Consolidated Financial Statements and Supplementary Information

Mercy Health
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

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Report of Independent Auditors

The Board of Directors
Mercy Health

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

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

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

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2011, Mercy Health adopted authoritative guidance issued by the Financial Accounting Standards Board related to presentation and disclosure of patient service revenues and provisions for uncollectible receivables.

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

Ernst + Young LLP

September 24, 2012

Mercy Health

Consolidated Balance Sheets

	June 30 2012	June 30 2011
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 337,324**	$ 195,419
Accounts receivable, net of allowance for uncollectible receivables of $171,015 in 2012 and $187,756 in 2011	**506,351**	459,733
Inventories	**78,717**	69,389
Short-term investments	**26,206**	26,958
Other current assets	**282,204**	155,758
Total current assets	**1,230,802**	907,257
Investments	**1,338,053**	1,350,133
Property and equipment, net	**2,281,591**	2,080,125
Notes receivable	**12,961**	12,569
Other assets	**320,178**	280,924
Total assets	**$ 5,183,585**	$ 4,631,008
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term obligations	**$ 21,218**	$ 19,380
Accounts payable	**136,273**	110,135
Accrued payroll and related liabilities	**318,411**	287,389
Accrued liabilities and other	**338,290**	201,399
Total current liabilities	**814,192**	618,303
Insurance reserves and other liabilities	**400,804**	366,504
Pension liabilities	**362,324**	245,170
Long-term obligations, less current maturities	**810,204**	796,560
Total liabilities	**2,387,524**	2,026,537
Net assets:		
Unrestricted	**2,724,806**	2,534,232
Restricted	**71,255**	70,239
Total net assets	**2,796,061**	2,604,471
Total liabilities and net assets	**$ 5,183,585**	$ 4,631,008

See accompanying notes.

Mercy Health

Consolidated Statements of Operations

	Year Ended June 30	
	2012	**2011**
	(In Thousands)	
Operating revenues:		
Patient service revenues (net of contractuals and discounts)	**$ 3,879,408**	$ 3,585,608
Provision for uncollectible receivables	**(268,365)**	(249,050)
Net patient service revenues	**3,611,043**	3,336,558
Capitation revenues	**258,978**	235,928
Other operating revenues	**242,622**	221,752
Total operating revenues	**4,112,643**	3,794,238
Operating expenses:		
Salaries and benefits	**2,328,935**	2,146,871
Supplies and other	**1,264,543**	1,188,393
Medical claims expense	**120,819**	105,734
Interest	**11,808**	6,183
Depreciation and amortization	**264,125**	253,407
Total operating expenses	**3,990,230**	3,700,588
Operating income before Joplin operations and related insurance recovery (Note 3)	**122,413**	93,650
Joplin insurance proceeds	**388,100**	50,000
Joplin operating revenues	**95,577**	194,159
Joplin operating expenses	**(247,339)**	(255,015)
Total operating income	**358,751**	82,794
Nonoperating (losses) gains:		
Investment returns, net	**(8,301)**	171,761
Realized and unrealized losses on interest rate swaps, net	**(49,819)**	(259)
Other, net	**(2,001)**	(2,850)
Total nonoperating (losses) gains, net	**(60,121)**	168,652
Excess of revenues over expenses	**298,630**	251,446
Other changes in unrestricted net assets:		
Pension liability adjustments	**(121,025)**	12,532
Gain from discontinued operations	**8,435**	2,447
Net assets released from restrictions for property acquisitions	**3,131**	10,139
Other	**1,403**	5,752
Increase in unrestricted net assets	**$ 190,574**	$ 282,316

See accompanying notes.

Mercy Health

Consolidated Statements of Changes in Net Assets

	Year Ended June 30	
	2012	**2011**
	(In Thousands)	
Increase in unrestricted net assets	**$ 190,574**	$ 282,316
Restricted net assets:		
Pledges, bequests, and gifts for specific purposes	**16,069**	16,694
Investment returns, net	**146**	5,890
Net assets released from restrictions	**(15,015)**	(23,344)
Other	**(184)**	(426)
Increase (decrease) in restricted net assets	**1,016**	(1,186)
Increase in net assets	**191,590**	281,130
Net assets at beginning of year	**2,604,471**	2,323,341
Net assets at end of year	**$ 2,796,061**	$ 2,604,471

See accompanying notes.

Mercy Health

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2012	**2011**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 191,590**	$ 281,130
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net gain from discontinued operations	**(8,435)**	(2,447)
Pension liability adjustments	**121,025**	(12,532)
Pledges, bequests, and gifts for specific purposes	**(16,069)**	(16,694)
Unrealized loss (gain) on interest rate swap	**37,866**	(2,112)
Depreciation and amortization	**282,818**	238,332
Provision for uncollectible receivables	**274,416**	264,888
Insurance recoveries	**(388,100)**	(26,000)
Net (gain) loss on disposal of property	**(488)**	318
Changes in assets and liabilities:		
Accounts receivable	**(307,668)**	(270,861)
Investments classified as trading	**64,864**	78,547
Inventories and other current assets	**(22,170)**	(25,968)
Accounts payable	**23,243**	(40,889)
Accrued liabilities and other	**58,850**	20,273
Insurance reserves and other liabilities	**(7,663)**	(2,398)
Net cash provided by operating activities	**304,079**	483,587
Investing activities		
Additions to property and equipment, net	**(428,434)**	(203,168)
Insurance recoveries	**388,100**	50,000
Net change in notes receivable and other assets	**(28,295)**	(34,305)
Net increase in alternative investments	**(59,260)**	(259,049)
Business acquisitions	**(30,295)**	(70,809)
Net cash used in investing activities	**(158,184)**	(517,331)

Mercy Health

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30	
	2012	**2011**
	(In Thousands)	
Financing activities		
Proceeds from issuance of long-term debt, net of original issue discount and financing costs	**$ 376,425**	$ –
Principal payments on long-term obligations	**(404,919)**	(17,065)
Pledges, bequests, and gifts for specific purposes	**16,069**	16,694
Net cash used in financing activities	**(12,425)**	(371)
Net increase (decrease) in cash and cash equivalents from continuing operations	**133,470**	(34,115)
Cash flows from discontinued operations		
Net cash provided by assets of discontinued operations held for sale – operating activities	**4,819**	12,785
Net cash provided by assets of discontinued operations held for sale – investing activities	**3,616**	109,242
Net cash used by assets of discontinued operations held for sale – financing activities	**–**	(21,330)
Net increase in cash and cash equivalents from discontinued operations	**8,435**	100,697
Net increase in cash and cash equivalents	**141,905**	66,582
Cash and cash equivalents at beginning of year	**195,419**	128,837
Cash and cash equivalents at end of year	**$ 337,324**	$ 195,419
Supplemental disclosures		
Cash paid for interest	**$ 13,770**	$ 11,371
Assets acquired through capital leases	**$ 43,976**	$ –

See accompanying notes

Mercy Health

Notes to Consolidated Financial Statements
(Tables in Thousands)

June 30, 2012

1. Organization

Mercy Health, formerly known as (f/k/a) the Sisters of Mercy Health System, changed its name in fiscal 2012 to Mercy Health (Mercy) in an effort to better serve its patients and communities, as well as to honor the health system's heritage.

Mercy was incorporated in September 1986 and is the sole corporate member of various health care corporations. Mercy is sponsored by Mercy Health Ministry, a public juridic person whose members include Sisters of Mercy and lay leaders. Prior to sponsorship by Mercy Health Ministry, Mercy was sponsored by the Institute of the Sisters of Mercy of the Americas, Regional Community of St. Louis, a religious order of the Roman Catholic Church (Sisters of Mercy).

Mercy is incorporated as a not-for-profit corporation under the laws of the state of Missouri and is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code).

Mercy's ministry office (headquarters) is located in St. Louis, Missouri. Mercy and Subsidiaries (the Health System) comprise the following corporations and their subsidiaries:

- Mercy Health Fort Smith Communities (f/k/a St. Edward Mercy Health System, Inc.); Fort Smith, Arkansas

- Mercy Health Hot Springs Communities (f/k/a St. Joseph's Mercy Health System, Inc.); Hot Springs, Arkansas

- Mercy Health Northwest Arkansas Communities (f/k/a Mercy Health System of Northwest Arkansas, Inc.); Rogers, Arkansas

- Mercy Health East Communities (f/k/a St. John's Mercy Health Care); St. Louis, Missouri

- Mercy Health Springfield Communities (f/k/a St. John's Health System, Inc.); Springfield, Missouri

1. Organization (continued)

- Mercy Health Oklahoma Communities, Inc. (f/k/a Mercy Health System, Inc.); Oklahoma City and Ardmore, Oklahoma
- Mercy Ministries of Laredo; Laredo, Texas
- Mercy Health Southwest Missouri / Kansas Communities (f/k/a Mercy Health System-Joplin, Inc.); Joplin, Missouri, and Independence and Fort Scott, Kansas

Each subsidiary above is a separately incorporated not-for-profit corporation and is tax-exempt pursuant to Section 501(c)(3) of the Code. All significant intercompany transactions and balances have been eliminated in consolidation.

Significant Acquisitions and Divestitures

Acquisitions

During fiscal 2012, several of the Health System's subsidiaries entered into asset purchase agreements to make certain acquisitions, including a hospital, physician practices, and other assets for approximately $35.4 million in cash. During fiscal 2011, two of the Health System's subsidiaries entered into asset purchase agreements to acquire a hospital, physician practices, and other assets for approximately $70.8 million in cash and the assumption of a note payable of $8.0 million. All of these transactions were accounted for as acquisitions in accordance with Accounting Standards Codification (ASC) Topic 958-805, *Business Combinations – Not-for-Profit Entities*.

These acquisitions provided the Health System's patients with access to a greater number of specialists and enhanced the coordination of health services.

The operating results of entities acquired are included in the Health System's consolidated financial statements from the date of acquisition. Operating revenues of the entities acquired in fiscal 2012 included in the consolidated statement of operations was $55.4 million for the year ended June 30, 2012. Operating revenues of the entities acquired in fiscal 2011 included in the consolidated statement of operations was $36.9 million for the year June 30, 2011.

1. Organization (continued)

The Health System allocates the purchase price of the acquired businesses to assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over fair value of net assets acquired is recorded as goodwill. The goodwill can be attributed to benefits that Mercy expects to realize from operating efficiencies and increased revenues.

The following table summarizes the acquisition date fair values of the assets acquired and liabilities assumed:

	Fiscal 2012 Acquisitions	**Fiscal 2011 Acquisitions**
Assets acquired:		
Cash	**$ 5,069**	$ –
Accounts receivable	**13,366**	–
Inventory, prepaid expenses, and other current assets	**2,620**	759
Property, plant, and equipment	**11,387**	71,437
Goodwill, identifiable intangibles, and other long-term assets	**11,106**	6,878
Total assets acquired	**43,548**	79,074
Liabilities assumed:		
Accounts payable	**2,894**	–
Accrued liabilities	**5,290**	281
Note payable assumed	**–**	7,984
Total liabilities assumed	**8,184**	8,265
	$ 35,364	$ 70,809

Divestitures

Effective October 1, 2010 (fiscal 2011), Mercy sold Mercy Health Plans, Inc. (MHP) for $112.2 million. MHP, a for-profit corporation, was a health insurance organization that provided health maintenance organization (HMO) and preferred provider organization (PPO) insurance plans and health management services to subscribing employee groups and individuals in areas served by Mercy.

1. Organization (continued)

The operations of MHP have been classified as discontinued operations in accordance with ASC Topic 205, *Discontinued Operations*, because the associated operations and cash flows have been eliminated from ongoing operations, and the Health System does not have continuing involvement in the operations of MHP. For all periods presented, the operating results for these operations have been removed from continuing operations and presented separately as discontinued operations in the consolidated statements of operations. The notes to the consolidated financial statements were adjusted to exclude the impact of discontinued operations.

MHP's operating revenues were $156.5 million for the year ended June 30, 2011. MHP's results from operations consisted of income of $0.8 million for the year ended June 30, 2011.

Included in discontinued operations for the year ended June 30, 2012, is $2.0 million related to final purchase price adjustments and $6.4 million related to sublease income on leased office space that had been vacated in 2011.

For fiscal 2012 and 2011, the Health System had certain managed care and other contracts with the acquiring entity related to the sale of MHP, which generated continuing cash flows of approximately 6% of the Health System's total operating revenues.

Letter of Intent

In April 2012, Mercy signed an agreement in principle to sell Mercy Health Hot Springs Communities to Capella Healthcare Inc. – a private, for-profit system based in Franklin, Tennessee. In August 2012, a definitive agreement was signed. This transaction is subject to approval from the Roman Catholic Church and the Federal Trade Commission. Due to the pending approvals from the Roman Catholic Church, the criteria for classifying the operations of Mercy Health Hot Springs Communities as discontinued operations has not yet been met in accordance with ASC Topic 205, *Discontinued Operations*.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts classified as investments, are considered cash equivalents. The Health System routinely invests in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. Financial instruments that potentially subject the Health System to concentrations of credit risk include the Health System's cash and cash equivalents. The Health System places its cash and cash equivalents with institutions with high credit quality. However, at certain times, such cash and cash equivalents are in excess of government-provided insurance limits.

Inventories

Inventories, which consist principally of medical supplies and pharmaceuticals, are stated at the lower of cost or market. Cost is determined principally using the average cost method.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of receipt.

Depreciation is provided using the straight-line method over the estimated useful lives of land and leasehold improvements, buildings, and equipment. The estimated useful lives are as follows: land and leasehold improvements, 2 to 30 years; buildings, 3 to 40 years; and equipment, 2 to 20 years.

Property and equipment under capital lease obligations are amortized using the straight-line method over the lease term or the estimated useful life of the leased asset, whichever period is shorter. Such amortization is included with depreciation in the accompanying consolidated statements of operations and changes in net assets.

2. Summary of Significant Accounting Policies (continued)

Asset Impairment

The Health System periodically evaluates the carrying value of its long-lived assets for impairment when indicators of impairment are identified. These evaluations are primarily based on the estimated recoverability of the assets' carrying value based on undiscounted cash flows. Impairment write-downs are recognized in operating income at the time the impairment is identified.

Assets and Liabilities Held for Sale

A long-lived asset or disposal group of assets and liabilities that is expected to be sold, and for which it is probable that the sale will be completed within one year, is classified as held for sale. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell.

Other Assets

Other assets consist primarily of investment securities held under deferred compensation arrangements, land held for future development, fair value of interest rate swaps in asset positions, and investments in unconsolidated affiliates.

Goodwill

The Health System records goodwill arising from a business combination as the excess of purchase price and related costs over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed. At June 30, 2012 and 2011, the Health System had goodwill of $43.0 million and $31.5 million, respectively. The Health System annually reviews, as of January 1, the carrying value of goodwill for impairment. In addition, a goodwill impairment assessment is performed if an event occurs or circumstances change that would make it more likely than not that the fair value of a reporting unit is below its carrying amount. Management has determined that the Health System has seven reporting units at which fair value is measured. If such circumstances suggest that the recorded amounts of any of these assets cannot be recovered, the carrying values of such assets are reduced to fair value. If the carrying value of any of these assets is impaired, a material charge may be incurred to results of operations. It was determined there were no goodwill impairments during 2012 or 2011.

2. Summary of Significant Accounting Policies (continued)

Net Assets

The Health System's net assets and activities are classified into two classes, restricted and unrestricted, based on the existence or absence of donor-imposed restrictions. Restricted net assets include temporarily restricted net assets (71% and 70% of restricted net assets at June 30, 2012 and 2011, respectively), whose use by the Health System has been limited by donors to a specific time period or for a particular purpose, and permanently restricted net assets (29% and 30% of restricted net assets at June 30, 2012 and 2011, respectively), which must be maintained by the Health System in perpetuity with the related investment income expendable to support the donor-designated purpose. The general nature of the donor restrictions is to support the Health System's indigent care mission and health education programs and to assist with capital projects.

Net Patient Service Revenues and Patient Accounts Receivable

Patient service revenues (net of contractual and discounts) are recorded during the period the health care services are provided and are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Estimates of contractual allowances under managed care health plans are based upon the services provided, historical payment rates and the payment terms specified in the related contractual agreements. Revenues related to uninsured patients have discounts applied in accordance with Mercy policy. Net patient service revenue is reported net of provision for uncollectible receivables.

Patient accounts that are uncollected, including those placed with collection agencies, are initially charged against the allowance for uncollectible accounts in accordance with collection policies of the Health System and, in certain cases, are reclassified to charity care if deemed to otherwise meet the Health System's charity care policy. The provision for uncollectible receivables is based upon management's assessment of historical and expected net collections considering 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 receivables based upon the payor composition and aging of receivables as of the reporting date with consideration of the historical payment and write-off experience by payor category. The results of these reviews are then used to make any modifications to the provision for uncollectible receivables to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the Health System follows established guidelines for placing past-due patient balances with collection agencies.

2. Summary of Significant Accounting Policies (continued)

Retroactive third-party adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known. Adjustments to revenue based on prior periods increased net patient service revenues by approximately $30.0 million and $14.0 million in 2012 and 2011, respectively, due to revised estimates consisting primarily of retroactive third-party adjustments for years that are subject to audits, reviews, and investigations. Included in the $30.0 million recognized in 2012 is $16.6 million, which relates to the Medicare Rural Floor Budget Neutrality Act settlement (Settlement). This Settlement with Centers for Medicare and Medicaid Services involved approximately 2,200 hospitals nationwide and was made to resolve a challenge made by the plaintiff hospitals for underpayment of inpatient Medicare services dating back to 1999.

Capitation Revenues and Medical Claims Expense

Certain Health System Subsidiaries have entered into various risk-based contracts with certain HMOs. Under these arrangements, the Subsidiaries receive capitated payments based on the demographic characteristics of covered members in exchange for providing certain medical services to those members. These payments are reflected as capitation revenues in the consolidated statements of operations. The Subsidiaries recognize medical claims expense for services provided. The medical claims expense represents claims paid, claims reported but not yet paid, and claims incurred but not reported (IBNR). The IBNR amount is estimated based upon prior experience modified for current trends. The claims IBNR amount was $21.0 million and $20.8 million at June 30, 2012 and 2011, respectively, and was included in accrued liabilities and other in the consolidated balance sheets.

2. Summary of Significant Accounting Policies (continued)

Electronic Health Record Incentive Program

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 ending in 2016. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate continued meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The Health System accounts for EHR incentive payments as other operating revenue. The Health System utilizes a grant accounting model to recognize EHR incentive revenues and records incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that the respective eligible provider will meet the meaningful use objectives for the reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30. The Health System attested for meaningful use (both for eligible facilities and for integrated ambulatory physicians) and received incentive payments of approximately $42.0 million during the year ended June 30, 2012. The Health System believes that the eligible providers that met meaningful use objectives will continue to meet the objectives for the federal fiscal year ended September 30, 2012. Therefore, the Health System also recognized an additional $7.5 million based on its reasonable assurance of meeting year two EHR requirements. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. In addition, the Health System's compliance with the meaningful use criteria is subject to audit by the federal government.

In addition, the Health System has an incentive program with its physicians whereby the Health System compensates eligible physicians if certain criteria are met. The Health System expensed approximately $16.7 million for incentives paid to physicians for the year ended June 30, 2012. These amounts are included in salaries and benefits in the accompanying consolidated statements of operations. The net amount reflected in the consolidated statements of operations for EHR incentive payments is $32.8 million for the year ended June 30, 2012.

2. Summary of Significant Accounting Policies (continued)

Services to the Community

In support of its mission, the Health System provides care to patients who personally bear a significant financial burden relative to their health care services and are deemed to be medically indigent. The Health System classifies the resources utilized for the care of patients bearing a significant health care financial burden as compared to their resources as traditional charity care. Traditional charity care includes the cost of services provided to persons who cannot afford health care because of the financial burden of the health care services and/or who are uninsured or underinsured. Traditional charity care also includes services for which the patient may not participate in the charity care process but are otherwise deemed to meet the Health System's charity care policy.

Because the Health System does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue. The cost of traditional charity care was $126.8 million and $110.4 million in 2012 and 2011, respectively. The Health System estimates cost of charity care using a calculated ratio of costs to charges by hospital and applies that ratio to the relevant gross charges respectively, less any payments received.

Health care services to patients under government programs, such as Medicare and Medicaid, are also considered part of the Health System's benefit provided to the community since a portion of such services are reimbursed at amounts less than cost. In addition, the Health System maintains community benefit programs designed to positively impact the health status of the communities served. These services include various clinics and outreach programs (designed to deliver health care services to underserved communities), medical education and research activities, and direct cash and in-kind charitable contributions.

2. Summary of Significant Accounting Policies (continued)

These community benefit programs also include the activities of Mercy Ministries of Laredo (MML), Mercy Caritas, Catherine's Fund, and Mercy Family Center (f/k/a Sisters of Mercy Ministries) that are administered by Mercy. These programs finance charitable activities to help meet the needs of the poor, sick, and uneducated.

Investments

Investments include assets set aside through resolution by the Board of Directors for future long-term purposes, including capital improvements and self insurance. In addition, investments include amounts contributed by donors with stipulated restrictions. These assets include investments in equity securities and debt securities, which are measured at fair value. The cost of securities sold is based on the specific-identification method. The Health System accounts for its ownership interest in alternative investments under the equity method. Management has utilized the best available information for reported investment values, which in some instances are valuations as of an interim date.

For purposes of recognizing investment returns as a component of excess of revenues over expenses, substantially all investments, other than alternative investments, are considered to be trading securities. Prior to fiscal 2012, investment returns on assets held in the professional liability trust fund were reported as other operating revenues. The professional liability trust fund was terminated as of June 30, 2011 (see Note 8), and thus, investment return is included as nonoperating gains (losses) in 2012 consistent with other Board-restricted assets. Unrestricted investment returns, including alternative investments, are included in nonoperating gains (losses) in the consolidated statements of operations. Investment returns arising from donor-restricted resources are reported as a direct increase in restricted net assets in the consolidated statements of changes in net assets, consistent with the donors' restrictions. In addition, cash flows from the purchases and sales of marketable securities designated as trading are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

2. Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

Derivative instruments are contracts between the Health System and a third party (counterparty) that provide for economic payments between the parties based on changes in some defined market security or index or combination thereof. The Health System's derivative financial instruments are primarily interest rate swaps utilized as part of its debt management process. The Health System recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The Health System does not account for any of its interest rate swap agreements as hedges, and accordingly, realized and unrealized gains (losses) and net settlement payments are reflected as a component of nonoperating gains (losses) in the accompanying consolidated statements of operations.

Pledges, Bequests, and Gifts for Specific Purposes

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. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are recorded as an increase in restricted net assets if they are received with donor stipulations that limit the use of the assets. Upon expenditure in accordance with a donor's restrictions and when the asset is placed in service, net assets restricted for capital acquisitions are reported as direct additions to unrestricted net assets, and assets restricted for operating purposes are reported as an increase in other operating revenues. Donor-restricted contributions for operating purposes whose restrictions are met within the same year as received, and contributions received by donors without restrictions, are reflected as other operating revenues in the accompanying consolidated statements of operations.

Unconditional promises to give, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Net pledges receivable of $3.1 million and $7.9 million were included in other current assets and other assets, respectively, at June 30, 2012. Net pledges receivable of $3.3 million and $8.2 million were included in other current assets and other assets, respectively, at June 30, 2011.

2. Summary of Significant Accounting Policies (continued)

Functional Classification of Expenses

The Health System provides general health care services to residents within communities served, including acute inpatient, subacute inpatient, outpatient, ambulatory, long-term, and home care, as well as related general and administrative services.

The Health System does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Furthermore, since the Health System receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Operating Indicator

The Health System's operating indicator (operating income before Joplin operations and related insurance recovery) includes all unrestricted revenue, gains and other support, and expenses directly related to the recurring and ongoing health care operations during the reporting period. The operating indicator excludes operating revenues, expenses and insurance proceeds related to Joplin, nonoperating gains and losses, pension liability adjustments, gain from discontinued operations, net assets released from restrictions for property acquisitions, and other.

Performance Indicator

The Health System's performance indicator (excess of revenues over expenses) includes all changes in unrestricted net assets other than pension liability adjustments, gain from discontinued operations, net assets released from restrictions for property acquisitions, and other.

2. Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Gains (Losses)

The Health System's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Health System's primary mission are considered to be nonoperating. Nonoperating activities include net investment returns and net realized and unrealized gains (losses) on interest rate swaps.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Accounting Pronouncements Adopted

Effective for the year ended June 30, 2012, the Health System adopted Accounting Standards Update (ASU) 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care, and requires disclosure of the method used to identify or determine such costs.

Effective for the year ended June 30, 2012, the Health System adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in this ASU state that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. The adoption of this standard did not have a material impact on the Health System's consolidated financial position and results of operations.

2. Summary of Significant Accounting Policies (continued)

Effective for the year ended June 30, 2012, the Health System adopted ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Entities.* ASU 2011-07 requires health care entities to change the presentation of their statement of operations by reclassifying the provision for uncollectible receivables associated with patient service revenue from an operating expense to a deduction from patient services revenues (net of contractual allowances and discounts). In addition, enhanced disclosures are required for the entity's revenue recognition policies and assessing bad debts. The standard also requires disclosure of patient service revenue by major payor source as well as qualitative and quantitative information about changes in the allowance for uncollectible accounts. The provision for uncollectible receivables associated with patient service revenue has been reclassified from an operating expense to a deduction from patient service revenues, and the prior year has been reclassified to conform to this presentation. (See the consolidated statements of operations and Note 4.)

3. Joplin Operations and Related Insurance Recovery

An EF-5 tornado hit the city of Joplin on May 22, 2011. Mercy has an acute care hospital and several medical office buildings in Joplin. As a result of the tornado, the acute care hospital was completely destroyed and several of the medical office buildings suffered significant physical damage. The operations of Joplin were expected to be approximately 5% of the Health System's consolidated net patient service revenues in fiscal 2011. The Health System has continued to provide health care services in a temporary facility, but in a diminished capacity.

For the year ended June 30, 2011, management recorded a $16.1 million impairment loss equal to the book value of the buildings and equipment affected by the tornado. In addition, management recorded a $6.0 million impairment loss for inventory destroyed.

The Health System has incurred additional costs related to cleanup and security of the premises and has continued to pay all employees. These expenses are being recorded as incurred. It is anticipated these costs will ultimately be significantly covered by insurance.

3. Joplin Operations and Related Insurance Recovery (continued)

As of the date of the tornado, the Health System maintained insurance coverage of $750 million, which covered property damage, business interruption, and related costs, subject to a deductible. During fiscal 2012, the Health System received $388.1 million in insurance proceeds from the insurance company related to this event, of which $125.0 million was for business interruption. During fiscal 2011, the Health System received a $50.0 million initial payment from the insurance company related to this event. These payments are reflected as Joplin insurance proceeds on the accompanying consolidated statements of operations. Future cash payments under the policy will be recorded when received in operating income.

Since the post-tornado operations of Joplin are not comparable to the pre-tornado operations and since Joplin's results are impacted significantly by insurance proceeds, management has determined that Joplin's financial results should be segregated in the attached consolidated statements of operations for both periods presented.

	Year Ended June 30	
	2012	**2011**
Operating revenues:		
Patient service revenues (net of contractuals and discounts)	**$ 91,442**	$ 203,965
Provision for uncollectible receivables	**(6,051)**	(15,838)
Net patient service revenues	**85,391**	188,127
Other operating revenues	**10,186**	6,032
Total operating revenues	**95,577**	194,159
Operating expenses:		
Salaries and benefits	**84,050**	93,297
Supplies and other	**144,596**	143,727
Depreciation and amortization	**18,693**	17,991
Total operating expenses	**247,339**	255,015
Joplin insurance proceeds	**388,100**	50,000
Joplin operating income (loss)	**$ 236,338**	$ (10,856)

4. Net Patient Service Revenue and Patient Receivables

The following is a summary of the Health System's patient service revenues, net of contractual allowances and discounts (before the provision for uncollectible receivables) by major payor. Medicare and Medicaid managed plans are grouped with Medicare and Medicaid, respectively:

	Year Ended June 30	
	2012	**2011**
Medicare	**$ 1,356,873**	$ 1,285,354
Medicaid	**424,509**	353,172
Managed care/other	**1,849,947**	1,659,375
Self-pay	**248,079**	287,707
Total	**$ 3,879,408**	$ 3,585,608

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Noncompliance with Medicare and Medicaid laws and regulations can make the Health System subject to significant regulatory action, including substantial fines and penalties, as well as exclusion from the Medicare and Medicaid programs.

The Health System provides health care services through inpatient and outpatient care facilities located in several states. The Health System grants credit to patients in return for health care services rendered to said patients, substantially all of whom are residents of the communities served. The Health System does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, HMOs, and commercial insurance policies). At June 30, 2012 and 2011, approximately 36% and 33%, respectively, of net accounts receivable were collectible from governmental payors (including Medicare and Medicaid), with approximately 50% for both 2012 and 2011 of net accounts receivable collectible from commercial insurance and managed care payors.

4. Net Patient Service Revenue and Patient Receivables (continued)

The allowance for uncollectible receivables was approximately $171.0 million and $187.8 million as of June 30, 2012 and 2011, respectively. These balances as a percent of accounts receivable net of contractual allowances were approximately 25% and 29% as of June 30, 2012 and 2011, respectively. The Health System's allowance for uncollectible receivables covered approximately 93% and 94% of self-pay patient receivables as of June 30, 2012 and 2011, respectively. The Health System has experienced an increase in write-off trends related to bad debt and charity across the ministry driven by higher unemployment, loss of employer-sponsored insurance plans, and rising patient responsibility balances. Mercy reviews and updates its uninsured discount rate on an annual basis. There have been no significant changes to the charity care policies for the year ended June 30, 2012.

The following is a summary of the Health System's allowance for uncollectible receivables activity:

	June 30, 2012
Balance at beginning of period	$ 187,756
Provision for uncollectible receivables	268,365
Provision for uncollectible receivables – Joplin	6,051
Accounts written off, net of recoveries and other	(291,157)
Balance at end of period	$ 171,015

5. Investments

The following is a summary of investments:

	June 30	
	2012	**2011**
Board-designated	**$ 1,321,605**	$ 1,338,053
Restricted by donor or grantor	**42,654**	39,038
Total investments	**1,364,259**	1,377,091
Less: short term investments	**(26,206)**	(26,958)
	$ 1,338,053	$ 1,350,133

5. Investments (continued)

The following is a summary of investments by classification:

	June 30	
	2012	**2011**
Cash and cash equivalents	**$ 93,477**	$ 48,642
Fixed income:		
Corporate debt securities	**73,209**	72,255
Government agencies	**3,579**	3,334
Government obligations (U.S. and foreign)	**90,099**	79,088
Other debt securities	**36,436**	19,173
Commingled and mutual funds	**147,477**	144,147
Equity securities:		
Domestic equities – common stock	**262,603**	278,182
International equities – common stock	**226,820**	326,082
Real assets – commodities	**38,837**	22,852
Alternative investments:		
Hedge funds	**245,697**	273,583
Private equity investments	**99,466**	85,932
Real assets – limited partnerships	**24,816**	669
Other	**21,743**	23,152
	1,364,259	1,377,091
Less: short term investments	**(26,206)**	(26,958)
Total investments	**$ 1,338,053**	$ 1,350,133

5. Investments (continued)

The following is a summary of investment returns:

	Year Ended June 30 2012	2011
Investment returns included in other operating revenues	**$ –**	$ 16,955
Investments:		
Interest and dividends	**23,758**	21,490
Realized gains, net	**34,013**	35,913
Interest expense on Series 2001 bonds	**(2,417)**	(2,514)
Unrealized (losses) gains, net	**(63,655)**	116,872
Investment returns included in nonoperating (losses) gains, net	**(8,301)**	171,761
Investment returns included in restricted net assets	**146**	5,890
Total investment returns	**$ (8,155)**	$ 194,606

The Health System's investments are exposed to various kinds and levels of risk. Fixed income securities expose the Health System to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. Equity securities expose the Health System to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is the risk associated with a company's operating performance. Liquidity risk as previously defined tends to be higher for foreign equities and equities related to small capitalization companies.

5. Investments (continued)

Certain of the Health System's investments are made through alternative investments, primarily private equity limited partnership investments and hedge funds. These investments provide the Health System with a proportionate share of the investment gains and losses. The fund manager has full discretionary authority over the investment decisions and provides the net asset valuation. The hedge funds and private equity funds present risks similar to those of traditional investments, as well as some additional risks. Due to the fact that these funds are invested through limited partnerships or other limited access-type vehicles, pricing is infrequent and liquidity may also be limited: in some cases, up to 24 months for hedge funds. Due to infrequent pricing and illiquidity of underlying investments, it is common practice for private equity funds to require investors to commit to a 10-year investment period, although the distribution of capital is likely to occur prior to the 10-year termination date. These investments may also employ leverage, which may lead to additional risk of loss. These investments are subject to market risk, default risk, interest rate risk, and credit risk as well as various other types of risks. At June 30, 2012, the Health System has commitments to fund $54.1 million in these investments.

At the balance sheet dates, receivables and payables for investment trades not settled are presented with other current assets and other current liabilities. Unsettled sales resulted in receivables due from brokers of $196.6 million and $85.6 million at June 30, 2012 and 2011, respectively. Unsettled buys resulted in payables of $164.5 million and $60.3 million at June 30, 2012 and 2011, respectively.

6. Fair Value Measurements

Fair value is 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. The fair value measurements and disclosures topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

6. Fair Value Measurements (continued)

Level 2 – Pricing inputs other than quoted prices included in Level 1, which are either directly observable or can be derived or supported from observable data as of the reporting date.

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. In evaluating the significance of input, the Health System generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually, or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The fair value of financial assets and financial liabilities measured at fair value on a recurring basis was determined using the following inputs at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 89,338	$ 4,139	$ –	$ 93,477
Equity securities:				
Domestic equities – common stock	262,603	–	–	262,603
International equities – common stock	86,200	140,620	–	226,820
Fixed income:				
Corporate debt securities	–	73,209	–	73,209
Government agencies	–	3,579	–	3,579
Government obligations (U.S. and foreign)	–	90,099	–	90,099
Other debt securities	703	35,733	–	36,436
Commingled and mutual funds	44,645	102,832	–	147,477
Real assets – commodities	26,200	12,637	–	38,837
Other	–	6,390	–	6,390
Investments	509,689	469,238	–	978,927
Cash and cash equivalents	619	–	–	619
Equities – mutual funds	106,398	–	–	106,398
Other	–	6,103	42,493	48,596
Deferred compensation plan assets	107,017	6,103	42,493	155,613
Interest rate swap agreements	–	9,441	–	9,441
Total assets	$ 616,706	$ 484,782	$ 42,493	$ 1,143,981
Liabilities				
Interest rate swap agreements	$ –	$ 86,636	$ –	$ 86,636
Total liabilities	$ –	$ 86,636	$ –	$ 86,636

6. Fair Value Measurements (continued)

The following table is a rollforward of the deferred compensation plan assets classified within Level 3 of the valuation hierarchy:

	Other
Fair value at July 1, 2011	$ 42,572
Purchases, issuances, settlements, and sales:	
Purchases	18,336
Sales	(19,189)
Actual return on plan assets	774
Transfers in and/or out of Level 3	–
Fair value at June 30, 2012	$ 42,493

The fair value of financial assets and financial liabilities measured at fair value on a recurring basis was determined using the following inputs at June 30, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 571	$ 48,071	$ –	$ 48,642
Equity securities:				
Domestic equities – common stock	277,298	884	–	278,182
International equities – common stock	147,417	178,665	–	326,082
Fixed income:				
Corporate debt securities	–	72,255	–	72,255
Government agencies	–	3,334	–	3,334
Government obligations (U.S. and foreign)	–	79,088	–	79,088
Other debt securities	455	18,718	–	19,173
Commingled and mutual funds	52,165	91,982	–	144,147
Real assets – commodities	22,852	–	–	22,852
Other	–	7,299		7,299
Investments	500,758	500,296	–	1,001,054
Cash and cash equivalents	473	–	–	473
Equities – mutual funds	105,702	–	–	105,702
Other	–	7,183	42,572	49,755
Deferred compensation plan assets	106,175	7,183	42,572	155,930
Interest rate swap agreements	–	9,215	–	9,215
Total assets	$ 606,933	$ 516,694	$ 42,572	$ 1,166,199
Liabilities				
Interest rate swap agreements	$ –	$ 48,544	$ –	$ 48,544
Total liabilities	$ –	$ 48,544	$ –	$ 48,544

6. Fair Value Measurements (continued)

The following table is a rollforward of the deferred compensation plan assets classified within Level 3 of the valuation hierarchy:

	Other
Fair value at July 1, 2010	$ 37,337
Purchases, issuances, and settlements	2,409
Actual return on plan assets	2,826
Transfers in and/or out of Level 3	–
Fair value at June 30, 2011	$ 42,572

Investments in the fair value tables above exclude alternative investments of $370.0 million, which are recorded under the equity method of accounting and land held for investment of $15.4 million, which is recorded at cost at June 30, 2012. Investments in the fair value tables above exclude alternative investments of $360.2 million, which are recorded under the equity method of accounting, land held for investment of $15.4 million, which is recorded at cost, and a note receivable of $0.5 million at June 30, 2011.

Deferred compensation plan assets and interest rate swaps (assets) are reported in other assets, and interest rate swaps (liabilities) are reported in insurance reserves and other liabilities in the consolidated balance sheets.

The following is a description of the Health System's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. The fair value of certain Level 2 securities was determined using multiple price types of bid/offer, last traded, settlement, evaluated, and the official primary exchange close-time pricing, provided by third-party pricing services if quoted market prices were not available. The quality of the prices received is evaluated through price comparisons and tolerance level checks. These Level 2 investments include cash equivalents, international equities, corporate debt securities, government agencies, government obligations, and commingled funds. The fair values of the interest rate swap contracts, also Level 2 measurements, are determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) discount curve in order to reflect nonperformance risk. The credit spread adjustment is derived from other comparable rated entities' bonds priced in the market for Mercy and counterparty bond trading levels (or credit default swap spreads) for JP Morgan and Deutsche Bank. The fair values of other securities in the deferred compensation plan's assets are based on unobservable inputs and are recorded based on information provided by the trustee.

6. Fair Value Measurements (continued)

The deferred compensation plans invest in a fully benefit-responsive guaranteed investment contract (GIC) with MetLife, which is a general account evergreen group annuity contract. MetLife maintains the contributions in the general account. The deferred compensation plans own a series of guarantees that are embedded in the insurance contract. The contractual guarantees are backed up by the full faith and credit of MetLife, the contract issuer. MetLife is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the deferred compensation plan. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer. Such interest rates are reviewed on an annual basis for resetting.

The carrying values of cash and cash equivalents, accounts receivable, notes receivable, pledges receivable, and current liabilities are reasonable estimates of their fair values due to the short-term nature of these financial instruments. The fair value of the Health System's fixed-rate bonds is based on quoted market prices for the same or similar issues and approximates $7.2 million and $9.5 million as of June 30, 2012 and 2011, respectively. The carrying amount approximates fair value for all other long-term debt, which is variable rate, and excludes the impact of third-party credit enhancements.

Due to the volatility of the financial market, there is a reasonable possibility of changes in fair value and additional gains and losses in the near term subsequent to June 30, 2012.

7. Property and Equipment

The following is a summary of property and equipment:

	June 30	
	2012	**2011**
Land and leasehold improvements	**$ 238,172**	$ 182,870
Buildings	**2,600,791**	2,424,151
Equipment	**2,007,360**	1,864,288
Construction-in-progress	**120,036**	44,057
	4,966,359	4,515,366
Less accumulated depreciation	**(2,684,768)**	(2,435,241)
Property and equipment, net	**$ 2,281,591**	$ 2,080,125

7. Property and Equipment (continued)

At June 30, 2012, construction and software-related contracts and commitments exist for capital improvements at certain of the Health System's facilities. The remaining commitment on these contracts at June 30, 2012, was approximately $536.5 million, out of which $458.5 million relates to the construction of the new hospital in Joplin. During the years ended June 30, 2012 and 2011, interest of $0.8 million and $3.0 million, respectively, was capitalized.

8. Liability Programs

The Health System administers a liability program to provide for general and professional liability risks within certain limits. Health care professional liabilities in excess of self-insured limits are insured on a claims-made basis subject to an annual maximum of $20,000 over the self-insured retention of $10,000, after which the Health System would again be responsible. The recorded liabilities are based upon actuarial estimates of reported claims and IBNR claims using historical claim experience and other relevant industry and hospital-specific factors and trends, discounted at an interest rate of 4.75% for 2012 and 2011. Until June 30, 2011, the Health System maintained assets in a revocable trust fund to cover these risks. On June 30, 2011, the trust was terminated, and the funds were merged into board-designated funds for investment purposes. Management, however, continues to monitor and track these funds separately. The discounted general and professional liability was $130.9 million and $141.0 million at June 30, 2012 and 2011, respectively, which is included in accrued liabilities and insurance reserves in the accompanying consolidated balance sheets.

9. Employee Retirement Plans

Prior to July 1, 2011, Mercy sponsored an active defined benefit retirement plan (the Plan) to provide coverage under a single plan for groups acquired in business combinations. Pension benefits were provided to substantially all Health System employees through the Plan. As new employee groups were transitioned to the Plan, the Plan was modified through plan amendments to provide credit for service with the acquired provider. Plan benefits were originally provided based on a final average pay formula but were later transitioned to a cash balance-type formula. The cash balance formula provided an annual pay credit, based on employee compensation and years of service, and an interest credit based on the 30-year U.S. Treasury bill rate, subject to a floor of 5.25%. Effective June 30, 2011, the Plan was closed to new entrants, and pay credits ceased. Interest credits continue to be paid under the Plan. The Plan is funded consistent with actuarial funding recommendations.

9. Employee Retirement Plans (continued)

Mercy provides various non-qualified defined benefit retirement plans to provide retirement income in excess of the limitations on benefits imposed by Internal Revenue Service (IRS) limitations and to attract and retain certain key executives. These plans are closed to new entrants.

The following table sets forth the Plan's and certain other of the Health System's pension plans' benefit obligations, fair value of plan assets, and funded status at the measurement date.

	June 30	
	2012	**2011**
Accumulated benefit obligation	**$ 1,010,293**	$ 945,980
Changes in projected benefit obligation:		
Projected benefit obligation at beginning of period	**$ 966,632**	$ 876,039
Service cost, benefits earned during the period	**1,413**	61,090
Interest cost on projected benefit obligation	**47,392**	45,523
Actuarial loss	**66,852**	41,724
Benefits paid	**(61,982)**	(57,744)
Projected benefit obligation at end of period	**$ 1,020,307**	$ 966,632
Changes in plan assets:		
Fair value of plan assets at beginning of period	**$ 718,489**	$ 598,943
Actual return on plan assets	**(10,219)**	99,678
Employer contributions	**8,361**	77,612
Benefits paid	**(61,982)**	(57,744)
Fair value of plan assets at end of period	**$ 654,649**	$ 718,489
Funded status of the Plan	**$ (365,658)**	$ (248,143)

Amounts recognized in the accompanying consolidated balance sheets at June 30 consist of:

	2012	**2011**
Accrued liabilities and other	**$ 3,334**	$ 2,973
Pension liabilities	**362,324**	245,170
	$ 365,658	$ 248,143

9. Employee Retirement Plans (continued)

No plan assets are expected to be returned to the Health System during the fiscal year ended June 30, 2013.

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension cost:

	Year Ended June 30	
	2012	**2011**
Unrecognized actuarial loss	**$ (421,973)**	$ (300,404)
Unrecognized prior service cost	**(3,561)**	(4,105)
	$ (425,534)	$ (304,509)

Changes in plan assets and benefit obligations recognized in unrestricted net assets include:

	Year Ended June 30	
	2012	**2011**
Current year actuarial (loss) gain	**$ (130,055)**	$ 5,606
Amortization of actuarial loss	**8,486**	6,379
Amortization of prior service credit	**544**	547
	$ (121,025)	$ 12,532

The estimated net actuarial gain (loss) and prior service cost included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ending June 30, 2013, are $12.0 million and $0.5 million, respectively. The impact of the change in discount rate on the projected benefit obligation of the plan was an increase of approximately $71.3 million for the year ended June 30, 2012.

9. Employee Retirement Plans (continued)

The following is a summary of the components of net periodic pension cost:

	Year Ended June 30 2012	2011
Service cost, benefits earned during the period	**$ 1,413**	$ 61,090
Interest cost on projected benefit obligation	**47,392**	45,523
Expected return on plan assets	**(52,984)**	(52,350)
Amortization of unrecognized:		
Prior service credit	**544**	547
Actuarial loss	**8,486**	6,379
Net periodic pension cost	**$ 4,851**	$ 61,189

Weighted-average assumptions used to determine the Plan's projected benefit obligation and net periodic benefit costs are as follows:

	Projected Benefit Obligation		Net Periodic Benefit Costs	
	2012	2011	2012	2011
Discount rates	**4.05–4.20%**	5.00%–5.15%	**5.00%–5.15%**	5.05%–8.00%
Rates of salary increase	**5.00**	5.00–6.00	**6.00**	5.00–6.00
Expected long-term return on plan assets	**8.15**	8.15	**8.15**	8.15

The Plan's weighted-average asset allocations at June 30, 2012 and 2011, and target allocation by asset category are as follows:

Asset Category	2012 Target Asset Allocation	Plan Assets at June 30 2012	2011
Equity securities	**40%**	**37%**	47%
Debt securities	**30**	**26**	26
Alternative investments	**30**	**33**	26
Other	**–**	**4**	1
Total	**100%**	**100%**	100%

9. Employee Retirement Plans (continued)

The fair value of the Plan's assets measured at fair value was determined using the following inputs at June 30, 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 45,966	$ 12,304	$ –	$ 58,270
Equity securities:				
Domestic equities – common stock	126,524	–	–	126,524
International equities – common stock	41,353	68,922	–	110,275
Fixed income:				
Corporate debt securities	–	36,332	–	36,332
Government agencies	–	1,761	–	1,761
Government obligations (U.S. and foreign)	–	44,370	–	44,370
Other debt securities	346	2,734	–	3,080
Commingled and mutual funds	20,657	50,428	–	71,085
Real assets – commodities	12,652	6,194	–	18,846
Other	–	–	2,846	2,846
Hedge funds	–	–	120,346	120,346
Private equity	–	–	48,751	48,751
Real assets – limited partnerships	–	–	12,163	12,163
	$ 247,498	$ 223,045	$ 184,106	$ 654,649

9. Employee Retirement Plans (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy:

	Hedge Funds	Private Equity	Real Assets – Limited Partnerships	Other
Fair value at July 1, 2011	$ 130,032	$ 43,024	$ 14,165	$ 2,882
Purchases, issuances, and settlements	(7,677)	2,560	(296)	–
Actual return on plan assets	(2,009)	3,167	(1,706)	(36)
Transfers in and/or out of Level 3	–	–	–	–
Fair value at June 30, 2012	$ 120,346	$ 48,751	$ 12,163	$ 2,846

9. Employee Retirement Plans (continued)

The fair value of the Plan's assets measured at fair value was determined using the following inputs at June 30, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 2,399	$ 9,113	$ –	$ 11,512
Equity securities:				
Domestic equities – common stock	147,317	476	–	147,793
International equities – common stock	77,734	94,706	–	172,440
Fixed income:				
Corporate debt securities	–	38,356	–	38,356
Government agencies	–	1,774	–	1,774
Government obligations (U.S. and foreign)	–	42,161	–	42,161
Other debt securities	242	23,491	–	23,733
Commingled and mutual funds	27,245	48,929	–	76,174
Real assets – commodities	12,214	–	–	12,214
Other	–	2,229	2,882	5,111
Hedge funds	–	–	130,032	130,032
Private equity	–	–	43,024	43,024
Real assets – limited partnerships	–	–	14,165	14,165
	$ 267,151	$ 261,235	$ 190,103	$ 718,489

9. Employee Retirement Plans (continued)

The following table is a rollforward of the pension plan assets classified within Level 3 of the valuation hierarchy:

	Hedge Funds	Private Equity	Real Assets – Limited Partnerships	Other
Fair value at July 1, 2010	$ 78,155	$ 6,469	$ –	$ 2,925
Purchases, issuances, and settlements	42,808	35,121	15,047	–
Actual return on plan assets	9,069	1,434	(882)	(43)
Transfers in and/or out of Level 3	–	–	–	–
Fair value at June 30, 2011	$ 130,032	$ 43,024	$ 14,165	$ 2,882

Fair value methodologies for Level 1 and Level 2 assets are consistent with the inputs described in Note 6. Level 3 securities, which consist of alternative investments (principally limited partnership interests in hedge funds and private equity funds) and a guaranteed investment contract, represent the Plan's ownership interest in the net asset value (NAV) of the respective partnership.

Management opted to use the NAV per share, or its equivalent, as a practical expedient for fair value of the Plan's interest in hedge funds and private equity funds. Valuations provided by the respective fund's management include variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at period-end provide additional observable market inputs of the exit price. The majority of these funds have restrictions on the timing of withdrawals, which may reduce liquidity, in some cases for up to 24 months in the case of hedge funds and up to 10 years for private equity funds. At June 30, 2012, the Plan has commitments to fund $26.5 million in these investments.

9. Employee Retirement Plans (continued)

The Plan employs investment managers to invest fund balances in a structured portfolio of equity, fixed income, and alternative investments (which includes hedges funds, private equity, and real assets). The Plan retains outside consultants to support the overall asset allocation and manager selection process. The Plan's current investment policy was updated and approved in November 2011. This update did not result in any material changes to the allocation of assets. All manager performance is reviewed to test that market performance has been calculated accurately, to monitor performance versus peers and benchmarking, and to evaluate portfolio structure considering current and future needs based on economic forecasts and actuarial projections. Mercy believes that a diversified portfolio will limit the degree of risk to the Plan and stabilize the long-term results. The Plan's diversified blend of marketable securities also takes into consideration the cash flow requirements of the Plan to help ensure the ability to meet the monthly payout of benefits required. Projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category.

The Health System expects to contribute at least $2.5 million to the Plan during fiscal 2013.

The following benefit payments, which reflect expected future service, are expected to be paid by the Plan:

	Amount
Year Ending June 30	
2013	$ 69,400
2014	69,600
2015	76,200
2016	72,600
2017	75,900
2018 through 2022	365,200
	$ 728,900

9. Employee Retirement Plans (continued)

The Health System has a defined-contribution 401(k) plan and a 403(b) plan for the benefit of substantially all employees. Participant contributions to the plans are subject to IRS limitations. The 401(k) plan has always included an employer-provided match contribution. Effective July 1, 2011, the 401(k) plan was amended to enhance the match contribution and add a non-matching service contribution to replace the pay credit previously earned under the defined benefit plan. The 403(b) plan allows participant contributions, and amounts contributed to the plan are eligible for a match contribution and service contribution under the provisions of the 401(k) plan.

The match contribution is equal to 50% of the first 4% of the participant's compensation contributed and 25% of the next 2% of the participant's compensation contributed. The service contribution is equal to compensation multiplied by a percentage of pay based on years of service (1%–9% for employees hired prior to July 1, 2011 and 1%–4% for those hired on July 1, 2011 or later). In order to earn a match contribution or service contribution, an employee must work at least 1,000 hours during the year (or a rate of 1,000 hours for the service contribution). Employees become vested in both match and service contributions upon the completion of three years of vesting service.

For the years ended June 30, 2012 and 2011, the total expenses incurred related to the 401(k) and 403(b) plans were $82.2 million and $14.2 million, respectively.

10. Long-Term Obligations

The following is a summary of long-term obligations:

	June 30	
	2012	**2011**
Revenue bonds, fixed interest rates of 5.0% due through June 2019	**$ 6,500**	$ 8,745
Revenue bonds, variable interest rates with weighted-average interest rates of 0.75% and 0.9% in fiscal 2012 and 2011, respectively, due through June 2039	**742,075**	754,725
Other notes, mortgage notes, and capital lease obligations	**82,847**	52,470
	831,422	815,940
Less current maturities on long-term obligations	**(21,218)**	(19,380)
Long-term obligations, less current maturities	**$ 810,204**	$ 796,560

10. Long-Term Obligations (continued)

Mercy's not-for-profit subsidiaries have executed a commitment agreement governing certain borrowing arrangements under the Mercy Master Trust Indenture and related agreements (Financing Agreements). While only the revenues of Mercy collateralize the outstanding borrowings of the Health System, each of these subsidiaries has committed to transfer such assets to Mercy to pay the amounts due on borrowings when they come due. The Financing Agreements contain certain restrictive covenants, including debt service coverage and liquidity ratios. At June 30, 2012, Mercy was in compliance with all covenants.

Tax-exempt revenue bonds have been issued by various issuing authorities, the proceeds of which were used by Mercy primarily to finance capital projects and to refinance existing indebtedness of certain subsidiaries.

Mercy has auction-rate securities aggregating to $378.3 million. The interest rate is set through a weekly auction process among bond investors. Starting in fiscal 2008, due to the marketwide financial crisis, institutional buyers and investment banks opted not to participate in the market for securities of this type, causing a failure of the auction process and resulting in the bonds resetting to a maximum rate predefined in the bond agreement based on the higher of the current LIBOR or commercial paper index adjusted for the current rating and current tax rate plus a fixed spread.

In November 2011, $376.4 million of variable rate tax-exempt health facility revenue bonds were issued by the Health and Educational Facilities Authority of the State of Missouri on behalf of Mercy under the Master Trust Indenture. The proceeds of these bonds were used to refund the Series 2008 variable rate demand bonds aggregating $376.4 million. These bonds were directly purchased by four banks and mature at various dates starting June 1, 2012 through June 1, 2039. The bonds bear interest monthly, and interest is paid monthly at an annual borrowing rate based on a percentage of one-month LIBOR plus an applicable spread. The bonds include a mandatory put by the purchasing banks in November 2016 and November 2018, at which time Mercy may elect to renegotiate with the initial purchasers, remarket or redeem the bonds.

10. Long-Term Obligations (continued)

Other notes payable, mortgage notes payable, and capital lease obligations are secured by certain property and equipment of the specific borrowers.

Aggregate maturities of long-term obligations as scheduled at June 30, 2012, are as follows:

	Amount
Year Ending June 30	
2013	$ 21,218
2014	21,051
2015	17,365
2016	14,966
2017	8,239
Thereafter	748,583
	$ 831,422

11. Derivatives

The Health System has interest rate-related derivative instruments to manage its interest rate exposure on its variable-rate debt instruments and does not enter into derivative instruments for any purpose other than risk management. Interest rate swap contracts between the Health System and a third party (counterparty) provide for the periodic exchange of payments between the parties based on changes in a defined index and a fixed rate. These agreements expose the Health System to market risk and credit risk. Credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the Health System's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings at the time contracts are executed. The interest rate swap contracts contain collateral provisions applicable to both parties to mitigate credit risk. The Health System does not anticipate nonperformance by its counterparties. 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 degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of the Health System's derivative positions in the context of its blended cost of capital.

11. Derivatives (continued)

The following is a summary of the outstanding positions under these interest rate swap agreements:

Interest Rate Swap Type	Expiration Date	Health System Pays	Health System Receives	Notional Value June 30, 2012	Notional Value June 30, 2011
Fixed payor	June 2, 2031	3.36% – 3.751%	70% of one-month LIBOR	**$ 252,200**	$ 252,200
Fixed payor	June 2, 2031	3.848% – 3.856%	70% of one-month LIBOR	**50,000**	50,000
Fixed payor	June 1, 2016	3.94%	67% of one-month LIBOR	**29,050**	36,650
Constant maturity	June 2, 2031	One-week SIFMA Index	89% of 10-year SIFMA Index	**125,000**	125,000
Constant maturity	January 1, 2016	89% of 10-year SIFMA Index	USD-BMA Municipal Swap Index	**125,000**	125,000

The fair value of derivative instruments is as follows:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	June 30 2012	June 30 2011
Interest rate swap agreements	Other assets	**$ 9,441**	$ 9,215
Interest rate swap agreements	Other liabilities	**86,636**	48,544

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for the years ended June 30, 2012 and 2011, are reflected in realized and unrealized gains (losses) on interest rate swaps in the consolidated statements of operations.

12. Operating Leases

Rent expense for the years ended June 30, 2012 and 2011, totaled $66.9 million and $61.3 million, respectively.

Future minimum rental payments under noncancelable operating leases as of June 30, 2012, that have initial or remaining terms in excess of one year are as follows:

	Amount
Year Ending June 30	
2013	$ 46,599
2014	40,692
2015	33,454
2016	29,981
2017	27,873
Thereafter	133,289
	$ 311,888

13. Commitments and Contingencies

Regulatory Compliance

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of health care providers. The Health System is not exempt from these regulatory efforts and has received correspondence from federal agencies with regard to such initiatives. In consultation with legal counsel, management estimates these matters will be resolved without a material adverse effect on the Health System's consolidated financial position or results of operations.

Litigation

The Health System is involved in litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the Health System's consolidated financial position or results of operations.

14. Subsequent Events

The Health System evaluated events and transactions occurring subsequent to June 30, 2012, through September 24, 2012, the date the consolidated financial statements were issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.

On July 1, 2012, a subsidiary of the Health System executed an agreement to purchase substantially all of the assets of a physician practice, an ambulatory surgery center, several medical office buildings, and the employment of 78 physicians in various specialties for approximately $123 million in cash and assumption of debt. As of September 24, 2012, not all third-party valuations are final, and accordingly, purchase accounting for this transaction has been provisionally recorded based on best available information.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date. When the valuation is final, any changes to the preliminary valuation of acquired assets and liabilities could result in adjustments to goodwill.

	July 1, 2012
Property and equipment, net	$ 80,200
Goodwill and intangible assets	44,100
Long-term debt	21,900
Other (including net working capital)	(1,200)

On August 9, 2012, the Health System signed a letter of intent to acquire Jefferson Health System and its subsidiaries (Jefferson). Jefferson includes an acute care hospital in the Jefferson County region of Missouri, a physician network that has more than 150 affiliated physicians, and other outpatient facilities. It is anticipated that the definitive agreements for this transaction will be executed in fiscal 2013.

Supplementary Information

Mercy Health

Consolidating Balance Sheet

June 30, 2012

	Fort Smith	Hot Springs	Rogers	Joplin	Kansas	Carthage
			(In Thousands)			
Assets						
Current assets:						
Cash and cash equivalents	$ 34,111	$ (26,056)	$ (4,680)	$ 112,544	$ 25,199	$ 549
Accounts receivable, net	36,172	31,245	27,485	15,517	4,907	8,848
Inventories	3,823	4,943	3,753	3,997	1,592	1,233
Short-term investments	–	–	–	–	–	–
Other current assets	(1,518)	(5,143)	(5,520)	(33,458)	(1,516)	10,393
Total current assets	72,588	4,989	21,038	98,600	30,182	21,023
Investments	2,093	781	8,419	220	1,312	(18)
Property and equipment, net	154,722	114,318	127,664	161,079	39,152	42,671
Notes receivable	9,715	454	–	56	191	–
Other assets	14,583	9,635	95	1,493	(644)	–
Total assets	$ 253,701	$ 130,177	$ 157,216	$ 261,448	$ 70,193	$ 63,676
Liabilities and net assets						
Current liabilities:						
Current maturities of long-term obligations	$ 360	$ 427	$ 136	$ –	$ –	$ 707
Accounts payable	4,017	5,379	3,990	20,995	2,264	2,075
Accrued payroll and related liabilities	11,243	11,188	7,961	7,882	4,122	3,968
Accrued liabilities and other	2,211	(134)	3,834	1,557	3,806	2,792
Total current liabilities	17,831	16,860	15,921	30,434	10,192	9,542
Insurance reserves and other liabilities	3,338	2,004	1	33	397	–
Pension liabilities	–	–	–	–	–	–
Long-term obligations, less current maturities	7,237	7,585	304	–	–	43,270
Total liabilities	28,406	26,449	16,226	30,467	10,589	52,812
Net assets:						
Unrestricted	223,531	102,871	135,081	227,947	59,210	10,864
Restricted	1,764	857	5,909	3,034	394	–
Total net assets	225,295	103,728	140,990	230,981	59,604	10,864
Total liabilities and net assets	$ 253,701	$ 130,177	$ 157,216	$ 261,448	$ 70,193	$ 63,676

St. Louis	Springfield	Oklahoma	MML	Mercy	Eliminations	Total
			(In Thousands)			
$ 34,692	$ 32,372	$ 54,321	$ 835	$ 73,437	$ –	$ 337,324
132,308	167,183	82,523	–	163	–	506,351
14,748	24,789	8,899	–	10,940	–	78,717
–	–	–	–	26,206	–	26,206
11,150	9,544	(10,106)	300	378,904	(70,826)	282,204
192,898	233,888	135,637	1,135	489,650	(70,826)	1,230,802
22,346	25,448	8,318	24,503	1,244,631	–	1,338,053
600,356	451,786	209,133	2,689	378,021	–	2,281,591
2,101	409	35	–	–	–	12,961
48,788	114,358	40,087	1	91,782	–	320,178
$ 866,489	$ 825,889	$ 393,210	$ 28,328	$ 2,204,084	$ (70,826)	$ 5,183,585
$ 2,808	$ 460	$ 254	$ –	$ 16,066	$ –	$ 21,218
46,940	59,504	14,425	90	33,549	(56,955)	136,273
85,601	89,428	30,922	–	79,967	(13,871)	318,411
9,109	76,637	1,158	138	237,182	–	338,290
144,458	226,029	46,759	228	366,764	(70,826)	814,192
20,984	64,891	1,977	425	306,754	–	400,804
–	–	–	–	362,324	–	362,324
30,865	207	158	–	720,578	–	810,204
196,307	291,127	48,894	653	1,756,420	(70,826)	2,387,524
648,000	506,959	336,339	27,510	446,494	–	2,724,806
22,182	27,803	7,977	165	1,170	–	71,255
670,182	534,762	344,316	27,675	447,664	–	2,796,061
$ 866,489	$ 825,889	$ 393,210	$ 28,328	$ 2,204,084	$ (70,826)	$ 5,183,585

Mercy Health

Consolidating Statement of Operations

Year Ended June 30, 2012

	Fort Smith	Hot Springs	Rogers	Joplin	Kansas	Carthage
			(In Thousands)			
Operating revenues:						
Patient service revenues (net of contractuals and discounts)	$ 279,520	$ 252,260	$ 215,242	$ –	$ 73,503	$ 38,744
Provision for uncollectible receivables	(26,288)	(16,953)	(14,155)	–	(4,651)	(4,318)
Net patient service revenues	253,232	235,307	201,087	–	68,852	34,426
Capitation revenues	–	46	–	–	–	–
Other operating revenues	17,325	5,203	3,584	–	5,300	244
Total operating revenues	270,557	240,556	204,671	–	74,152	34,670
Operating expenses:						
Salaries and benefits	143,822	139,143	107,295	–	39,739	12,394
Supplies and other	121,309	98,837	84,875	–	27,900	18,398
Medical claims expense	–	–	–	–	–	–
Interest	610	650	39	–	1	1,287
Depreciation and amortization	12,785	12,795	12,361	–	3,672	1,759
Total operating expenses	278,526	251,425	204,570	–	71,312	33,838
Operating (loss) income before Joplin operations and related insurance recovery	(7,969)	(10,869)	101	–	2,840	832
Joplin insurance proceeds	–	–	–	388,100	–	–
Joplin operating revenues	–	–	–	95,577	–	–
Joplin operating expenses	–	–	–	(247,339)	–	–
Total operating (loss) income	(7,969)	(10,869)	101	236,338	2,840	832
Nonoperating gains (losses):						
Investment returns, net	32	151	356	(40)	46	2
Realized and unrealized losses on interest rate swaps	–	–	–	–	–	–
Other, net	(697)	91	5	(460)	(307)	6
Total nonoperating (losses) gains, net	(665)	242	361	(500)	(261)	8
(Deficit) excess of revenues over expenses	(8,634)	(10,627)	462	235,838	2,579	840
Other changes in unrestricted net assets:						
Transfers from (to) Mercy, net	25,251	–	–	–	–	–
Pension liability adjustments	–	–	–	–	–	–
Gain from discontinued operations	–	–	–	–	–	–
Net assets released from restrictions for property acquisitions	–	–	–	–	25	–
Other	(250)	(303)	(170)	(10,027)	(152)	10,024
Increase (decrease) in unrestricted net assets	$ 16,367	$ (10,930)	$ 292	$ 225,811	$ 2,452	$ 10,864

St. Louis	Springfield	Oklahoma	MML	Mercy	Eliminations	Total
			(In Thousands)			
$ 1,095,242	$ 1,383,411	$ 655,837	$ 294	$ 1,208	$ (115,853)	$ 3,879,408
(38,805)	(106,810)	(56,162)	–	(223)	–	(268,365)
1,056,437	1,276,601	599,675	294	985	(115,853)	3,611,043
7,290	251,361	–	–	281	–	258,978
42,280	87,224	32,539	2,574	595,435	(549,086)	242,622
1,106,007	1,615,186	632,214	2,868	596,701	(664,939)	4,112,643
582,981	783,988	312,619	2,398	320,409	(115,853)	2,328,935
436,024	566,123	274,168	1,515	184,478	(549,084)	1,264,543
147	120,672	–	–	–	–	120,819
2,780	19	32	–	6,391	(1)	11,808
61,550	53,104	23,943	192	81,964	–	264,125
1,083,482	1,523,906	610,762	4,105	593,242	(664,938)	3,990,230
22,525	91,280	21,452	(1,237)	3,459	(1)	122,413
–	–	–	–	–	–	388,100
–	–	–	–	–	–	95,577
–	–	–	–	–	–	(247,339)
22,525	91,280	21,452	(1,237)	3,459	(1)	358,751
745	(389)	18	1,207	(10,429)	–	(8,301)
–	–	–	–	(49,819)	–	(49,819)
194	(27)	(19)	–	(787)	–	(2,001)
939	(416)	(1)	1,207	(61,035)	–	(60,121)
23,464	90,864	21,451	(30)	(57,576)	(1)	298,630
5,093	(141,176)	10,887	–	99,945	–	–
–	–	–	–	(121,025)	–	(121,025)
–	–	–	–	8,435	–	8,435
1,172	4	1,908	22	–	–	3,131
(3)	1,983	(1,460)	(1)	(13,776)	15,538	1,403
$ 29,726	$ (48,325)	$ 32,786	$ (9)	$ (83,997)	$ 15,537	$ 190,574

Mercy Health

Consolidating Statement of Changes in Net Assets

Year Ended June 30, 2012

	Fort Smith	Hot Springs	Rogers	Joplin	Kansas	Carthage
			(In Thousands)			
Increase (decrease) in unrestricted net assets	$ 16,367	$ (10,930)	$ 292	$ 225,811	$ 2,452	$ 10,864
Restricted net assets:						
Pledges, bequests, and gifts for specific purposes	1,336	67	35	1,072	–	–
Investment returns, net	–	(6)	–	–	–	–
Net assets released from restrictions	(956)	(1,208)	(126)	(286)	(283)	–
Other	–	(41)	–	–	166	–
Increase (decrease) in restricted net assets	380	(1,188)	(91)	786	(117)	–
Change in net assets	16,747	(12,118)	201	226,597	2,335	10,864
Net assets at beginning of year	208,548	115,846	140,789	4,384	57,269	–
Net assets at end of year	$ 225,295	$ 103,728	$ 140,990	$ 230,981	$ 59,604	$ 10,864

St. Louis	Springfield	Oklahoma	MML	Mercy	Eliminations	Total
			(In Thousands)			
$ 29,726	$ (48,325)	$ 32,786	$ (9)	$ (83,997)	$ 15,537	$ 190,574
5,890	3,985	1,684	1,012	988	–	16,069
153	(2)	1	–	–	–	146
(5,895)	(2,245)	(2,857)	(1,041)	(118)	–	(15,015)
49	10	(7)	–	(361)	–	(184)
197	1,748	(1,179)	(29)	509	–	1,016
29,923	(46,577)	31,607	(38)	(83,488)	15,537	191,590
640,259	581,339	312,709	27,713	531,152	(15,537)	2,604,471
$ 670,182	$ 534,762	$ 344,316	$ 27,675	$ 447,664	$ –	$ 2,796,061

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