pursuant to the St. Leonard Master Indenture, payable in installments and bearing interest in the amounts equal to the principal interest on the Series 2010 Bonds. St. Leonard is the only current member of the Obligated Group under the St. Leonard Master Indenture. The Series 2010 Note is secured by the property of St. Leonard.

On June 15, 2012, St. Clare Commons financed $33.2 million to construct a new continuing care retirement community in Perrysburg, Ohio. St. Clare Commons leased to Fifth Third Bank their interest in this project and in turn, Fifth Third Bank leased this project to the County of Wood, Ohio for sublease to St. Clare Commons. This financing is secured by a pledge St. Clare Commons revenues. All liability associated to this agreement is fully guaranteed by the Corporation. St. Clare Commons has agreed to make rental payments back to Fifth Third Bank which consists of monthly interest payments beginning August 1, 2012, based on a 3.17% rate through June 1, 2022, and quarterly principal payments beginning September 1, 2014 through June 1, 2042.

On March 1, 2012, the Village of Botkins, Ohio issued $9,760,000 of HealthCare Revenue Bonds, Series 2012 (Series 2012 Bonds) and obtained a direct loan in the amount of $1,925,000 to finance an addition consisting of the acquisition of 10 additional beds, the addition of 25 private rooms, and to refinance the Series 2002 Bonds outstanding at December 31, 2011.

The Series 2012 Bonds are subject to redemption semi-annually in varying amounts through March 1, 2018. In connection with the issuance of the Series 2012 Bonds, the Franciscan Care Center entered into lease and sublease agreements with the Village of Botkins, which extend through the terms of the series 2012 Bonds. The series 2012 Bonds are secured by a first mortgage lien on the property. Interest and principal are due semi-annually until maturity on March 1, 2028. The interest rate in effect at December 31, 2012 was 1.64%.

8. Long-Term Debt and Interest Rate Swaps (continued)

The direct loan will be paid in equal monthly installments of $16,043 over the next ten years beginning April 1 and will be secured by a second mortgage on the real estate of Franciscan Care Center, Sylvania and a lien on its business assets including, equipment, inventory, accounts receivable, general intangibles, and deposits. The amount outstanding at December 31, 2012, is $1,764,573. The interest rate in effect at December 31, 2012, was 2.16%.

On January 5, 2010, the Kentucky Economic Development Finance Authority issued $28,440,000 Healthcare Facilities Revenue Bonds (Madonna Manor, Inc. Project), Series 2010. Bond proceeds were borrowed under a loan agreement. Under the loan agreement, a note was issued to the Trustee payable in installments and bearing interest in the amounts equal to the principal and interest on the bonds. All liability under the loan agreement and note is fully guaranteed by the Corporation. The Madonna Manor Series 2010 bonds consist of serial bonds, which are subject to mandatory redemption on each December 1 in increasing annual amounts through December 1, 2039, bearing interest at a rate of 7.00%. The bonds may be redeemed in whole or in part on any business day on or after September 5, 2013, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date of redemption. The guarantee of the Corporation is further secured by a Note issued by the Obligated Group under the Sylvania Franciscan Health Master Indenture.

On December 22, 2009, Madonna Manor entered into a total return swap with Bank of America Merrill Lynch for the entire amount of borrowings with an effective date of January 5, 2010, and a termination date of January 5, 2013. In December 2012, this total return swap was renewed through January 5, 2016, with a fixed interest rate based on Bank of America’s bond rating. In accordance with the agreement, Madonna Manor makes semiannual (May 15 and November 15) variable interest payments at the USD-SIFMA Municipal Swap Index rate in exchange for a 5.00% fixed rate on the notional amount of outstanding debt. The swap is recorded at its fair value, which is an asset of $378,955 and $159,833 at December 31, 2012 and 2011, respectively. Madonna Manor has certain cash collateral requirements associated with this swap. At December 31, 2012 and 2011, collateral was not required to be posted.

8. Long-Term Debt and Interest Rate Swaps (continued)

In August 2010, Trinity Hospital Holding Company and its subsidiaries, Trinity East and Trinity West (collectively, Trinity) leased certain facilities to the City of Steubenville, Ohio (City) through the year 2030. The City then agreed to loan Trinity the proceeds from the sale by the City of $43,930,000 of Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2010. The City then subleased the facilities to Trinity East and Trinity West for the same term at a rental equal to the debt service on the Series 2010 Bonds. The obligations of Trinity to pay rent under the subleases have been evidenced and secured by the Series 2010 Note issued to The Bank of New York Mellon Trust Company, N.A. (Master Trustee) by Trinity pursuant to the terms of the Trinity Master Indenture dated August 1, 2010.

Trinity has assigned and granted an assignment of and a security interest in all present and future gross receipts of Trinity to secure payment of principal and interest on Series 2010 Bonds and the observance and performance of each member of Trinity of all of its covenants, agreements, and obligations under the Trinity Master Indenture. The security interest does not include any interest in the net assets of the Foundation, which aggregated $15,006,375 and $13,679,421 at December 31, 2012 and 2011, respectively, nor any income generated from that interest. As security for its obligations under the Series 2010 Bonds, each of Trinity East and Trinity West, respectively, has granted to the Trinity Master Trustee pursuant to the Trinity Master Indenture for the benefit of the bondholders, a first mortgage lien on the real property and fixtures constituting the existing facilities.

The Trinity Series 2010 Bonds consist of serial bonds, which are subject to mandatory redemption on each October 1 in increasing annual amounts through October 1, 2030, bearing interest at a fixed rate ranging from 2% to 5%.

During September 2011, the County of Tuscarawas, Ohio entered into a $6 million lease financing agreement with a local bank, and Trinity Hospital Twin City became the sublessee under the agreement in order to finance the acquisition of the hospital. Payments under the sublease are equal to principal and interest which through October 1, 2036, in a semi-annual amount of $120,000, bearing interest at a variable rate (1.9% at December 31, 2012 and 2011).

8. Long-Term Debt and Interest Rate Swaps (continued)

In March 2012, the City of Sylvania, Ohio issued $4,395,000 of City of Sylvania, Ohio Health Care Revenue Bonds, Series 2012 (Rosary Series 2012 Bonds) for the purpose of acquiring, constructing, equipping and improving a 17 unit assisted living facility, including refinancing certain debt and to pay the bond issuance costs. Subsequent to this, these bonds were purchased by Huntington National Bank. The site of these facilities has been leased to Rosary by the Sisters, who fully guarantee this liability. These improvements will then be sub-subleased to Rosary. The Rosary Series 2012 Bonds are subject to redemption semi-annually in varying amounts, with the final payment due on March 1, 2038. The interest rate in effect at December 31, 2012, was 1.64%.

The Corporation also has certain entities that have various outstanding notes payable as of December 31, 2012 and 2011, of $2,612,523 and $4,252,303, respectively.

Required principal payments of the Combined Group's long-term debt, excluding capital lease obligations, in each of the five years subsequent to December 31, 2012, are as follows: 2013 – $5,458,046; 2014 – $8,433,485; 2015 – $9,285,855; 2016 – $9,650,655; 2017 – $9,261,176; and thereafter $286,058,129.

Required principal payments of the Combined Group's capital lease obligations, in each of the years subsequent to December 31, 2012, are as follows: 2013 – $357,862; 2014 – $184,019.

In addition, the Obligated Group and various subsidiaries of the Corporation have agreed to certain operational and financial restrictions to limit additional indebtedness, guarantees, and maintain specified financial ratios among other covenants. As of December 31, 2012, the Corporation met all of its required covenants. Interest paid in 2012 and 2011, was approximately $14,261,000 and $14,391,000, respectively. The Combined Group capitalized interest of approximately $923,000 and $2,720,000 during 2012 and 2011, respectively.

9. Retirement and Postretirement Benefit Plans

The Corporation participates with other affiliated organizations in the Sisters of St. Francis Lay Employees' Retirement Plan (the Sisters' Plan), which is a noncontributory, defined benefit retirement plan covering eligible lay employees. The Sisters' Plan provides for retirement and disability retirement benefits based on years of service and an employee's highest consecutive three-year average earnings. The Sisters and the Corporation intend that this will be a permanent plan for the exclusive benefit of its participants, the joint annuitants, and beneficiaries.

9. Retirement and Postretirement Benefit Plans (continued)

In addition, the Sisters and the Corporation intend, but do not guarantee, to make annual contributions to the fund in an amount equal to a percentage of projected covered compensation. The Sisters' Plan is accounted for as a multiemployer pension plan. Accordingly, the Corporation records its required contributions to the Sisters' Plan as net periodic pension expense. The Corporation recognized net periodic pension expense of $12,427,818 and $13,044,470 for the years ended December 31, 2012 and 2011, respectively, based on amounts funded to the Sisters' Plan. The projected and accumulated benefit obligation exceeded the fair value of plan assets by $183.9 million and $123.8 million, respectively, at December 31, 2012, using a weighted-average discount rate of 4.12%, an expected long-term rate of return on plan assets of 8.0%, and an expected rate of compensation increase of 3.5%.

Trinity East has three defined benefit pension plans. Benefits under the pension plans are generally based on years of service and the employees' average annual compensation in five of the last ten years prior to retirement in which such earnings are the highest. Trinity East funds at least the amount necessary to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

Trinity East and Trinity West have other postretirement benefits relating to health insurance coverage for employees who participated in an early retirement program in a prior year. These postretirement benefits are not impacted by the Medicare Prescription Drug Improvement and Modernization Act of 2003 as health care coverage terminates once retirees are Medicare eligible. The Corporation has also assumed a previously owned hospital's postretirement benefit plan. Postretirement benefit costs are funded as incurred.

Amounts included in unrestricted net assets at December 31, 2012, that have not yet been recognized in net periodic pension cost are the net unrecognized prior service cost of $2,084 and net unrecognized actuarial losses of $25,950,499. The net prior service cost and net actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending December 31, 2012, are $1,853,570 and $1,602, respectively.

9. Retirement and Postretirement Benefit Plans (continued)

The table below sets forth the change in the plan assets and benefit obligation of the Trinity East pension plans and the Trinity East, Trinity West, and Providence Hospital postretirement plans for the years ended December 31, 2012 and 2011. The table also reflects the funded status of the plans, as well as recognized and unrecognized amounts in the combined statements of financial position at December 31, 2012 and 2011.

	Trinity East Pension Benefits		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 55,478,119**	$ 48,831,398	**$ 1,188,005**	$ 1,155,180
Service cost	**1,051,464**	910,739	–	–
Interest cost	**2,498,612**	2,554,831	**51,877**	61,676
Participant contributions	–	–	**7,593**	7,593
Actuarial loss	**6,028,187**	5,040,680	**86,565**	84,964
Benefits paid	**(1,964,200)**	(1,859,529)	**(125,115)**	(121,408)
Benefit obligation at end of year	**63,092,182**	55,478,119	**1,208,925**	1,188,005
Change in plan assets:				
Fair value of plan assets at beginning of year	**36,659,861**	35,805,835	–	–
Actual return on plan assets	**3,833,478**	268,555	–	–
Employer contribution	**2,520,000**	2,445,000	**117,522**	113,815
Participant contributions	–	–	**7,593**	7,593
Benefits paid	**(1,964,200)**	(1,859,529)	**(125,115)**	(121,408)
Fair value of plan assets at end of year	**41,049,139**	36,659,861	–	–
Accrued benefit cost	**$ (22,043,043)**	$ (18,818,258)	**$ (1,208,925)**	$ (1,188,005)

The accumulated benefit obligation for all pension plans was $61,758,026 and $54,328,210 at December 31, 2012 and 2011, respectively.

9. Retirement and Postretirement Benefit Plans (continued)

The Trinity East plan assets are invested in an actively managed portfolio that integrates asset allocation strategies across equity and debt markets within the United States. The portfolio objectives are long-term growth balanced with moderate variability with an expected shift to assets with a more fixed income allocation as the plan population ages and near retirement. The use of an appropriate asset management policy combines the various asset pools to ensure flexibility and to adapt to the changing retirement needs of the plan participants. The plan's objective is to have 45% to 65% invested in equities and 30% to 50% invested in fixed income securities. For the long-term, the primary investment objective for the portfolio is to earn the highest possible total return consistent with prudent levels of risk. The primary objective overall is to enable the three pension plans to meet their future obligations for employee retirement.

The weighted-average asset allocations by asset category of the Trinity East plans are as follows:

	December 31	
	2012	**2011**
Asset category:		
Equity securities	**56%**	44%
Debt securities	**44**	45
Other	**–**	11
Total	**100%**	100%

9. Retirement and Postretirement Benefit Plans (continued)

The following table summarizes the Trinity East pension assets measured at fair value on a recurring basis as of December 31, 2012 and 2011, aggregated by the level in the fair value hierarchy within which those measurements are determined:

		Fair Value Measurement at December 31, 2012 Using:		
	Total Fair Value Measurement at December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	**$ 1,065,110**	**$ 1,065,110**	**$ –**	**$ –**
U.S. government and agency obligations	**6,635,592**	**–**	**6,635,592**	**–**
Equities:				
International	**4,684,791**	**4,684,791**	**–**	**–**
Corporate bonds:				
Domestic	**9,836,769**	**–**	**9,836,769**	**–**
International	**418,382**	**–**	**418,382**	**–**
Mutual funds:				
Domestic	**18,408,495**	**18,408,495**	**–**	**–**
	$ 41,049,139	**$ 24,158,396**	**$ 16,890,743**	**$ –**

		Fair Value Measurement at December 31, 2011 Using:		
	Total Fair Value Measurement at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 5,221,578	$ 5,221,578	$ –	$ –
U.S. government and agency obligations	9,409,592	–	9,409,592	–
Equities:				
International	3,942,636	3,942,636	–	–
Corporate bonds:				
Domestic	5,460,332	–	5,460,332	–
International	421,007	–	421,007	–
Mutual funds:				
Domestic	12,204,716	12,204,716	–	–
	$ 36,659,861	$ 21,368,930	$ 15,290,931	$ –

9. Retirement and Postretirement Benefit Plans (continued)

Trinity East expects to contribute $2,520,000 to its pension plans in fiscal 2013. Sylvania Franciscan Health expects to contribute $112,000 to its postretirement plan in 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the Trinity East pension plans and the Trinity East and West and Providence Hospital other benefits during the year ending December 31:

	Pension Benefits	Postretirement Benefits
2013	$ 2,308,092	$ 120,377
2014	2,404,494	120,087
2015	2,503,185	107,754
2016	2,658,730	106,550
2017	2,840,729	104,343
2018-2022	17,164,290	455,037

The components of net periodic benefit cost for the pension plans and other postretirement benefit plans for the years ended December 31, 2012 and 2011, were as follows:

	Pension Benefits		Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Service cost	**$ 1,051,464**	$ 910,739	**$ –**	$ –
Interest cost	**2,498,612**	2,554,831	**51,877**	61,676
Expected return on plan assets	**(2,951,732)**	(3,017,633)	**–**	–
Recognized net actuarial loss (gain)	**1,343,200**	844,058	**(32,587)**	(47,357)
Amortization of prior service cost	**1,602**	1,602	**–**	–
Net periodic benefit cost	**$ 1,943,146**	$ 1,293,597	**$ 19,290**	$ 14,319

9. Retirement and Postretirement Benefit Plans (continued)

Actuarial assumptions for the Trinity East and Trinity West pension plans are as follows:

	December 31	
	2012	**2011**
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	**3.8%**	4.6%
Expected long-term rate of return on plan assets	**7.5%**	8.0%
Expected rate of compensation increase	**3.0%**	3.0%
Weighted-average assumptions used to determine benefit obligation for years ended December 31:		
Discount rate	**4.6%**	5.35%
Rate of compensation increase	**3.0%**	3.0%

In selecting the expected long-term return on plan assets, Trinity East pension plans considered the average rate of earnings on the funds invested or to be invested to provide for the benefits of these plans. This included considering the asset allocation and the expected returns likely to be earned over the life of the plans. This basis is consistent with prior year.

Actuarial assumptions for the Providence Hospital plan are as follows:

	December 31	
	2012	**2011**
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	**4.67%**	5.75%
Weighted-average assumptions used to determine benefit obligation for years ended December 31:		
Discount rate	**3.62%**	4.67%

An increase of 9.0% in the health care cost trend rate was assumed for Providence Hospital plan next year. This rate is assumed to decrease gradually to 5% in 2021 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. A 1% increase in the heath care cost rate would increase the accumulated postretirement benefit obligation by $113,265 and the net periodic cost by $4,490. A 1% decrease in the health care cost rate would decrease the accumulated postretirement benefit obligation by $100,994 and the net periodic cost by $3,964.

9. Retirement and Postretirement Benefit Plans (continued)

Trinity Hospital Holding Company has supplemental pension and welfare agreements with certain key executives that provide for fixed payments at the date of retirement, death, or disability and lump-sum life insurance benefits. Trinity Hospital Holding Company is providing for these benefits over the estimated term of employment of the employees to age 65. The present value of these benefits of approximately $1,001,000 and $701,000 at December 31, 2012 and 2011, respectively, has been included in the combined statements of financial position as long-term retirement benefits payable. Approximately $293,000 and $6,900 was charged to expense for these benefits for the years ended December 31, 2012 and 2011, respectively. Trinity Hospital Holding Company has purchased life insurance contracts on certain employees, which upon the death of the employee, may be used to fund the supplemental pension and welfare arrangements with the key executives.

The Corporation has a supplemental retirement plan for certain key employees. The Corporation recognizes expense on a prorated basis over the expected service period of the participants. The plan is funded with investments held in a Rabbi Trust. The plan assets are included with assets whose use is limited on the combined statements of financial position and totaled $1,123,035 and $1,114,954 at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, respectively, the Corporation has a supplemental retirement obligation of $1,728,481 and $1,769,670.

The Corporation is the sponsor of the 457(b) Plan for Sylvania Franciscan Sponsored Ministries 457(b) plan which was established in 2011 to provide deferred compensation for a select group of management or highly compensated employees. At December 31, 2012 and 2011, respectively, the plan assets of $759,355 and $316,641 are included in assets whose use is limited and a corresponding retirement obligation is recorded.

The Sisters of St. Francis 403(b) Voluntary Employee Deferral Plan is a single-employer, defined contribution employee benefit plan. All entities of the Corporation who have adopted the plan are eligible to participate upon the date of employment. In addition, St. Joseph may elect to make discretionary matching contributions of $.50 for every $1.00 of an employee's elective deferrals, up to 2% of an employee's compensation. Employees become 100% vested in the employer's contribution after three years of service. St. Joseph contributed approximately $681,091 and $551,925 during the years ended December 31, 2012 and 2011, respectively.

10. Related-Party Transactions

Rosary Care Center entered into a lease agreement with the Sisters, which provides monthly rental payments and payments for expenses in connection with the maintenance and operation of the leased premises. Rental expenses amounted to $157,800 for the years ended December 31, 2012 and 2011. The monthly rental payments under the operating lease are approximately $13,150 plus interest on the Sisters debt instrument and expenses relating to maintenance and operating of the premises.

Trinity Health System has transactions with Tri-State, a co-sponsor with the Corporation of Trinity Health System, which relate primarily to the rental of office space and the purchase of employee time which are not material. Net amounts due from Tri-State of approximately $525,000 and $270,000, respectively, at December 31, 2012 and 2011, are included in due from and to affiliates. The Corporation also has other amounts included in due to/from affiliates relating to transactions with the Sisters and related physician practices.

11. Contingencies

The Corporation is party to several lawsuits incidental to its operations. It is not possible at the present time to estimate the ultimate legal and financial liability, if any, of the Corporation with respect to such lawsuits. In the opinion of management, after consultation with legal counsel, adequate insurance exists to cover significant financial exposure, in the event there is any, to the Corporation. Accordingly, in the opinion of management, resolution of those matters is not expected to have a material adverse effect on the combined financial position.

On October 5, 1995, St. Joseph executed an operating lease agreement with Burleson County Hospital District to lease substantially all of the property, plant, and equipment of the acute care facility located in Caldwell, Texas, for five years with three renewal terms of five years each. Effective October 1, 2005, St. Joseph executed a second lease renewal that extended the lease for eight years with one renewal option for an additional period of eight years.

On March 17, 1996, St. Joseph executed an operating lease agreement with Grimes County to lease substantially all the plant, property, and equipment of the acute care facility located in Navasota, Texas, for seven years with two renewal terms of seven years each. The lease was renewed for a seven-year term effective September 17, 2010.

11. Contingencies (continued)

At December 31, 2011, future minimum lease payments under noncancelable operating leases, with initial lease terms of greater than one year, aggregate as follows: 2013 – $17,711,519; 2014 – $11,723,505; 2015 – $8,845,126; 2016 – $4,916,784; 2017–$4,608,512.

Rental expenses for operating leases and medical equipment for the years ended December 31, 2012 and 2011, amounted to $21,745,011 and $20,798,215, respectively.

12. Concentrations of Credit Risk

The members of the Combined Group grant credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	December 31	
	2012	**2011**
Government-related programs	**43%**	42%
Patients	**32**	35
Other third-party payors	**25**	23
	100%	100%

13. Functional Expenses

The members of the Combined Group provide general health care services to residents within their geographic locations including medical/surgical, pediatric, critical, emergency care, and post-acute residential care. Expenses from continuing operations relating to providing these services are as follows:

	Year Ended December 31	
	2012	**2011**
Health care services	**$ 435,580,274**	$ 392,006,375
General and administrative	**178,947,313**	177,452,700
	$ 614,527,587	$ 569,459,075

14. Trinity Texas Disaffiliation

In 2010, Trinity Health Services Corporation and Subsidiaries (Trinity Texas) separated from the Corporation. Trinity Texas acquired the Corporation's membership interest through reorganization and paid the Corporation 45% of their net asset value, as defined. This consideration was paid 10% in cash at closing and the remaining was paid over a two-year period with interest. The note receivable at December 31, 2012 and 2011, is $0 and $19,621,710 and earned interest at 5.25%.

Obligated Group Supplementary Information

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Report of Independent Auditors on Obligated Group Supplementary Information

The Board of Trustees
Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The following combining statements of financial position as of December 31, 2012, and the combining statement of operations, and combining statement of changes in net assets for the year ended December 31, 2012, are presented for purposes of additional analysis and are not a required part of the combined 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 audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements taken as a whole.

Ernst & Young LLP

May 17, 2013

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combining Statement of Financial Position – Assets
(With Combination of Obligated Group)

	December 31, 2012								
	Sylvania Franciscan Health Corporate Office	St. Joseph Regional Health Center of Bryan, Texas	St. Joseph Manor	St. Joseph Physician Associates	Combination Adjustments	Obligated Group Combined	Non-obligated Group Combined	Combination Adjustments	Combined
Assets									
Current assets:									
Cash and cash equivalents	$ 2,227,042	$ 5,224,650	$ 47,587	$ 295,076	$ –	$ 7,794,355	$ 28,669,646	$ –	$ 36,464,001
Investments	–	–	–	–	–	–	144,062	–	144,062
Current portion of trustee-held funds	–	4,596,685	373,428	–	–	4,970,113	806,902	–	5,777,015
Accounts and notes receivable:									
Patients and residents	–	56,080,539	910,622	4,466,018	–	61,457,179	66,789,456	–	128,246,635
Less allowances for doubtful accounts	–	10,688,376	107,290	976,233	–	11,771,899	30,930,012	–	42,701,911
	–	45,392,163	803,332	3,489,785	–	49,685,280	35,859,444	–	85,544,724
Other receivables	63,181	3,771,866	45,088	–	–	3,880,135	2,112,721	–	5,992,856
	63,181	49,164,029	848,420	3,489,785	–	53,565,415	37,972,165	–	91,537,580
Due from affiliates	2,664,945	2,343,882	28,051	–	(369,911)	4,666,967	1,755,424	(5,611,045)	811,346
Inventories	–	6,343,126	–	–	–	6,343,126	4,550,690	–	10,893,816
Prepaid expenses and other	86,522	1,949,382	21,169	619,577	–	2,676,650	2,611,672	–	5,288,322
Total current assets	5,041,690	69,621,754	1,318,655	4,404,438	(369,911)	80,016,626	76,510,561	(5,611,045)	150,916,142
Assets whose use is limited:									
Board-designated and restricted funds	759,355	–	–	–	–	759,355	80,444,825	–	81,204,180
Trustee-held funds, less current portion	1,123,035	10,494,570	1,545,756	–	–	13,163,361	42,987,641	–	56,151,002
Franciscan Services Self-Insurance Program	–	–	–	–	–	–	18,303,190	–	18,303,190
Foundation investments	–	–	–	–	–	–	37,943,310	–	37,943,310
Other investments	–	–	–	–	–	–	1,476,283	–	1,476,283
	1,882,390	10,494,570	1,545,756	–	–	13,922,716	181,155,249	–	195,077,965
Net property and equipment	230,251	163,847,389	8,640,457	4,812,454	–	177,530,551	201,985,451	–	379,516,002
Other assets:									
Due from affiliates	–	5,500,967	112,202	167	–	5,613,336	3,207,206	(8,820,542)	–
Financing costs, net of amortization	–	2,369,677	270,691	–	–	2,640,368	3,031,690	–	5,672,058
Notes and other receivables	–	–	–	–	–	–	3,979,736	–	3,979,736
Goodwill	–	–	–	–	–	–	3,873,161	–	3,873,161
Beneficial interest in the assets of affiliate	–	1,300,621	20,787	1,377	–	1,322,785	(1,322,785)	–	
Certificates of need, net of amortization	–	–	–	–	–	–	3,451,995	–	3,451,995
Long-term investments	36,492,227	157,949,336	–	–	–	194,441,563	22,729,921	–	217,171,484
Other	–	282,331	–	–	–	282,331	788,956	–	1,071,287
	36,492,227	167,402,932	403,680	1,544	–	204,300,383	39,739,880	(8,820,542)	235,219,721
Total assets	$ 43,646,558	$ 411,366,645	$ 11,908,548	$ 9,218,436	$ (369,911)	$ 475,770,276	$ 499,391,141	$ (14,431,587)	$ 960,729,830

1304-1072602

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combining Statement of Financial Position – Liabilities and Net Assets
(With Combination of Obligated Group)

	December 31, 2012								
	Sylvania Franciscan Health Corporate Office	**St. Joseph Regional Health Center of Bryan, Texas**	**St. Joseph Manor**	**St. Joseph Physician Associates**	**Combination Adjustments**	**Obligated Group Combined**	**Non-obligated Group Combined**	**Combination Adjustments**	**Combined**
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued expenses:									
Accounts payable	$ 32,997	$ 16,161,576	$ 78,543	$ 829,480	$ (109,373)	$ 16,993,223	$ 27,559,589	$ 58,817	$ 44,611,629
Compensation, fees, and amounts withheld from compensation	4,029	8,705,328	91,368	371,293	–	9,172,018	8,428,161	–	17,600,179
Accrued interest	–	3,261,685	373,428	–	–	3,635,113	1,292,063	–	4,927,176
Due to affiliate	197,428	260,538	–	–	(260,538)	197,428	2,882,298	(3,079,726)	–
Other	–	–	–	–	–	–	1,380,730	–	1,380,730
	234,454	28,389,127	543,339	1,200,773	(369,911)	29,997,782	41,542,841	(3,020,909)	68,519,714
Deferred revenue	–	–	–	–	–	–	119,383	–	119,383
Settlements payable under third-party reimbursement contracts		7,137,142	–	–	–	7,137,142	3,741,923	–	10,879,065
Lines of credit	703,635	–	–	–	–	703,635	2,460,000	(385,000)	2,778,635
Current portion of refundable and nonrefundable entrance fees	–	–	–	–	–	–	1,302,265	–	1,302,265
Current portion of reserve for insurance claims	–	1,375,242	28,051	–	–	1,403,293	3,006,978	(2,205,136)	2,205,135
Current portion of retirement obligation	237,328	–	–	–	–	237,328	8,093	–	245,421
Current portion of long-term debt and capital lease obligations	–	1,860,534	–	–	–	1,860,534	3,955,374	–	5,815,908
Total current liabilities	1,175,417	38,762,045	571,390	1,200,773	(369,911)	41,339,714	56,136,857	(5,611,045)	91,865,526
Due to affiliate	–	865,577	296,627	252,165	–	1,414,369	(1,414,369)	–	–
Retirement plans	2,362,792	–	–	–	–	2,362,792	23,044,093	–	25,406,885
Postretirement benefit obligation, less current portion	1,082,023	–	–	–	–	1,082,023	6,525	–	1,088,548
Reserve for insurance claims	–	5,500,967	112,202	–	–	5,613,169	12,027,915	(8,820,542)	8,820,542
Derivative liability, net	–	10,037,284	3,003,330	–	–	13,040,614	1,008,060	–	14,048,674
Non-refundable and refundable entrance fees, less current portion	–	–	–	–	–	–	18,436,221	–	18,436,221
Long-term debt and capital lease obligations, less current portion	–	120,377,241	13,735,399	–	–	134,112,640	186,344,185	–	320,456,825
Other	–	853,341	1,111,675	–	–	1,965,016	372,722	–	2,337,738
Total liabilities	4,620,232	176,396,455	18,830,623	1,452,938	(369,911)	200,930,337	295,962,209	(14,431,587)	482,460,959
Net assets (deficit):									
Unrestricted	39,026,326	233,391,723	(6,942,862)	7,764,121	–	273,239,308	190,364,098	–	463,603,406
Temporarily restricted	–	1,578,467	20,787	1,377	–	1,600,631	8,865,147	–	10,465,778
Permanently restricted	–	–	–	–	–	–	4,199,687	–	4,199,687
Total net assets (deficit)	39,026,326	234,970,190	(6,922,075)	7,765,498	–	274,839,939	203,428,932	–	478,268,871
Total liabilities and net assets	$ 43,646,558	$ 411,366,645	$ 11,908,548	$ 9,218,436	$ (369,911)	$ 475,770,276	$ 499,391,141	$ (14,431,587)	$ 960,729,830

Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combining Statement of Operations
(With Combination of Obligated Group)

	Year Ended December 31, 2012								
	Sylvania Franciscan Health Corporate Office	**St. Joseph Regional Health Center of Bryan, Texas**	**St. Joseph Manor**	**St. Joseph Physician Associates**	**Combination Adjustment**	**Obligated Group Combined**	**Non-obligated Group Combined**	**Combination Adjustments**	**Combined**
Revenue, gains, and other support									
Net patient service revenue (net of contractual allowances and discounts)	$ –	$ 295,386,618	$ 7,713,343	$ 13,167,226	$ –	$ 316,267,187	$ 317,798,331	$ –	$ 634,065,518
Provision for bad debts	–	22,610,079	–	1,103,416	–	23,713,495	23,209,385	–	46,922,880
Net patient service revenue less provision for bad debts	–	272,776,539	7,713,343	12,063,810	–	292,553,692	294,588,946	–	587,142,638
Other revenue	3,352,713	5,950,427	65,922	3,219,043	(1,880,170)	10,707,935	12,840,258	(2,544,302)	21,003,891
Rental revenue	–	–	–	–	–	–	9,264,796	–	9,264,796
Net assets released from restrictions	–	–	–	–	–	–	321,331	–	321,331
Total revenue, gains, and other support	3,352,713	278,726,966	7,779,265	15,282,853	(1,880,170)	303,261,627	317,015,331	(2,544,302)	617,732,656
Expenses									
Salaries and wages	2,268,177	95,342,323	3,307,386	13,913,419	–	114,831,305	143,526,419	–	258,357,724
Employee benefits	643,400	30,350,520	1,117,386	1,590,442	–	33,701,748	42,249,739	(9,892)	75,941,595
Purchased services, utilities, and other	1,978,566	55,370,985	2,810,577	4,232,074	(1,880,170)	62,512,032	52,421,973	(2,534,410)	112,399,595
Supplies and pharmaceuticals	47,828	44,049,274	455,550	938,595	–	45,491,247	52,663,964	–	98,155,211
Provision for bad debts	–	–	(1,554)	–	–	(1,554)	272,902	–	271,348
Depreciation and amortization	72,258	16,569,232	375,412	505,967	–	17,522,869	17,742,725	–	35,265,594
Professional fees	419,052	14,805,689	14,400	(54,295)	–	15,184,846	5,610,088	–	20,794,934
Interest	260	6,611,517	783,900	–	–	7,395,677	5,945,909	–	13,341,586
Total expenses	5,429,541	263,099,540	8,863,057	21,126,202	(1,880,170)	296,638,170	320,433,719	(2,544,302)	614,527,587
Operating (loss) income	(2,076,828)	15,627,426	(1,083,792)	(5,843,349)	–	6,623,457	(3,418,388)	–	3,205,069
Nonoperating gains (losses)									
Investment income (loss)	1,661,971	12,775,635	(29,829)	–	–	14,407,777	6,551,105	–	20,958,882
Net unrealized gains on investments	582,141	363,510	–	–	–	945,651	7,133,052	–	8,078,703
Contributions	–	(326,548)	–	–	–	(326,548)	2,086,206	–	1,759,658
Fundraising expenses	–	–	–	–	–	–	(1,342,357)	–	(1,342,357)
Gains under interest rate swap agreements	–	1,783,963	141,105	–	–	1,925,068	149,196	–	2,074,264
Losses on disposal of assets	–	(52,716)	–	(14,619)	–	(67,335)	(28,103)	–	(95,438)
Gain from insurance proceeds	–	–	–	–	–	–	613,572	–	613,572
Other	–	–	–	–	–	–	(520,431)	–	(520,431)
Nonoperating gains (losses), net	2,244,112	14,543,844	111,276	(14,619)	–	16,884,613	14,642,240	–	31,526,853
Excess (deficit) of revenue over expenses	$ 167,284	$ 30,171,270	$ (972,516)	$ (5,857,968)	$ –	$ 23,508,070	$ 11,223,852	$ –	$ 34,731,922

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Sylvania Franciscan Health and Subsidiaries
Sisters of St. Francis of Sylvania, Ohio

Combining Statement of Changes in Net Assets
(With Combination of Obligated Group)

	Year Ended December 31, 2012						
	Sylvania Franciscan Health Corporate Office	**St. Joseph Regional Health Center of Bryan, Texas**	**St. Joseph Manor**	**St. Joseph Physician Associates**	**Obligated Group Combined**	**Non-obligated Group Combined**	**Combined**
Unrestricted net assets							
Excess (deficit) of revenue over expenses	$ 167,284	$ 30,171,270	$ (972,516)	$ (5,857,968)	$ 23,508,070	$ 11,223,852	$ 34,731,922
Other changes from continuing operations:							
Change in pension liability	–	–	–	–	–	(3,801,639)	(3,801,639)
Net assets released from restriction	–	531,327	27,231	–	558,558	506,841	1,065,399
Transfer of equity	368,085	(15,869,737)	2,552,709	13,622,089	673,146	(673,146)	–
Increase in unrestricted net assets	535,369	14,832,860	1,607,424	7,764,121	24,739,774	7,255,908	31,995,682
Temporarily restricted net assets							
Contributions	–	191,623	–	–	191,623	1,197,322	1,388,945
Investment income	–	–	–	–	–	198,059	198,059
Net unrealized gains on investments	–	–	–	–	–	265,630	265,630
Change in beneficial interest	–	(200,453)	(22,722)	1,377	(221,798)	221,798	–
Net assets released from restrictions	–	–	–	–	–	(1,471,818)	(1,471,818)
(Decrease) increase in temporarily restricted net assets	–	(8,830)	(22,722)	1,377	(30,175)	410,991	380,816
Permanently restricted net assets							
Net realized and unrealized gains on investments	–	–	–	–	–	(1,424)	(1,424)
Net unrealized losses on investments	–	–	–	–	–	366	366
Donations and other, net	–	–	–	–	–	15,951	15,951
Increase in permanently restricted net assets	–	–	–	–	–	14,893	14,893
Increase in net assets	535,369	14,824,030	1,584,702	7,765,498	24,709,599	7,681,792	32,391,391
Net assets (deficit) at beginning of year	38,490,957	220,146,160	(8,506,777)	–	250,130,340	195,747,140	445,877,480
Net assets at end of year	$ 39,026,326	$ 234,970,190	$ (6,922,075)	$ 7,765,498	$ 274,839,939	$ 203,428,932	$ 478,268,871

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