Consolidated Financial Statements and Supplementary Information

St. Joseph Medical Center, Inc. and Subsidiaries
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

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Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2012 and 2011

Contents

Ernst & Young LLP
621 East Pratt Street
Baltimore, Maryland 21202

Tel: + 1 410 539 7940
Fax: + 1 410 783 3832
www.ey.com

Report of Independent Auditors

The Board of Directors
St. Joseph Medical Center, Inc. and Subsidiaries

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

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

As discussed in Note 1 to the consolidated financial statements, the Corporation changed its method of accounting for insurance claims and recoveries effective July 1, 2011.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Joseph Medical Center, Inc. and subsidiaries at June 30, 2012 and 2011, 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.

Ernst & Young LLP

September 20, 2012

St. Joseph Medical Center, Inc. and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2012	**2011**
Assets		
Current assets:		
Cash and equivalents	**$ 6,899**	$ 10,540
Patient accounts receivable, net of allowance for doubtful accounts of $9,423 in 2012 and $11,943 in 2011	**41,096**	41,286
Other receivables	**3,748**	2,241
Prepaid assets and inventories	**6,417**	6,187
Total current assets	**58,160**	60,254
Assets whose use is limited *(Note 3)* :		
Internally designated for future capital purposes	**20,385**	23,480
Restricted by donor	**7,577**	7,251
	27,962	30,731
Property and equipment, net *(Note 4)*	**155,266**	166,827
Investment in unconsolidated organizations *(Note 5)*	**7,224**	8,510
Other assets	**51,422**	2,180
Total assets	**$ 300,034**	$ 268,502

	June 30	
	2012	**2011**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 38,055**	$ 30,837
Compensation and benefits	**11,558**	9,920
Advances from third-party payors	**13,769**	11,493
Current portion of long-term debt *(Note 6)*	**4,168**	5,261
Total current liabilities	**67,550**	57,511
Long-term liabilities	**11,945**	12,554
Self-insured reserves and claims	**49,553**	
Long-term debt *(Note 6)*	**101,880**	106,049
Total liabilities	**230,928**	176,114
Net assets:		
Unrestricted	**61,427**	84,699
Temporarily restricted	**4,782**	4,716
Permanently restricted	**2,897**	2,973
Total net assets	**69,106**	92,388
Total liabilities and net assets	**$ 300,034**	$ 268,502

See accompanying notes.

St. Joseph Medical Center, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2012	**2011**
Revenues:		
Net patient services	**$ 321,447**	$ 330,184
Non-patient:		
Donations	**481**	593
Changes in equity of unconsolidated organizations	**3,790**	4,192
Other	**5,942**	6,007
Total non-patient revenues	**10,213**	10,792
Total operating revenues	**331,660**	340,976
Expenses:		
Salaries and wages	**126,483**	126,162
Employee benefits	**25,934**	28,102
Medical professional fees	**21,446**	22,442
Purchased services	**40,785**	38,823
Consulting and legal	**6,167**	5,152
Supplies	**68,413**	73,107
Bad debts	**11,232**	13,178
Utilities	**4,188**	4,758
Insurance	**5,945**	5,481
Rental, leases, and maintenance	**5,979**	6,934
Depreciation	**18,196**	18,397
Interest	**6,241**	6,250
Other	**10,143**	11,015
Total operating expenses before restructuring, impairment and other losses	**351,152**	359,801
Loss from operations before restructuring, impairment and other losses	**(19,492)**	(18,825)
Restructuring, impairment and other losses	**4,788**	1,053
Loss from operations	**(24,280)**	(19,878)
Non-operating (loss) gains:		
Investment (loss) income, net	**(126)**	3,839
Total non-operating (loss) gains	**(126)**	3,839
Deficit of revenues over expenses	**$ (24,406)**	$ (16,039)

St. Joseph Medical Center, Inc. and Subsidiaries

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

	Year Ended June 30	
	2012	**2011**
Unrestricted net assets:		
Deficit of revenues over expenses	**$ (24,406)**	$ (16,039)
Net assets released from restrictions	**241**	2,858
Transfers from affiliates	**893**	883
Decrease in unrestricted net assets	**(23,272)**	(12,298)
Temporarily restricted net assets:		
Contributions	**453**	2,443
Net assets released from restrictions	**(387)**	(3,270)
Increase (decrease) in temporarily restricted net assets	**66**	(827)
Permanently restricted net assets:		
Contributions	**(76)**	2,623
(Decrease) increase in permanently restricted net assets	**(76)**	2,623
Decrease in net assets	**(23,282)**	(10,502)
Net assets at beginning of year	**92,388**	102,890
Net assets at end of year	**$ 69,106**	$ 92,388

See accompanying notes.

St. Joseph Medical Center, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2012	**2011**
Cash flows from operating activities		
Change in net assets	**$ (23,282)**	$ (10,502)
Depreciation	**18,196**	18,397
Provision for bad debts	**11,232**	13,178
Transfers from affiliates	**(893)**	(883)
Share of income from unconsolidated organizations	**(3,790)**	(4,192)
Loss on impairment	**–**	826
Distributions from investments in unconsolidated organizations	**4,469**	4,062
Net changes in operating assets and liabilities:		
Accounts receivable and other receivables	**(12,486)**	(12,132)
Prepaid assets and inventories	**(230)**	865
Accounts payable and accrued expenses	**7,218**	(13,955)
Other liabilities	**(609)**	(603)
Compensation and benefits	**1,638**	(121)
Net cash provided by (used in) operating activities, before net change in assets whose use is limited	**1,463**	(5,060)
Decrease (increase) in assets whose use is limited	**2,769**	(5,730)
Net cash provided by (used in) operating activities	**4,232**	(10,790)
Cash flows from investing activities		
Additions to property and equipment, net	**(6,635)**	(16,927)
Proceeds from sale of investment in Ruxton Surgicenter, LLC	**544**	–
Change in other assets	**311**	389
Net cash used in investing activities	**(5,780)**	(16,538)
Cash flows from financing activities		
Proceeds from long-term debt	**–**	22,000
Payments of long-term debt	**(5,262)**	(6,046)
Transfers from affiliates	**893**	883
Advances from third parties	**2,276**	157
Net cash (used in) provided by financing activities	**(2,093)**	16,994
Decrease in cash and equivalents	**(3,641)**	(10,334)
Cash and equivalents at beginning of year	**10,540**	20,874
Cash and equivalents at end of year	**$ 6,899**	$ 10,540
Supplemental disclosure of cash flow information		
Interest paid	**$ 6,241**	$ 6,250

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

St. Joseph Medical Center, Inc. and subsidiaries (the Corporation) are tax-exempt Maryland corporations. The Corporation is a direct affiliate of Catholic Health Initiatives (CHI), a tax-exempt Colorado corporation. The mission of CHI is to nurture the healing ministry of the Church, bringing it new life, energy, and viability in the 21st century. CHI is committed to fidelity to the Gospel, with emphasis on human dignity and social justice in the creation of healthier communities. CHI is sponsored by a lay-religious partnership, calling on other Catholic sponsors and systems to unite to ensure the future of Catholic health care.

The Corporation sponsors inpatient, outpatient, and emergency care services for residents of the Baltimore Metropolitan Area. The mission of the Corporation is to provide healing through loving service and compassionate care to all, regardless of their ability to pay.

CHI sponsors market-based organizations and other facilities in 19 states, including 74 acute-care hospitals, of which 21 are designated as critical access hospitals by the Medicare program, 40 long-term care, assisted living and residential facilities, two community health service organizations, home health agencies and two accredited nursing colleges. CHI also has an offshore captive insurance company. CHI is committed to providing additional financing to the Corporation at least through July 1, 2013 or the closing date of the transaction with the University of Maryland Medical System (UMMS) discussed in Note 13.

Principles of Consolidation

The consolidated financial statements include St. Joseph Medical Center, Inc., its wholly owned subsidiary, St. Joseph Medical Center Foundation, Inc., and St. Joseph Physician Enterprise (SJPE). SJPE is a Maryland nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code. Although SJPE is a wholly owned subsidiary of CHI, the Corporation retains oversight of daily operations at SJPE and holds a majority voting interest. Therefore, the operations of SJPE continue to be included within the Corporation's consolidated financial statements in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 954-810, *Consolidation (Health Care Entities).*

1. Summary of Significant Accounting Policies (continued)

All intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated affiliates, over which we exercise significant influence, but not control, are accounted for by the equity method. Accordingly, the Corporation's share of net income or loss of unconsolidated affiliates is included in consolidated deficit of revenues over expenses.

Cash and Equivalents

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. Substantially all of the Corporation's cash and equivalents are held by the CHI Cash Management Program. The CHI Cash Management Program invests in high-quality, short-term debt securities including U.S. government securities, securities issued by domestic and foreign banks such as certificates of deposit and bankers' acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper, and corporate short-term obligations. The carrying value of cash and equivalents approximates fair value.

Accounts Receivable

Revenues and accounts receivable from patient services have been adjusted to the estimated amounts that are expected to be received net of all contractual allowances. Discounts ranging from 2% to 6% of hospital charges are given to Medicare, Medicaid, and certain approved commercial health insurance and health maintenance organizations. In addition, these payors routinely review patient billings and deny payment for certain charges that they deem medically unnecessary or performed without appropriate preauthorization. Discounts and denials are recorded as reductions of net patient service revenue. These estimated amounts are subject to further adjustments upon review by third-party payors. Accounts receivable from Medicare, Medicaid, and Blue Cross represent 23%, 9%, and 14%, respectively, in fiscal 2012 and 28%, 10%, and 19%, respectively, in fiscal 2011. In Maryland, the Medicaid program is managed through private, independent managed care organizations.

1. Summary of Significant Accounting Policies (continued)

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy and methodology used to estimate the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the allowance for doubtful accounts and contractual allowance to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the Corporation follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by management.

Inventory

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

Assets Whose Use is Limited

Assets whose use is limited include assets set aside for future long-term purposes, including capital improvements and amounts contributed by donors with stipulated restrictions. Direct investments in equity securities with readily determinable fair values and all direct investments and debt securities have been measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the deficit of revenues over expenses unless the income or loss is restricted by donor or by law. Unrealized gains and losses on investments that have been designated as trading securities are included in the deficit of revenues over expenses.

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair market value at the date of receipt or determination. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 20-40 years for buildings; 5-20 years for building and leasehold improvements; and 3-20 years for equipment. Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. No capitalized interest was recorded in fiscal years 2012 and 2011.

1. Summary of Significant Accounting Policies (continued)

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations are accounted for under the cost or equity method of accounting, as appropriate, based on the relative percentage of ownership or degree of influence over the organization. The equity income or loss on these investments is recorded in the consolidated statements of operations and changes in net assets as changes in equity of unconsolidated organizations.

Other Assets

Other assets consist of insurance recovery receivables related to the adoption of Accounting Standards Update (ASU) 2010-24, *Health Care Entities: Presentation of Insurance Claims and Recoveries*, and goodwill.

Net Assets

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

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. All unrestricted contributions are included in the deficit of revenues over expenses as donation revenue and have no external restrictions. All contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified as donation revenue when restricted for operations or unrestricted net assets when restricted for land, buildings, and equipment.

Net Patient Service Revenues

Net patient service revenues are derived from services provided by the Corporation to patients who are directly responsible for payment or who are covered by various insurance or managed care programs. The Corporation receives payments from the federal government on behalf of patients covered under the Medicare program, state governments under their Medicaid programs

1. Summary of Significant Accounting Policies (continued)

companies and other managed care programs. Patient service revenues are recorded net of all deductions from revenue. The deductions are for discounts provided to payors under contractual agreements. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party 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. The Corporation's charges are subject to review and approval by the Maryland Health Services Cost Review Commission (the Commission). The Corporation's management has filed the required forms with the Commission and believes the Corporation to be in compliance with Commission requirements.

During the years ended June 30, 2012 and 2011, net patient service revenue included net revenue for professional services of $20,807 and $19,456, respectively.

In July 2011, due to the large decreases in volumes and operating shortfalls experienced by the Corporation in 2010 and 2011, the Commission provided an accommodation representing a total of $8,485 of additional revenues spread over two years consisting of (1) $5,485 for the fiscal year beginning July 1, 2011 and (2) $3,000 for the fiscal year beginning July 1, 2012.

The current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Centers for Medicare and Medicaid Services and the Commission. This agreement is based upon a waiver from Medicare prospective payment system reimbursement principles granted to the State of Maryland under Section 1814(b) of the Social Security Act and will continue as long as all third-party payors elect to be reimbursed in Maryland under this agreement and the rate of increase for costs per hospital inpatient admission in Maryland is below the national average. Management expects this agreement will remain in effect at least through June 30, 2013.

Effective April 1, 1999, the Commission adopted, and the Corporation agreed to, a rate methodology for those hospital service centers that provide only inpatient services. Under this methodology, a target average charge per case is established for the Corporation based on past actual charges and case mix indices. The actual average charge per case is compared with the target average charge per case and to the extent that the actual average exceeds the target, the overcharge plus applicable penalties will reduce the approved target for future years. At June 30, 2012 and 2011, the Corporation was in compliance with its average charge per case target.

1. Summary of Significant Accounting Policies (continued)

The Commission's rate-setting methodology for the Corporation's service centers that provide both inpatient and outpatient services or only outpatient services consists of establishing an acceptable unit rate for defined inpatient and outpatient service centers within the Corporation. The actual average unit charge for each service center is compared to the approved rate monthly. Over- and undercharges due to either patient volume or price variances, plus penalties where applicable, are applied to decrease (in the case of overcharges) or increase (in the case of undercharges) future approved rates on an annual basis.

The timing of the Commission's rate adjustments for the Corporation could result in an increase or reduction in rates due to the variances and penalties described above in a year subsequent to the year in which such items occur. The Corporation's policy is to recognize revenue based on actual charges for services to patients in the year in which the services are performed.

Under the Commission's rate methodology for certain outpatient services, a target average charge per visit was established for the Corporation based on past actual charges and case mix indices. The actual average charge per visit is compared with the target average charge per visit and to the extent that the actual average exceeds or is less than the target, it will reduce or increase the approved rates for future years.

Beginning in fiscal year 2011, the Commission adjusted its Charge Per Case (CPC) policy and removed one-day stay (ODS) cases from the Corporation's case mix and charge per case revenue. ODS cases are now reimbursed on approved Commission charges rather than under the case mix adjusted CPC target.

Also beginning in fiscal year 2011, the Commission implemented the Charge Per Visit (CPV) methodology for certain outpatient services. Using fiscal year 2010 as the base period, the actual average 2011 CPV is compared with the base period target. Similar to the CPC target, the CPV target is adjusted annually for inflation, case mix changes and other factors. The outpatient services that are excluded from the CPV methodology are reimbursed on approved Commission charges.

Net patient service revenue under the Medicare and Medicaid programs in 2012 and 2011 was $159,871 and $169,904, respectively. The Corporation has reported any non-compliance issues related to Medicare and Medicaid programs identified through its internal monitoring processes and implemented corrective actions. The Corporation is not aware of any pending or threatened

1. Summary of Significant Accounting Policies (continued)

investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations is complex and can be subject to future government interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity Care

As an integral part of its mission, the Corporation accepts and treats all patients without regard to their ability to pay. A patient is classified as a charity patient in accordance with established criteria. Charity care represents services rendered for which no payment is expected and is not reported in the consolidated statements of operations and changes in net assets. Charity care, as determined on the basis of cost, was $4,360 and $4,058 in 2012 and 2011, respectively.

Other Non-Patient Revenues

Other non-patient revenues include gains and losses on the sale of assets, parking garage revenues, rental income, and revenues from other miscellaneous sources.

Restructuring, Impairment and Other Losses

During the years ended June 30, 2012 and 2011, the Corporation recorded nonrecurring expenses of $4,788 and $1,053, respectively relating to asset impairments and changes in business operations, including reorganization and severance costs.

Income Taxes

The Corporation and its subsidiaries are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues, and expenses. Actual results could differ from these estimates.

1. Summary of Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is deficit of revenues over expenses, which includes all changes in unrestricted net assets except for net assets released from restrictions and transfers from (to) affiliates.

Contingencies

During the normal course of business, the Corporation may become involved in litigation. It is generally not possible to determine the eventual outcome of any presently unresolved litigation. As discussed in Note 12, the Corporation has recorded reserves when the liability is probable and estimable. After consultation with legal counsel, management believes that these matters will be resolved without material adverse impact to the consolidated financial position or results of operations of the Corporation.

Fair Value of Financial Instruments

Financial instruments consist of cash and equivalents, accounts receivable, investments and assets whose use is limited, accounts payable, and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash and equivalents, accounts receivable, assets whose use is limited, and accounts payable approximate fair value. The investments in Advanced Imaging Partners, LLC, and SJMC-RA LLC, as described in Note 5, are not readily marketable, therefore, it is not practical to estimate their fair value. Long-term debt consists of notes payable to CHI for which a market value cannot be reasonably estimated as the Company's interest rate on such debt is dependent on the bond ratings and borrowing capacity of CHI.

Reclassifications

Certain amounts from the prior year financial statements have been reclassified to conform to the current year presentation.

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

The Corporation began applying the provisions of FASB ASC Topic 820, *Fair Value Measurements*, to non-financial assets and non-financial liabilities during the fiscal year ended June 30, 2011. The Corporation also adopted ASU 2010-06 for the fiscal year ended June 30, 2012, which clarifies that assets and liabilities must be leveled by major class of asset or liability, and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques, for those assets or liabilities designated as Level 2 or Level 3 instruments. Disclosures regarding transfers between Level 1 and Level 2 assets and liabilities are required, as well as a deeper level of disaggregation of activity within existing rollforwards of the fair value of Level 3 assets and liabilities. The adoption of this guidance did not have a material impact on the Corporation for the year ended June 30, 2012.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities: Presentation of Insurance Claims and Recoveries*. ASU 2010-24 clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The guidance is effective for fiscal years beginning after December 15, 2010. Accordingly, the Corporation prospectively adopted ASU 2010-24 on July 1, 2011. The adoption of this standard resulted in the recording of $49,600 within other assets and self-insured reserves and claims in connection with recoveries and claim liabilities related to the Corporation's coverage under a policy with First Initiatives Insurance, Ltd. (FIIL), a wholly-owned, captive insurance subsidiary of CHI. This standard had no effect on the consolidated statement of operations for the year ended June 30, 2012. The prior year balance sheet was not reclassified.

In August 2010, the FASB also issued ASU 2010-23, *Health Care Entities: Measuring Charity Care for Disclosure – a consensus of the FASB Emerging Issues Task Force*, which provides guidance regarding the calculation and disclosure of charity care. The guidance is intended to reduce the diversity in how charity care is calculated and disclosed across health care entities that provide it. Charity care is required to be measured at cost, defined as the direct and indirect costs of providing the charity care. Any reasonable technique may be used to estimate these costs, but the method must be disclosed in the footnotes to the financial statements. Funds received to subsidize charity services must be separately disclosed. ASU 2010-23 was effective for fiscal

1. Summary of Significant Accounting Policies (continued)

years beginning after December 15, 2010 and must be applied retrospectively to all periods presented. This new guidance was adopted by the Corporation on July 1, 2011. However, as the Company has historically used cost-based measures for the calculation and disclosure of its charity care, the adoption of this guidance did not impact the presentation of the Company's consolidated financial statements for the year ended June 30, 2012.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (a consensus of the FASB Emerging Issues Task Force*), which provides guidance on the presentation and disclosure of patient service revenue, provisions for bad debts, and the allowance for doubtful accounts for certain health care entities. This guidance changes the presentation of the statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, the guidance requires enhanced disclosures about the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for the Corporation for the fiscal year ending June 30, 2013. The Corporation is currently evaluating the impact of this guidance on its consolidated financial statements.

2. Charity Care and (Unaudited) Other Community Benefits

In accordance with its mission and philosophy, the Corporation commits substantial resources to sponsor a broad range of services to both the poor as well as the broader community. Benefits for the poor include the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. These benefits include: traditional charity care; unpaid costs of Medicaid and other indigent public programs; services such as free clinics and meal programs for which a patient is not billed or for which a nominal fee has been assessed; and cash and in-kind donations of equipment, supplies or staff time volunteered on behalf of the community. The amounts reported reflect the costs of these services, net of contributions, government payments, and other revenues received as direct assistance. Charity care has been recorded and disclosed in accordance with ASU 2010-23.

(Dollar amounts in thousands)

2. Charity Care and (Unaudited) Other Community Benefits (continued)

Community benefit provided to the broader community includes the costs of providing services to other populations who may not qualify as poor but may need special services and support. This community benefit includes: the unpaid costs of Medicare and other programs for seniors; services such as health promotion and education, health clinics and screenings, all of which are not billed or can be operated only on a deficit basis; unpaid costs of training health professionals such as medical residents, nursing students and students in allied health professions; and the unpaid costs of testing medical equipment and controlled studies of therapeutic protocols.

Costs incurred are estimated based on the cost to charge ratio for the Corporation and applied to charity charges. Since the Corporation does not pursue collections of amounts determined to meet the criterion under the charity care policy, such amounts are not reported as net patient service revenue. The amounts reported as charity care represent the cost of rendering such services. A summary of the charity care and (unaudited) community benefit provided to both the poor and the broader community is as follows:

	Year Ended June 30	
	2012	**2011**
Community benefit provided to the poor:		
Cost of charity care provided	**$ 4,360**	$ 4,058
Unpaid costs of Medicaid and other indigent care programs (unaudited)	**982**	679
Other benefits provided to the poor (unaudited)	**395**	28
	$ 5,737	4,765
Community benefit provided to the broader community (unaudited):		
Non-billed services for the community	**$ 1,055**	$ 921
Education and research provided for the community	**279**	150
Other benefits provided to the community	**24**	28
	1,358	1,099
Total community benefit (unaudited)	**$ 7,095**	$ 5,864

(Dollar amounts in thousands)

3. Assets Whose Use is Limited

The following summarizes assets whose use is limited:

	June 30	
	2012	**2011**
Fair value:		
Cash and equivalents	**$ 6,044**	$ 5,608
Mutual funds	**1,533**	1,643
CHI investment program	**20,385**	23,480
Total	**$ 27,962**	$ 30,731
Cost	**$ 26,223**	$ 28,250

Substantially all long-term investment assets of the Corporation are held in the CHI investment program (the Program). The Program is structured under a limited partnership agreement between each participant and CHI, as the managing general partner. Assets held by the Program were invested 44% and 45% in marketable equity securities, 35% and 34% in marketable fixed income securities, and 21% and 21% in other investments as of June 30, 2012 and 2011, respectively. The Program is professionally managed under the administration of CHI, and the Corporation believes the carrying amount of the financial instruments in the Program is a reasonable estimate of the fair value.

Investments held in the Program are represented by pool units valued monthly under a custodian accounting system. Investment income from the Program, including interest income, dividends, and realized gains or losses from the sale of securities, is distributed to participants based on the earnings per pool unit. Gains or losses are realized by participants when pool units are sold, representing the difference between the cost basis and the market value of the assets in the Program. The fair value of the assets held is an allocation of the underlying market value of the assets in the Program, based upon pool units held by the participants. The underlying fair value of investments in the Program, which are primarily traded on national exchanges and in over-the-counter markets, is based on the latest reported sales price on the last business day of the fiscal year.

(Dollar amounts in thousands)

3. Assets Whose Use is Limited (continued)

Investment income is comprised of the following:

	Year Ended June 30 2012	2011
Dividend and interest income	**$ 438**	$ 586
Net realized gains	**328**	1,067
Net unrealized (losses) gains	**(892)**	2,186
Investment (loss) income, net	**$ (126)**	$ 3,839

4. Property and Equipment

The following summarizes property and equipment:

	June 30 2012	2011
Land and improvements	**$ 4,422**	$ 4,401
Buildings and improvements	**189,765**	187,924
Equipment	**225,724**	219,738
Construction in progress	**1,915**	7,028
	421,826	419,091
Less: accumulated depreciation	**(266,560)**	(252,264)
Property and equipment, net	**$ 155,266**	$ 166,827

The Corporation periodically evaluates property and equipment to determine whether assets may have been impaired in accordance with ASC Topic 360, *Property, Plant, and Equipment*. Management has determined that there were no impairment issues related to property and equipment at June 30, 2012 and 2011.

4. Property and Equipment (continued)

During fiscal year 2006, the Corporation agreed to lease a portion of land on its main campus to an outside investor for a 50-year period, with an additional 20-year renewal option. The ground lease agreement stipulates that the outside investor will construct an office building on the land. Annual ground lease payments of $91, which commenced upon the completion of building construction, represent fair market value as determined by an independent appraisal. The Corporation leases approximately half of the available space in the building for a 10-year period, with two additional 5-year renewal options. The Corporation has certain rights under the ground lease agreement that effectively limit the outside investor's ability to lease space to tenants unaffiliated with the Corporation. The Corporation also has the right to match any purchase offer received for the building from an outside third party during the ground lease period. Substantially all of the building's construction costs were funded and paid by the outside investor.

Under the provisions of ASC Topic 840, *Leases*, the Corporation was required to capitalize the cumulative building cost during the construction period. Upon completion of the project, the Corporation continued to capitalize the cumulative building cost. Under the provisions of ASC Topic 840, a continuing interest as the Corporation has, such as a buyout option or non-recourse financing, would preclude sales-leaseback accounting and require the building to continue to be capitalized on the books of the lessee. The revenues and expenses of the building are included in the accompanying consolidated statements of operations and changes in net assets. The net book value of the building was $12,680 and $13,041 as of June 30, 2012 and 2011, respectively.

(Dollar amounts in thousands)

5. Investments in Unconsolidated Organizations

The summarized carrying value and results of operations for the investments in unconsolidated organizations accounted for under the equity method as of for the years ended June 30 are as follows:

	Ownership Interest		Carrying Value		Income from Equity of Unconsolidated Organizations	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Ruxton Surgicenter, LLC	**–%**	51%	**$ –**	$ 680	**$ –**	$ –
Advanced Imaging Partners LLC	**51**	51	**3,069**	3,638	**1,280**	1,281
SJMC-RA, LLC	**49**	49	**4,155**	4,192	**2,510**	2,911
Total investments in unconsolidated organizations			**$ 7,224**	$ 8,510	**$ 3,790**	$ 4,192

During fiscal year 2007, the Corporation entered into an investment in a joint venture with Ruxton Surgicenter, LLC to provide specialized surgical procedures to the community. The Corporation contributed $3,800 in capital in exchange for a 51% financial ownership interest and 40% voting interest in the venture. Under the provisions of ASC Topic 323, *Investments – Equity Method and Joint Ventures,* the Corporation's 40% voting interest and the lack of unilateral control over the operations of the joint venture required the Corporation to record the investment under the equity method.

During fiscal year 2012, the Corporation sold its interest in Ruxton Surgicenter, LLC to a third party for a price of $680. The Corporation received $544 in cash at closing and $136 was placed in escrow pending any unresolved contingencies between the parties. No gain or loss was recognized on the transaction in fiscal year 2012. In fiscal year 2011, the Corporation performed an impairment analysis on the investment and recognized an impairment charge of $826 during the year ended June 30, 2011.

(Dollar amounts in thousands)

6. Long-Term Debt

The following summarizes long-term debt:

	June 30 2012	June 30 2011
Notes payable to CHI due December 1, 2035, average interest rate of 4.75%	**$ 106,048**	$ 111,310
Less current portion	**(4,168)**	(5,261)
Total long-term debt	**$ 101,880**	$ 106,049

The Corporation participates in a unified CHI credit program governed under a Capital Obligation Document (COD). Under the COD, CHI is the sole obligor on all debt. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of direct affiliates. Covenants include a minimum CHI debt coverage ratio and certain limitations on secured debt. The Corporation, as a direct affiliate of CHI, is defined as a Participant under the COD and has agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities. Debt under the COD is evidenced by promissory notes between the Corporation and CHI, which include monthly installments at a variable rate of interest and may be repaid in advance without penalty.

Scheduled principal repayments on long-term debt are as follows for the years ended June 30:

2013	$ 4,168
2014	4,032
2015	3,889
2016	4,083
2017	4,287
2018 and thereafter	85,589
	$ 106,048

During fiscal year 2011, the Corporation borrowed $22,000 from CHI under the COD. These borrowings are included in long-term debt on the accompanying consolidated balance sheets. As discussed further in Note 12, the $22,000 borrowing was used to settle an outstanding claim.

(Dollar amounts in thousands)

7. Functional Expenses

The Corporation provides health services to individuals within the Baltimore Metropolitan area including inpatient, outpatient and ambulatory, and community-based services. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services and other functions that are supported centrally for the Corporation. The following summarizes the expenses related to providing these services before restructuring, impairment, and other losses:

	Year Ended June 30	
	2012	**2011**
Health services expenses	**$ 286,027**	$ 293,483
Support services	**65,125**	66,318
Total operating expenses	**$ 351,152**	$ 359,801

8. Retirement Plans

The Corporation participates in the Catholic Health Initiatives Retirement Plan (the Plan), which is a multi-employer, noncontributory, cash balance retirement plan covering substantially all employees. The Plan has received an Internal Revenue Service private letter ruling stating it is qualified as a church plan exempt from certain provisions of both the Employee Retirement Income Security Act of 1974 and the Pension Benefit Guaranty Corporation premiums and coverage.

Under a cash balance plan, annual additions to employee accounts are based on a percentage of salary that varies depending on length of service. Vesting occurs over a five-year period. During 2012 and 2011, the Corporation recognized pension expense under the Plan of $6,739 and $6,697, respectively, based upon an actuarially determined percentage of eligible wages.

As a multi-employer plan, the Plan does not make separate measurements of assets and pension benefit obligations for individual employers.

9. Insurance Programs

FIIL underwrites the property and casualty risks of CHI and its subsidiaries, including the Corporation. Professional, employment practices, and general liability coverage of $8,000 per claim is provided by FIIL either on a directly written basis or through reinsurance relationships with commercial carriers. In addition, CHI purchases excess insurance of $200 per claim and in the aggregate for professional and general liability risks from commercial carriers.

FIIL provides workers' compensation coverage, either on a directly written basis or through reinsurance fronting relationships with commercial carriers for amounts above $1,000 per claim. Coverage of $500 in excess of $500 per claim is reinsured with an unrelated commercial carrier. FIIL also underwrites the property and casualty risks of CHI and its subsidiaries, including the Corporation for up to $1,000 per claim. Unrelated commercial insurance carriers reinsure losses in excess of the per-claim limits.

Unrelated commercial insurance carriers reinsure losses in excess of the per claim limit. Additionally the Corporation purchases professional liability insurance for its employed physicians from an affiliate of CHI. Amounts paid by the Corporation for coverage under these programs were $7,013 and $6,890 for the years ended June 30, 2012 and 2011, respectively.

10. Fair Value of Assets and Liabilities

In accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*, assets and liabilities recorded at fair value in the consolidated financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable. More specifically, ASC Topic 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs, as defined by ASC Topic 820, are as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access on the reporting date.

- 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 specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Inputs that are unobservable for the asset or liability.

(Dollar amounts in thousands)

10. Fair Value of Assets and Liabilities (continued)

The following table summarizes fair value measurements, by level, at June 30, 2012, for all financial assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash and equivalents	**$ 6,044**	**$ –**	**$ –**	**$ 6,044**
Mutual funds	**1,533**	**–**	**–**	**1,533**
Total assets at fair value	**$ 7,577**	**$ –**	**$ –**	**$ 7,577**

The following table summarizes fair value measurements, by level, at June 30, 2011, for all financial assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Cash and equivalents	$ 5,608	$ –	$ –	$ 5,608
Mutual funds	1,643	–	–	1,643
Total assets at fair value	$ 7,251	$ –	$ –	$ 7,251

The following table summarizes fair value measurements, by level, at June 30, 2012, for all financial assets measured at fair value on a non-recurring basis:

	Level 1	Level 2	Level 3	Total
Pledges receivable	**$ –**	**$ –**	**$ 99**	**$ 99**
Total assets at fair value	**$ –**	**$ –**	**$ 99**	**$ 99**

The following table summarizes fair value measurements, by level, at June 30, 2011, for all financial assets measured at fair value on a non-recurring basis:

	Level 1	Level 2	Level 3	Total
Pledges receivable	$ –	$ –	$ 437	$ 437
Investment in joint ventures	–	–	680	680
Total assets at fair value	$ –	$ –	$ 1,117	$ 1,117

10. Fair Value of Assets and Liabilities (continued)

Assets utilizing Level 3 inputs are pledges receivable. Pledges receivable are recorded net of allowance for uncollectible pledges and discounted to net present value. The present value of estimated future cash flows using a discount rate commensurate with the risks involved is an appropriate measure of fair value for unconditional promises to give cash and is considered Level 3. Also included in Level 3 was the investment in the joint venture with Ruxton Surgicenter, Inc. which was divested as of June 30, 2012. This investment was recorded at fair value at June 30, 2011 as discussed in Note 5. The assumptions used to develop the estimate at fair value include estimated future cash flows from the joint venture and are not observable.

As discussed in Note 5, the Corporation recognized an impairment charge on one of its joint ventures as of June 30, 2011. Therefore, the impaired investment was classified as a transfer into Level 3 at the actual date of the impairment.

11. Related-Party Transactions

The Corporation recognized expenses of $22,355 and $20,626 in 2012 and 2011, respectively, related to allocations from the CHI National Office. CHI arranges for comprehensive healthcare services for the Corporation's employees through its self-insured medical plan. CHI estimates employee premiums on an annual basis with the assistance of an independent actuary. Under certain circumstances, the Corporation may withdraw from the plan without additional costs incurred. Employee benefits expense on the consolidated statements of operations and changes in net assets includes $8,651 and $9,245 for the years ended June 30, 2012 and 2011, respectively, for premiums paid to CHI for the self-insured medical plan.

12. Commitments and Contingencies

Agreement in Principle with the Office of Inspector General

In June 2008 and July 2009, the Corporation received subpoenas from the Office of Inspector General of the U.S. Department of Health and Human Services (OIG), requiring the production of certain documents relating to issues including, but not limited to, the Corporation's relationship with a physician group and investigations of violations of federal statutes dealing with physician conflicts of interest. These subpoenas were issued in connection with a civil investigation being conducted by the U.S. Attorney's Office for the District of Maryland.

12. Commitments and Contingencies (continued)

The Corporation is cooperating with this investigation. In July 2009, the Corporation reached an "Agreement in Principle" with the U.S. Attorney's Office to resolve all potential civil claims arising out of the Corporation's relationship with the physician group. The Corporation reached this agreement without admitting liability in order to avoid the expense and uncertainty of litigation and to allow the Corporation to move forward. In this regard and consistent with the Agreement in Principle, an amount of $22,000 was recorded as an other expense in the 2009 consolidated statement of operations and changes in net assets, and as an accrued expense in the consolidated balance sheet at June 30, 2009. The U.S. Department of Justice, the OIG, the Office of Personnel Management (OPM), and the State of Maryland approved the settlement in November 2010 for $22,000 which was subsequently paid by the Corporation in November 2010. As discussed in Note 6, the Corporation obtained a $22,000 loan from CHI to fund this settlement. The settlement also includes a five-year Corporate Integrity Agreement that requires the Corporation to establish and/or enhance various compliance processes and also have several independent peer review reports completed on an annual basis.

In addition, the Corporation is working with the Internal Revenue Service to resolve potential excess benefit and other tax issues implicated by the approved settlement. Management does not believe the status of the Corporation as an organization described in Section 501(c) (3) of the Internal Revenue Code is at risk.

On February 17, 2010, the Corporation received a letter from the U.S. Senate Committee on Finance requesting information, from January 2007 to the present, regarding alleged unnecessary cardiac procedures; billing to federal health programs; financial relationships between the Corporation and a physician; information about coronary stents implanted in patients and amount billed to federal health care programs; and purchasing agreements with the manufacturers of the stents.

While no assurance can be given that the outcome of any current investigation and inquiries by governmental and non-governmental payers will be favorable, management believes that adequate reserves have been established and that the outcome of any current investigations will not have a material effect on the consolidated financial position or results of operations of the Corporation.

12. Commitments and Contingencies (continued)

In June 2010, the Corporation disclosed to the OIG and the U.S. Attorney's Office for the District of Maryland, that it believes certain inpatient admissions of two days or less for the period from October 2007 through October 2009 may have been reimbursed improperly from Medicare, Medicaid, and other Federal programs. After self-reporting that the Corporation may have been over-reimbursed for certain admissions, the Corporation began an extensive internal review so that it would be able to quantify the potential magnitude of the excess reimbursement received. At this time, the Corporation's internal review is complete and the details have been forwarded to the OIG and U.S. Attorney's Office.

The Corporation expects that its internal review and the subsequent review by the OIG will result in a payment to return the excess reimbursement to the affected government programs plus any applicable penalties and interest. As of June 30, 2012 and 2011, the Corporation has recorded approximately $4,300 and $4,000, respectively, which represents the Corporation's best estimates of the ultimate outcome. However, the Corporation believes that the ultimate settlement of this matter may be materially different than the amount recorded at this time. Based upon the settlement discussions that will occur with the OIG and the U.S. Attorney's Office, the Corporation cannot predict the timing of this settlement. Once additional information becomes available related to this estimate, the Corporation will record changes in this accrual in future periods and will update the status of this matter accordingly.

The Corporation has received a representation from CHI that it will receive reimbursements as needed in the event that a cash payment is required to the OIG.

Other

During the normal course of business, the Corporation may become involved in litigation. A class action lawsuit against the Corporation has been filed in the Baltimore County Circuit Court alleging that the Corporation wrongfully induced claimed class members to consent to unnecessary clinical care. The suit does not name any physician as an individual defendant at this time. This litigation is in the early stages and legal counsel believes it is unlikely that this case will be certified as a class action lawsuit. Other lawsuits have been filed on behalf of individual plaintiffs against the Corporation and an attending cardiologist with similar allegations.

12. Commitments and Contingencies (continued)

Management understands other litigation may be filed related to similar issues of unnecessary clinical care. The lawsuits are being defended by CHI under the policy of insurance issued by the wholly owned captive insurance subsidiary of CHI on a first-dollar occurrence basis, and therefore, no separate amounts are accrued for these cases in the accompanying consolidated financial statements (see Note 9). The lawsuits allege negligence by the Corporation and those claims are covered by the policies of insurance. Other claims allege intentional wrongdoing and the captive insurer and the commercial excess insurer have issued reservation of rights letters to the Corporation deferring a determination of indemnity coverage should there eventually be jury awards based upon those allegations of intentional wrongful acts. It is generally not possible to determine the eventual outcome of any presently unresolved litigation. However, management believes that these allegations of intentional wrongdoing against the Corporation are without merit and the litigation will be resolved without material adverse impact to the consolidated financial position or results of operations of the Corporation.

13. Sale of Assets to University of Maryland Medical System

In March 2012, the Boards of Directors of the Corporation and CHI approved the sale of all or substantially all of the assets of the Corporation, its subsidiaries and investments. The Corporation expects to execute an asset purchase agreement with UMMS by October 2012 to sell substantially all of the assets of the Corporation to UMMS. The transaction is expected to close on November 1, 2012, subject to regulatory and Roman Catholic Church approvals.

14. Subsequent Events

The Corporation has evaluated subsequent events that have occurred for recognition or disclosure through September 20, 2012, the date of the financial statements issuance.

Supplementary Information

Ernst & Young LLP
621 East Pratt Street
Baltimore, Maryland 21202

Tel: + 1 410 539 7940
Fax: + 1 410 783 3832
www.ey.com

Report of Independent Auditors on Supplementary Information

The Board of Directors
St. Joseph Medical Center, Inc. and Subsidiaries

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

Ernst & Young LLP

September 20, 2012

St. Joseph Medical Center, Inc. and Subsidiaries

Consolidating Balance Sheet

(In Thousands)

June 30, 2012

	St. Joseph Medical Center, Inc.	St. Joseph Medical Center Foundation, Inc.	St. Joseph Physician Enterprise	Eliminations	Consolidated
Assets					
Current assets:					
Cash and equivalents	$ 2	$ 6,737	$ 160	$ –	$ 6,899
Patient accounts receivable, net	39,026	–	2,070	–	41,096
Other receivables	6,700	107	–	(3,059)	3,748
Prepaid assets and inventories	5,692	1	724	–	6,417
Total current assets	51,420	6,845	2,954	(3,059)	58,160
Assets whose use is limited:					
Internally designated for future capital purposes	20,385	–	–	–	20,385
Restricted by donor	–	7,577	–	–	7,577
	20,385	7,577	–	–	27,962
Property and equipment, net	154,165	–	1,101	–	155,266
Investment in unconsolidated organizations	7,224	–	–	–	7,224
Other assets	51,422	–	–	–	51,422
Total assets	$ 284,616	$ 14,422	$ 4,055	$ (3,059)	$ 300,034

St. Joseph Medical Center, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)
(In Thousands)

June 30, 2012

	St. Joseph Medical Center, Inc.	St. Joseph Medical Center Foundation, Inc.	St. Joseph Physician Enterprise	Eliminations	Consolidated
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	$ 36,809	$ 1,467	$ 2,838	$ (3,059)	$ 38,055
Compensation and benefits	10,116	–	1,442	–	11,558
Advances from third-party payors	13,769	–	–	–	13,769
Current portion of long-term debt	4,168	–	–	–	4,168
Total current liabilities	64,862	1,467	4,280	(3,059)	67,550
Long-term liabilities	11,873	72	–	–	11,945
Self-insured reserves and claims	49,553	–	–	–	49,553
Long-term debt	101,880	–	–	–	101,880
Total liabilities	228,168	1,539	4,280	(3,059)	230,928
Net assets:					
Unrestricted	56,152	5,500	(225)	–	61,427
Temporarily restricted	296	4,486	–	–	4,782
Permanently restricted	–	2,897	–	–	2,897
Total net assets	56,448	12,883	(225)	–	69,106
Total liabilities and net assets	$ 284,616	$ 14,422	$ 4,055	$ (3,059)	$ 300,034

St. Joseph Medical Center, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

(In Thousands)

Year Ended June 30, 2012

	St. Joseph Medical Center, Inc.	St. Joseph Medical Center Foundation, Inc.	St. Joseph Physician Enterprise	Eliminations	Consolidated
Revenues					
Net patient services	$ 300,640	$ –	$ 20,807	$ –	$ 321,447
Non-patient:					
Donations	99	382	–	–	481
Changes in equity of unconsolidated organizations	3,790	–	–	–	3,790
Other	5,874	–	5,091	(5,023)	5,942
Total non-patient revenues	9,763	382	5,091	(5,023)	10,213
Total operating revenues	310,403	382	25,898	(5,023)	331,660
Expenses					
Salaries and wages	103,101	494	22,888	–	126,483
Employee benefits	22,297	36	3,601	–	25,934
Medical professional fees	25,984	–	375	(4,913)	21,446
Purchased services	36,823	253	3,709	–	40,785
Consulting and legal	4,937	101	1,129	–	6,167
Supplies	67,586	99	728	–	68,413
Bad debts	10,014	–	1,218	–	11,232
Utilities	4,029	–	159	–	4,188
Insurance	4,328	–	1,617	–	5,945
Rental, leases and maintenance	4,939	11	1,139	(110)	5,979
Depreciation	17,973	–	223	–	18,196

St. Joseph Medical Center, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (continued)
(In Thousands)

Year Ended June 30, 2012

	St. Joseph Medical Center, Inc.	St. Joseph Medical Center Foundation, Inc.	St. Joseph Physician Enterprise	Eliminations	Consolidated
Expenses (continued)					
Interest	$ 6,241	$ –	$ –	$ –	$ 6,241
Other	9,647	98	398	–	10,143
Total expenses	317,899	1,092	37,184	(5,023)	351,152
Loss from operations before restructuring, impairment and other losses	(7,496)	(710)	(11,286)	–	(19,492)
Restructuring, impairment and other losses	4,104	–	684	–	4,788
Loss from operations	(11,600)	(710)	(11,970)	–	(24,280)
Investment income, net	(253)	96	31	–	(126)
Deficit of revenues over expenses	$ (11,853)	$ (614)	$ (11,939)	$ –	$ (24,406)
Unrestricted net assets:					
Deficit of revenues over expenses	$ (11,853)	$ (614)	$ (11,939)	$ –	$ (24,406)
Net assets released from restrictions	241	–	–	–	241
Transfers to/from affiliates	(9,771)	(1,305)	11,969	–	893
(Decrease) increase in unrestricted net assets	(21,383)	(1,919)	30	–	(23,272)
Temporarily restricted net assets:					
Contributions	(110)	563	–	–	453
Net assets released from restrictions	(2)	(385)	–	–	(387)
(Decrease) increase in temporarily restricted net assets	(112)	178	–	–	66

St. Joseph Medical Center, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (continued)

(In Thousands)

Year Ended June 30, 2012

	St. Joseph Medical Center, Inc.	St. Joseph Medical Center Foundation, Inc.	St. Joseph Physician Enterprise	Eliminations	Consolidated
Permanently restricted net assets:					
Contributions	$ –	$ (76)	$ –	$ –	$ (76)
Decrease in permanently restricted net assets	–	(76)	–	–	(76)
(Decrease) increase in net assets	(21,495)	(1,817)	30	–	(23,282)
Net assets at beginning of year	77,943	14,700	(255)	–	92,388
Net assets at end of year	$ 56,448	$ 12,883	$ (225)	$ –	$ 69,106

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