

Identifier	Return Reference	Explanation
Changes in Net Assets or Fund Balances	Form 990, Part XI, line 9	Other Pension-Related Cost 208,822 Transfer from Affiliates -391,062

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

Name of the organization
St Vincent's Birmingham

Employer identification number
63-0288864

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" to Form 990, Part IV, line 33.)					
(a) Name, address, and EIN (if applicable) of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)							
(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?	
						Yes	No
See Additional Data Table							

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income(related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) St Vincent's Outpatient Surgery Services LLC 800 St Vincents Drive Birmingham, AL 35205 20-0708162	Outpatient Surgery	AL	St Vincent's Birmingham	Related	498,353	957,907		No			No	61 000 %
(2) St Vincent's Sleep Disorder Center LLC 800 St Vincents Drive Birmingham, AL 35205 63-1282288	Sleep Disorder Center	AL	N/A									

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end- of-year assets	(h) Percentage ownership	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
(1) Vincentian Ventures of North Alabama Inc 810 St Vincents Drive Birmingham, AL 35205 63-0965456	Misc Healthcare Services	AL	N/A	C					No
(2) Ascension Ventures Corporation 810 St Vincents Drive Birmingham, AL 35205 63-1217059	Misc Healthcare Services	AL	N/A	C					No
(3) Eastside Ventures 810 St Vincents Drive Birmingham, AL 35205 63-0846221	Misc Healthcare Services	AL	N/A	C					No

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34, 35b, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule

1 During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a Receipt of (i) interest (ii) annuities (iii) royalties or (iv) rent from a controlled entity

b Gift, grant, or capital contribution to related organization(s)

c Gift, grant, or capital contribution from related organization(s)

d Loans or loan guarantees to or for related organization(s)

e Loans or loan guarantees by related organization(s)

f Dividends from related organization(s)

g Sale of assets to related organization(s)

h Purchase of assets from related organization(s)

i Exchange of assets with related organization(s)

j Lease of facilities, equipment, or other assets to related organization(s)

k Lease of facilities, equipment, or other assets from related organization(s)

l Performance of services or membership or fundraising solicitations for related organization(s)

m Performance of services or membership or fundraising solicitations by related organization(s)

n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

o Sharing of paid employees with related organization(s)

p Reimbursement paid to related organization(s) for expenses

q Reimbursement paid by related organization(s) for expenses

r Other transfer of cash or property to related organization(s)

s Other transfer of cash or property from related organization(s)

Yes

No

1a

No

1b

No

1c

Yes

1d

No

1e

No

1f

No

1g

No

1h

No

1i

No

1j

No

1k

Yes

1l

No

1m

No

1n

No

1o

No

1p

Yes

1q

No

1r

No

1s

No

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved
(1) St Vincent's Foundations	C	594,529	Journal Entry Transaction
(2) St Vincent's Sleep Disorder Center LLC	K	1,340,380	Journal Entry Transaction
(3) Seton Property Corporation of North Alabama	K	1,549,557	Journal Entry Transaction
(4) St Vincent's Outpatient Surgery Services LLC	K	242,460	Journal Entry Transaction
(5) St Vincent's Outpatient Surgery Services LLC	K	2,208,317	Journal Entry Transaction
(6) St Vincent's Health System	P	45,484,593	Journal Entry Transaction

Schedule R (Form 990) 2012

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Software ID:
Software Version:
EIN: 63-0288864
Name: St Vincent's Birmingham

Part VII Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation	
--> Form 990, Schedule R, Part V - Transactions With Related Organizations			
(a) Name of other organization	(b) Transaction type(a-s)	(c) Amount Involved	(d) Method of determining amount involved
St Vincent's Foundations	C	594,529	Journal Entry Transaction
St Vincent's Sleep Disorder Center LLC	K	1,340,380	Journal Entry Transaction
Seton Property Corporation of North Alabama	K	1,549,557	Journal Entry Transaction
St Vincent's Outpatient Surgery Services LLC	K	242,460	Journal Entry Transaction
St Vincent's Outpatient Surgery Services LLC	K	2,208,317	Journal Entry Transaction
St Vincent's Health System	P	45,484,593	Journal Entry Transaction

CONSOLIDATED FINANCIAL
STATEMENTS AND SUPPLEMENTARY
INFORMATION

Ascension Health Alliance
Years Ended June 30, 2013 and 2012
With Reports of Independent Auditors

Ascension Health Alliance

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2013 and 2012

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	9
Supplementary Information	
Report of Independent Auditors on Supplementary Information	63
Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs	64
Credit Group Consolidated Balance Sheets as of June 30, 2013 and 2012	65
Credit Group Statements of Operations and Changes in Net Assets for the Years Ended June 30, 2013 and 2012.....	67
Schedule of Credit Group Cash and Investments	69

Report of Independent Auditors

The Board of Directors
 Ascension Health Alliance

We have audited the accompanying consolidated financial statements of Ascension Health Alliance, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ascension Health Alliance at June 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowances for Doubtful Accounts for Certain Health Care Entities*

As discussed in Note 2 to the consolidated financial statements, Ascension Health Alliance changed the presentation of the provision for bad debts as a result of adopting the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowances for Doubtful Accounts for Certain Health Care Entities*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

September 18, 2013

Ascension Health Alliance

Consolidated Balance Sheets (Dollars in Thousands)

	June 30,	
	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 754,622	\$ 306,469
Short-term investments	113,955	216,914
Accounts receivable, less allowance for doubtful accounts (\$1,351,660 and \$1,113,255 at June 30, 2013 and 2012, respectively)	2,361,809	1,927,222
Inventories	309,074	218,598
Due from brokers (see Notes 4 and 5)	178,380	789,271
Estimated third-party payor settlements	119,379	159,871
Other (see Notes 4 and 5)	1,035,026	752,348
Total current assets	4,872,245	4,370,693
Long-term investments (see Notes 4 and 5)	14,164,185	10,468,457
Property and equipment, net	8,546,873	6,473,918
Other assets		
Investment in unconsolidated entities	628,772	943,747
Capitalized software costs, net	728,613	642,596
Other	1,106,683	876,483
Total other assets	2,464,068	2,462,826
 Total assets	 \$ 30,047,371	 \$ 23,775,894

	June 30,	
	2013	2012
Liabilities and net assets		
Current liabilities		
Current portion of long-term debt	\$ 90,442	\$ 45,363
Long-term debt subject to short-term remarketing arrangements*	1,187,125	1,094,425
Accounts payable and accrued liabilities	2,348,401	1,979,160
Estimated third-party payor settlements	456,314	457,030
Due to brokers (see Notes 4 and 5)	493,420	880,613
Current portion of self-insurance liabilities	210,115	206,057
Other (see Notes 4 and 5)	644,084	435,805
Total current liabilities	5,429,901	5,098,453
Noncurrent liabilities		
Long-term debt (senior and subordinated)	5,278,866	3,655,406
Self-insurance liabilities	553,706	518,995
Pension and other postretirement liabilities	554,368	492,366
Other (see Notes 4 and 5)	1,099,362	1,087,782
Total noncurrent liabilities	7,486,302	5,754,549
Total liabilities	12,916,203	10,853,002
Net assets		
Unrestricted		
Controlling interest	14,986,302	11,836,414
Noncontrolling interests	1,592,356	647,236
Unrestricted net assets	16,578,658	12,483,650
Temporarily restricted	377,555	336,027
Permanently restricted	174,955	103,215
Total net assets	17,131,168	12,922,892
Total liabilities and net assets	\$ 30,047,371	\$ 23,775,894

*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders with stated repayment installments through 2047 as well as certain serial mode bonds with scheduled remarketing mandatory tender dates occurring prior to June 30, 2014. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include liquidating investments, drawing upon the \$1 billion line of credit, and issuing commercial paper. The commercial paper program is supported by the \$1 billion line of credit.

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

Ascension Health Alliance

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

	Year Ended June 30,	
	2013	2012
Operating revenue		
Net patient service revenue	\$ 16,912,410	\$ 15,297,559
Less provision for doubtful accounts	1,172,863	972,171
Net patient service revenue, less provision for doubtful accounts	15,739,547	14,325,388
Other revenue	1,357,663	967,252
Total operating revenue	17,097,210	15,292,640
Operating expenses		
Salaries and wages	7,247,681	6,544,753
Employee benefits	1,581,587	1,426,722
Purchased services	1,030,574	734,396
Professional fees	1,128,880	1,021,582
Supplies	2,427,714	2,260,901
Insurance	115,521	100,834
Interest	150,877	131,310
Depreciation and amortization	755,305	662,362
Other	2,185,015	1,782,172
Total operating expenses before impairment, restructuring, and nonrecurring (losses) gains, net	16,623,154	14,665,032
Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring (losses) gains, net	474,056	627,608
Self-insurance trust fund investment return	34,985	17,197
Impairment, restructuring, and nonrecurring (losses) gains, net	(111,786)	286,046
Income from operations	397,255	930,851
Nonoperating gains (losses)		
Investment return	737,057	(135,605)
Loss on extinguishment of debt	(4,079)	(2,813)
Gain (loss) on interest rate swaps	61,202	(74,846)
Income from unconsolidated entities	8,544	8,802
Contributions from business combinations, net	2,021,963	326,333
Other	(77,269)	(69,221)
Total nonoperating gains, net	2,747,418	52,650
Excess of revenues and gains over expenses and losses	3,144,673	983,501
Less noncontrolling interests	131,184	13,154
Excess of revenues and gains over expenses and losses attributable to controlling interest	3,013,489	970,347

Continued on next page

Ascension Health Alliance

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

(Dollars in Thousands)

	Year Ended June 30,	
	2013	2012
Unrestricted net assets, controlling interest		
Excess of revenues and gains over expenses and losses	\$ 3,013,489	\$ 970,347
Transfers to sponsors and other affiliates, net	(10,962)	(15,189)
Contributed net assets	(1,050)	(400)
Net assets released from restrictions for property acquisitions	67,418	68,892
Pension and other postretirement liability adjustments	77,011	(439,662)
Change in unconsolidated entities' net assets	23,295	(15,890)
Other	4,624	9,206
Increase in unrestricted net assets, controlling interest, before loss from discontinued operations	3,173,825	577,304
Loss from discontinued operations	(23,937)	(73,521)
Increase in unrestricted net assets, controlling interest	3,149,888	503,783
Unrestricted net assets, noncontrolling interests		
Excess of revenues and gains over expenses and losses	131,184	13,154
Distributions of capital	(829,989)	(575,618)
Contributions of capital	1,579,187	1,166,961
Contributions from business combinations	64,738	—
Increase in unrestricted net assets, noncontrolling interests	945,120	604,497
Temporarily restricted net assets, controlling interest		
Contributions and grants	89,220	100,880
Investment return	17,232	(638)
Net assets released from restrictions	(110,213)	(104,028)
Contributions from business combinations	44,201	14,764
Other	1,088	(6,514)
Increase in temporarily restricted net assets, controlling interest	41,528	4,464
Permanently restricted net assets, controlling interest		
Contributions	2,664	5,082
Investment return	1,598	(242)
Contributions from business combinations	67,846	1,573
Other	(368)	(2,642)
Increase in permanently restricted net assets, controlling interest	71,740	3,771
Increase in net assets	4,208,276	1,116,515
Net assets, beginning of year	12,922,892	11,806,377
Net assets, end of year	\$ 17,131,168	\$ 12,922,892

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

Ascension Health Alliance

Consolidated Statements of Cash Flows (Dollars in Thousands)

	Year Ended June 30,	
	2013	2012
Operating activities		
Increase in net assets	\$ 4,208,276	\$ 1,116,515
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	755,305	662,362
Amortization of bond premiums	(13,948)	(10,663)
Loss on extinguishment of debt	4,079	2,813
Provision for doubtful accounts	1,177,889	972,171
Pension and other postretirement liability adjustments	(77,011)	439,662
Contributed net assets	1,050	400
Contributions from business combinations	(1,742,900)	(305,162)
Interest, dividends, and net (gains) losses on investments	(790,871)	119,288
Change in market value of interest rate swaps	(61,349)	77,568
Deferred gain on interest rate swaps	(303)	(303)
Gain on sale of assets, net	(2,986)	(6,749)
Impairment and nonrecurring expenses	17,259	45,956
Contribution of noncontrolling interest in CHIMCO Alpha Fund, LLC	—	(440,015)
Transfers to sponsor and other affiliates, net	10,962	15,189
Restricted contributions, investment return, and other	(99,133)	(117,621)
Other restricted activity	17,610	(6,280)
Nonoperating depreciation expense	317	308
(Increase) decrease in		
Short-term investments	212,560	35,298
Accounts receivable	(1,173,962)	(1,138,644)
Inventories and other current assets	(205,051)	244,426
Due from brokers	610,891	(83,976)
Investments classified as trading	(959,834)	(983,483)
Other assets	(182,272)	(11,759)
Increase (decrease) in		
Accounts payable and accrued liabilities	(21,721)	48,504
Estimated third-party payor settlements, net	29,225	28,192
Due to brokers	(387,193)	(277,720)
Other current liabilities	92,673	(288,178)
Self-insurance liabilities	(15,342)	(45,390)
Other noncurrent liabilities	(154,292)	(351,740)
Net cash provided by (used in) continuing operating activities	1,249,928	(259,031)
Net cash (used in) provided by and adjustments to reconcile change in assets for discontinued operations	(11,301)	111,046
Net cash provided by (used in) operating activities	1,238,627	(147,985)

Continued on next page

Ascension Health Alliance

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	Year Ended June 30,	
	2013	2012
Investing activities		
Property, equipment, and capitalized software additions, net	\$ (901,286)	\$ (840,553)
Proceeds from sale of property and equipment	26,321	2,029
Net cash used in investing activities	(874,965)	(838,524)
Financing activities		
Issuance of long-term debt	1,228,995	1,832,269
Repayment of long-term debt	(1,236,472)	(1,779,632)
Decrease in assets under bond indenture agreements	20,577	17,513
Transfers to sponsors and other affiliates, net	(27,742)	(2,639)
Restricted contributions, investment return, and other	99,133	117,621
Net cash provided by financing activities	84,491	185,132
Net increase (decrease) in cash and cash equivalents	448,153	(801,377)
Cash and cash equivalents at beginning of year	306,469	1,107,846
Cash and cash equivalents at end of year	\$ 754,622	\$ 306,469

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

Ascension Health Alliance

Notes to Consolidated Financial Statements *(Dollars in Thousands)*

June 30, 2013

1. Organization and Mission

Organizational Structure

Ascension Health Alliance is a Missouri nonprofit corporation formed on September 13, 2011. Ascension Health Alliance is the sole corporate member and parent organization of Ascension Health, a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Health Ministries, located in 23 of the United States and the District of Columbia.

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

Sponsorship

Ascension Health Alliance is sponsored by Ascension Health Ministries, a Public Juridic Person. The Participating Entities of Ascension Health Ministries are the Daughters of Charity of St. Vincent de Paul in the United States, St. Louise Province; the Congregation of St. Joseph; the Congregation of the Sisters of St. Joseph of Carondelet; the Congregation of Alexian Brothers of the Immaculate Conception Province, Inc. – American Province; and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province. As more fully described in the Organizational Changes note, Marian Health System, which was previously sponsored by the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province, became part of Ascension Health on April 1, 2013. In addition, Alexian Brothers Health System, which was previously sponsored by the Congregation of Alexian Brothers of the Immaculate Conception Province, Inc. – American Province, became part of Ascension Health on January 1, 2012.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Mission (continued)

Mission

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

- Traditional charity care includes the cost of services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.
- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.
- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and community benefit programs. The cost of providing care to persons living in poverty and community benefit programs is estimated by reducing charges forgone by a factor derived from the ratio of each entity's total operating expenses to the entity's billed charges for patient care.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Mission (continued)

Certain costs such as graduate medical education and certain other activities are excluded from total operating expenses for purposes of this computation.

The amount of traditional charity care provided, determined on the basis of cost, was \$524,605 and \$466,916 for the years ended June 30, 2013 and 2012, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

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

	Year Ended June 30,	
	2013	2012
Other revenue	\$ 105,173	\$ 81,329
Nonoperating gains, net	8,544	8,802

Use of Estimates

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Short-Term Investments

Short-term investments consist of investments with original maturities exceeding three months and up to one year.

Inventories

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

Long-Term Investments and Investment Return

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Long-term investments include assets limited as to use of approximately \$1,313,000 and \$916,000, at June 30, 2013 and 2012, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims and investments which are limited as to use, as designated by donors.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns consist of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. Investment returns on investments, excluding returns of self-insurance trust funds, are reported as nonoperating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets, unless the return is restricted by donor or law. Investment returns of self-insurance trust funds are reported as a separate component of income from operations in the Consolidated Statements of Operations and Changes in Net Assets.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. A summary of property and equipment at June 30, 2013 and 2012, is as follows:

	June 30,	
	2013	2012
Land and improvements	\$ 870,810	\$ 653,848
Building and equipment	14,756,936	12,917,263
	15,627,746	13,571,111
Less accumulated depreciation	7,567,936	7,378,499
	8,059,810	6,192,612
Construction-in-progress	487,063	281,306
Total property and equipment, net	\$ 8,546,873	\$ 6,473,918

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2013 and 2012 was \$640,232 and \$570,198, respectively.

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$294,000.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including internally developed software. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

Intangible assets are included in the Consolidated Balance Sheets as presented in the table that follows. Capitalized software costs in the table below include software in progress of \$99,048 and \$362,336 at June 30, 2013 and 2012, respectively:

	June 30,	
	2013	2012
Capitalized software costs	\$ 1,423,556	\$ 1,210,729
Less accumulated amortization	<u>694,943</u>	<u>568,133</u>
Capitalized software costs, net	<u>728,613</u>	642,596
Goodwill	130,306	123,707
Other, net	<u>71,439</u>	<u>26,205</u>
Intangible assets included in other assets	<u>201,745</u>	149,912
Total intangible assets, net	<u><u>\$ 930,358</u></u>	<u><u>\$ 792,508</u></u>

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets in 2013 and 2012 was \$113,126 and \$89,704, respectively.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

During the year ended June 30, 2010, the System began a significant multi-year, System-wide enterprise resource planning project, including information technology and process standardization (Symphony), which is expected to continue through fiscal year 2016. The project is anticipated to result in a transition to a common software product for various finance, information technology, procurement, and human resources management processes, including standardization of those processes throughout the System. Capitalized costs of Symphony were approximately \$301,000 and \$279,000 at June 30, 2013 and 2012, respectively, and are included in capitalized software costs in the preceding table. Certain costs of this project were also expensed. Beginning September 1, 2012, the software associated with Symphony was considered substantially complete and ready for its intended use and is amortized on a straight-line basis over its expected useful life. Accumulated amortization of Symphony was \$25,000 at June 30, 2013. See the Impairment, Restructuring, and Nonrecurring Gains (Losses) discussion below for additional information about costs associated with Symphony.

Noncontrolling Interests

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

Temporarily and Permanently Restricted Net Assets

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

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Performance Indicator

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

Operating and Nonoperating Activities

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

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by \$48,997 and \$146,535 for the years ended June 30, 2013 and 2012, respectively.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

The percentage of net patient service revenue, less provision for doubtful accounts earned by payor for the years ended June 30, 2013 and 2012, is as follows:

	June 30,	
	2013	2012
Medicare	37%	38%
Medicaid	11	11
Third-party payors	44	41
Self-pay	8	10
	100%	100%

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable, less allowance for doubtful accounts, at June 30, 2013 and 2012, are as follows:

	June 30,	
	2013	2012
Medicare	22%	20%
Medicaid	8	10
Third-party payors	43	44
Self-pay	27	26
	100%	100%

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Accounts receivable are written off after collection efforts have been followed in accordance with the System's policies. See Adoption of New Accounting Standards section for change in accounting presentation of provision for doubtful accounts in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

The methodology for determining the allowance for doubtful accounts and related write-offs on uninsured patient accounts has remained consistent with the prior year. The System has not experienced material changes in write-off trends and has not materially changed its charity care policy since June 30, 2012.

Impairment, Restructuring, and Nonrecurring Gains (Losses)

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

Nonrecurring expenses associated with Symphony include project management and process re-engineering costs, amortization expense for those Health Ministries not yet on Symphony, as well as costs to establish a shared service center and develop a business intelligence data warehouse. Costs associated with product deployment are recorded as nonrecurring gains (losses), and costs associated with product support are recorded as recurring operating expenses.

During the year ended June 30, 2013, the System recorded total impairment, restructuring, and nonrecurring losses, net of \$111,786. This amount was comprised primarily of \$116,386 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of \$61,677, and impairment and other nonrecurring expenses of \$6,040, partially offset by pension curtailment gains of \$72,317, as discussed in Retirement Plans note.

During the year ended June 30, 2012, the System recorded total impairment, restructuring and nonrecurring gains, net of \$286,046. This amount was comprised primarily of pension curtailment gains of \$402,402, as discussed in the Retirement Plans note, partially offset by long-lived asset impairments and restructuring charges of \$60,761 and \$55,595 of nonrecurring expenses associated with Symphony.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

2. Significant Accounting Policies (continued)

Amortization

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

Capitalized software, including internally developed software, is amortized on a straight-line basis over the expected useful life of the software.

Income Taxes

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

Regulatory Compliance

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

Reclassifications

Certain reclassifications were made to the 2012 accompanying consolidated financial statements to conform to the 2013 presentation.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Significant Accounting Policies (continued)

Adoption of New Accounting Standards

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This accounting standards update requires healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered to present the provision for doubtful accounts related to patient service revenue adjacent to patient service revenue in the Consolidated Statement of Operations and Changes in Net Assets rather than as an operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for doubtful accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011.

The System recognizes patient service revenue at the time services are rendered, even though the patient's ability to pay may not be completely assessed at that time. The System adopted this guidance as of July 1, 2012, and retrospectively applied the presentation requirements to all periods presented. Based on an assessment at the reporting entity level, the adoption of this guidance resulted in the reclassification of the System's provision for doubtful accounts for the year ended June 30, 2012, decreasing total operating revenue and total operating expenses before impairment, restructuring, and nonrecurring losses, net by \$972,171.

Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the Consolidated Balance Sheet date. For the year ended June 30, 2013, the System evaluated subsequent events through September 18, 2013, representing the date on which the accompanying audited consolidated financial statements were issued. During this period, there were no material subsequent events that required recognition or disclosure in the accompanying consolidated financial statements.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Organizational Changes

Business Combinations

Marian Health System

Effective April 1, 2013, Ascension Health, a subsidiary of the System, became the sole corporate member, through a non-cash business combination transaction, of three regional health systems that formerly comprised Marian Health System, Inc. (Marian Health System): Via Christi Health, Inc. (Via Christi Health), based in Wichita, Kansas; Ministry Health Care, Inc. (Ministry Health Care), based in Milwaukee, Wisconsin; and St. John Health System, Inc. (St. John Health), based in Tulsa, Oklahoma (collectively, the Marian Systems). Prior to this transaction, Marian Health System was the sole corporate member of Ministry Health Care and St. John Health, while Ascension Health and Marian Health System were the two corporate members of Via Christi Health.

Prior to April 1, 2013, the System accounted for its 50% interest in Via Christi Health under the equity method of accounting. The System's investment in Via Christi Health at March 31, 2013 and June 30, 2012, was \$545,018 and \$493,105, respectively, which amounts were reported in the Consolidated Balance Sheets at those dates in investment in unconsolidated entities. Of these amounts, \$28,101 at March 31, 2013, and \$30,321 at June 30, 2012, represented the difference between the amount at which the System's investment in Via Christi Health was carried and its interest in the underlying net assets of Via Christi Health, related to the excess of fair value of Via Christi Health property and equipment and long-term debt over their carrying values at the date the System received its interest in Via Christi Health. Via Christi Health's total assets and total liabilities were \$1,706,258 and \$712,757 at June 30, 2012.

For the year ended June 30, 2013, the System's excess of revenues and gains over expenses and losses included \$34,141, representing the System's share of Via Christi Health's excess of revenues over expenses prior to the business combination transaction on April 1, 2013. The System's investment in Via Christi Health of \$545,018 at March 31, 2013, was derecognized on April 1, 2013, in conjunction with the accounting for the business combination transaction.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Organizational Changes (continued)

Preliminary fair value adjustments for the business combination have been recorded in the accompanying consolidated financial statements as of June 30, 2013. The valuation of net assets is expected to be completed during fiscal 2014. The following table summarizes the April 1, 2013, fair values of the Marian Systems' net assets, by major type.

Net working capital	\$ 557,274
Intangible assets, including capitalized software	135,819
Property and equipment	1,950,739
Assets limited as to use	1,126,259
Investments and other long-term assets	1,125,652
Noncurrent liabilities assumed	<u>(2,144,948)</u>
Subtotal	2,750,795
Less: March 31, 2013 Investment in Via Christi Health	<u>(545,018)</u>
Fair value of net assets	<u><u>\$ 2,205,777</u></u>

The fair value of net assets of \$2,205,777 in the preceding table was recognized in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2013, as a nonoperating contribution from business combinations of \$2,028,992; contributions of temporarily and permanently restricted net assets of \$44,201 and \$67,846, respectively; and contributions of noncontrolling interests of \$64,738.

For the three months ended June 30, 2013, the System recognized revenues of the Marian Systems of \$1,049,259, and an excess of revenues and gains over expenses and losses of the Marian Systems of \$56,670, of which \$55,542 was attributable to controlling interest, with the remaining attributable to noncontrolling interests. Additionally, for the three months ended June 30, 2013, the System recognized an increase in unrestricted net assets – controlling interests, excluding the excess of revenues and gains over expenses and losses of \$56,670 above, of \$53,801; an increase in unrestricted net assets – noncontrolling interests of \$823; an increase in temporarily restricted net assets of \$915; and a decrease in permanently restricted net assets of \$56.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

3. Organizational Changes (continued)

The following unaudited pro forma financial information presents the combined results of operations of the System and the Marian Systems for the years ended June 30, 2013 and 2012, as though the April 1, 2013, business combination transaction had occurred on July 1, 2011. This pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the System and the Marian Systems constituted a single entity during those periods, nor is it necessarily indicative of future operating results.

	Year Ended June 30,	
	2013	2012
Total operating revenue	\$ 20,566,255	\$ 19,442,796
Excess of revenues and gains over expenses and losses	1,177,338	3,129,905
Increase in unrestricted net assets – controlling interest	1,307,542	2,678,973
Increase in unrestricted net assets – noncontrolling interests	879,585	672,035
Increase in temporarily restricted net assets	5,856	47,234
Increase in permanently restricted net assets	7,945	70,485

The excess of revenues and gains over expenses and losses and the increase in unrestricted net assets – controlling interest for the year ended June 30, 2012, in the table above include the nonoperating contribution from business combination of \$2,028,992 reflected in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2013, to reflect the April 1, 2013, business combination as if it had occurred on July 1, 2011. The pro forma excess of revenues and gains over expenses and losses above includes certain adjustments attributable to the April 1, 2013, business combination transaction.

In addition, the increases in unrestricted net assets – controlling interest, temporarily restricted net assets, and permanently restricted net assets for the year ended June 30, 2012, in the table above include the contributions from business combinations reflected in the contributions of noncontrolling interests and temporarily and permanently restricted net assets of \$64,738, \$44,201, and \$67,846, respectively. The preceding amounts are also reflected in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2013, to reflect the April 1, 2013, business combination as if it had occurred on July 1, 2011.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Organizational Changes (continued)

Alexian Brothers Health System

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

Divestitures and Discontinued Operations

On May 1, 2013, the System entered into a definitive agreement with HCA Midwest Health System to sell St. Joseph and St. Mary's Medical Centers and other Carondelet Health subsidiaries in Kansas City, Missouri (Carondelet Health – Kansas City). This transaction is expected to close in fiscal year 2014. The operations of Carondelet Health – Kansas City are reflected in the System's consolidated financial statements as discontinued operations. The assets and liabilities of Carondelet Health – Kansas City are classified as held for sale in other assets and other liabilities, respectively, in the System's consolidated financial statements.

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

The System reported a decrease in net assets from discontinued operations of \$23,937 for the year ended June 30, 2013, representing the decrease in net assets related to the separation of Carondelet Health – Kansas City and the deficit of revenues over expenses for previously discontinued lines of business in Michigan. These entities had recorded operating revenues totaling \$303,430 during the period that they were operational during the year ended June 30, 2013.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Organizational Changes (continued)

The System reported a decrease in net assets from discontinued operations of \$73,521 for the year ended June 30, 2012, representing the decrease of net assets related to the separation of Seton Health, the deficit of revenues over expenses for Carondelet Health – Kansas City and for previously discontinued lines of business in Michigan. These entities had recorded operating revenues totaling \$354,486 during the period that they were operational during the year ended June 30, 2012.

4. Pooled Investment Fund

Prior to April 2012, the System held a significant portion of its investments in the Ascension Legacy Portfolio (formerly the Health System Depository, or HSD), an investment pool of funds in which the System and a limited number of nonprofit healthcare providers participated. In April 2012, a significant portion of the assets in the Ascension Legacy Portfolio was transferred to the CHIMCO Alpha Fund, LLC (Alpha Fund), a limited liability company organized in the state of Delaware.

At June 30, 2013 and 2012, a significant portion of the System's investments consists of the System's interest in the Alpha Fund. Certain System assets continue to be held through the Ascension Legacy Portfolio, and subsequent to April 2012, the Ascension Legacy Portfolio no longer holds assets for unrelated entities. Additional System investments include those held and managed by the Health Ministries' consolidated foundations.

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

The portion of the Alpha Fund's net assets representing interests held by entities other than the System are reflected in noncontrolling interests in the Consolidated Balance Sheets, which amount to \$1,450,580 and \$589,493 at June 30, 2013 and 2012, respectively.

The consolidation of the Alpha Fund by the System in April 2012 resulted in an increase of net assets of \$440,015, representing the noncontrolling interests of the Alpha Fund as of the date investments were transferred into the Alpha Fund.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

4. Pooled Investment Fund (continued)

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

The Alpha Fund invests in a diversified portfolio of investments including alternative investments, such as real asset funds, hedge funds, private equity funds, commodity funds, and private credit funds. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 180 days. Due to redemption restrictions, investments in certain of these funds, whose fair value was \$920,761 at June 30, 2013, cannot currently be redeemed. However, the potential for the Alpha Fund to sell its interest in these funds in a secondary market prior to the end of the fund term does exist.

The Alpha Fund's investments in certain alternative investment funds also include contractual commitments to provide capital contributions during the investment period, which is typically five years and can extend to the end of the fund term. During these contractual periods, investment managers may require the Alpha Fund to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2013, contractual agreements of the Alpha Fund expire between July 2013 and April 2019. The remaining unfunded capital commitments of the Alpha Fund total approximately \$1,140,000 for 76 individual funds as of June 30, 2013. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

In the normal course of operations and within established Alpha Fund guidelines, the Alpha Fund may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, option, and forward contracts as well as warrants and swaps. These instruments are used primarily to adjust the portfolio duration, restructure term structure exposure, change sector exposure, and arbitrage market inefficiencies. See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Pooled Investment Fund (continued)

At June 30, 2013 and 2012, the notional value of Alpha Fund derivatives outstanding was approximately \$2,126,000 and \$2,071,000, respectively. The fair value of Alpha Fund derivatives in an asset position was \$35,404 and \$71,936 at June 30, 2013 and 2012, respectively, while the fair value of Alpha Fund derivatives in a liability position was \$84,249 and \$36,266 at June 30, 2013 and 2012, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets at June 30, 2013 and 2012.

The Alpha Fund also participates in a securities lending program, whereby a portion of the Alpha Fund's investments are loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis. The fair value of collateral held by the Alpha Fund associated with such lending agreements amounts to approximately \$394,000 and \$320,000 at June 30, 2013 and 2012, respectively, and is included in other current assets in the Consolidated Balance Sheets, while the liability associated with the obligation to repay such collateral is also approximately \$394,000 and \$320,000 at June 30, 2013 and 2012, respectively, and is included in other current liabilities in the Consolidated Balance Sheets. In addition, the Alpha Fund has liabilities for investments sold, not yet purchased, representing obligations of the Alpha Fund to purchase investments in the market at prevailing prices. The fair value of this Alpha Fund liability is approximately \$7,000 and \$160,000 at June 30, 2013 and 2012, respectively, and is included in other noncurrent liabilities in the Consolidated Balance Sheets.

Due from brokers and due to brokers on the Consolidated Balance Sheets at June 30, 2013 and 2012, represent the Alpha Fund's positions and amounts due from or to various brokers, primarily amounts for security transactions not yet settled, and cash held by brokers for securities sold, not yet purchased.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Cash and Investments

The System's cash and investments are reported in the June 30, 2013 and 2012, Consolidated Balance Sheets as presented in the table that follows. Total cash and investments, net, includes both the System's membership interest in the Alpha Fund and the noncontrolling interests held by other Alpha Fund members. System unrestricted cash and investments, net, represent the System's cash and investments excluding the noncontrolling interests held by other Alpha Fund members and assets limited as to use.

	June 30,	
	2013	2012
Cash and cash equivalents	\$ 754,622	\$ 306,469
Short-term investments	113,955	216,914
Long-term investments	14,164,185	10,468,457
Subtotal	15,032,762	10,991,840
Other Alpha Fund and Ascension Legacy Portfolio assets and liabilities:		
In other current assets	459,050	360,999
In other long-term assets	2,785	2,924
In accounts payable and other accrued liabilities	(5,680)	(12,779)
In other current liabilities	(394,763)	(322,873)
In other noncurrent liabilities	(6,622)	(157,073)
Due to brokers, net	(315,040)	(91,342)
Total cash and investments, net	14,772,492	10,771,696
Less noncontrolling interests of Alpha Fund	1,450,580	589,493
System cash and investments, including assets limited as to use	13,321,912	10,182,203
Less assets limited as to use:		
Under bond indenture agreement	33,955	16,966
Self-insurance trust funds	728,621	683,937
Temporarily or permanently restricted	564,168	363,482
Total assets limited as to use	1,326,744	1,064,385
System unrestricted cash and investments, net	\$ 11,995,168	\$ 9,117,818

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

5. Cash and Investments (continued)

At June 30, 2013 and 2012, the composition of cash and cash equivalents, short-term investments and long-term investments, which include certain assets limited as to use, is summarized as follows.

	June 30,	
	2013	2012
Cash and cash equivalents and short-term investments	\$ 1,113,823	\$ 498,902
Pooled short-term investment funds	311,027	416,087
U.S. government, state, municipal, and agency obligations	3,447,500	3,271,474
Corporate and foreign fixed income securities	1,664,001	980,322
Asset-backed securities	1,196,168	1,057,735
Equity securities	2,695,483	1,574,188
Alternative investments and other investments:		
Private equity and real estate funds	809,341	594,466
Hedge funds	2,860,776	1,887,407
Commodities funds and other investments	934,643	711,259
Total alternative investments and other investments	4,604,760	3,193,132
Total cash and cash equivalents, short-term investments, and long-term investments	<u>\$ 15,032,762</u>	<u>\$ 10,991,840</u>

Net investments under CHIMCO management and held in the Ascension Legacy Portfolio at March 31, 2012, yet not included in the Alpha Fund or the Ascension Legacy Portfolio while still managed by CHIMCO at April 1, 2012, were approximately \$1,820,000. As of June 30, 2013 and 2012, the System's membership interest in the Alpha Fund totaled \$11,251,590 and \$8,840,551, respectively. As of June 30, 2013 and 2012, the noncontrolling interest (see Note 2) in the Alpha Fund, representing interests held by entities other than the System, totaled \$1,450,580 and \$589,493, respectively.

Investment return recognized by the System for the years ended June 30, 2013 and 2012, is summarized in the following table. Total investment return includes the System's return in the Ascension Legacy Portfolio and the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

5. Cash and Investments (continued)

	Year Ended June 30,	
	2013	2012
Unrestricted investment return in Ascension Legacy Portfolio	\$ —	\$ 63,965
Interest and dividends	170,034	51,453
Net gains (losses) on investments reported at fair value	602,008	(233,826)
Restricted investment return and unrealized gains (losses), net	18,830	(880)
Total investment return	790,872	(119,288)
Less return earned by noncontrolling interests of Alpha Fund	106,039	(9,278)
System investment return	\$ 684,833	\$ (110,010)

6. Fair Value Measurements

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

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

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

Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar assets and liabilities in active markets or exchanges or prices quoted for identical or similar assets and liabilities in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2013 and 2012.

As of June 30, 2013 and 2012, the assets and liabilities listed in the fair value hierarchy tables below use the following valuation techniques and inputs:

Cash and cash equivalents and short-term investments

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

Pooled short-term investment fund

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

U S government, state, municipal, and agency obligations

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

Corporate and foreign fixed income securities

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

Asset-backed securities

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

Equity securities

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Fair Value Measurements (continued)

Alternative investments and other investments

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

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

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

Securities lending collateral

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

Benefit plan assets

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

Interest rate swap assets and liabilities

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

Investments sold, not yet purchased

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2013, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2013				
Cash and cash equivalents	\$ 618,129	\$ 14,277	\$ —	\$ 632,406
Short-term investments	21,821	45,258	238	67,317
Pooled short-term investment funds	311,027	—	—	311,027
U S government, state, municipal, and agency obligations	—	3,441,671	5,829	3,447,500
Corporate and foreign fixed income securities	—	1,272,714	391,287	1,664,001
Asset-backed securities	—	1,079,135	117,033	1,196,168
Equity securities	2,656,950	36,370	2,163	2,695,483
Alternative investments and other investments				
Private equity and real estate funds	529	3,752	799,414	803,695
Hedge funds	—	—	2,857,114	2,857,114
Commodities funds and other investments	5,762	(6,061)	831,182	830,883
Assets not at fair value				527,168
Cash and investments				<u>\$ 15,032,762</u>
Securities lending collateral, in other current assets	\$ —	\$ 394,310	\$ —	\$ 394,310
Benefit plan assets, in other noncurrent assets	225,755	—	37,505	263,260
Interest rate swaps, in other noncurrent assets	—	76,650	—	76,650
Investments sold, not yet purchased, in other noncurrent liabilities	—	6,622	—	6,622
Interest rate swaps, included in other noncurrent liabilities	—	194,546	—	194,546

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2013, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following.

	U.S. Government, State, and Foreign Municipal, and Agency Fixed Income Securities										Private Equity and Real Estate Funds	Hedge Funds	Commodities Funds and Other Investments	Benefit Plan Assets					
June 30, 2013	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments	Short-Term Investments					
Beginning balance	\$	–	\$	7,437	\$	120,418	\$	15,297	\$	13,118	\$	593,753	\$	1,887,407	\$	615,813	\$	36,882	
Total realized and unrealized gains (losses)																			
Included in income from operations		–		16		242		10		1,489		–		123		(45)		–	
Included in nonoperating gains (losses)				445		1,059		(227)		170		83,975		220,887		80,222		49	
Included in changes in net assets		3		–		–		–		–		–		293		27		–	
Purchases		–		169		328,980		122,703		718		188,085		981,414		401,957		47,644	
Settlements		–		–		–		–		–		(25)		–		–		(279)	
Sales		–		(2,238)		(58,928)		(17,883)		(13,372)		(66,836)		(232,198)		(266,889)		(44,655)	
Transfers into Level 3		235		–		2,962		40		927		3,271		139		13,376		13,376	
Transfers out of Level 3		–		–		(3,446)		(2,867)		–		(465)		(4,083)		(42)		(15,512)	
Ending balance	\$	238	\$	5,829	\$	391,287	\$	117,033	\$	2,163	\$	799,414	\$	2,857,114	\$	831,182	\$	37,505	

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

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

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Cash and cash equivalents	\$ 78,301	\$ 3,419	\$ –	\$ 81,720
Short-term investments	14,567	79,321	–	93,888
Pooled short-term investment funds	416,087	–	–	416,087
U S government, state, municipal, and agency obligations	–	3,264,037	7,437	3,271,474
Corporate and foreign fixed income securities	–	859,904	120,418	980,322
Asset-backed securities	–	1,042,438	15,297	1,057,735
Equity securities	1,546,579	14,491	13,118	1,574,188
Alternative investments and other investments				
Private equity and real estate funds	–	–	593,753	593,753
Hedge funds	–	–	1,887,407	1,887,407
Commodities funds and other investments	8,699	3,327	615,813	627,839
Assets not at fair value				407,427
Cash and investments				<u>\$ 10,991,840</u>
Securities lending collateral, in other current assets	\$ –	\$ 321,937	\$ –	\$ 321,937
Benefit plan assets, in other noncurrent assets	134,705	–	36,882	171,587
Interest rate swaps, in other noncurrent assets	–	94,082	–	94,082
Investments sold, not yet purchased, in other noncurrent liabilities	–	157,073	–	157,073
Interest rate swaps, included in other noncurrent liabilities	–	252,413	–	252,413

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

6. Fair Value Measurements (continued)

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

	U.S. Government, State, Municipal, and Agency Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Hedge Funds	Commodities Funds and Other Investments	Benefit Plan Assets
June 30, 2012								
Beginning balance	\$ 442	\$ 5 024	\$ 1 924	\$ 15 515	\$ 71 768	\$ 11 667	\$ 2 731	\$ 31 706
Total realized and unrealized gains (losses)								
Included in income from operations	21	192	(7)	886	—	45	(436)	—
Included in nonoperating gains (losses)	6	904	(149)	(69)	(6 814)	(15 149)	(12 031)	—
Included in changes in net assets	—	—	—	—	64	1 233	(7)	20
Purchases	—	77 943	2 919	—	64 537	154 740	238 895	8 701
Settlements	—	—	—	—	—	—	—	(91)
Issuances	—	—	—	—	—	—	—	35
Sales	—	(57 768)	(2 700)	(3 588)	(9 215)	(5 187)	(76 098)	(5 373)
Transfers into Level 3	6 968	94 201	15 012	374	473 413	1 740 058	462 759	2 649
Transfers out of Level 3	—	(78)	(1 702)	—	—	—	—	(765)
Ending balance	<u>\$ 7 437</u>	<u>\$ 120 418</u>	<u>\$ 15 297</u>	<u>\$ 13 118</u>	<u>\$ 593 753</u>	<u>\$ 1 887 407</u>	<u>\$ 615 813</u>	<u>\$ 36 882</u>

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt

Long-term debt at June 30, 2013 and 2012, is comprised of the following and is presented in accordance with the specific master trust indenture to which the debt relates. As further discussed below, certain portions of long-term debt are secured under the Alexian Brothers Health System Master Trust Indenture; the Mercy Regional Health Center, Inc. Master Trust Indenture; The Howard Young Medical Center, Inc. Master Trust Indenture; the St. John Health System Master Trust Indenture; and the Ministry Health Care Master Trust Indenture.

	June 30,	
	2013	2012
Tax-exempt hospital revenue bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture		
Variable rate demand bonds, subject to a put provision that provides for a cumulative 7-month notice and remarketing period, payable through November 2047, interest (0.12% to 0.15% at June 30, 2013) tied to a market index plus a spread	\$ 408,605	\$ 308,605
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2039, interest (0.06% to 0.07% at June 30, 2013) set at prevailing market rates	225,665	225,665
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2033, interest (0.06% to 0.07% at June 30, 2013) set at prevailing market rates, swapped to fixed rates of 5.454% and 5.544%, respectively, through maturity	307,300	307,300
Indexed put bonds subject to weekly rate resets based on a taxable index, payable through November 2046, interest (2.095% at June 30, 2013) swapped to a variable rate tied to a tax-exempt market index plus a spread through November 2016	153,800	153,800
Fixed rate put bonds (converted from an indexed put bond made based on a taxable index in May 2009) payable through November 2046, interest (4.10% at June 30, 2013) swapped to a variable rate tied to a market index plus a spread through November 2016	153,690	153,690
Fixed rate serial and term bonds payable in installments through November 2051, interest at 2.00% to 5.25%	1,207,490	1,308,105
Fixed rate serial and term bonds payable in installments through November 2039, interest at 5.00% swapped to variable rates over the life of the bonds	587,360	587,360
Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from June 2014 through June 2021, interest at 0.90% to 5.00% through the purchase dates	1,224,750	904,185

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30,	
	2013	2012
Tax-exempt hospital revenue bonds – unsecured under Ascension Health Alliance Subordinate Master Trust Indenture		
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2027, interest (0.06% at June 30, 2013) set at prevailing market rates	\$ 56,060	\$ 56,060
Fixed rate serial mode bonds payable through 2027 with purchase dates through November 2019, interest at 1.625%, swapped to variable mode through the purchase dates	49,810	49,810
Fixed rate serial mode bonds payable through 2027 with purchase dates through May 2018, interest at 0.55% to 5.00%	396,705	396,705
Taxable bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture		
Taxable fixed rate term bonds payable in installments through November 2053, interest at 4.847%	425,000	–
Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture	5,196,235	4,451,285
Tax-exempt hospital revenue bonds – secured under Alexian Brothers Health System Master Trust Indenture		
Fixed rate term bonds payable in installments through February 2038, interest at 3.50% to 5.50%	157,000	161,565
Total hospital revenue bonds under the Alexian Brothers Health System Master Trust Indenture	157,000	161,565
Tax-exempt hospital revenue bonds – secured under Mercy Regional Health Center, Inc. Master Trust Indenture		
Fixed rate term bonds payable in installments through November 2029, interest at 2.00% to 5.00%	25,060	–
Total hospital revenue bonds under the Mercy Regional Health Center, Inc. Master Trust Indenture	25,060	–
Tax-exempt hospital revenue bonds – secured under The Howard Young Medical Center, Inc. Master Trust Indenture		
Fixed rate term bonds payable in installments through August 2030, interest at 3.00% to 5.00%	20,040	–
Total hospital revenue bonds under The Howard Young Medical Center, Inc. Master Trust Indenture	20,040	–

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30,	
	2013	2012
Tax-exempt hospital revenue bonds – secured under St John Health System Master Trust Indenture		
Fixed rate term bonds payable in installments through February 2042, interest at 4.00% to 5.00%	\$ 414,500	\$ –
Total hospital revenue bonds under the St John Health System Master Trust Indenture	414,500	–
Tax-exempt hospital revenue bonds – secured under Ministry Health Care Master Trust Indenture		
Fixed rate term bonds payable in installments through August 2035, interest at 2.50% to 5.50%	368,260	–
Total hospital revenue bonds under the Ministry Health Care Master Trust Indenture	368,260	–
Total hospital revenue bonds under the Ascension Health Alliance Senior Master Trust Indenture, Ascension Health Alliance Subordinate Master Trust Indenture, the Alexian Brothers Health System Master Trust Indenture, the Mercy Regional Health Center, Inc. Master Trust Indenture, The Howard Young Medical Center, Inc. Master Trust Indenture, St John Health System Master Trust Indenture, and Ministry Health Care Master Trust Indenture	6,181,095	4,612,850
Other debt		
Obligations under capital leases	42,979	33,221
Other	113,823	37,936
	6,337,897	4,684,007
Unamortized premium, net	218,536	111,187
Less current portion	(90,442)	(45,363)
Less long-term debt subject to short-term remarketing arrangements	(1,187,125)	(1,094,425)
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	\$ 5,278,866	\$ 3,655,406

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30,	
	2013	2012
Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium, net	\$ 3,579,334	\$ 2,919,702
Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium, net	511,009	515,278
Alexian Brothers Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	162,594	167,257
Mercy Health Regional Center, Inc Master Trust Indenture long-term debt obligations, including unamortized premium, net	27,258	—
The Howard Young Medical Center, Inc Master Trust Indenture long-term debt obligations, including unamortized premium, net	20,933	—
St John Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	437,503	—
Ministry Health Care Master Trust Indenture long-term debt obligations, including unamortized premium, net	394,781	—
Other	145,454	53,169
Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements	<u>\$ 5,278,866</u>	<u>\$ 3,655,406</u>

Scheduled principal repayments of long-term debt, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of June 30, 2013, are as follows:

Year ending June 30	Ascension Health Alliance MTIs	Alexian Brothers Health System MTI	Mercy Regional Health Center, Inc. MTI	The Howard Young Medical Center, Inc. MTI	St. John Health System MTI	Ministry Health Care MTI	Other Debt	Total
2014	\$ 57,135	\$ 3,290	\$ 1,020	\$ 855	\$ 6,950	\$ 9,845	\$ 11,230	\$ 90,325
2015	59,835	340	1,045	875	7,305	11,185	10,168	90,753
2016	50,130	7,485	1,080	910	7,680	11,665	6,393	85,343
2017	65,945	13,130	1,125	945	8,070	12,185	19,878	121,278
2018	69,045	15,655	1,175	975	6,890	12,890	6,422	113,052
Thereafter	4,894,145	117,100	19,615	15,480	377,605	310,490	102,711	5,837,146
Total	<u>\$ 5,196,235</u>	<u>\$ 157,000</u>	<u>\$ 25,060</u>	<u>\$ 20,040</u>	<u>\$ 414,500</u>	<u>\$ 368,260</u>	<u>\$ 156,802</u>	<u>\$ 6,337,897</u>

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Long-Term Debt (continued)

The carrying amounts of variable rate bonds and other notes payable approximate fair value. The fair values of the unsecured fixed rate serial and term bonds are obtained from independent public valuation services. The fair value of fixed rate serial and term bonds, including the component of variable rate demand bonds subject to long-term fixed interest rates, approximates carrying value at June 30, 2013 and 2012. During the years ended June 30, 2013 and 2012, interest paid was approximately \$170,000 and \$144,000, respectively. Capitalized interest was approximately \$5,400 and \$2,000 for the years ended June 30, 2013 and 2012, respectively.

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

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

A Subordinate Credit Group, which is comprised of subordinate obligated group members, subordinate designated affiliates, and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by the System. Subordinate designated affiliates and subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI. The System may cause each subordinate designated affiliate to

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Long-Term Debt (continued)

transfer such amounts as are necessary to enable the obligated group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with the System, with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation.

The unsecured variable rate demand bonds of both the Senior and Subordinate Credit Groups, while subject to long-term amortization periods, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2013, the principal amount of such bonds has been classified as a current liability in the accompanying Consolidated Balance Sheets. Management believes the likelihood of a material amount of bonds being put to the System to be remote. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including the line of credit, commercial paper program, and maintaining unrestricted assets as a source of self-liquidity.

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

On April 1, 2013, Marian Health System joined Ascension Health. Subsequently, the System redeemed or refinanced a portion of the debt of the Marian Systems; however, a portion of the bonds previously issued for the benefit of the Marian Systems remains outstanding. These bonds continue to be secured by the respective Master Trust Indentures, including the Amended and Restated Master Trust Indenture dated October 1, 1999, by and between St. John Health System and the St. John Health Master Trustee; the Master Trust Indenture dated October 1, 1984, by and between Ministry Health Care and the Ministry Health Care Master Trustee; the Master Trust Indenture dated August 15, 1993, between The Howard Young Medical Center, Inc., a subsidiary of Ministry Health Care, and The Howard Young Medical Center, Inc. Master

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Long-Term Debt (continued)

Trustee; and the Master Trust Indenture dated January 15, 2013, between Mercy Regional Health Center, Inc. (a subsidiary of Via Christi Health) and the Mercy Regional Health Center, Inc. Master Trustee.

In June 2013, the System issued a total of \$521,865 of tax-exempt bonds, Series 2013A and 2013B, through the Wisconsin issuing authority. In June 2013, the System also issued a total of \$425,000 of taxable bonds, Series 2013A. The proceeds of the bonds, including original issue premium, were used to refinance debt and general corporate purposes.

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

Due to aggregate financing activity during the fiscal years ended June 30, 2013 and 2012, losses on extinguishment of debt of \$4,079 and \$2,813, respectively, were recorded, which are included in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

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

As of June 30, 2013, the Senior Credit Group has a line of credit of \$1,000,000 which may be used as a source of funding for unremarketed variable debt (including commercial paper) or for general corporate purposes, towards which bank commitments totaling \$1,000,000 extend to November 9, 2014. As of June 30, 2013 and 2012, there were no borrowings under the line of credit.

As of June 30, 2013, the Senior Credit Group has a \$75,000 revolving line of credit related to its letters of credit program toward which a bank commitment of \$75,000 extends to November 27, 2013. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. Of this \$75,000 revolving line of credit, letters of credit totaling \$46,765 have been issued as of June 30, 2013. No borrowings were outstanding under the letters of credit as of June 30, 2013 and 2012.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Derivative Instruments

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. Interest rate swaps with varying characteristics are outstanding under the Master Trust Indentures of the System, Alexian Brothers, Ministry Health Care, and St. John Health. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At June 30, 2013 and 2012, the notional values of outstanding interest rate swaps were as follows:

	June 30,	
	2013	2012
Ascension Health Alliance MTI	\$ 2,128,757	\$ 2,189,232
Alexian Brothers Health System MTI	47,220	55,120
Ministry Health Care MTI	270,880	—
St. John Health System MTI	125,000	—
Total	<u>\$ 2,571,857</u>	<u>\$ 2,244,352</u>

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. The respective fair values of interest rate swaps in an asset and liability position for the System, Alexian Brothers, Ministry Health Care and St. John Health were as follows:

	June 30, 2013		June 30, 2012	
	Asset	Liability	Asset	Liability
Ascension Health Alliance MTI	\$ 73,846	\$ 174,413	\$ 94,082	\$ 248,511
Alexian Brothers Health System MTI	—	2,685	—	3,902
Ministry Health Care MTI	2,804	16,492	—	—
St. John Health System MTI	—	956	—	—
Total	<u>\$ 76,650</u>	<u>\$ 194,546</u>	<u>\$ 94,082</u>	<u>\$ 252,413</u>

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

8. Derivative Instruments (continued)

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria. Collateral requirements are separately calculated for the System, Alexian Brothers, Ministry Health Care, and St. John Health based on the credit ratings of each. In the case of the System, the applicable credit rating is the Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies. Credit rating and the net liability position of total interest rate swap agreements outstanding with each counterparty determine the amount of collateral to be posted. Collateral and net fair value of interest rate swap agreements with credit-risk-related contingent features at June 30, 2013 and 2012, based upon the respective net liability positions and applicable credit ratings were as follows:

	June 30, 2013		June 30, 2012	
	Net Fair Value	Collateral Posted	Net Fair Value	Collateral Posted
Ascension Health Alliance				
MTI	\$ (100,567)	\$ —	\$ (154,429)	\$ —
Alexian Brothers Health				
System MTI	(2,685)	—	(3,902)	—
Ministry Health Care MTI	(13,688)	23,024	—	—
St. John Health System MTI	(956)	—	—	—
Total	\$ (117,896)	\$ 23,024	\$ (158,331)	\$ —

Prior to July 1, 2006, the System designated certain of its interest rate swaps as cash flow hedges, for accounting purposes, and accordingly deferred gains or losses associated with those swaps in net assets. As of June 30, 2013, the deferred net gain associated with these interest rate swaps was \$4,357. The portion of this gain that will be reclassified into nonoperating gains (losses) over the next 12 months is immaterial.

Beginning July 1, 2006, the System's previously designated cash flow hedging relationships were de-designated for accounting purposes. Accordingly, all changes in the fair value of interest rate swaps have been recognized in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets. A net nonoperating loss of \$61,349 was recognized for the year ended June 30, 2013, while a net nonoperating loss of \$77,568 was recognized for the year ended June 30, 2012.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

9. Retirement Plans

Defined-Benefit Plans

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans covering substantially all eligible employees of certain System entities. Benefits are based on each participant's years of service and compensation. All of the System Plans' assets are invested in Trusts, which include the Master Pension Trust (the Trust) and other trusts (the Other Trusts). The System Plans' assets primarily consist of cash and cash equivalents, equity, fixed income funds, and alternative investments. Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants.

During the years ended June 30, 2013 and 2012, the System approved and communicated to employees a redesign of associate retirement benefits, which affects certain System Plans, as well as provides an enhanced comprehensive defined contribution plan. This redesign resulted in the recognition of curtailment gains of \$73,198 and \$415,834, for the years ended June 30, 2013 and 2012, respectively, of which, \$73,198 and \$402,402 was recognized in total impairment, restructuring, and nonrecurring gains for the years ended June 30, 2013 and 2012, respectively. This redesign also resulted in a decrease to the projected benefit obligation and is included in pension and other postretirement liabilities in the Consolidated Balance Sheets.

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

The following table sets forth the combined benefit obligations and assets of the System Plans at June 30, 2013 and 2012, components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements.

	Year Ended June 30,	
	2013	2012
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 6,437,246	\$ 5,734,449
Service cost	119,018	194,906
Interest cost	289,634	311,981
Amendments	(12,792)	(5,463)
Assumption change	(363,778)	873,252
Actuarial (gain) loss	(28,641)	1,051
Business combinations	1,137,270	131,174
Curtailment	(74,962)	(561,854)
Benefits paid	(301,215)	(242,250)
Projected benefit obligation at end of year	7,201,780	6,437,246
Accumulated benefit obligation at end of year	7,155,166	6,341,693
Change in plan assets:		
Fair value of plan assets at beginning of year	5,992,677	5,397,593
Actual return on plan assets	121,715	711,555
Employer contributions	54,541	14,421
Business combinations	874,666	111,358
Benefits paid	(301,215)	(242,250)
Fair value of plan assets at end of year	6,742,384	5,992,677
Net amount recognized at end of year and funded status	\$ (459,396)	\$ (444,569)

The System Plans' funded status as a percentage of the projected benefit obligation at June 30, 2013 and 2012, was 93.6% and 93.1%, respectively. The System Plans' funded status as a percentage of the accumulated benefit obligation at June 30, 2013 and 2012, was 94.2% and 94.5%, respectively.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

Included in unrestricted net assets at June 30, 2013 and 2012, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

	Year Ended June 30,	
	2013	2012
Unrecognized prior service credit	\$ (23,080)	\$ (16,230)
Unrecognized actuarial loss	364,739	433,352
	<u>\$ 341,659</u>	<u>\$ 417,122</u>

Changes in plan assets and benefit obligations recognized in unrestricted net assets for System Plans during 2013 and 2012 include:

	Year Ended June 30,	
	2013	2012
Current year actuarial (gain) loss	\$ (87,934)	\$ 48,601
Amortization of actuarial loss	19,725	350,877
Current year prior service credit	(12,792)	(5,463)
Amortization of prior service credit	5,944	58,781
	<u>\$ (75,057)</u>	<u>\$ 452,796</u>

	Year Ended June 30,	
	2013	2012
Components of net periodic benefit cost		
Service cost	\$ 119,018	\$ 194,906
Interest cost	289,634	311,981
Expected return on plan assets	(500,497)	(447,703)
Amortization of prior service credit	(6,242)	(10,646)
Amortization of actuarial loss	53,783	16,931
Curtailment gain	(73,198)	(415,834)
Settlement gain	(12)	(111)
Net periodic benefit cost	<u>\$ (117,514)</u>	<u>\$ (350,476)</u>

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending June 30, 2014, are \$4,200 and \$7,630, respectively.

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

	June 30,	
	2013	2012
Weighted-average discount rate	4.88%	4.42%
Weighted-average rate of compensation increase	3.81%	4.00%
Weighted-average expected long-term rate of return on plan assets	8.30%	8.43%

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

In accordance with the System Plans' asset diversification targets, as presented in the table that follows, the Trust holds certain alternative investments, consisting of various hedge funds, real asset funds, private equity funds, commodity funds, private credit funds, and certain other private funds. These investments do not have observable market values. As such, each of these investments is valued at net asset value as determined by each fund's investment manager, which approximates fair value. The fair value of the System Plans' alternative investments in the Trust as of June 30, 2013, is reported in the fair value measurement table that follows. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 180 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately \$665,000 at June 30, 2013, cannot be redeemed. However, the potential for the System Plans to sell their interest in real asset funds and private equity funds in a secondary market prior to the end of the fund term does exist.

The investments in these alternative investment funds may also include contractual commitments to provide capital contributions during the investment period, which is typically five years, and may extend to the end of the fund term. During these contractual periods, investment managers may require the System Plans to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2013, investment periods expire between July 2013 and March 2018. The remaining unfunded capital commitments of the Trust total approximately \$525,000 for 57 individual contracts as of June 30, 2013.

The weighted-average asset allocation for the System Plans in the Trust at the end of fiscal 2013 and 2012 and the target allocation for fiscal 2014, by asset category, are as follows:

Asset category	Target Allocation	Percentage of Plan Assets at Year-End	
	2014	2013	2012
Growth	50%	52%	49%
Deflation	30	29	32
Inflation	20	19	19
Total	100%	100%	100%

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

The System Plans' assets in the Other Trusts are invested in portfolios designed to best serve the participants of the System Plans' through a long-term investment strategy designed to ensure that funds are available to pay benefits as they become due and to maximize the total return at a prudent level of investment risk. The System Plans' assets invested in the Other Trusts are diversified among various assets classes based upon established investment guidelines.

Asset category	Target Allocation	Percentage of Plan Assets at Year-End	
	2014	2013	2012
Cash	4%	6%	1%
Growth	58	61	63
Income	29	25	22
Other	9	8	14
Total	100%	100%	100%

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

The following tables summarize fair value measurements at June 30, 2013 and 2012, by asset class and by level, for the System Plans' assets and liabilities. As also discussed in the Fair Value Measurements note, the System follows the three-level fair value hierarchy to categorize plan assets and liabilities recognized at fair value, which prioritizes the inputs used to measure such fair values. The inputs and valuation techniques discussed in the Fair Value Measurements note also apply to the System Plans' assets and liabilities as presented in the following tables.

	Level 1	Level 2	Level 3	Total
June 30, 2013				
Short-term investments	\$ 324,803	\$ 20,331	\$ –	\$ 345,134
Derivatives receivable	1,078	337	21,059	22,474
U.S. government, state, municipal, and agency obligations	–	1,671,493	1,266	1,672,759
Corporate and foreign fixed income securities	25,843	566,812	53,729	646,384
Asset-backed securities	–	226,920	22,838	249,758
Equity securities	1,317,933	18,741	2,936	1,339,610
Alternative investments and other investments:				
Private equity and real estate funds	–	–	747,864	747,864
Hedge funds	34,708	–	1,452,190	1,486,898
Commodities funds and other investments	–	316,971	271,282	588,253
Assets not at fair value				334,875
Total				<u>7,434,009</u>
Derivatives payable	68	300	248,988	249,356
Investments sold, not yet purchased	3,794	(71)	–	3,723
Liabilities not at fair value				438,546
Total				<u>691,625</u>
Fair value of plan assets				<u>\$ 6,742,384</u>

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

	Level 1	Level 2	Level 3	Total
June 30, 2012				
Short-term investments	\$ 192,025	\$ 5,392	\$ –	\$ 197,417
Derivatives receivable	63,991	92,702	14,229	170,922
U.S. government, state, municipal, and agency obligations	–	2,189,580	1,903	2,191,483
Corporate and foreign fixed income securities	70,238	387,734	28,308	486,280
Asset-backed securities	–	194,201	14,243	208,444
Equity securities	782,558	–	1,514	784,072
Alternative investments and other investments:				
Private equity and real estate funds	–	–	546,165	546,165
Hedge funds	–	–	1,187,124	1,187,124
Commodities funds and other investments	–	–	282,320	282,320
Assets not at fair value				874,681
Total				<u>6,928,908</u>
Derivatives payable	5,849	51,314	6,055	63,218
Investments sold, not yet purchased	–	29,342	–	29,342
Liabilities not at fair value				843,671
Total				<u>936,231</u>
Fair value of plan assets				<u>\$ 5,992,677</u>

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

For the years ended June 30, 2013 and 2012, the changes in the fair value of the System Plans' assets measured using significant unobservable inputs (Level 3) consisted of the following:

	Net Derivatives	U.S. Government, State, Municipal, and Agency Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Hedge Funds	Commodities Funds and Other Investments
June 30, 2013								
Beginning balance	\$ 8,174	\$ 1,903	\$ 28,308	\$ 14,243	\$ 1,514	\$ 546,165	\$ 1,187,124	\$ 282,320
Acquisitions	—	—	—	—	—	37,048	—	9,994
Total actual return on assets	(154,133)	130	(171)	(89)	5	54,153	147,977	(21,032)
Purchases issuances and settlements	(122,486)	(767)	31,994	20,384	1,417	98,174	156,513	—
Transfers into (out of) Level 3	40,516	—	(6,402)	(11,700)	—	12,324	(39,424)	—
Ending balance	\$ (227,929)	\$ 1,266	\$ 53,729	\$ 22,838	\$ 2,936	\$ 747,864	\$ 1,452,190	\$ 271,282
Actual return on plan assets relating to plan assets still held at June 30 2013	\$ (280,606)	\$ 59	\$ (2,202)	\$ (115)	\$ 227	\$ 54,968	\$ 147,248	\$ (21,024)
June 30, 2012								
Beginning balance	\$ (208,367)	\$ 2,129	\$ 19,462	\$ 4,427	\$ 1,701	\$ 376,420	\$ 1,011,817	\$ 203,246
Acquisitions	—	—	—	—	—	—	30,428	—
Total actual return on assets	167,900	48	1,431	(211)	(196)	25,991	(9,426)	(30,748)
Purchases issuances and settlements	48,641	(274)	9,662	10,517	—	143,754	154,305	109,826
Transfers (out of) into Level 3	—	—	(2,247)	(490)	9	—	—	(4)
Ending balance	\$ 8,174	\$ 1,903	\$ 28,308	\$ 14,243	\$ 1,514	\$ 546,165	\$ 1,187,124	\$ 282,320
Actual return on plan assets relating to plan assets still held at June 30 2012	\$ 9,095	\$ 11	\$ (820)	\$ (477)	\$ —	\$ 18,389	\$ (38,835)	\$ (29,356)

The Trust has entered into a series of interest rate swap agreements with a net notional amount of \$2,699,100. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 75% of the dollar duration of the liability is subject to this economic hedge. The purpose of this strategy is to economically hedge the change in the net funded status for a significant portion of the liability that can occur due to changes in interest rates.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

9. Retirement Plans (continued)

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

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

Expected employer contributions 2014	\$ 53,090
Expected benefit payments:	
2014	445,000
2015	452,800
2016	464,400
2017	484,000
2018	489,500
2019–2023	2,461,000

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

Other Postretirement Benefit Plans

In addition to the retirement plan described above, certain Health Ministries sponsor postretirement benefit plans that provide healthcare benefits to qualified retirees who meet certain eligibility requirements. The total benefit obligation of these plans at June 30, 2013 and 2012, is \$45,308 and \$47,428, respectively. The net obligation included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2013 and 2012, is \$6,624 and \$12,423, respectively. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2013, was \$2,678.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Retirement Plans (continued)

Defined-Contribution Plans

System entities participate in contributory and noncontributory defined-contribution plans covering all eligible associates. There are three primary types of contributions to these plans: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and, for certain entities, increases over specified periods of employee service. These benefits are funded annually, and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period, and participants become fully vested in these employer contributions immediately. Expenses for the defined-contribution plans were \$202,838 and \$127,134 during 2013 and 2012, respectively.

10. Self-Insurance Programs

Certain System hospitals and other entities participate in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. The System provides its self-insurance through various trust funds and captive insurance companies. Actuarially determined amounts, discounted at 6% for the System, are contributed to the trust funds and the captive insurance companies to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported, which are discounted at 6% in 2013 and 2012 for the System. Those entities not participating in the self-insured programs are insured under separate policies.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Self-Insurance Programs (continued)

Professional and General Liability Programs

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

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

Sunflower Assurance, Inc. (Sunflower) was acquired when Marian Health System joined the System. Sunflower provides excess coverage with limits up to \$75,000 above the primary coverage for Via Christi Health and retains 10% of the first reinsurance layer of \$10,000 on a quota share basis. The remaining excess coverage is reinsured by commercial carriers.

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

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is professional and general liability expense of \$74,887 and \$71,687 for the years ended June 30, 2013 and 2012, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are professional and general liability loss reserves of \$614,913 and \$596,381 at June 30, 2013 and 2012, respectively.

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

Edessa Insurance Company Ltd. (Edessa) was acquired as part of the Alexian Brothers business combination, as discussed in the Organizational Changes note. Effective July 1, 2012, the self-insurance programs of Edessa were consolidated into AHIL, and Edessa ceased operations.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

10. Self-Insurance Programs (continued)

Workers' Compensation

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

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of \$44,395 and \$40,256 for the years ended June 30, 2013 and 2012, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of \$137,825 and \$110,657 at June 30, 2013 and 2012, respectively.

11. Lease Commitments

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

Year ending June 30:	
2014	\$ 211,716
2015	191,235
2016	149,545
2017	121,166
2018	93,215
Thereafter	231,248
Total	<u>\$ 998,125</u>

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

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

11. Lease Commitments (continued)

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

	Future Payments Where the System is Lessee	Future Receipts Where the System is Sublessor/ Lessor	Net Future Payments (Receipts)
Year ending June 30:			
2014	\$ 211,716	\$ 45,749	\$ 165,967
2015	191,235	38,072	153,163
2016	149,545	32,591	116,954
2017	121,166	28,075	93,091
2018	93,215	25,289	67,926
Thereafter	231,248	299,907	(68,659)
Total	<u>\$ 998,125</u>	<u>\$ 469,683</u>	<u>\$ 528,442</u>

Rental expense under operating leases amounted to \$365,718 and \$336,538 in 2013 and 2012, respectively.

12. Contingencies and Commitments

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

In March 2013, the System and some of its subsidiaries were named as defendants to litigation surrounding the Church Plan status of its System Plans. The System does not believe that this matter will have a material adverse effect on the System's financial position or results of operations.

Ascension Health Alliance

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

12. Contingencies and Commitments (continued)

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, identified System hospitals are reviewing applicable medical records and responding to the DOJ. The DOJ's investigation spans a time frame beginning in 2003 and extending through the present time. Through September 18, 2013, the DOJ has not asserted any claims against any System hospitals. The System continues to fully cooperate with the DOJ in its investigation.

The System enters into agreements with nonemployed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for the System's obligation under these guarantees were \$44,606 and \$26,678 at June 30, 2013 and 2012, respectively, and are included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheets. The maximum amount of future payments that the System could be required to make under these guarantees is approximately \$100,100.

The System entered into agreements with sponsors for support through January 2017. The System's obligation under these agreements totals \$49,028 at June 30, 2013, and is included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheet.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately \$201,600.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 27 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Group at June 30, 2013:

Hospital de la Concepción 2000 Series A debt guarantee	\$	30,185
St. Vincent de Paul Series 2000A debt guarantee		28,300
Other guarantees and commitments		33,937