

Ascension Health

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

For the Quarters Ended September 30, 2011 and 2010

Ascension Health

Consolidated Interim Financial Statements

For the Quarters Ended September 30, 2011 and 2010

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Consolidated Balance Sheets (continued) (Dollars in Thousands)

	September 30, 2011	June 30, 2011
Liabilities and net assets	(unaudited)	
Current liabilities:		
Current portion of long-term debt	\$ 38,384	\$ 29,563
Long-term debt subject to short-term remarketing arrangements	1,537,050	1,662,950
Accounts payable and accrued liabilities	1,580,602	1,831,710
Estimated third-party payor settlements	275,295	281,007
Current portion of self-insurance liabilities	191,617	191,551
Other	84,756	75,963
Total current liabilities	3,707,704	4,072,744
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	2,665,209	2,546,785
Self-insurance liabilities	456,708	448,624
Pension and other postretirement liabilities	419,537	396,903
Other	771,490	681,626
Total noncurrent liabilities	4,312,944	4,073,938
Total liabilities	8,020,648	8,146,682
Net assets:		
Unrestricted	10,853,533	11,332,631
Temporarily restricted	320,309	331,563
Permanently restricted	97,796	99,444
Total net assets excluding noncontrolling interests	11,271,638	11,763,638
Noncontrolling interests	48,296	42,739
Total net assets	11,319,934	11,806,377
Total liabilities and net assets	\$ 19,340,582	\$ 19,953,059

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

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

	Three Months Ended September 30,	
	2011	2010
Operating revenue:		
Net patient service revenue	\$ 3,786,007	\$ 3,620,554
Other revenue	212,813	177,116
Total operating revenue	3,998,820	3,797,670
Operating expenses:		
Salaries and wages	1,585,418	1,521,091
Employee benefits	363,381	366,165
Purchased services	173,508	196,542
Professional fees	236,131	198,988
Supplies	568,677	565,338
Insurance	41,145	40,216
Bad debts	272,000	250,145
Interest	32,826	30,627
Depreciation and amortization	163,191	163,386
Other	418,625	375,425
Total operating expenses before self-insurance trust fund investment return and impairment, restructuring, and nonrecurring expenses	3,854,902	3,707,923
Income from operations before self-insurance trust fund investment return and impairment, restructuring, and nonrecurring expenses	143,918	89,747
Self-insurance trust fund investment return	(28,003)	41,420
Income from operations before impairment, restructuring, and nonrecurring expenses	115,915	131,167
Impairment, restructuring, and nonrecurring expenses	14,053	5,850
Income from operations	101,862	125,317
Nonoperating (losses) gains:		
Investment return	(494,714)	453,559
(Loss) gain on interest rate swaps	(66,205)	3,430
Income from unconsolidated entities	3,316	2,254
Donations	(1,705)	(2,941)
Other	(20,977)	(13,197)
Total nonoperating (losses) gains, net	(580,285)	443,105
(Deficit) excess of revenues and gains over expenses and losses	(478,423)	568,422
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interests	6,937	8,078
(Deficit) excess of revenues and gains over expenses and losses attributable to controlling interest	(485,360)	560,344

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

	Three Months Ended	
	September 30,	
	2011	2010
Unrestricted net assets, controlling interest:		
(Deficit) excess of revenues and gains over expenses and losses	\$ (485,360)	\$ 560,344
Contributed net assets	-	(374)
Transfers to sponsors and other affiliates, net	(3,671)	(4,871)
Net assets released from restrictions for property acquisitions	11,113	14,583
Pension and other postretirement liability adjustments	4,771	29,353
Change in unconsolidated entities' net assets	(4,300)	1,278
Deferred gain on interest rate swaps	(76)	(76)
Other	(350)	(7,279)
(Decrease) increase in unrestricted net assets, controlling interest, loss from discontinued operations and cumulative effect of change in accounting principle	(477,873)	592,958
Loss from discontinued operations	(1,225)	(1,292)
Cumulative effect of change in accounting principle	-	(9,030)
(Decrease) increase in unrestricted net assets, controlling interest	(479,098)	582,636
Unrestricted net assets, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	6,937	8,078
Distributions and other	(1,380)	(5,707)
Increase in unrestricted net assets, noncontrolling interest	5,557	2,371
Temporarily restricted net assets:		
Contributions and grants	22,588	30,116
Net change in unrealized gains/losses on investments	(12,602)	5,262
Investment return	(819)	1,554
Net assets released from restrictions	(19,358)	(20,279)
Other	(1,063)	(1,444)
(Decrease) increase in temporarily restricted net assets	(11,254)	15,209
Permanently restricted net assets:		
Contributions	439	7,050
Net change in unrealized gains/losses on investments	(1,195)	140
Investment return	(239)	(5)
Other	(653)	13
(Decrease) increase in permanently restricted net assets	(1,648)	7,198
(Decrease) increase in net assets	(486,443)	607,414
Net assets, beginning of period	11,806,377	9,454,959
Net assets, end of period	<u>\$ 11,319,934</u>	<u>\$ 10,062,373</u>

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

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Consolidated Statements of Cash Flows (unaudited)

(Dollars in Thousands)

	Three Months Ended	
	September 30,	
	2011	2010
Operating activities		
(Decrease) increase in net assets	\$ (486,443)	\$ 607,414
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	163,191	163,386
Amortization of bond premiums	(2,441)	(2,459)
Provision for bad debts	272,000	250,145
Pension and other postretirement liability adjustments	(4,771)	(29,353)
Contributed net assets	–	374
Interest, dividends, and net gains on investments	537,572	(501,930)
Change in market value of interest rate swaps	67,325	(1,650)
Deferred gain on interest rate swaps	(76)	(76)
Gain on sale of assets, net	(4,541)	(1,498)
Cumulative effect of change in accounting principle	–	9,030
Impairment expenses	2,443	–
Transfers to sponsor and other affiliates, net	3,671	4,871
Restricted contributions, investment return, and other	(20,253)	(37,284)
Other restricted activity	(1,176)	(14,046)
Nonoperating depreciation expense	77	78
(Increase) decrease in:		
Short-term investments	10,662	(12,743)
Accounts receivable	(334,730)	(282,340)
Inventories and other current assets	(16,436)	2,345
Investments classified as trading	(243,110)	(40,902)
Other assets	2,265	(17,897)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(240,678)	(160,546)
Estimated third-party payor settlements payable, net	(19,950)	33,815
Other current liabilities	18,828	42,795
Self-insurance liabilities	8,150	16,239
Other noncurrent liabilities	29,884	25,289
Net cash (used in) provided by continuing operating activities	(258,537)	53,057
Net cash from discontinued operations	4,965	590
Net cash (used in) provided by operating activities	(253,572)	53,647

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Ascension Health

Consolidated Statements of Cash Flows (unaudited) (continued)

(Dollars in Thousands)

	Three Months Ended	
	September 30,	
	2011	2010
Investing activities		
Property, equipment, and capitalized software additions, net	\$ (181,358)	(191,352)
Proceeds from sale of property and equipment	563	253
Net cash used in investing activities	(180,795)	(191,099)
Financing activities		
Issuance of long-term debt	131,400	83,385
Repayment of long-term debt	(127,614)	(129,308)
Decrease in assets under bond indenture agreements	–	467
Transfers to sponsors and other affiliates, net	(6,784)	(15,284)
Restricted contributions, investment return, and other	20,253	37,284
Net cash provided by (used in) financing activities	17,255	(23,456)
Net decrease in cash and cash equivalents	(417,112)	(160,908)
Cash and cash equivalents at beginning of period	1,117,574	1,168,278
Cash and cash equivalents at end of period	\$ 700,462	\$ 1,007,370

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

Ascension Health

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

1. Organization and Mission

Organizational Structure

Ascension Health is a Catholic, national health system consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 20 of the United States and the District of Columbia. Substantially all expenses of Ascension Health are related to providing health care services.

Ascension Health was formed in 1999, when the four provinces of the Daughters of Charity of St. Vincent de Paul that were Sponsors of the Daughters of Charity National Health System (now combined into one province, the Province of St. Louise), and the Sisters of St. Joseph of Nazareth (now part of the Congregation of St. Joseph), brought their health systems together. In 2002, the Congregation of the Sisters of St. Joseph of Carondelet became the sixth Sponsor when its health system became part of Ascension Health. In September 2011, Ascension Health transitioned to a non-congregational Public Juridic Person (PJP) sole sponsorship model. The PJP is known as Ascension Health Ministries.

Mission

Ascension Health 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 Ascension Health'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. Ascension Health 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 health care 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.

Ascension Health

Notes to Consolidated Financial Statements (Dollars in Thousands)

1. Organization and Mission (continued)

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

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

The net cost, excluding the provision for bad debt expense, of providing care of persons living in poverty and community benefit programs is as follows for the three months ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Traditional charity care provided	\$ 112,473	\$ 101,694
Unpaid cost of public programs for persons living in poverty	142,904	137,219
Other programs for persons living in poverty and other vulnerable persons	17,638	13,185
Community benefit programs	<u>96,039</u>	<u>81,823</u>
Care of persons living in poverty and community benefit programs	<u>\$ 369,054</u>	<u>\$ 333,921</u>

Ascension Health

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

2. Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. Operating results for the three months ended September 30, 2011 are not necessarily indicative of the results to be expected for the year ending June 30, 2012. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2011.

Principles of Consolidation

All corporations and other entities for which operating control is exercised by Ascension Health or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where Ascension Health 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 consolidated statements of operations and changes in net assets as follows:

	Three Months Ended	
	September 30,	
	2011	2010
Other revenue	\$ 11,736	\$ 24,152
Nonoperating gains, net	3,316	2,254

Use of Estimates

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

Fair Value of Financial Instruments

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

Ascension Health

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

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less and certain highly liquid interest-bearing securities with maturities which may extend longer than three months but are convertible to cash within a one-month time period under the terms of the agreement with the investment manager.

Investments and Investment Return

Ascension Health holds investments through the Health System Depository (HSD), an investment pool of funds in which a limited number of nonprofit health care providers participate for purposes of establishing investment goals and monitoring performance under agreed-upon socially responsible investment guidelines. Investments are managed primarily by external investment managers within established investment guidelines. Ascension Health does not consolidate the entire investment pool of funds as a portion of the investment pool represents the interests of other entities. Accordingly, as related to the HSD, Ascension Health's investments recorded in the accompanying consolidated financial statements consist only of Ascension Health's pro rata share of the HSD's investments held for participants.

The HSD's assets required to be recorded at fair value are comprised of equity and various fixed income investments. The HSD also holds investments in hedge funds, private equity, and real estate funds, which are valued using the equity method of accounting. In addition, the HSD participates in securities lending transactions whereby a portion of its investments is loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned.

Investment returns are comprised of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. Investment return on self-insurance trust funds is reported as a separate component of income from operations in the consolidated statements of operations and changes in net assets. Investment return from all other investments is reported as nonoperating (losses) gains in the consolidated statements of operations and changes in net assets unless the return is restricted by donor or law.

Inventories

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

Ascension Health

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

2. Significant Accounting Policies (continued)

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including software internally developed. 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 other noncurrent assets in the consolidated balance sheets and are comprised of the following:

	September 30, 2011	June 30, 2011
Goodwill	\$ 119,714	\$ 118,871
Capitalized computer software costs, net	515,209	486,916
Other, net	29,356	29,404
Total intangible assets	<u>\$ 664,279</u>	<u>\$ 635,191</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.

During the year ended June 30, 2010, Ascension Health began a significant multi-year, System-wide enterprise resource planning initiative including information technology and process standardization project (Symphony), which is expected to continue through December 2014. The project is anticipated to result in a transition to a common software product for various finance, information technology, procurement, and human resources management processes, including standardization of those processes throughout Ascension Health. Capitalized costs of Symphony were approximately \$196,000 and \$162,000 at September 30 and June 30, 2011, respectively. Certain costs of this project were also expensed. See the Impairment, Restructuring, and Nonrecurring Expenses discussion for additional information about costs associated with Symphony.

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

2. Significant Accounting Policies (continued)

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 September 30 and June 30, 2011, is as follows:

	September 30, 2011	June 30, 2011
Land and improvements	\$ 624,462	\$ 621,874
Building and equipment	12,472,223	12,405,114
Construction in progress	194,442	150,376
	<u>13,291,127</u>	<u>13,177,364</u>
Less accumulated depreciation	7,295,684	7,163,490
	<u>\$ 5,995,443</u>	<u>\$ 6,013,874</u>

Several capital projects have remaining construction and equipment purchase commitments of approximately \$173,800.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by Ascension Health 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.

Performance Indicator

The performance indicator is (deficit) 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 change in accounting principle, discontinued operations, and contributions of property and equipment.

Ascension Health

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

2. Significant Accounting Policies (continued)

Operating and Nonoperating Activities

Ascension Health's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to Ascension Health's primary mission are considered to be nonoperating. Several primary care clinics that are not associated with an acute care hospital and that rely significantly on contributions from foundations are also considered nonoperating.

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by approximately \$24,934 and \$15,113 for the three months ended September 30, 2011 and 2010, respectively.

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

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

2. Significant Accounting Policies (continued)

Impairment, Restructuring, and Nonrecurring Expenses

During the three months ended September 30, 2011 and 2010, Ascension Health recorded total impairment, restructuring, and nonrecurring expenses of \$14,053 and \$5,850, respectively. For the three months ended September 30, 2011, this amount was comprised of long-lived asset impairments of approximately \$2,443 and restructuring and nonrecurring expenses, net of recoveries of approximately \$11,610. The restructuring and nonrecurring expenses for the three months ended September 30, 2011 included approximately \$12,693 of nonrecurring expenses associated with Symphony. Symphony nonrecurring expenses include project management and process reengineering costs, as well as costs to establish a shared service center and develop a business intelligence data warehouse.

For the three months ended September 30, 2010, total restructuring and nonrecurring expenses of \$5,850 were comprised of approximately \$1,084 of restructuring and nonrecurring expenses related to changes in business operations, including reorganization and severance charges. Restructuring and nonrecurring expenses for the three months ended September 30, 2010 also include \$4,766 associated with Symphony.

Amortization

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

Income Taxes

The member health care entities of Ascension Health 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 Ascension Health. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of the investigations will not have a material adverse impact on the consolidated financial statements of Ascension Health.

Ascension Health

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

2. Significant Accounting Policies (continued)

Adoption of New Accounting Standards

In August 2010, the Financial Accounting Standards Board (FASB) issued its accounting standards update (ASU) entitled *Presentation of Insurance Claims and Related Insurance Recoveries* in ASU No. 2010-24. These updates apply to health care entities, and clarify that the liabilities associated with malpractice claims or other similar liabilities must not be presented net of related anticipated insurance recoveries. Additionally, this guidance requires that such claim liabilities be calculated without consideration of insurance recoveries. Ascension Health adopted the guidance in this accounting standards update as of July 1, 2011. The adoption of this guidance did not have a material impact on Ascension Health's consolidated financial statements for the three months ended September 30, 2011.

Also in August 2010, the FASB issued its accounting standards update entitled *Measuring Charity Care for Disclosure* in ASU No. 2010-23. The provisions of this update both clarify and require health care entities to disclose charity care based on cost measurements, defined as the direct and indirect costs of providing the charity care. Ascension Health adopted this guidance on July 1, 2011; however, as Ascension Health has historically used cost-based measures for the calculation and disclosure of its charity care, the adoption of this guidance did not have a material impact on Ascension Health's consolidated financial statements for the three months ended September 30, 2011.

In January 2010, the FASB issued its accounting standards update entitled *Improving Disclosures about Fair Value Measurements* in ASU No. 2010-06. This standards update clarified certain fair value measurement guidance and required that additional fair value measurement disclosures be made. Ascension Health adopted a portion of this guidance during the fiscal year ended June 30, 2010, and the remaining requirements as of July 1, 2011, as required. The disclosure updates adopted as of July 1, 2011 result in the provision of additional detail within the reconciliation of beginning and ending balances for assets and liabilities measured at fair value, whose fair value inputs are based on significant unobservable inputs (i.e. Level 3 assets and liabilities). These additional disclosure requirements are provided in the Fair Value Measurements note within the Notes to Consolidated Financial Statements for the three months ended September 30, 2011. The adoption of this guidance did not have a material impact on Ascension Health's consolidated financial statements for the three months ended September 30, 2011.

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

2. Significant Accounting Policies (continued)

In December 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28). ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, Step 2 of the goodwill impairment test is required if it is more likely than not that a goodwill impairment exists. The determination of whether it is more likely than not that a goodwill impairment exists should consider whether there are any adverse qualitative factors indicating that an impairment may exist. Ascension Health adopted this guidance as of July 1, 2011. The adoption of this guidance did not have a material impact on Ascension Health's consolidated financial statements for the three months ended September 30, 2011.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29). ASU 2010-29 specifies that if comparative financial statements are presented, revenue and earnings of the combined entity should be disclosed as if the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 also expanded the supplemental pro forma disclosures for business combinations to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. Ascension Health adopted this guidance as of July 1, 2011. The adoption of this guidance did not have a material impact on Ascension Health's consolidated financial statements for the three months ended September 30, 2011.

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

3. Organizational Changes

On September 9, 2011, Ascension Health signed a definitive agreement whereby Ascension Health will become the sole corporate member of Alexian Brothers Health System (Alexian Brothers). Alexian Brothers is a Catholic healthcare organization which oversees the operations of acute and specialty care hospitals, ambulatory care clinics, physician practices and senior living facilities. The transaction is expected to close in early January 2012.

Discontinued Operations

Ascension Health reported a decrease in net assets from discontinued operations of \$1,225 for the three months ended September 30, 2011, representing the deficit of revenues over expenses for previously discontinued lines of business in Michigan. These entities had recorded operating revenues totaling \$405 during the period that they were operational during the three months ended September 30, 2011.

Ascension Health reported a decrease in net assets from discontinued operations of \$1,292 for the three months ended September 30, 2010, representing the deficit of revenues over expenses for previously discontinued lines of business in Michigan and Tennessee. These entities had recorded operating revenues totaling \$7,172 during the period that they were operational during the three months ended September 30, 2010.

The accompanying consolidated balance sheets include assets held for sale and liabilities related to assets held for sale associated with the above transactions. At September 30 and June 30, 2011, assets held for sale consist primarily of accounts receivable and property and equipment while liabilities related to assets held for sale consist primarily of accounts payable, other liabilities, and self-insurance liabilities.

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

4. Cash and Cash Equivalents, Investments, and Assets Limited as to Use

Ascension Health's investments are comprised of its pro rata share of the HSD's funds held for participants and certain other investments such as those investments held and managed by foundations. Board-designated investments represent investments designated by resolution of the Board of Trustees to put amounts aside primarily for future capital expansion and improvements. Assets limited as to use include investments placed in trust for payment of self-insured claims and investments restricted by donors. Ascension Health's investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	September 30, 2011	June 30, 2011
Cash and cash equivalents	\$ 700,462	\$ 1,117,574
Short-term investments	80,484	91,146
Assets limited as to use	153,747	161,300
Board-designated and other investments:		
Board-designated investments	559,834	623,129
Other investments	6,531,350	6,713,801
Assets limited as to use:		
Under bond indenture agreement	439	439
Self-insurance trust funds, less current portion	470,663	495,232
Temporarily or permanently restricted	402,902	418,865
Total assets limited as to use	874,004	914,536
Total Board-designated and other investments	7,965,188	8,251,466
Total	\$ 8,899,881	\$ 9,621,486

Ascension Health

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

4. Cash and Cash Equivalents, Investments, and Assets Limited as to Use (continued)

The composition of cash and investments classified as cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments is summarized as follows:

	September 30, 2011	June 30, 2011
Cash and cash equivalents	\$ 327,014	\$ 459,550
Short-term investments	66,442	60,559
U.S. government obligations	46,956	49,958
Corporate and foreign fixed income investments	47,260	50,813
Asset-backed securities	52,534	60,280
Equity securities	269,201	316,338
Private equity and other investments	183,271	164,894
Other assets limited as to use	82,184	78,340
Subtotal, included in cash and cash equivalents, short-term investments, and Board-designated and other investments	1,074,862	1,240,732
Ascension Health's pro rata share of HSD funds held for participants	7,825,019	8,380,754
Cash and cash equivalents, short-term investments, and Board-designated and other investments	\$ 8,899,881	\$ 9,621,486

Ascension Health's pro rata share of the HSD's funds held for participants was \$7,825,019 and \$8,380,754 at September 30 and June 30, 2011, respectively, representing 76.6% and 77.2% of the funds held for participants in the HSD at those respective dates.

Ascension Health

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

4. Cash and Cash Equivalents, Investments, and Assets Limited as to Use (continued)

As disclosed in the Significant Accounting Policies note, Ascension Health holds investments through the HSD. The following is a condensed balance sheet of the entire HSD, including the interests of Ascension Health and all other participating entities, at September 30 and June 30, 2011:

	September 30, 2011	June 30, 2011
Assets		
Cash	\$ 34,392	\$ 26,757
Loans, interest, and other receivables	73,910	88,180
Due from brokers	584,459	799,869
Securities lending collateral	372,004	378,877
Derivative asset	38,879	33,208
Investments, at fair value:		
Short-term investments	249,087	747,955
U.S. government obligations	3,839,489	3,056,988
Corporate and foreign fixed income investments	1,007,352	1,260,685
Asset-backed securities	1,685,664	1,764,404
Equity, private equity, and other investments	1,637,596	2,287,580
Equity method investments	2,382,482	2,026,142
Total assets	\$ 11,905,314	\$ 12,470,645
Liabilities and funds held for participants		
Due to brokers	\$ 885,143	\$ 1,032,350
Derivative liability	178,824	34,768
Investments sold, not yet settled	241,723	166,663
Other payables	5,860	6,743
Payable under securities lending program	373,683	380,684
Total liabilities	1,685,233	1,621,208
Funds held for participants	10,220,081	10,849,437
Total liabilities and funds held for participants	\$ 11,905,314	\$ 12,470,645

Ascension Health

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

4. Cash and Cash Equivalents, Investments, and Assets Limited as to Use (continued)

Ascension Health's investment strategy includes investing in alternative investments, such as private equity and real estate funds, a portion of which are valued up to ninety days in arrears. Ascension Health's investment in alternative investment funds include contractual commitments to portfolio venture funds and other funds 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 Ascension Health to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of September 30, 2011, investment periods expire between November 2011 and March 2018. The remaining unfunded capital commitments for all HSD participants and a joint venture consolidated for financial reporting purposes total approximately \$682,000 for 44 individual contracts as of September 30, 2011.

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 have not been reduced by the anticipated cash inflows from liquidating previous investments in alternative investment funds.

Investment return recognized by Ascension Health is summarized as follows:

	Three Months Ended	
	September 30,	
	2011	2010
Investment return in HSD	\$ (497,965)	\$ 473,459
Interest and dividends	3,226	2,763
Net (losses) gains on investments reported at fair value	(41,677)	24,724
Restricted investment return	(1,156)	984
Total investment return	<u>\$ (537,572)</u>	<u>\$ 501,930</u>

Ascension Health

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

5. Fair Value Measurements

Ascension Health categorizes, for disclosure purposes, assets and liabilities measured at fair value in the financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which 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. Ascension Health'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.

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments classified in this level generally include exchange traded equity securities, futures, real estate investment trusts, pooled short-term investment funds, options and exchange traded mutual funds.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. 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. Investments classified in this level generally include fixed income securities, including fixed income government obligations, asset-backed securities, certificates of deposit, and derivatives.

Level 3 – Inputs that are unobservable for the asset or liability. Investments classified in this level generally include alternative investments, private equity investments, limited partnerships, and certain fixed income securities, including fixed income government obligations, and derivatives.

Ascension Health

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

5. Fair Value Measurements (continued)

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. Ascension Health uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

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

Cash and cash equivalents and short-term investments

Short-term investments designated as Level 2 investments are primarily comprised of commercial paper, whose fair value is based on amortized cost. Significant observable inputs include security cost, maturity and credit rating. Cash and cash equivalents and additional short-term investments are primarily comprised of 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.

Derivative assets and liabilities

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

U.S. government obligations

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

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, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Ascension Health

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

5. Fair Value Measurements (continued)

Corporate and foreign fixed income investments

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.

Equity securities

The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Investments sold, not yet settled

The fair value of investments sold, not yet settled 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.

Securities lending collateral

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

Guaranteed pooled fund

The fair value of guaranteed 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

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

5. Fair Value Measurements (continued)

Private equity investments

The fair value of private equity investments is primarily determined using techniques consistent with both the market and income approaches, based on Ascension Health's estimates and assumptions in 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.

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Investments, and Assets Limited as to Use notes, Ascension Health holds investments through the HSD representing 76.6% and 77.2% of the net asset value of the HSD as of September 30 and June 30, 2011, respectfully. The HSD's investments include equities, various fixed income securities, and alternative investments.

The following tables summarize fair value measurements, by level, at September 30 and June 30, 2011, for all the HSD financial assets and liabilities measured at fair value on a recurring basis in the HSD's financial statements:

	Level 1	Level 2	Level 3	Total
September 30, 2011				
Assets included in:				
Securites lending collateral	\$ -	\$ 372,004	\$ -	\$ 372,004
Derivative asset	24,273	6,945	7,661	38,879
Short-term investments	244,123	4,964	-	249,087
U.S. government obligations	-	3,829,292	10,197	3,839,489
Corporate and foreign fixed income investments	-	895,907	111,445	1,007,352
Asset-backed securities	-	1,659,426	26,238	1,685,664
Equity, private equity, and other investments	1,590,108	-	47,488	1,637,596
Liabilities included in:				
Derivative liability	10,180	4,274	164,370	178,824
Investments sold, not yet settled	-	241,723	-	241,723

Ascension Health

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

5. Fair Value Measurements (continued)

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

Ascension Health

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

5. Fair Value Measurements (continued)

For the three months ended September 30, 2011, the changes in the fair value of the HSD assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	U.S. Government Obligations	Corporate and Foreign Fixed Income Investments	Asset-Backed Securities	Equity, Private Equity, and Other Investments	Net Derivatives
Three Months Ended					
September 30, 2011:					
Beginning balance	\$ 10,166	\$ 116,042	\$ 44,700	\$ 47,220	\$ (19,234)
Total realized and unrealized gains (losses) included in nonoperating gains (losses)	281	(4,145)	(652)	2,314	(296,521)
Purchases	-	5,375	-	427	1,597,672
Sales	(250)	(63)	(15,550)	(2,473)	(1,440,588)
Transfers into Level 3	-	-	428	-	-
Transfers out of Level 3	-	(5,764)	(2,688)	-	1,962
Ending balance	<u>\$ 10,197</u>	<u>\$ 111,445</u>	<u>\$ 26,238</u>	<u>\$ 47,488</u>	<u>\$ (156,709)</u>
The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2011					
	<u>\$ 253</u>	<u>\$ (4,204)</u>	<u>\$ (679)</u>	<u>\$ 525</u>	<u>\$ (143,607)</u>

Ascension Health

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

5. Fair Value Measurements (continued)

For the three months ended September 30, 2010, the changes in the fair value of the HSD assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	U.S. Government Obligations	Corporate and Foreign Fixed Income Investments	Asset- Backed Securities	Equity, Private Equity, and Other Investments	Net Derivatives
Three Months Ended					
September 30, 2010:					
Beginning balance	\$ 7,340	\$ 167,473	\$ 26,069	\$ 423,575	\$ (40,449)
Total realized and unrealized gains (losses) included in nonoperating gains (losses)	45	6,683	727	50,860	117,192
Purchases, issuances, and settlements	1,823	24,509	14,022	(1,885)	(35,819)
Transfers out of Level 3	-	-	(3,805)	-	-
Ending balance	<u>\$ 9,208</u>	<u>\$ 198,665</u>	<u>\$ 37,013</u>	<u>\$ 472,550</u>	<u>\$ 40,924</u>
The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the change in unrealized gains or losses relating to assets still held at September 30, 2010					
	<u>\$ 21</u>	<u>\$ 6,681</u>	<u>\$ 1,491</u>	<u>\$ 49,977</u>	<u>\$ 12,761</u>

Ascension Health

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

5. Fair Value Measurements (continued)

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.

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

	Level 1	Level 2	Level 3	Total
September 30, 2011:				
Cash and cash equivalents	\$ 68,424	\$ 5,049	\$ -	\$ 73,473
Short-term investments	12,549	53,825	-	66,374
U.S. government obligations	-	46,502	454	46,956
Corporate and foreign fixed income investments	-	43,468	3,792	47,260
Asset-backed securities	-	51,234	1,300	52,534
Equity, private equity, and other investments	239,717	19,416	106,247	365,380
Assets not at fair value				422,885
Subtotal, included in cash and cash equivalents, short-term investments, assets limited as to use, and Board-designated and other investments				<u>\$ 1,074,862</u>
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	\$ 129,660	\$ -	\$ -	\$ 129,660
Guaranteed pooled fund	-	-	32,905	32,905
Interest rate swaps, included in other noncurrent assets	-	88,591	-	88,591
Interest rate swaps, included in other noncurrent liabilities	-	232,777	-	232,777

Ascension Health

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

5. Fair Value Measurements (continued)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2011:				
Cash and cash equivalents	\$ 86,946	\$ 6,954	\$ -	\$ 93,900
Short-term investments	15,592	44,768	-	60,360
U.S. government obligations	-	49,516	442	49,958
Corporate and foreign fixed income investments	-	45,789	5,024	50,813
Asset-backed securities	-	58,356	1,924	60,280
Equity, private equity, and other investments	286,961	17,878	101,681	406,520
Assets not at fair value				<u>518,901</u>
Subtotal, included in cash and cash equivalents, short-term investments, assets limited as to use, and Board-designated and other investments				<u>\$ 1,240,732</u>
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	\$ 140,238	\$ -	\$ -	\$ 140,238
Guaranteed pooled fund	-	-	32,116	32,116
Interest rate swaps, included in other noncurrent assets	-	64,426	-	64,426
Interest rate swaps, included in other noncurrent liabilities	-	141,287	-	141,287

Ascension Health

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

5. Fair Value Measurements (continued)

During the three months ended September 30, 2011 and 2010, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	Short- Term Invest- ments	U.S. Government Obligations	Corporate and Foreign Fixed Income Investments	Asset- Backed Securities	Equity, Private Equity, and Other Investments	Guaranteed Pooled Fund
Three Months Ended						
September 30, 2011						
Beginning balance	\$ -	\$ 442	\$ 5,024	\$ 1,924	\$ 101,681	\$ 32,116
Total realized and unrealized gains (losses):						
Included in income from operations	-	12	(209)	(16)	(2,522)	-
Included in nonoperating gains (losses)	-	-	-	-	(292)	-
Included in changes in net assets	-	-	-	-	(301)	-
Purchases	-	-	-	337	12,386	721
Settlements	-	-	-	-	-	80
Sales	-	-	(1,023)	(6)	(4,698)	(185)
Transfers into Level 3	-	-	-	-	-	185
Transfers out of Level 3	-	-	-	(939)	(7)	(12)
Ending balance	\$ -	\$ 454	\$ 3,792	\$ 1,300	\$ 106,247	\$ 32,905
Three Months Ended						
September 30, 2010						
Beginning balance	\$ 201	\$ 442	\$ 4,845	\$ 189	\$ 74,335	\$ 28,694
Total realized and unrealized gains (losses):						
Included in income from operations	-	1	207	1	115	-
Included in nonoperating gains (losses)	-	-	-	-	9,065	-
Included in changes in net assets	-	-	-	-	(6,487)	-
Purchases, issuances, and settlements	-	189	(1,137)	-	(1,924)	1,979
Transfers (out of) into Level 3	(201)	288	-	-	2,524	470
Ending balance	\$ -	\$ 920	\$ 3,915	\$ 190	\$ 77,628	\$ 31,143

Ascension Health

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

5. Fair Value Measurements (continued)

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.

The fair value of Ascension Health's long-term debt at September 30, 2011 approximates its recorded value.

6. Significant Investments in Unconsolidated Entities

Ascension Health has a 50% membership interest in Via Christi Health, Inc. (VCH). Ascension Health accounts for this membership interest under the equity method of accounting. Ascension Health's investment in VCH is \$488,345 and \$499,910 at September 30 and June 30, 2011, respectively, and is reported in the consolidated balance sheets in investment in unconsolidated entities. Ascension Health's investment in VCH reflects the financial performance of VCH one month in arrears.

At September 30 and June 30, 2011, the difference between the amount at which Ascension Health's investment in VCH is carried in the accompanying consolidated balance sheets and its interest in the underlying net assets of VCH is \$29,883 and \$30,568, respectively. This difference relates primarily to the excess of the fair value of VCH property and equipment and long-term debt over their carrying values at the date Ascension Health received the interest in VCH. The difference is being amortized over the remaining life of the property and equipment and term of the long-term debt.

Condensed financial information of VCH as of and for the three months ended September 30, 2011 and 2010 is summarized below:

	September 30,	
	2011	2010
Current assets	\$ 726,094	\$ 678,840
Noncurrent assets	932,390	869,824
Total assets	\$ 1,658,484	\$ 1,548,664
Current liabilities	\$ 131,387	\$ 98,429
Noncurrent liabilities	544,804	593,351
Total liabilities	676,191	691,780
Net assets	982,293	856,884
Total liabilities and net assets	\$ 1,658,484	\$ 1,548,664
Total revenues	\$ 305,969	\$ 257,421
Total expenses	(293,923)	(241,290)
Total investment return	(30,587)	3,539
(Deficit) excess of revenues over expenses	\$ (18,541)	\$ 19,670

Ascension Health

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

7. Derivative Instruments

Ascension Health uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At September 30 and June 30, 2011, the notional values of outstanding interest rate swaps were \$2,310,187.

Ascension Health recognizes the fair value of its interest rate swaps in the consolidated balance sheet as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. At September 30 and June 30, 2011, the fair value of interest rate swaps in an asset position were \$88,591 and \$64,426, respectively, while the fair value of interest rate swaps in a liability position were \$232,777 and \$141,287, respectively.

Prior to July 1, 2006, Ascension Health 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. Net gains of \$76 were recognized in other nonoperating (losses) gains for the three months ended September 30, 2011 and 2010, representing the recognition of interest rate swap gains deferred prior to July 1, 2006, when these swaps were designated and accounted for as cash flow hedges. The remaining amount of deferred gain at September 30, 2011 that will be reclassified into nonoperating (losses) gains over the next 12 months is immaterial.

Beginning July 1, 2006, previously designated cash flow hedging relationships were de-designated for accounting purposes. Accordingly, all changes in the fair value of interest rate swaps since that date have been recognized in nonoperating (losses) gains in the accompanying consolidated statements of operations and changes in net assets. A net nonoperating loss of \$67,325 was recognized for the three months ended September 30, 2011, while a net nonoperating gain of \$1,650 was recognized for the three months ended September 30, 2010.

Ascension Health's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria. Ascension Health's collateral requirements are based upon Ascension Health's Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies, as well as the net liability position of total interest rate swap agreements outstanding with each counterparty. At September 30 and June 30, 2011, based upon Ascension Health's net liability positions and Senior Debt Credit Ratings, no collateral on interest rate swap agreements was required to be posted. The aggregate net fair value of interest rate swap agreements with credit-risk-related contingent features on September 30 and June 30, 2011, was a liability of \$144,186 and \$76,861, respectively.

Ascension Health

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

8. Defined-Benefit Plans

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

Certain other Ascension Health entities participate in separate noncontributory, defined-benefit plans (the Other Ascension Health Plans) in which substantially all employees are eligible to participate. The Other Ascension Health Plans' benefits are based on each participant's years of service and compensation. Substantially all of the Other Ascension Health Plans' assets are invested in the Trust.

The Trust's investments in alternative investment funds include contractual commitments to portfolio funds and other funds 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 Trust to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of September 30, 2011, investment periods expire between November 2011 and March 2018. The remaining unfunded capital commitments of the Trust total approximately \$483,000 for 39 individual contracts as of September 30, 2011.

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

Ascension Health

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

8. Defined-Benefit Plans (continued)

The following table provides the components of net periodic benefit cost for both the Ascension Health Pension Plan and the Other Ascension Health Plans.

	Three Months Ended	
	September 30,	
	2011	2010
Components of net periodic benefit cost		
Service cost	\$ 53,113	\$ 52,210
Interest cost	87,342	75,985
Expected return on plan assets	(114,275)	(90,010)
Amortization of prior service credit	(2,875)	(2,638)
Amortization of actuarial loss	8,089	33,355
Net periodic benefit cost	<u>\$ 31,394</u>	<u>\$ 68,902</u>

9. Commitments and Contingencies

Ascension Health is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on Ascension Health's consolidated balance sheets.

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 (ICDs) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, identified Ascension Health hospitals will be 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. At September 30, 2011 and through November 11, 2011, the review remains in its early stages. As such, no estimates of liability have been or can be reached relative to the impact this investigation could have on Ascension Health. Through November 11, 2011, the DOJ has not asserted any claims against any Ascension Health hospitals. Ascension Health continues to fully cooperate with the DOJ in its investigation.

Ascension Health

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

9. Commitments and Contingencies (continued)

Ascension Health enters into agreements with nonemployed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for Ascension Health's obligation under these guarantees were \$16,145 and \$15,395 at September 30 and June 30, 2011, respectively, and are included in other current and noncurrent liabilities in the accompanying consolidated balance sheets. The maximum amount of future payments that Ascension Health could be required to make under these guarantees is approximately \$36,000 and is included in the table that follows.

Ascension Health entered into agreements with one of its sponsors for support through March 2016. Ascension Health's obligation under these agreements totals \$50,146 at September 30, 2011, and is included in other current and noncurrent liabilities in the accompanying consolidated balance sheets.

Guarantees and other commitments represent contingent commitments issued by Ascension Health 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 the guarantees are equal to the terms of the related debt, which can be as short as 30 days or as long as 29 years.

The following summary represents the maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under its guarantees and other commitments at September 30, 2011:

Hospital de la Concepción 2000 Series A debt guarantee	\$ 31,910
St. Vincent de Paul Series 2000A debt guarantee	28,300
Rehab Hospital of Indiana, Inc. guarantee	6,400
Mercy Care Plan guarantee	5,000
Physician revenue guarantees	36,000
Information technology commitments	41,260
Other	26,551
Total guarantees and other commitments	<u>\$ 175,421</u>

Ascension Health

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

10. Subsequent Events

Ascension Health evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the three months ended September 30, 2011, Ascension Health evaluated subsequent events through November 11, 2011, representing the date on which the accompanying unaudited consolidated financial statements were issued.

Effective October 1, 2011, Seton Health System, Inc. (Seton Health) in Troy, New York separated from Ascension Health and became part of a newly formed nonprofit healthcare organization which will operate in the state of New York. The operations of Seton Health will be reflected in Ascension Health's consolidated financial statements as a discontinued operation as of the effective date of the separation.

On November 10, 2011, Ascension Health settled a previously outstanding dispute regarding the termination of, and performance under, an information technology services contract. The settlement of this dispute will be immaterial to Ascension Health's consolidated financial statements.

Other Financial Information

Ascension Health

Consolidating Balance Sheet with Details of Investment in Via Christi Health, Inc. (Unaudited)

(Dollars in Thousands)

September 30, 2011

	Consolidated Ascension Health	Other Entities	Investment in Via Christi Health, Inc.
Assets			
Current assets:			
Cash and cash equivalents	\$ 700,462	\$ 700,462	\$ -
Short-term investments	80,484	80,484	-
Accounts receivable, less allowances for uncollectible accounts (\$1,135,394 at September 30, 2011)	1,759,035	1,759,035	-
Assets limited as to use	153,747	153,747	-
Inventories	194,189	194,189	-
Estimated third-party payor settlements	104,532	104,532	-
Other	303,649	303,649	-
Total current assets	3,296,098	3,296,098	-
Board-designated and other investments	7,965,188	7,965,188	-
Property and equipment, net	5,995,443	5,995,443	-
Other assets:			
Investment in unconsolidated entities	895,636	407,291	488,345
Capitalized software costs, net	515,209	515,209	-
Other	673,008	673,008	-
Total other assets	2,083,853	1,595,508	488,345
Total assets	\$19,340,582	\$ 18,852,237	\$ 488,345

Ascension Health

Consolidating Balance Sheet with Details of Investment in Via Christi Health, Inc. (Unaudited) (Continued)

(Dollars in Thousands)

September 30, 2011

	Consolidated Ascension Health	Other Entities	Investment in Via Christi Health, Inc.
Liabilities and net assets			
Current liabilities:			
Current portion of long-term debt	\$ 38,384	\$ 38,384	\$ -
Long-term debt subject to short-term remarketing	1,537,050	1,537,050	-
Accounts payable and accrued liabilities	1,580,602	1,580,602	-
Estimated third-party payor settlements	275,295	275,295	-
Current portion of self-insurance liabilities	191,617	191,617	-
Other	84,756	84,756	-
Total current liabilities	3,707,704	3,707,704	-
Noncurrent liabilities:			
Long-term debt (senior and subordinated)	2,665,209	2,665,209	-
Self-insurance liabilities	456,708	456,708	-
Pension and other postretirement liabilities	419,537	419,537	-
Other	771,490	771,490	-
Total noncurrent liabilities	4,312,944	4,312,944	-
Total liabilities	8,020,648	8,020,648	-
Net assets:			
Unrestricted	10,853,533	10,365,188	488,345
Temporarily restricted	320,309	320,309	-
Permanently restricted	97,796	97,796	-
Total net assets excluding noncontrolling interests	11,271,638	10,783,293	488,345
Noncontrolling interests	48,296	48,296	-
Total net assets	11,319,934	10,831,589	488,345
Total liabilities and net assets	\$ 19,340,582	\$ 18,852,237	\$ 488,345

Ascension Health

Consolidating Balance Sheet with Details of Investment in Via Christi Health, Inc.

(Dollars in Thousands)

June 30, 2011

	Consolidated Ascension Health	Other Entities	Investment in Via Christi Health, Inc.
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,117,574	\$ 1,117,574	\$ -
Short-term investments	91,146	91,146	-
Accounts receivable, less allowances for uncollectible accounts (\$1,091,291 at June 30, 2011)	1,700,917	1,700,917	-
Assets limited as to use	161,300	161,300	-
Inventories	192,057	192,057	-
Estimated third-party payor settlements	90,365	90,365	-
Other	297,549	297,549	-
Total current assets	3,650,908	3,650,908	-
Board-designated and other investments	8,251,466	8,251,466	-
Property and equipment, net	6,013,874	6,013,874	-
Other assets:			
Investment in unconsolidated entities	889,077	389,167	499,910
Capitalized software costs, net	486,916	486,916	-
Other	660,818	660,818	-
Total other assets	2,036,811	1,536,901	499,910
Total assets	\$19,953,059	\$ 19,453,149	\$ 499,910

Ascension Health

Consolidating Balance Sheet with Details of Investment in Via Christi Health, Inc. (Continued)

(Dollars in Thousands)

June 30, 2011

	Consolidated Ascension Health	Other Entities	Investment in Via Christi Health, Inc.
Liabilities and net assets			
Current liabilities:			
Current portion of long-term debt	\$ 29,563	\$ 29,563	\$ -
Long-term debt subject to short-term remarketing	1,662,950	1,662,950	-
Accounts payable and accrued liabilities	1,831,710	1,831,710	-
Estimated third-party payor settlements	281,007	281,007	-
Current portion of self-insurance liabilities	191,551	191,551	-
Other	75,963	75,963	-
Total current liabilities	4,072,744	4,072,744	-
Noncurrent liabilities:			
Long-term debt (senior and subordinated)	2,546,785	2,546,785	-
Self-insurance liabilities	448,624	448,624	-
Pension and other postretirement liabilities	396,903	396,903	-
Other	681,626	681,626	-
Total noncurrent liabilities	4,073,938	4,073,938	-
Total liabilities	8,146,682	8,146,682	-
Net assets:			
Unrestricted	11,332,631	10,832,721	499,910
Temporarily restricted	331,563	331,563	-
Permanently restricted	99,444	99,444	-
Total net assets excluding noncontrolling interests	11,763,638	11,263,728	499,910
Noncontrolling interests	42,739	42,739	-
Total net assets	11,806,377	11,306,467	499,910
Total liabilities and net assets	\$19,953,059	\$19,453,149	\$ 499,910

Ascension Health
Consolidating Statement of Operations
with Details of Investment in Via Christi Health, Inc. (Unaudited)
(Dollars in Thousands)

Three Months Ended September 30, 2011

	Consolidated Ascension Health	Other Entities	Investment in Via Christi Health, Inc.
Operating revenue:			
Net patient service revenue	\$ 3,786,007	\$ 3,786,007	\$ -
Other revenue	212,813	223,337	(10,524)
Total operating revenue	<u>3,998,820</u>	<u>4,009,344</u>	<u>(10,524)</u>
Operating expenses:			
Salaries and wages	1,585,418	1,585,418	-
Employee benefits	363,381	363,381	-
Purchased services	173,508	173,508	-
Professional fees	236,131	236,131	-
Supplies	568,677	568,677	-
Insurance	41,145	41,145	-
Bad debts	272,000	272,000	-
Interest	32,826	32,826	-
Depreciation and amortization	163,191	163,191	-
Other	418,625	418,625	-
Total operating expenses before impairment, restructuring, self-trust fund investment return, and nonrecurring expenses	<u>3,854,902</u>	<u>3,854,902</u>	<u>-</u>
Income from operations before impairment, restructuring, self-trust fund investment return, and nonrecurring expenses	143,918	154,442	(10,524)
Self-insurance trust fund investment return	<u>(28,003)</u>	<u>(28,003)</u>	<u>-</u>
Income from operations before impairment, restructuring, and nonrecurring expenses	115,915	126,439	(10,524)
Impairment, restructuring, and nonrecurring expenses	<u>14,053</u>	<u>14,053</u>	<u>-</u>
Income from operations	<u>101,862</u>	<u>112,386</u>	<u>(10,524)</u>
Nonoperating (losses) gains:			
Investment return	(494,714)	(494,714)	-
Loss on interest rate swap	(66,205)	(66,205)	-
Income from unconsolidated entities	3,316	3,316	-
Donations	(1,705)	(1,705)	-
Other	(20,977)	(20,977)	-
Total nonoperating losses, net	<u>(580,285)</u>	<u>(580,285)</u>	<u>-</u>
Deficit of revenues and gains over expenses and losses	<u>(478,423)</u>	<u>(467,899)</u>	<u>(10,524)</u>
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interests	<u>6,937</u>	<u>6,937</u>	<u>-</u>
Deficit of revenues and gains over expenses and losses attributable to controlling interest	<u>(485,360)</u>	<u>(474,836)</u>	<u>(10,524)</u>

Ascension Health

Consolidating Statement of Operations with Details of Investment in Via Christi Health, Inc. (Unaudited)

(Dollars in Thousands)

Three Months Ended September 30, 2010

	Consolidated Ascension Health	Other Entities	Investment in Via Christi Health, Inc.
Operating revenue:			
Net patient service revenue	\$ 3,620,554	\$ 3,620,554	\$ -
Other revenue	177,116	169,504	7,612
Total operating revenue	<u>3,797,670</u>	<u>3,790,058</u>	<u>7,612</u>
Operating expenses:			
Salaries and wages	1,521,091	1,521,091	-
Employee benefits	366,165	366,165	-
Purchased services	196,542	196,542	-
Professional fees	198,988	198,988	-
Supplies	565,338	565,338	-
Insurance	40,216	40,216	-
Bad debts	250,145	250,145	-
Interest	30,627	30,627	-
Depreciation and amortization	163,386	163,386	-
Other	375,425	375,425	-
Total operating expenses before impairment, restructuring, self-trust fund investment return, and nonrecurring expenses	<u>3,707,923</u>	<u>3,707,923</u>	<u>-</u>
Income from operations before impairment, restructuring, self-trust fund investment return, and nonrecurring expenses	89,747	82,135	7,612
Self-insurance trust fund investment return	41,420	41,420	-
nonrecurring expenses	<u>131,167</u>	<u>123,555</u>	<u>7,612</u>
Impairment, restructuring, and nonrecurring expenses	5,850	5,850	-
Income from operations	<u>125,317</u>	<u>117,705</u>	<u>7,612</u>
Nonoperating gains (losses):			
Investment return	453,559	453,559	-
Gain on interest rate swap	3,430	3,430	-
Income from unconsolidated entities	2,254	2,254	-
Donations	(2,941)	(2,941)	-
Other	(13,197)	(13,197)	-
Total nonoperating gains, net	<u>443,105</u>	<u>443,105</u>	<u>-</u>
Excess of revenues and gains over expenses and losses	568,422	560,810	7,612
Less excess of revenue and gains over expenses and losses attributable to noncontrolling interests	<u>8,078</u>	<u>8,078</u>	<u>-</u>
Excess of revenues and gains over expenses and losses attributable to controlling interest	560,344	552,732	7,612