CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

The Christ Hospital Health Network
Years Ended June 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

The Christ Hospital Health Network

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2013 and 2012

Contents

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Report of Independent Auditors

To the Board of Directors
The Christ Hospital Health Network

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Christ Hospital Health Network, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Christ Hospital Health Network at June 30, 2013 and 2012, and the consolidated 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

August 19, 2013

The Christ Hospital Health Network

Consolidated Balance Sheets

	June 30 2013	June 30 2012
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 31,137**	$ 95,661
Net patient accounts receivable, less allowance for uncollectible accounts of $25,788 in 2013 and $19,674 in 2012	**91,271**	80,574
Other accounts receivable	**10,729**	11,245
Inventories	**11,508**	9,534
Prepaid and other current assets	**10,879**	9,546
Estimated receivable from third-party payors, net	**2,500**	–
Total current assets	**158,024**	206,560
Assets whose use is limited and investments:		
Assets whose use is limited:		
Restricted by donor	**104,574**	107,525
Tax-exempt bond proceeds	**71,559**	136,956
Funds for self-insurance reserves	**10,691**	10,861
Investments	**247,592**	166,942
	434,416	422,284
Property and equipment, net	**313,940**	250,177
Goodwill and intangible assets, net	**36,829**	37,834
Unamortized bond issuance costs	**6,350**	6,148
Other long-term assets	**14,204**	11,339
Total assets	**$ 963,763**	$ 934,342

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	June 30	
	2013	2012
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 27,825**	$ 21,685
Compensation and benefits	**42,007**	34,113
Current portion of long-term debt	**2,479**	2,804
Estimated payable from third-party payors, net	**–**	616
Total current liabilities	**72,311**	59,218
Long-term self-insurance reserves	**17,647**	14,332
Pension liability	**65,042**	114,568
Long-term benefits and other liabilities	**18,882**	15,065
Long-term debt, net of current portion	**360,086**	362,138
Total liabilities	**533,968**	565,321
Net assets:		
Unrestricted	**307,013**	241,194
Temporarily restricted	**101,171**	106,769
Permanently restricted	**3,957**	3,792
Total net assets excluding noncontrolling interest	**412,141**	351,755
Noncontrolling interest	**17,654**	17,266
Total net assets	**429,795**	369,021
Total liabilities and net assets	**$ 963,763**	$ 934,342

See accompanying notes.

The Christ Hospital Health Network

Consolidated Statements of Operations

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Revenue		
Net patient service revenue (net of contractual provision and discounts)	**$ 724,431**	$ 653,960
Provision for bad debts	**(15,716)**	(10,863)
Net patient service revenue less provision for bad debts	**708,715**	643,097
Other revenue	**52,792**	37,882
Total operating revenue	**761,507**	680,979
Expenses		
Salaries and wages	**305,294**	273,807
Fringe benefits	**78,074**	66,651
Purchased services	**94,353**	91,934
Professional fees	**15,037**	13,649
Supplies	**164,481**	147,159
Utilities and insurance	**13,735**	10,054
Depreciation and amortization	**39,888**	39,718
Interest	**12,871**	2,207
Other, net	**18,469**	18,900
Total operating expenses	**742,202**	664,079
Excess of revenue over expenses before other (loss) income	**19,305**	16,900
Other (loss) income:		
Other, primarily investment (loss) income	**(2,678)**	575
Excess of revenue over expenses	**16,627**	17,475
Excess of revenue over expenses attributable to noncontrolling interest	**5,342**	6,833
Excess of revenue over expenses attributable to The Christ Hospital Health Network	**$ 11,285**	$ 10,642

See accompanying notes.

The Christ Hospital Health Network

Consolidated Statements of Changes in Net Assets

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Unrestricted net assets		
Excess of revenue over expenses attributable to The Christ Hospital Health Network	**$ 11,285**	$ 10,642
Change in plan assets and benefit obligation of pension plans	**49,490**	(54,125)
Net asset released from restrictions for capital purposes	**5,044**	21
Increase (decrease) in unrestricted net assets attributable to The Christ Hospital Health Network	**65,819**	(43,462)
Temporarily restricted net assets		
Contributions and investment income	**927**	101,419
Net assets released from restrictions	**(6,525)**	(954)
(Decrease) increase in temporarily restricted net assets attributable to The Christ Hospital Health Network	**(5,598)**	100,465
Permanently restricted net assets		
Contributions and investment income	**165**	146
Increase in permanently restricted net assets attributable to The Christ Hospital Health Network	**165**	146
Noncontrolling interest		
Excess of revenue over expenses attributable to noncontrolling interest	**5,342**	6,833
Distributions to equity owners	**(4,954)**	(6,577)
Increase in net assets attributable to noncontrolling interest	**388**	256
Total increase in net assets	**60,774**	57,405
Net assets at beginning of year	**369,021**	311,616
Net assets at end of year	**$ 429,795**	$ 369,021

See accompanying notes.

The Christ Hospital Health Network

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2013	**2012**
	(In Thousands)	
Operating activities		
Increase in net assets	**$ 60,774**	**$ 57,405**
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	**15,716**	**10,863**
Depreciation	**38,015**	**37,306**
Amortization of intangible assets	**1,873**	**2,412**
(Gain) loss on interest rate swap agreement	**(1,006)**	**1,774**
Change in plan assets and benefit obligation of pension plan	**(49,490)**	**54,125**
Restricted contributions and investment income	**(1,092)**	**(101,565)**
Cash (used in) provided by operating assets and liabilities:		
Increase in patient accounts	**(26,413)**	**(13,208)**
Increase in other current assets	**(5,291)**	**(2,885)**
(Increase) decrease in other assets	**(2,865)**	**216**
Increase in other liabilities	**7,029**	**3,447**
Increase in other long-term liabilities	**8,102**	**218**
Net cash provided by operating activities	**45,352**	**50,108**
Investing activities		
Additions to property and equipment	**(94,084)**	**(73,077)**
Acquisition of physician practices and related entities, net of cash acquired	**(2,173)**	**(1,863)**
Purchase of short-term investment under repurchase agreement	**–**	**(188,975)**
Sale of short-term investment under repurchase agreement	**–**	**188,924**
Transfer of short-term investment upon termination of repurchase agreement	**–**	**63,000**
Increase in assets whose use is limited and investments	**(12,132)**	**(260,676)**
Net cash used in investing activities	**(108,389)**	**(272,667)**
Financing activities		
Repayment of long-term debt	**(4,619)**	**(2,461)**
Proceeds from issuance of long-term debt	**2,242**	**333,428**
Cost of long-term debt issuance, net	**(202)**	**(6,148)**
Proceeds from obligation under repurchase agreement	**–**	**183,330**
Payments on obligation under repurchase agreement	**–**	**(244,440)**
Payment on line of credit	**–**	**(72,929)**
Restricted contributions and investment income	**1,092**	**101,565**
Net cash (used in) provided by financing activities	**(1,487)**	**292,345**
(Decrease) increase in cash and cash equivalents	**(64,524)**	**69,786**
Cash and cash equivalents at beginning of year	**95,661**	**25,875**
Cash and cash equivalents at end of year	**$ 31,137**	**$ 95,661**

See accompanying notes.

1. Organization and Mission

The Christ Hospital (the Hospital) and Subsidiaries, doing business as The Christ Hospital Health Network (the Network), is a tax-exempt Ohio corporation, formed on June 25, 1891. The Network's mission is to provide high-quality personalized health care to the residents of Cincinnati and surrounding areas. The Christ Hospital, Inc. (the Corporation) is the sole member of the Network. The Network owns or controls the following companies, all of which are included in the consolidated financial statements of the Network as of June 30, 2013 and 2012, unless otherwise noted:

The Christ Hospital Physicians, LLC (TCHP) is a wholly owned domestic limited liability company whose operations consist of managing physician practices serving the residents of Cincinnati and the surrounding areas. This entity owns 100% of the interest in various medical practices.

The Christ College of Nursing and Health Sciences (the College) is a tax-exempt Ohio corporation whose operations consist of preparing men and women for careers in nursing and other health science programs.

ExCEL Insurance Company, Ltd. (ExCEL) is a wholly owned captive insurance company domiciled in the Cayman Islands, which insures professional and general liability risks of the Network.

The Carl and Edyth Lindner Center for Research and Education at The Christ Hospital, LLC (Lindner) is a wholly owned domestic limited liability company whose operations consist of performing medical clinical trials in Cincinnati and the surrounding areas.

The Christ Hospital Foundation (the Foundation) is a tax-exempt Ohio corporation which conducts and supports charitable activities exclusively for the benefit of the Hospital.

1. Organization and Mission (continued)

TCH/USP Surgery Centers, LLC (TCH/USP) is a joint venture between the Network and USP Surgery Centers, Inc. The Network maintains a majority ownership interest of 50.1% in TCH/USP and, therefore, consolidates the balance sheet and statements of operations, changes in net assets, and cash flows of TCH/USP with the recognition of a noncontrolling interest of 49.9%. TCH/USP maintains a 51% interest in The Christ Hospital Spine Surgery Center, LLC (the Surgery Center). The Surgery Center performs spine and related back surgeries and procedures in Cincinnati and surrounding areas.

The Christ Hospital Clinically Integrated Network, LLC (CIN) is a wholly owned domestic limited liability company, formed on December 16, 2011, whose operations consist of working with medical practices and other health care providers, consumers, and payors to provide services and facilitate the efficient delivery of quality care.

From January 1, 1995 to April 10, 2006, the Hospital was a member of The Health Alliance of Greater Cincinnati (the Alliance), now doing business as UC Health. In January 2009, the Network reached a financial settlement agreement with the Alliance to finalize the financial details of the Hospital's withdrawal from the Alliance. The Network has operated fully independent of the Alliance since July of 2008.

The accompanying consolidated financial statements include the accounts, after elimination of all significant intercompany transactions and balances, of the Network. The Network prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

2. Significant Accounting Policies

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurements* (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in ASU 2011-04 change the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Network has adopted the provisions of ASU 2011-04 in 2013. The adoption did not have a material impact on the consolidated financial statements.

Fair Value Measurements

The Network follows the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumptions in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity’s own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

2. Significant Accounting Policies (continued)

- *Level 1* **–** inputs utilize quoted market prices in active markets for identical assets or liabilities that the Network has the ability to access.

- *Level 2* **–** inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

- *Level 3* **–** inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Network's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, the Network utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Network, including those traded on exchanges, to be valued at. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Network's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Network considers highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Net Patient Accounts Receivable

Net patient accounts receivable and net patient service revenue less the provision for bad debts are recorded at estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience of self-pay accounts receivable including those balances after insurance payments and not covered by insurance. 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 accounts. There have been no significant changes in the current year to the underlying assumptions used by the Network to estimate the allowance for uncollectible accounts.

After satisfaction of amounts due from insurance and reasonable efforts to collect from the patients themselves have been exhausted, the Network may place certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Network. Patient accounts receivable are written off after collection efforts have been followed in accordance with the Network's policies. Overall, the total write-offs of uncollectible accounts and allowances on self-pay patient accounts have not changed significantly since June 30, 2012.

(Dollar Amounts in Thousands)

2. Significant Accounting Policies (continued)

Financial instruments that potentially subject the Network to concentrations of credit risk consist primarily of nongovernmental patient accounts receivable. The Network grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors approximated the following at June 30:

	2013	2012
Medicare	**33%**	33%
Medicaid	**8**	9
Self-pay	**12**	12
Commercial and other	**47**	46
	100%	100%

Pledges Receivable

The Network receives certain unconditional promises to pay, which are recorded in the form of pledges receivable. An allowance for doubtful pledges is established for those pledges that the Network estimates to be uncollectible, if deemed necessary. As of June 30, 2013 and 2012, pledges are primarily donor restricted for capital needs of the Network and are included in the consolidated balance sheets in other accounts receivable and other long-term assets. Collections of these pledges are expected to be made over the following time frame at June 30:

	2013	2012
2013	**$ –**	$ 2,750
2014	**1,250**	250
Gross pledges receivable	**1,250**	3,000
Less allowance for doubtful pledges	**–**	–
Net pledges receivable	**$ 1,250**	$ 3,000

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market.

2. Significant Accounting Policies (continued)

Assets Whose Use Is Limited and Investments

Assets whose use is limited includes funds restricted by donors for charitable purposes, restricted under tax-exempt bond financings and long-term obligations, and trustee-held funds for the retirement of professional liability obligations. Assets whose use is limited consists of cash and cash equivalents, as well as marketable debt securities, consisting primarily of U.S. government, U.S. government agencies, and corporate debt securities.

Investments are made up of marketable debt securities, consisting primarily of U.S. government agencies and corporate debt securities, marketable equity securities, marketable real estate investment trust, exchange-traded mutual funds and other securities.

Interest and dividend earnings (net of expenses), net realized losses on investments, and the net change in unrealized (losses) gains on investments are considered investment (loss) income and are included in excess of revenue over expenses, as either a component of other revenue or other, primarily investment (loss) income unless the income or loss is restricted by donor or by law.

The global financial markets and banking system are subject to volatility which could adversely impact the Network. The Network's assets whose use is limited and investments are exposed to various risks such as interest rate, market, and credit risks.

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair market value at the date of receipt or determination. Depreciation is provided over the estimated useful life of each class of depreciable asset which range from 2 to 40 years, and is computed using the straight-line method. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment, and is included in depreciation and amortization expense. Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets.

The cost and related accumulated depreciation of property and equipment that is sold or retired are removed from the respective accounts, and the resulting gain or loss is recorded in other revenue.

(Dollar Amounts in Thousands)

2. Significant Accounting Policies (continued)

Certain property and equipment purchased prior to the period end is excluded from additions to property and equipment in the consolidated statements of cash flows as payments have not been made at the end of the respective period. These excluded additions were $6,389 and $0 for the years ended June 30, 2013 and 2012, respectively.

The Network continually evaluates whether circumstances have occurred that would indicate the remaining useful life of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. When factors indicate that such assets should be evaluated for possible impairment, the Network uses an estimate of the undiscounted cash flows over the remaining life of the assets in measuring whether the asset is recoverable. There was no impairment losses recorded for the years ended June 30, 2013 or 2012.

Goodwill and Intangible Assets, Net

Goodwill and intangible assets have been primarily generated from the acquisition of certain businesses, as well as the formation of certain joint ventures. Amortization of intangible assets is calculated on a straight-line basis over the estimated life of the specific intangible asset and range from a period of 3 to 5 years. Amortization expense was $1,873 and $2,412 for the years ended June 30, 2013 and 2012, respectively.

The following is a summary of goodwill and intangible assets, net as of June 30:

2013	**Carrying Amount**	**Accumulated Amortization**	**Net**
Identifiable intangible assets	**$ 13,296**	**$ (11,375)**	**$ 1,921**
Goodwill	**35,201**	**(293)**	**34,908**
Total	**$ 48,497**	**$ (11,668)**	**$ 36,829**

2012	**Carrying Amount**	**Accumulated Amortization**	**Net**
Identifiable intangible assets	$ 12,428	$ (9,502)	$ 2,926
Goodwill	35,201	(293)	34,908
Total	$ 47,629	$ (9,795)	$ 37,834

2. Significant Accounting Policies (continued)

Unamortized Bond Issuance Costs

Unamortized debt issuance cost of $6,350 and $6,148 at June 30, 2013 and 2012, respectively, represents costs related to the issuance of tax-exempt bond obligations. Substantially all of these amounts are being amortized over the terms of the related tax-exempt bond obligations at amounts approximating the effective interest method.

Defined Benefit Pension Plans

The Network has two defined benefit pension plans, The Christ Hospital Pension Plan (TCH Plan), covering the majority of employees who qualify as to age and length of service, and The Christ Hospital Cardiovascular Pension Plan (TCHCVA Plan), from certain previously acquired physicians now part of TCHP. The TCH Plan and the TCHCVA Plan are collectively referred to as the Plans. The TCHCVA Plan is a frozen plan. As a result, no future service cost will be incurred.

The Network funds actuarially determined pension amounts in accordance with a long-term funding policy to ensure that the Plans maintain adequate funding over time and meet minimum Employee Retirement Income Security Act of 1974 (ERISA) funding requirements.

Net Assets

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as either net assets released from restrictions for purchases of property and equipment or as net assets released from restrictions for operations. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

2. Significant Accounting Policies (continued)

Net Patient Service Revenue

The Network has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. The differences between the estimated and actual adjustments are recorded as part of net patient service revenue in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews, and investigations. The Network recognizes a significant amount of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay.

Charity Care

The Network has a policy of treating certain patients regardless of their ability to pay as defined by established policies of the Network. The Network provides care, without charge or at amounts less than its established rates, to patients who meet certain criteria under its charity care policy. Amounts determined to qualify as charity care are not reported as net patient service revenue. The cost to the Network to provide charity care was $14,024 and $14,174 for the years ended June 30, 2013 and 2012, respectively. The cost to the Network to provide charity care was determined through application of a ratio of patient costs to charges, consistent with Schedule H of Form 990 filed with Internal Revenue Service, to current-year charity care expense included as a deduction from gross patient revenue. The Ohio Hospital Care Assurance Program (HCAP) provides some reimbursement to the Network for services provided to qualified persons who cannot afford to pay. The amount of HCAP reimbursement is estimated at $896 for the year ended June 30, 2013 and was $80 for the year ended June 30, 2012.

2. Significant Accounting Policies (continued)

Other Revenue

The American Recovery and Reimbursement Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record technology. Payments under the program are calculated based upon estimated discharges, charity care and other input data and are predicated upon the Network's attainment of program and attestation criteria and are subject to regulatory audit. The Network has opted to follow a grant accounting method, which provides for ratable recognition over the respective attestation period. The amount recognized in the current period has been recorded as other revenue in the consolidated statements of operations. As a result, management estimated and recognized revenue of $4,203 and $5,916 within other revenue for the years ended June 30, 2013 and 2012, respectively. Amounts recognized are subject to change, with such changes impacting operations in the period in which they occur.

Other revenue also includes net assets released from restrictions for operating activities, cafeteria revenue, rental income, donation revenue, gains and losses on the sale or disposal of property and equipment, interest and dividends (net of expenses) on designated assets whose us is limited, and revenue from other miscellaneous sources.

Excess of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include the line excess of revenue over expenses which represents the operating indicator for the Network. Consistent with industry practice, changes in net assets which are excluded from the excess of revenue over expenses include restricted contributions, investment income on restricted investments, and certain pension benefit adjustments.

Reclassification

Certain reclassifications were made to the 2012 consolidated financial statement presentation to conform to the 2013 presentation, which had no impact on previously reported excess of revenue over expenses or net assets.

(Dollar Amounts in Thousands)

2. Significant Accounting Policies (continued)

Federal Income Taxes

The Network is recognized as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as a charitable organization qualifying under Internal Revenue Code Section 501(c)(3).

The Network completed an analysis of uncertain tax positions in accordance with applicable accounting guidance at June 30, 2013 and 2012, and determined no amounts were required to be recognized in the consolidated financial statements at June 30, 2013 and 2012.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Actual results could vary from those estimates.

Noncontrolling Interest

The consolidated financial statements include all of the assets, liabilities, revenue and expenses of less-than-100%-owned entities that the Network controls in accordance with applicable accounting guidance. Accordingly, the Network has reflected a noncontrolling interest for the portion of net assets not owned by the Network, separately in the consolidated balance sheets. The following is a progression of net assets attributable to noncontrolling interests:

Net assets attributable to noncontrolling interest at June 30, 2011	$ 17,010
Excess of revenue over expenses attributable to noncontrolling interest	6,833
Distributions to equity owners	(6,577)
Net assets attributable to noncontrolling interest at June 30, 2012	17,266
Excess of revenue over expenses attributable to noncontrolling interest	**5,342**
Distributions to equity owners	**(4,954)**
Net assets attributable to noncontrolling interest at June 30, 2013	**$ 17,654**

(Dollar Amounts in Thousands)

3. Cash and Cash Equivalents, and Assets Whose Use Is Limited and Investments

The following is a summary of the carrying amounts, by underlying asset type, of the Network's cash and cash equivalents, assets whose use is limited, and investments as of June 30:

	2013	2012
Cash and cash equivalents	**$ 72,905**	$ 251,569
Marketable debt securities:		
U.S. government	**–**	63,000
U.S. government agencies	**184,983**	135,302
Corporate	**183,206**	64,545
Marketable equity securities	**15,272**	–
Marketable real estate investment trust	**2,966**	–
Exchange traded mutual funds	**2,216**	–
Other	**4,005**	3,529
	$ 465,553	$ 517,945

Interest and dividend earnings (net of expenses), net realized losses on investments and the net change in unrealized (losses) gains on investments are considered investment (loss) income and are included as either a component of other revenue or other, primarily investment (loss) income on the consolidated statements of operations depending on the nature of the investment and (loss) income generated. Approximately $3,852 and $0 in interest and dividends (net of expenses) is included as a component of other revenue at June 30, 2013 and 2012, respectively. The following is a summary of other, primarily investment (loss) income for the years ended June 30:

	2013	2012
Interest and dividend earnings (net of expenses)	**$ 9,180**	$ 3,268
Net realized losses on investments	**(2,157)**	(2,020)
Net change in unrealized (losses) gains on investments	**(10,707)**	1,101
Unrealized gain (loss) on interest rate swap agreement	**1,006**	(1,774)
	$ (2,678)	$ 575

(Dollar Amounts in Thousands)

4. Net Patient Service Revenue

Net patient service revenue is derived from services provided to patients who are directly responsible for payment or are covered by various commercial insurance or other programs. The Network receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies, and from patients themselves. A summary of payment arrangements with major third-party payors is as follows:

Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan and are paid at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules, or discounts from established charges.

Other – The Network has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Network under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The Network's Medicare, Medicaid, and other payors (including commercial and self-pay) net patient service revenue, is summarized as follows for the years ended June 30:

	2013	**2012**
Medicare	**$ 336,860**	$ 302,783
Medicaid	**54,332**	51,009
Self-pay	**22,457**	19,619
Commercial and other	**310,782**	280,549
	$ 724,431	$ 653,960

(Dollar Amounts in Thousands)

4. Net Patient Service Revenue (continued)

The Network classifies its net patient service revenue based on the primary payor at the time a patient presents for services. As a result, commercial and other include certain amounts that were ultimately directly billed to the patient after the primary insurance payment (self-pay after insurance).

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. See additional discussion of federal health care programs, including the Medicare and Medicaid programs in Note 12. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue has (decreased) increased by ($839) and $3,970 for the years ended June 30, 2013 and 2012, respectively, due to (unfavorable) favorable changes in estimates related to prior-years' cost report settlements and other third-party payor activity.

5. Property and Equipment

The following is a summary of property and equipment as of June 30:

	2013	2012
Land and improvements	**$ 15,330**	$ 14,408
Buildings and improvements	**159,009**	146,762
Equipment	**519,737**	498,774
	694,076	659,944
Less accumulated depreciation	**470,231**	437,502
	223,845	222,442
Construction in progress	**90,095**	27,735
	$ 313,940	$ 250,177

Depreciation expense was $38,015 and $37,306 for the years ended June 30, 2013 and 2012, respectively, and is included in depreciation and amortization in the consolidated statements of operations.

(Dollar Amounts in Thousands)

5. Property and Equipment (continued)

The Network had unamortized computer software costs of $12,594 and $15,260 recorded at June 30, 2013 and 2012, respectively. The Network recognized expense related to computer software costs of $9,256 and $9,714 for the years ended June 30, 2013 and 2012, respectively, which is included in depreciation and amortization in the consolidated statements of operations.

As of June 30, 2013, the Network is contractually obligated for construction projects totaling approximately $145,400 at current construction cost or vendor levels. It is expected that the full balance of these costs will be incurred throughout fiscal 2014 and 2015. The Network will finance these construction projects through assets whose use is limited and investments or cash generated from operations.

6. Long-Term Debt

The following is a summary of long-term debt as of June 30:

	2013	**2012**
Healthcare Facilities Revenue Bonds, Series 2012 (The Christ Hospital Project)	**$ 324,085**	$ 324,085
Healthcare Facilities Revenue Bonds, Series 2010 (The Christ Hospital)	**27,054**	28,220
Other debt	**2,064**	2,193
Capital lease obligations	**331**	1,101
	353,534	355,599
Original issue net premium	**9,031**	9,343
Less current portion of long-term debt	**2,479**	2,804
	$ 360,086	$ 362,138

(Dollar Amounts in Thousands)

6. Long-Term Debt (continued)

A summary of scheduled principal payments on long-term debt is as follows:

	Amounts Due
Year ending June 30:	
2014	$ 2,479
2015	2,049
2016	1,582
2017	7,724
2018	8,055
Thereafter	331,645
	$ 353,534

In June 2012, the Network issued its Hospital Facilities Revenue Bonds (Series 2012 Bonds) in the par amount of $324,085 at a net premium of $9,347. $87,000 of the Series 2012 Bonds are guaranteed by a Municipal Bond Insurance Policy issued by Assured Guaranty Municipal Corporation. The borrowings are being used to fund the construction of The Christ Hospital Orthopaedic and Spine Center Project (the Project), pay down prior borrowings, and pay the related cost of issuance. The remainders of the Series 2012 Bonds mature in various amounts through 2042 with various fixed rates ranging from 3.00% to 5.50% on Series 2012 Bonds.

The Network's Healthcare Facilities Revenue Bonds (Series 2010) were a direct placement issue and are held entirely by Fifth Third Bank with a final maturity in 2030. The interest rate associated with the Series 2010 Bonds is variable and was 1.38% and 1.40% at June 30, 2013 and 2012, respectively.

The aggregate carrying amount, both current and long-term, for the Network's variable rate long-term debt summarized in this note at June 30, 2013 and 2012, was $29,449 and $31,514, respectively, which approximates fair value for such long-term debt. Management has determined the carrying amount of the Network's other debt and capital lease obligations are representative of fair value as the interest rates associated with these instruments are set by financial institutions, are shorter term in nature, and would be consistent with the expectations of market participants. Management has determined that the carrying amount of the Network's Series 2010 Bonds is representative of fair value as the interest rates associated with these obligations are set by market participants. These determinations are consistent with Level 2 measurements under the fair value hierarchy.

6. Long-Term Debt (continued)

The aggregate carrying amount, both current and long-term, for the Network's fixed rate long-term debt summarized in this note at June 30, 2013 and 2012 was $333,116 and $333,428, respectively. Management has determined the fair value of the Network's Series 2012 Bonds, which represents all fixed rate long-term debt at June 30, 2013, to be $320,867. The fair value of the Series 2012 Bonds at June 30, 2013 was determined by applying the yield of openly marketed bonds that have substantially the same characteristics as the bond obligations issued for the benefit of the Network (i.e., bond rating, call provisions, maturity, etc.) to outstanding amounts of Series 2012 Bonds. The fair value at June 30, 2012 was determined to be the stated par amount of the long-term debt ($324,085) plus the premium received as a result of the Series 2012 Bonds being issued and sold to market participants near the June 30, 2012 consolidated balance sheet (June 2012).

Interest paid on long-term debt during the years ended June 30, 2013 and 2012 was $16,073 and $2,207, respectively. Interest capitalized was $4,177 and $59 for the years ended June 30, 2013 and 2012, respectively.

The Hospital, Lindner and TCHP are the sole members of the obligated group (Obligated Group). The Obligated Group is liable for the Series 2012 Bonds issued under an Obligated Group Master Trust Indenture and has entered into a mortgage and unconditionally assigns all leases, rents, revenues, and profits of the mortgaged property as security to the bond holders. The mortgaged property includes the main campus of the Hospital, with the exception of the patient heart tower. The patient heart tower represents 7% of the main campus of the Hospital. All other long-term debt is the general obligation of the Network. The Obligated Group is subject to certain covenants under its current long-term debt agreements and Master Trust Indenture. The Network is subject to certain additional restrictive covenants under the Series 2010 Bonds reimbursement agreements. Management is of the opinion that the Network was in compliance with all restrictive covenants at June 30, 2013 and 2012.

(Dollar Amounts in Thousands)

6. Long-Term Debt (continued)

In conjunction with the Series 2010 Bonds, the Network entered into a derivative transaction in the form of an interest rate swap agreement which it uses to manage the relative amounts of its variable rate long-term debt exposure and lower its borrowing costs. The interest rate swap agreement was contracted between the Network and a third party (Fifth Third Bank) that provide economic payments between parties based on changes in notional amounts and defined interest rates. The interest rate swap agreement, terminating in fiscal year 2021, had a notional amount of $27,054 and $28,220 at June 30, 2013 and 2012, respectively. The interest rate swap agreement calls for the Network to pay a fixed rate of 2.24% and the Network to receive payments based on the USD-LIBOR-BBA Index. The Network recorded a gain (loss) on the interest rate swap agreement of $1,006 and ($1,774) as of June 30, 2013 and 2012, respectively. This represents the change in fair value, and is reported as other, primarily investment (loss) income in the consolidated statements of operations. Net payments to counterparty of $588 and $613 for June 30, 2013 and 2012, respectively, are included as an increase in interest expense.

7. Functional Expenses

The Network provides health care services to individuals within Cincinnati and the surrounding areas including inpatient, outpatient, ambulatory, long-term care, and community-based services. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services, and other functions that are supported centrally for all of the Network. The following summarizes the expenses related to providing those services for the years ended June 30:

	2013	2012
Health care services	**$ 630,872**	$ 531,263
Support services	**111,330**	132,816
	$ 742,202	$ 664,079

8. Retirement Plans

The Network sponsors certain retirement plans, as defined in the following paragraphs, for the benefit of select employees. These retirement plans require the Network to record long-term assets and/or liabilities for the future benefits of these employees.

8. Retirement Plans (continued)

457(b) Eligible Deferred Compensation Plans

The purpose of the 457(b) Eligible Deferred Compensation Plans (the 457(b) Plan) is to enable eligible employees, as defined by the 457(b) Plan documents, to enhance their retirement security by permitting them to enter into agreements with the Network to defer a portion of their compensation and receive benefits generally at retirement, death, or in the event of financial hardship due to unforeseeable emergencies. The 457(b) Plan meets the requirements of Section 457(b) of the Internal Revenue Code, as amended. The Network had a long-term asset included in other long-term assets and corresponding liability included in long-term benefits and other liabilities of $9,313 and $7,275 as of June 30, 2013 and 2012, respectively.

The Christ Hospital 401(a) Retirement Savings Plan

The Network sponsors a 401(a) defined contribution plan covering all former employees of the Alliance who are now employees of the Network. Participant contributions are no longer allowed into The Christ Hospital 401(a) Retirement Savings Plan (the 401(a) Plan) subsequent to the spin-off agreement. Discretionary employer contributions may be contributed by the Network at the discretion of the Network's Board of Directors. No amounts were contributed during the periods ended June 30, 2013 and 2012. The 401(a) Plan is subject to the provisions of ERISA.

The Christ Hospital 403(b) Retirement Savings Plan

The Network sponsors a defined contribution 403(b) plan covering substantially all employees. Each year, participants may contribute up to 100% of their pretax annual compensation, as defined in the 403(b) plan subject to certain Internal Revenue Code limitations. Discretionary employer contributions may be contributed by the Network at the discretion of the Network's Board of Directors. No amounts were contributed during the period ended June 30, 2013. For the period ended June 30, 2012, the Network contributed $1,146. The Christ Hospital 403(b) Retirement Savings Plan is subject to the provisions of ERISA.

Defined Benefit Pension Plans

The Network recognizes in the consolidated balance sheets the funded status of the TCH Plan and the TCHCVA Plan (the Plans), measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for defined benefit pension plans). Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic cost in the same periods will be recognized as a component of unrestricted net assets.

(Dollar Amounts in Thousands)

8. Retirement Plans (continued)

Between the two qualified noncontributory defined benefit retirement plans, substantially all the Network's employees are covered. Under the Plans, employee benefits are based on employees' years of service, retirement age, and compensation. Vesting occurs over a five-year period. Annual contributions are made to the Plans sufficient to satisfy legal funding requirements.

The Network recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligation) of the Plans in the consolidated balance sheets, with a corresponding adjustment to unrestricted net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension expense in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension expense. The following is a summary of the changes in the benefit obligation, fair value of plan assets, and funded status of the Plans at June 30:

	2013	2012
Accumulated benefit obligation	**$ 234,904**	$ 250,845
Change in benefit obligation:		
Benefit obligation at beginning of period	**$ 280,564**	$ 212,742
Service cost	**10,390**	7,132
Interest cost	**11,605**	11,909
Lump-sum payments	**(1,577)**	(1,387)
Actuarial (gain) loss	**(36,133)**	55,513
Benefits paid	**(5,945)**	(5,345)
Benefit obligation at end of period	**258,904**	280,564
Change in plan assets:		
Fair value of plan assets at beginning of period	**165,996**	149,507
Actual return on plan assets	**18,014**	9,708
Network contributions	**17,374**	13,513
Benefits paid	**(5,945)**	(5,345)
Lump-sum payments	**(1,577)**	(1,387)
Fair value of plan assets at end of period	**193,862**	165,996
Underfunded status	**$ (65,042)**	$ (114,568)

(Dollar Amounts in Thousands)

8. Retirement Plans (continued)

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension expense as of June 30:

	2013	2012
Net actuarial loss	**$ (54,932)**	$ (104,413)
Cumulative shortfall of employer contributions over net periodic pension expense	**(10,110)**	(10,155)
	$ (65,042)	$ (114,568)

Net actuarial loss is amortized as a component of net periodic pension expense, only if the losses exceed 10% of greater of the projected benefit obligation or the fair value of plan assets. Net prior service cost is amortized on a straight-line basis over the estimated useful life of the plan participants. The net actuarial loss that is expected to be recognized in net periodic pension expense during fiscal year ended June 30, 2014 is $3,967.

The following amounts related to plan activity have been recognized as an increase (decrease) in unrestricted net assets for the years ended June 30:

	2013	**2012**
Net actuarial gain (loss)	**$ 41,464**	$ (57,316)
Amortization of net actuarial loss	**8,026**	3,191
	$ 49,490	$ (54,125)

(Dollar Amounts in Thousands)

8. Retirement Plans (continued)

A summary of the components of net periodic pension expense for the Plans, which is included in employee benefits expense in the consolidated statements of operations for the years ended June 30, is as follows:

	2013	2012
Service cost	**$ 10,390**	$ 7,132
Interest cost	**11,605**	11,909
Expected return on plan assets	**(12,684)**	(11,511)
Amortization of actuarial loss	**8,026**	3,191
	$ 17,337	$ 10,721

The following weighted-average assumptions were used to determine the benefit obligation as of June 30:

	TCH Plan		TCHCVA Plan	
	2013	2012	2013	2012
Discount rate	**5.20%**	4.20%	**5.20%**	4.20%
Rate of compensation increase	**2.50% – 3.50%**	2.50% – 3.50%	**N/A**	N/A

The following weighted-average assumptions were used to determine net periodic pension expense for the years ended June 30:

	TCH Plan		TCHCVA Plan	
	2013	2012	2013	2012
Discount rate	**4.20%**	5.70%	**4.20%**	5.70%
Expected long-term return on plan assets	**7.75%**	7.75%	**7.75%**	7.75%
Rate of compensation increase	**2.50% – 3.50%**	3.50%	**N/A**	N/A

(Dollar Amounts in Thousands)

8. Retirement Plans (continued)

In selecting the expected return on plan assets, the Network considered historical returns as well as adherence to future asset allocations set forth in the Plans' investment policies. This basis is consistent with the prior year.

The target and range asset allocations for the plan assets set forth in the Plans' investment policy is as follows for June 30, 2013:

	Target	**Range**
Marketable debt strategy funds	36%	31%–41%
Marketable equity strategy funds	24%	19%–29%
Ultra long duration strategy funds	40%	35%–45%

The following is a summary of the fair value of plan assets as of June 30:

	2013	**2012**
Cash and cash equivalents	**$ 546**	$ 509
Collective investment funds	**193,316**	165,487
	$ 193,862	$ 165,996

The Plans' assets are invested in a portfolio designed to preserve principal and obtain competitive investment returns with long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. Diversification is achieved by allocating assets to various asset classes and investment styles.

(Dollar Amounts in Thousands)

8. Retirement Plans (continued)

The following is a summary of the Plans' plan assets as of June 30, 2013 measured at fair value on a recurring basis based on the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ –	**$ 546**	$ –	**$ 546**
Collective investment funds:				
Marketable debt strategy funds	–	**71,318**	–	**71,318**
Marketable equity strategy funds	–	**120,205**	–	**120,205**
Ultra long duration strategy funds	–	**1,793**	–	**1,793**
	$ –	**$ 193,862**	$ –	**$ 193,862**

The following is a summary of the Plans' plan assets as of June 30, 2012 measured at fair value on a recurring basis based on the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ –	$ 509	$ –	$ 509
Collective investment funds:				
Marketable debt strategy funds	–	58,382	–	58,382
Marketable equity strategy funds	–	100,772	–	100,772
Ultra long duration strategy funds	–	6,333	–	6,333
	$ –	$ 165,996	$ –	$ 165,996

(Dollar Amounts in Thousands)

8. Retirement Plans (continued)

The Network's cash and cash equivalents, included in plan assets, are generally classified within Level 2 of the fair value hierarchy because they are valued using broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency.

The Network's collective investment funds are not readily marketable, however, they consist of marketable equity, marketable debt, and ultra long duration strategy funds (the collective investment funds). The collective investment funds, while not readily marketable, consist primarily of marketable debt and equity securities that have been pooled for the benefit of select institutional investors to reduce administrative costs. Management has determined that the net asset value (NAV) is an appropriate estimate of the fair value of these investments at June 30, 2013 and 2012, based on the fact that the collective investment funds are audited and accounted for at fair value by the administrators of the collective investment funds in accordance with GAAP. Since the Network has the ability to redeem its investment in the respective collective investment fund at the NAV with no significant restrictions on the redemption at the consolidated balance sheet dates, the Network has categorized the collective investment funds as a Level 2 measurement in the fair value hierarchy.

Following is the summary of the inputs and techniques as of June 30, 2013 and 2012 used for valuing Level 2 securities within plan assets:

Securities	Input	Technique
Cash equivalents	Broker/Dealer	Market
Collective investment funds	NAV	Market

The Network expects to contribute $7,900 to the Plans in 2014.

The expected benefits to be paid to the Plans' participants and beneficiaries are as follows:

Year ending June 30:	
2014	$ 8,362
2015	8,868
2016	9,493
2017	10,211
2018	11,343
2019–2023	75,477

9. Self-Insurance Reserves

The Network participates in self-insurance programs for professional and general employee, workers' compensation and employee health benefit risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts are contributed to ExCEL to provide for the estimated cost of professional and general liability claims. The loss reserves recorded for estimated self-insured professional and general liability, workers' compensation and employee health benefit claims include estimates of the ultimate costs for both reported claims and claims incurred but not yet reported.

Professional and General Liability

ExCEL covers professional and general liabilities of the Network under a claims-made policy, covering claims incurred on or after July 1, 2008. ExCEL provides both primary and excess layers of insurance coverage, and reinsures 100% of the excess layer of $25,000 by purchasing insurance from commercial carriers. For policy years ended June 30, 2013 and 2012, the primary coverage for each claim is $3,000 and $9,000 in the aggregate. The reserve for professional and general liabilities has been established to provide for estimated payments and expenses for related claims, including those incurred but not yet reported. As a result, there is a reasonable possibility that recorded estimates may change by a material amount. Professional actuaries were retained to assist in the development of the reserve for professional and general liabilities. ExCEL only records a liability related to asserted and reported claims under its claims-made policy. The undiscounted liability recorded by ExCEL was $10,625 and $9,251 at June 30, 2013 and 2012. The Network records the liability for incurred but not reported claims on the records of the Hospital. The liability for incurred but not reported claims was $7,022 and $5,081 at June 30, 2013 and 2012, respectively, and is discounted 3% both at June 30, 2013 and 2012. In the opinion of management, the reserve for professional and general liabilities is adequate to provide for claims that have occurred on or after July 1, 2008.

The Network has had historical professional and general exposure covered through arrangements which existed during its participation in the Alliance. The Alliance's self-insurance trust (the Trust) covers the exposure for claims arising before July 1, 2001, on an occurrence basis. The Health Alliance Assurance Company (HAAC) covers the liability for claims arising after June 30, 2001 and before July 1, 2008, on a claims-made basis, up to certain limits. UC Health continues to manage the activities of the Trust and HAAC consistent with its past practice.

9. Self-Insurance Reserves (continued)

On or before July 2015, the exposure covered by the Trust and HAAC will be settled in accordance with the financial settlement agreement between the Network and the Alliance. If liabilities are incurred in excess of those currently reserved for, the Network could be required to make additional cash payments to cover the shortfall in the Trust and HAAC as defined in the financial settlement agreement. However, if the assets maintained by UC Health restricted as to use to cover historical professional and general exposure of the Trust and HAAC exceed actuarially computed liabilities on specific dates outlined in the financial settlement agreement, the Network will receive cash settlements from UC Health equal to its portion of the assets and potential exposure as outlined in the financial settlement agreement. In September of 2012, the Network received its first cash settlement under the financial settlement agreement in the amount of $7,900 based on the actuarially computed liability as of June 30, 2012. The amount was recognized as other revenue in the consolidated statements of operations during the year ended June 30, 2013. Based on the actuarial valuations of the Trust and HAAC at June 30, 2013 or 2012, the Network was not required to record any excess liability in the consolidated balance sheets. The Network is not aware of any significant changes in the actuarial valuations of the Trust and HAAC subsequent to June 30, 2013.

Workers' Compensation

The Network maintains an on-site disability management/employee health department that is the initial point of contact for employee injuries, and also retains Hunter Consulting as third-party administrator. The workers' compensation reserve is recorded at the consolidated balance sheet date based on an actuarial valuation. The estimated liability of $2,599 and $2,067 at June 30, 2013 and 2012, respectively, for outstanding and incurred but not reported claims is included in long-term benefits and other obligations. Management believes this amount to be adequate for the cost of potential losses.

Employee Health Benefits

The Network is self-insured for employee health benefits. Employee health benefits are paid through a local claims processor based on plan coverage determined by the Network. An estimated liability of $4,357 and $4,555 for outstanding and incurred but not reported claims has been included in compensation and benefits at June 30, 2013 and 2012, respectively, and is believed by management to be adequate for the cost of potential losses.

(Dollar Amounts in Thousands)

10. Lease Commitments

The Network enters into a variety of different operating leases during the normal course of business. Future minimum payments under noncancelable operating leases with terms of one year or more are:

	Amounts Due
2014	$ 13,028
2015	9,954
2016	8,371
2017	7,110
2018	6,032
Thereafter	36,683
	$ 81,178

Rental expense under operating leases amounted to $18,692 and $16,098 for the years ended June 30, 2013 and 2012, respectively.

11. Related-Party Transactions

The Elizabeth Gamble Deaconess Home Association (the Association), a tax-exempt Ohio corporation, is the sole member of The Christ Hospital, Inc. The Association provides support to the Network. The Association's activities are primarily related to the management of its endowment funds and other resources.

In June 2012, the Network and the Association entered into a grant agreement whereby the Association provided $100,000 in cash (which is a Level 1 measurement), for certain portions of the construction of the Project. Under the terms of the grant agreement, the use of the funds provided by the Association is restricted to specific construction activities and, therefore, has been recorded by the Network as temporarily restricted at June 30, 2013 and 2012. The Network has utilized $4,459 of the funds during the year ended June 30, 2013 ($0 during the year ended June 30, 2012).

11. Related-Party Transactions (continued)

The Christ Hospital, Inc. is the sole corporate member of The Christ Hospital Health Services Corporation (TCHHS). TCHHS owns a 66.7% ownership interest in Mason Properties Company, which owns and operates a medical office building in Mason, Ohio. The Network participates in agreement with Mason Properties Company and Fifth Third Bank to guarantee Mason Properties Company's $2,091 loan with Fifth Third Bank. The loan had an outstanding balance of $1,748 and $1,857 at June 30, 2013 and 2012, respectively.

12. Contingencies and Commitments

The Network participates in a Corporate Integrity Agreement with the United States Department of Health and Human Services Office of the Inspector General (OIG) with a term of five years from October 27, 2010. The Corporate Integrity Agreement requires that the Network maintain its compliance program in accordance with the terms of the Corporate Integrity Agreement. The agreement contains specific requirements regarding focus arrangements, including developing policies and procedures to ensure compliance with federal law relating to such arrangements, and the general training of certain Network employees as to the requirements of the Network's compliance program and the Corporate Integrity Agreement. The requirements of the Corporate Integrity Agreement have resulted in increased costs to maintain the Network's compliance program and could result in greater scrutiny by federal regulatory authorities. Violations of the Corporate Integrity Agreement could subject the Network to significant monetary and/or administrative penalties, including the possibility of exclusion from the Medicare, Medicaid and other Federal health care programs. Management believes that the Network is in compliance, in all material respects, with the Corporate Integrity Agreement.

During 2012, the Corporate Integrity Agreement was amended to require a claims review of vascular studies. The amendment to the Corporate Integrity Agreement did not extend or change any other terms of the Corporate Integrity Agreement.

12. Contingencies and Commitments (continued)

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayment of previously billed and collected revenue from patient services. Management believes that the Network is in compliance, in all material respects, with current laws and regulations. The Network has recorded reserves for routine regulatory compliance issues and believes these reserves are adequate to cover any potential repayment of previously billed and collected revenue from patient services.

Litigation

During the normal course of business, the Network may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements consistent with ASC No. 450, *Contingencies* (ASC 450). After consultation with legal counsel, management believes that all such currently existing matters will be resolved without material adverse impact to the consolidated financial position or results of operations of the Network.

(Dollar Amounts in Thousands)

13. Fair Value Measurements

The carrying amounts reported in the consolidated balance sheets for current assets and current liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. These financial instruments are not required to be marked to fair value on a recurring basis and therefore are not disclosed in the following table under ASC 820.

The following tables present the financial instruments carried at fair value, on a recurring basis under the fair value hierarchy at:

	June 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 31,137**	**$ –**	**$ –**	**$ 31,137**
Assets whose use is limited and investments:				
Cash and cash equivalents	**41,768**	**–**	**–**	**41,768**
Marketable debt securities:				
U.S. government agencies	**–**	**184,983**	**–**	**184,983**
Corporate	**–**	**183,206**	**–**	**183,206**
Marketable equity securities	**15,272**	**–**	**–**	**15,272**
Marketable real estate investment trust	**2,966**	**–**	**–**	**2,966**
Exchange-traded mutual funds	**2,216**	**–**	**–**	**2,216**
Other	**–**	**4,005**	**–**	**4,005**
Total assets whose use is limited and investments	**62,222**	**372,194**	**–**	**434,416**
Retirement plan assets	**10,045**	**–**	**–**	**10,045**
Total assets at fair value	**$ 103,404**	**$ 372,194**	**$ –**	**$ 475,598**
Liabilities				
Interest rate swap agreement liability	**$ –**	**$ 1,614**	**$ –**	**$ 1,614**
Total liabilities at fair value	**$ –**	**$ 1,614**	**$ –**	**$ 1,614**

(Dollar Amounts in Thousands)

13. Fair Value Measurements (continued)

	June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 95,661	$ –	$ –	$ 95,661
Assets whose use is limited and investments:				
Cash and cash equivalents	155,908	–	–	155,908
Marketable debt securities:				
U.S. government	63,000	–	–	63,000
U.S. government agencies	–	135,302	–	135,302
Corporate	–	64,545	–	64,545
Other	–	3,529	–	3,529
Total assets whose use is limited and investments	218,908	203,376	–	422,284
Retirement plan assets	7,275	–	–	7,275
Total assets at fair value	$ 321,844	$ 203,376	$ –	$ 525,220
Liabilities				
Interest rate swap agreement liability	$ –	$ 2,620	$ –	$ 2,620
Total liabilities at fair value	$ –	$ 2,620	$ –	$ 2,620

The retirement plan assets of $9,313 and $7,275 at June 30, 2013 and 2012 represent the asset associated with the 457(b) Plan discussed in Note 8. The retirement plan assets of $732 at June 30, 2013 represent retirement plan assets associated with other plans. These figures are included in other long-term assets. The remaining amounts included in other long-term assets are not carried at fair value.

The interest swap agreement liability of $1,614 and $2,620 at June 30, 2013 and 2012, respectively, are included in long-term benefits and other liabilities. The remaining amounts included in long-term benefits and other liabilities are not carried at fair value.

13. Fair Value Measurements (continued)

Cash and Cash Equivalents and Assets Whose Use Is Limited and Investments

The Network's cash and cash equivalents and assets whose use is limited and investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of financial instruments based on quoted market prices in active markets include most U.S. government securities, marketable equity securities, exchange-traded mutual funds, marketable real estate investment trust and money market securities (cash equivalents). Such instruments are generally classified within Level 1 of the fair value hierarchy. The Network does not adjust the quoted market price for such financial instruments.

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency include U.S. government agencies, corporate and other marketable debt securities. Such financial instruments are generally classified within Level 2 for the fair market value hierarchy. Primarily all of the Network's marketable debt securities are actively traded and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market, there is at least a possibility that recorded investment values may change by a material amount in the near term.

Following is the summary of the inputs and techniques as of June 30, 2013 and 2012 used for valuing Level 2 securities in the portfolio:

Securities	Input	Technique
U.S. government agencies debt securities	Broker/Dealer	Market
Corporate debt securities	Broker/Dealer	Market

(Dollar Amounts in Thousands)

13. Fair Value Measurements (continued)

Interest Rate Swap Agreements

The Network participates in an interest rate swap agreement to manage its exposures to fluctuations in interest rates and overall long-term debt portfolio. The Network's interest rate swap agreement is not traded on an exchange. The valuation of the interest rate swap agreement is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of the interest rate swap agreement based on the USD-LIBOR-BBA yield curve and respective fixed rates disclosed in Note 6. The Network has determined there are several observable inputs for valuation of the interest rate swap agreement and therefore Level 2 classification is appropriate.

14. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets at June 30 are available for the following purposes:

	2013	**2012**
Temporarily restricted:		
Capital	**$ 95,541**	$ 100,000
Health care services	**5,630**	6,769
	$ 101,171	$ 106,769
Permanently restricted:		
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 3,957**	$ 3,792

15. Subsequent Events

The Network has evaluated and disclosed subsequent events through August 19, 2013, which is the date the consolidated financial statements were made publicly available. No recognized or non-recognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
The Christ Hospital and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheets and consolidating statements of operations are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

August 19, 2013

The Christ Hospital Health Network

Consolidating Balance Sheet

June 30, 2013

	The Christ Hospital	The Christ Hospital Physicians, LLC	Reclassifications/ Eliminations	Obligated Group Total	The Christ College of Nursing and Health Sciences	The Christ Hospital Foundation	Other Subsidiaries	Reclassifications/ Eliminations	The Christ Hospital Health Network Consolidated
				(In Thousands)					
Assets									
Current assets:									
Cash and cash equivalents	$ 28,308	$ 2,749	$ –	$ 31,057	$ 1	$ –	$ 79	$ –	$ 31,137
Net patient accounts receivable, less allowance for uncollectible accounts of $25,788	77,092	12,177	–	89,269	–	–	2,002		91,271
Other accounts receivable	2,293	108	–	2,401	3,063	1,250	4,015	–	10,729
Inventories	10,032	1,354	–	11,386	–	–	122	–	11,508
Prepaid and other current assets	10,023	752	–	10,775	43	–	61	–	10,879
Estimated receivable from third-party payors, net	2,500	–	–	2,500	–	–	–	–	2,500
Total current assets	130,248	17,140	–	147,388	3,107	1,250	6,279	–	158,024
Assets whose use is limited and investments:									
Assets whose use is limited:									
Restricted by donor	95,869	–	–	95,869	–	8,705	–	–	104,574
Tax-exempt bond proceeds	71,559	–	–	71,559	–	–	–	–	71,559
Funds for self-insurance reserves	–	–	–	–	–	–	10,691	–	10,691
Investments	231,664	–	–	231,664	–	15,928	–	–	247,592
	399,092	–	–	399,092	–	24,633	10,691	–	434,416
Property and equipment, net	301,480	10,002	–	311,482	540	–	1,918	–	313,940
Goodwill and intangible assets, net	10,333	3,812	–	14,145	–	–	22,684	–	36,829
Unamortized bond issuance costs	6,350	–	–	6,350	–	–	–	–	6,350
Other long-term assets	33,789	8,921	(19,280)	23,430	–	–	–	(9,226)	14,204
Total assets	$ 881,292	$ 39,875	$ (19,280)	$ 901,887	$ 3,647	$ 25,883	$ 41,572	$ (9,226)	$ 963,763

The Christ Hospital Health Network

Consolidating Balance Sheet

June 30, 2012

	The Christ Hospital	The Christ Hospital Physicians, LLC	Reclassifications/ Eliminations	Obligated Group Total	The Christ College of Nursing and Health Sciences	The Christ Hospital Foundation	Other Subsidiaries	Reclassifications/ Eliminations	The Christ Hospital Health Network Consolidated
	(In Thousands)								
Assets									
Current assets:									
Cash and cash equivalents	$ 92,843	$ 2,704	$ –	$ 95,547	$ 1	$ –	$ 113	$ –	$ 95,661
Net patient accounts receivable, less allowance for uncollectible accounts of $19,674	68,597	10,445	–	79,042	–	–	1,532		80,574
Other accounts receivable	2,125	236	–	2,361	1,664	2,750	4,470	–	11,245
Inventories	8,477	954	–	9,431	–	–	103	–	9,534
Prepaid and other current assets	8,901	549	–	9,450	27	–	69	–	9,546
Total current assets	180,943	14,888	–	195,831	1,692	2,750	6,287	–	206,560
Assets whose use is limited and investments:									
Assets whose use is limited:									
Restricted by donor	99,971	–	–	99,971	–	7,554	–	–	107,525
Tax-exempt bond proceeds	136,956	–	–	136,956	–	–	–	–	136,956
Funds for self-insurance reserves	–	–	–	–	–	–	10,861	–	10,861
Investments	151,304	–	–	151,304	–	15,332	306	–	166,942
	388,231	–	–	388,231	–	22,886	11,167	–	422,284
Property and equipment, net	238,904	9,178	–	248,082	611	–	1,484	–	250,177
Goodwill and intangible assets, net	10,497	4,653	–	15,150	–	–	22,684	–	37,834
Unamortized bond issuance costs	6,148	–	–	6,148	–	–	–	–	6,148
Other long-term assets	30,728	7,036	(19,280)	18,484	–	250	–	(7,395)	11,339
Total assets	$ 855,451	$ 35,755	$ (19,280)	$ 871,926	$ 2,303	$ 25,886	$ 41,622	$ (7,395)	$ 934,342

The Christ Hospital Health Network

Consolidating Balance Sheet (continued)

June 30, 2013

Liabilities and net assets (deficit)	The Christ Hospital	The Christ Hospital Physicians, LLC	Reclassifications/ Eliminations	Obligated Group Total	The Christ College of Nursing and Health Sciences	The Christ Hospital Foundation	Other Subsidiaries	Reclassifications/ Eliminations	The Christ Hospital Health Network Consolidated
					(In Thousands)				
Current liabilities:									
Accounts payable and accrued expenses	$ 23,807	$ 582	$ –	$ 24,389	$ 3,048	$ –	$ 388	$ –	$ 27,825
Compensation and benefits	30,285	11,083	–	41,368	525	–	114	–	42,007
Current portion of long-term debt	1,689	–	–	1,689	–	–	790	–	2,479
Due to (from) related party	(157,385)	179,409	(23,063)	(1,039)	–	(384)	(4,688)	6,111	–
Total current liabilities	(101,604)	191,074	(23,063)	66,407	3,573	(384)	(3,396)	6,111	72,311
Long-term self-insurance reserves	7,022	–	–	7,022	–	–	10,625	–	17,647
Pension liability	63,292	1,750	–	65,042	–	–	–	–	65,042
Long-term benefits and other liabilities	9,934	8,860	–	18,794	88	–	–	–	18,882
Long-term debt, net of current portion	358,967	–	–	358,967	–	–	1,119	–	360,086
Total liabilities	337,611	201,684	(23,063)	516,232	3,661	(384)	8,348	6,111	533,968
Net assets (deficit):									
Unrestricted	448,140	(161,809)	3,783	290,114	(14)	16,680	15,570	(15,337)	307,013
Temporarily restricted	95,541	–	–	95,541	–	5,630	–	–	101,171
Permanently restricted	–	–	–	–	–	3,957	–	–	3,957
Total net assets (deficit) excluding noncontrolling interest	543,681	(161,809)	3,783	385,655	(14)	26,267	15,570	(15,337)	412,141
Noncontrolling interest	–	–	–	–	–	–	17,654	–	17,654
Total net assets (deficit)	543,681	(161,809)	3,783	385,655	(14)	26,267	33,224	(15,337)	429,795
Total liabilities and net assets (deficit)	$ 881,292	$ 39,875	$ (19,280)	$ 901,887	$ 3,647	$ 25,883	$ 41,572	$ (9,226)	$ 963,763

The Christ Hospital Health Network

Consolidating Balance Sheet (continued)

June 30, 2012

	The Christ Hospital	The Christ Hospital Physicians, LLC	Reclassifications/ Eliminations	Obligated Group Total	The Christ College of Nursing and Health Sciences	The Christ Hospital Foundation	Other Subsidiaries	Reclassifications/ Eliminations	The Christ Hospital Health Network Consolidated
Liabilities and net assets (deficit)					*(In Thousands)*				
Current liabilities:									
Accounts payable and accrued expenses	$ 18,382	$ 1,206	$ –	$ 19,588	$ 1,385	$ –	$ 712	$ –	$ 21,685
Compensation and benefits	26,052	7,369	–	33,421	546	–	146	–	34,113
Current portion of long-term debt	1,935	–	–	1,935	–	–	869	–	2,804
Due to (from) related party	(114,513)	132,563	(23,182)	(5,132)	2,068	(19)	(2,945)	6,028	–
Estimated payable from third-party payors, net	616	–	–	616	–	–	–	–	616
Total current liabilities	(67,528)	141,138	(23,182)	50,428	3,999	(19)	(1,218)	6,028	59,218
Long-term self-insurance reserves	5,081	–	–	5,081	–	–	9,251	–	14,332
Pension liability	112,172	2,396	–	114,568	–	–	–	–	114,568
Long-term benefits and other liabilities	8,002	6,999	–	15,001	64	–	–	–	15,065
Long-term debt, net of current portion	360,813	–	–	360,813	–	–	1,325	–	362,138
Total liabilities	418,540	150,533	(23,182)	545,891	4,063	(19)	9,358	6,028	565,321
Net assets (deficit):									
Unrestricted	336,911	(114,778)	3,902	226,035	(1,760)	15,344	14,998	(13,423)	241,194
Temporarily restricted	100,000	–	–	100,000	–	6,769	–	–	106,769
Permanently restricted	–	–	–	–	–	3,792	–	–	3,792
Total net assets (deficit) excluding noncontrolling interest	436,911	(114,778)	3,902	326,035	(1,760)	25,905	14,998	(13,423)	351,755
Noncontrolling interest	–	–	–	–	–	–	17,266	–	17,266
Total net assets (deficit)	436,911	(114,778)	3,902	326,035	(1,760)	25,905	32,264	(13,423)	369,021
Total liabilities and net assets (deficit)	$ 855,451	$ 35,755	$ (19,280)	$ 871,926	$ 2,303	$ 25,886	$ 41,622	$ (7,395)	$ 934,342

The Christ Hospital Health Network

Consolidating Statement of Operations

Year Ended June 30, 2013

	The Christ Hospital	The Christ Hospital Physicians, LLC	Reclassifications/ Eliminations	Obligated Group Total	The Christ College of Nursing and Health Sciences	The Christ Hospital Foundation	Other Subsidiaries	Reclassifications/ Eliminations	The Christ Hospital Health Network Consolidated
					(In Thousands)				
Revenue									
Net patient service revenue (net of contractual allowances)	$ 604,714	$ 120,189	$ (472)	$ 724,431	$ –	$ –	$ –	$ –	$ 724,431
Provision for bad debts	(11,936)	(3,768)	–	(15,704)	(12)	–	–	–	(15,716)
Net patient service revenue less provision for bad debts	592,778	116,421	(472)	708,727	(12)	–	–	–	708,715
Other revenue	39,597	6,951	(5,693)	40,855	5,161	1,434	8,358	(3,016)	52,792
Total operating revenue	632,375	123,372	(6,165)	749,582	5,149	1,434	8,358	(3,016)	761,507
Expenses									
Salaries and wages	196,121	105,354	–	301,475	3,749	70	–	–	305,294
Fringe benefits	62,132	15,024	–	77,156	918	–	–	–	78,074
Purchased services	86,732	11,772	(4,849)	93,655	1,764	18	220	(1,304)	94,353
Professional fees	13,630	1,393	–	15,023	–	–	14	–	15,037
Supplies	135,433	29,001	–	164,434	41	4	2	–	164,481
Utilities and insurance	10,208	2,370	(1,185)	11,393	–	–	2,342	–	13,735
Depreciation and amortization	35,349	4,479	–	39,828	156	–	(96)	–	39,888
Interest	12,871	–	–	12,871	–	–	–	–	12,871
Other, net	15,615	1,620	(12)	17,223	281	656	309	–	18,469
Total operating expenses	568,091	171,013	(6,046)	733,058	6,909	748	2,791	(1,304)	742,202
Excess of revenue over expenses (expenses over revenue) before other income (loss)	64,284	(47,641)	(119)	16,524	(1,760)	686	5,567	(1,712)	19,305
Other income (loss):									
Other, primarily investment income (loss)	(2,887)	–	–	(2,887)	–	64	145	–	(2,678)
Excess of revenue over expenses (expenses over revenue)	61,397	(47,641)	(119)	13,637	(1,760)	750	5,712	(1,712)	16,627
Excess of revenue over expenses attributable to noncontrolling interest	–	–	–	–	–	–	5,342	–	5,342
Excess of revenue over expenses (expenses over revenue) attributable to The Christ Hospital Health Network	$ 61,397	$ (47,641)	$ (119)	$ 13,637	$ (1,760)	$ 750	$ 370	$ (1,712)	$ 11,285

The Christ Hospital Health Network

Consolidating Statement of Operations

Year Ended June 30, 2012

(In Thousands)

	The Christ Hospital	The Christ Hospital Physicians, LLC	Reclassifications/ Eliminations	Obligated Group Total	The Christ College of Nursing and Health Sciences	The Christ Hospital Foundation	Other Subsidiaries	Reclassifications/ Eliminations	The Christ Hospital Health Network Consolidated
Revenue									
Net patient service revenue (net of contractual allowances)	$ 573,951	$ 84,185	$ (4,176)	$ 653,960	$ –	$ –	$ –	$ –	$ 653,960
Provision for bad debts	(7,576)	(3,285)	–	(10,861)	(2)	–	–	–	(10,863)
Net patient service revenue less provision for bad debts	566,375	80,900	(4,176)	643,099	(2)	–	–	–	643,097
Other revenue	23,952	4,140	(4,760)	23,332	4,178	1,573	12,449	(3,650)	37,882
Total operating revenue	590,327	85,040	(8,936)	666,431	4,176	1,573	12,449	(3,650)	680,979
Expenses									
Salaries and wages	191,713	78,654	–	270,367	3,440	–	–	–	273,807
Fringe benefits	55,329	10,469	–	65,798	853	–	–	–	66,651
Purchased services	87,523	11,340	(7,574)	91,289	1,729	18	241	(1,343)	91,934
Professional fees	13,141	453	–	13,594	–	–	55	–	13,649
Supplies	131,540	15,579	(1)	147,118	35	4	2	–	147,159
Utilities and insurance	10,345	2,519	(3,650)	9,214	–	–	840	–	10,054
Depreciation and amortization	35,416	4,185	–	39,601	156	–	(39)	–	39,718
Interest	2,206	1	–	2,207	–	–	–	–	2,207
Other, net	15,592	1,378	(17)	16,953	134	1,849	(35)	(1)	18,900
Total operating expenses	542,805	124,578	(11,242)	656,141	6,347	1,871	1,064	(1,344)	664,079
Excess of revenue over expenses (expenses over revenue) before other income (loss)	47,522	(39,538)	2,306	10,290	(2,171)	(298)	11,385	(2,306)	16,900
Other income (loss):									
Other, primarily investment income (loss)	735	(349)	–	386	–	48	141	–	575
Excess of revenue over expenses (expenses over revenue)	48,257	(39,887)	2,306	10,676	(2,171)	(250)	11,526	(2,306)	17,475
Excess of revenue over expenses attributable to noncontrolling interest	–	–	–	–	–	–	6,833	–	6,833
Excess of revenue over expenses (expenses over revenue) attributable to The Christ Hospital Health Network	$ 48,257	$ (39,887)	$ 2,306	$ 10,676	$ (2,171)	$ (250)	$ 4,693	$ (2,306)	$ 10,642