

ORIGINAL

E-011-13

ILLINOIS HEALTH FACILITIES PLANNING BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

RECEIVED

1. INFORMATION FOR EXISTING FACILITY

APR 15 2013

Current Facility Name: Foster G. McGaw Hospital - Loyola University Medical Center

Address: 2160 South 1st Avenue

City: Maywood, Illinois Zip Code: 60153 County: Cook

HEALTH FACILITIES & SERVICES REVIEW BOARD

Name of current licensed entity for the facility: Loyola University Medical Center

Does the current licensee: own this facility Yes OR lease this facility (if leased, check if sublease)

Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship

X Not-for-Profit Corporation For Profit Corporation Partnership Governmental Limited Liability Company Other, specify

Illinois State Senator for the district where the facility is located: Sen. Kimberly A. Lightford

State Senate District Number: 4 Mailing address of the State Senator: 10001 West Roosevelt Road, Suite 202, Westchester, Illinois 60154

Illinois State Representative for the district where the facility is located: Rep. Karen A. Yarbrough

State Representative District Number: 7 Mailing address of the State Representative: 2305 West Roosevelt Road, Broadview, Illinois 60155

- 2. OUTSTANDING PERMITS. Does the facility have any projects for which the State Board issued a permit that will not be completed...
3. FACILITY'S BED OR DIALYSIS STATION CAPACITY BY CATEGORY OF SERVICE (Complete "APPENDIX A" attached to this application)
4. FACILITY'S OTHER CATEGORIES OF SERVICE AS DEFINED IN 77 IAC 1100 (Complete "APPENDIX A" attached to this application)
5. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
6. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.

Exact Legal Name of Entity to be Licensed: The license will continue to be held by Loyola University Medical Center as the proposed transaction involves a membership substitution.

Address: 2160 South 1st Avenue, Maywood, Illinois 60153

Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship

X Not-for-Profit Corporation For Profit Corporation Partnership Governmental Limited Liability Company Other, specify

7. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY

Exact Legal Name of Entity That Will Own the Site: The building(s) will continue to be owned by Loyola University Medical Center as the proposed transaction involves a membership substitution.

Address: 2160 South 1st Avenue, Maywood, Illinois 60153

Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship

X Not-for-Profit Corporation For Profit Corporation Partnership Governmental Limited Liability Company Other, specify

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Broadview, Illinois 60155

- 2. OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes No . If yes, refer to Section 1130.520(f), and indicate the projects by Project #: _____
- 3. FACILITY'S BED OR DIALYSIS STATION CAPACITY BY CATEGORY OF SERVICE** (Complete "APPENDIX A" attached to this application)
- 4. FACILITY'S OTHER CATEGORIES OF SERVICE AS DEFINED IN 77 IAC 1100** (Complete "APPENDIX A" attached to this application)
- 5. NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant: CHE Trinity Inc.
Address: 20555 Victor Parkway
City, State & Zip Code: Livonia, Michigan 48152-7018
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
 Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____
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 Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

8. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:

1. Purchase resulting in the issuance of a license to an entity different from current licensee;
2. Lease resulting in the issuance of a license to an entity different from current licensee;
3. Stock transfer resulting in the issuance of a license to a different entity from current licensee;
4. Stock transfer resulting in no change from current licensee;
5. Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
6. Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
7. Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
8. Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
9. Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
10. Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
11. Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

9. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

10. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**

11. **ANTICIPATED ACQUISITION PRICE:** \$0 (See Explanatory Note 11 for additional information)

12. **FAIR MARKET VALUE OF THE FACILITY:** \$175,000,000 (See Explanatory Note 12 for additional information) (to determine fair market value, refer to 77 IAC 1130.140)

13. **DATE OF PROPOSED TRANSACTION:** Transaction set to close on May 1, 2013, subject to regulatory approvals

14. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3.**

15. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Partnerships must provide the name and address of each partner and specify whether each is a general or limited partner. Append this information to the application as **ATTACHMENT #4.**

16. **TRANSACTION DOCUMENTS.** Provide a copy of the document(s) which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities Planning Board. Append this document(s) to the application as **ATTACHMENT #5.**

17. **FINANCIAL INFORMATION** (co-applicants must also provide this information). Per 77 IAC 1130.520(b)(3), an applicant must demonstrate it has sufficient funds to finance the acquisition **and** to operate the facility for 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch, Moody or Standard and Poor's rating agencies or evidence of compliance with the financial viability review criteria (as applicable) to the type of facility being acquired (as specified at 77 IAC 1120). Append as **ATTACHMENT #6.**

18. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Edward J. Green, Esq., Foley & Lardner LLP
Address: 321 North Clark Street, Suite 2800
City, State & Zip Code: Chicago, Illinois 60654
Telephone: 312-832-4375

19a. ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: J. Mark Waxman, Esq., Foley & Lardner LLP
Address: 111 Huntington Avenue, Suite 2600
City, State & Zip Code: Boston, Massachusetts 02199
Telephone: 617-342-4055

19b. ADDITIONAL CONTACT PERSON. Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Paul Neumann, Esq., Senior Vice President & General Counsel, Trinity Health Corporation
Address: 20555 Victor Parkway
City, State & Zip Code: Livonia, Michigan 48152-7018
Telephone: 248-489-6214

20. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer:



Typed or Printed Name of Authorized Officer: Larry Warren

Title of Authorized Officer: Interim President & CEO, Trinity Health Corporation

Address: 20555 Victor Parkway

City, State & Zip Code: Livonia, Michigan 48152-7018

Telephone: (734) 343-1000

Date: 04/04/2013

NOTE: complete a separate signature page for each co-applicant and insert following this page.

20. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer:



Typed or Printed Name of Authorized Officer: Daniel Hale

Title of Authorized Officer: Chairman of the Board, CHE Trinity Inc.

Address: 20555 Victor Parkway

City, State & Zip Code: Livonia, Michigan 48152-7018

Telephone: (734) 343-1000

Date: 04/04/2013

NOTE: complete a separate signature page for each co-applicant and insert following this page.

**APPENDIX A
FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE**

Complete the following for the facility for which the change of ownership is requested. The facility's bed and dialysis station capacity must be consistent with the State Board's Inventory of Health Care Facilities.

FACILITY NAME: Foster G. McGaw Hospital-Loyola University Medical Center CITY: Maywood

1. Indicate (by placing an "X") the type of facility for which the change of ownership is requested:

Hospital; Long-term Care Facility; Dialysis Facility; Ambulatory Surgical Treatment Center.

2. Provide the bed capacity by category of service:

| SERVICE | # of Beds | SERVICE | # of Beds |
|-------------------------|-----------|-------------------------|-----------|
| Medical/Surgical | 298 | Nursing Care | _____ |
| Obstetrics | 30 | Shelter Care | _____ |
| Pediatrics | 34 | DD Adults* | _____ |
| Intensive Care | 125 | DD Children** | _____ |
| Acute Mental Illness | 0 | Chronic Mental Illness | _____ |
| Rehabilitation | 32 | Children's Medical Care | _____ |
| Neonatal Intensive Care | 50 | Children's Respite Care | _____ |

*Includes ICF/DD 16 and fewer bed facilities; **Includes skilled pediatric 22 years and under

3. Chronic Renal Dialysis: Enter the number of ESRD stations: _____

4. Indicate (by placing an "X") those categories of service for which the facility is approved.

| | |
|--|--|
| <input checked="" type="checkbox"/> Cardiac Catheterization | <input checked="" type="checkbox"/> Open Heart Surgery |
| <input type="checkbox"/> Subacute Care Hospital Model | <input checked="" type="checkbox"/> Kidney Transplantation |
| <input checked="" type="checkbox"/> Selected Organ Transplantation | <input type="checkbox"/> Postsurgical Recovery Care Center Model |

5. Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers

Indicate (by placing an "X") if the facility is a limited or multi-specialty facility and indicate the surgical specialties provided.

| | |
|---|---|
| <input type="checkbox"/> Cardiovascular | <input type="checkbox"/> Ophthalmology |
| <input type="checkbox"/> Dermatology | <input type="checkbox"/> Oral/Maxillofacial |
| <input type="checkbox"/> Gastroenterology | <input type="checkbox"/> Orthopedic |
| <input type="checkbox"/> General/Other (includes any procedure that is not included in the other specialties) | <input type="checkbox"/> Otolaryngology |
| <input type="checkbox"/> Neurological | <input type="checkbox"/> Plastic Surgery |
| <input type="checkbox"/> Obstetrics/Gynecology | <input type="checkbox"/> Podiatry |
| | <input type="checkbox"/> Thoracic |
| | <input type="checkbox"/> Urology |

| Ownership, Management and General Information | | Patients by Race | | Patients by Ethnicity | |
|---|---|-------------------|---------|-------------------------|----------------------|
| ADMINISTRATOR NAME: | Larry Goldberg | White | 60.7% | Hispanic or Latino: | 15.3% |
| ADMINSTRATOR PHONE: | 708-216-3215 | Black | 25.0% | Not Hispanic or Latino: | 84.0% |
| OWNERSHIP: | Loyola University Health system | American Indian | 0.1% | Unknown: | 0.7% |
| OPERATOR: | Loyola University Health System | Asian | 1.6% | IDPH Number: | 4630 |
| MANAGEMENT: | Not for Profit Corporation (Not Church-R) | Hawaiian/ Pacific | 0.1% | HPA | A-06 |
| CERTIFICATION: | | Unknown: | 12.5% | HSA | 7 |
| FACILITY DESIGNATION: | General Hospital | | | | |
| ADDRESS | 2160 South 1st Avenue | CITY: | Maywood | COUNTY: | Suburban Cook County |

| Facility Utilization Data by Category of Service | | | | | | | | | | |
|--|--------------------------------|-----------------------------|-------------|------------|----------------|------------------|------------------------|----------------------|--------------------------|----------------------------|
| Clinical Service | Authorized CON Beds 12/31/2011 | Peak Beds Setup and Staffed | Peak Census | Admissions | Inpatient Days | Observation Days | Average Length of Stay | Average Daily Census | CON Occupancy 12/31/2011 | Staff Bed Occupancy Rate % |
| Medical/Surgical | 298 | 283 | 283 | 19,790 | 68,213 | 5,521 | 3.7 | 202.0 | 67.8 | 71.4 |
| 0-14 Years | | | | 100 | 272 | | | | | |
| 15-44 Years | | | | 4,523 | 14,511 | | | | | |
| 45-64 Years | | | | 7,831 | 27,103 | | | | | |
| 65-74 Years | | | | 3,702 | 13,040 | | | | | |
| 75 Years + | | | | 3,634 | 13,287 | | | | | |
| Pediatric | 34 | 34 | 34 | 2,686 | 9,480 | 751 | 3.8 | 28.0 | 82.4 | 82.4 |
| Intensive Care | 125 | 119 | 119 | 7,547 | 24,666 | 643 | 3.4 | 69.3 | 55.5 | 58.3 |
| Direct Admission | | | | 5,561 | 15,392 | | | | | |
| Transfers | | | | 1,986 | 9,274 | | | | | |
| Obstetric/Gynecology | 30 | 16 | 16 | 2,208 | 3,361 | 1,155 | 2.0 | 12.4 | 41.2 | 77.3 |
| Maternity | | | | 1,976 | 2,924 | | | | | |
| Clean Gynecology | | | | 232 | 437 | | | | | |
| Neonatal | 50 | 50 | 50 | 608 | 10,389 | 0 | 17.1 | 28.5 | 56.9 | 56.9 |
| Long Term Care | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Swing Beds | | | | 0 | 0 | | 0.0 | 0.0 | | |
| Acute Mental Illness | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Rehabilitation | 32 | 32 | 32 | 754 | 9,985 | 0 | 13.2 | 27.4 | 85.5 | 85.5 |
| Long-Term Acute Care | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dedicated Observation | 24 | | | | | 693 | | | | |
| Facility Utilization | 569 | | | 31,607 | 126,094 | 8,763 | 4.3 | 369.5 | 64.933 | |

(Includes ICU Direct Admissions Only)

| Inpatients and Outpatients Served by Payor Source | | | | | | | | |
|---|-------------|------------|---|-------------------|-------------|--------------|---|-----------------------------------|
| | Medicare | Medicaid | Other Public | Private Insurance | Private Pay | Charity Care | Totals | |
| Inpatients | 35.4% | 21.1% | 1.1% | 36.0% | 4.9% | 1.6% | 31,607 | |
| | 11179 | 6674 | 345 | 11381 | 1535 | 493 | | |
| Outpatients | 18.4% | 15.9% | 0.9% | 56.1% | 7.5% | 1.2% | 198,496 | |
| | 36503 | 31514 | 1785 | 111319 | 14972 | 2403 | | |
| Financial Year Reported: | 7/1/2010 to | 6/30/2011 | Inpatient and Outpatient Net Revenue by Payor Source | | | | Charity Care Expense | Total Charity Care Expense |
| | Medicare | Medicaid | Other Public | Private Insurance | Private Pay | Totals | 12,803,661 | |
| Inpatient Revenue (\$) | 42.9% | 13.9% | 3.7% | 35.1% | 4.4% | 100.0% | | |
| | 167,088,000 | 54,091,000 | 14,479,000 | 136,494,000 | 17,117,000 | 389,269,000 | 11,660,364 | |
| Outpatient Revenue (\$) | 28.5% | 3.9% | 12.0% | 51.6% | 4.0% | 100.0% | | |
| | 89,447,000 | 12,337,000 | 37,616,000 | 161,940,000 | 12,550,000 | 313,890,000 | 1,143,297 | |
| | | | | | | | Total Charity Care as % of Net Revenue | |
| | | | | | | | 1.8% | |

| Birthing Data | | Newborn Nursery Utilization | | Organ Transplantation | |
|---|-----|----------------------------------|-----------|-----------------------|-----|
| Number of Total Births: | 916 | Level 1 Patient Days | 1,021 | Kidney: | 64 |
| Number of Live Births: | 903 | Level 2 Patient Days | 201 | Heart: | 11 |
| Birthing Rooms: | 0 | Level 2+ Patient Days | 0 | Lung: | 39 |
| Labor Rooms: | 0 | Total Nursery Patientdays | 1,222 | Heart/Lung: | 0 |
| Delivery Rooms: | 0 | | | Pancreas: | 0 |
| Labor-Delivery-Recovery Rooms: | 7 | Laboratory Studies | | Liver: | 19 |
| Labor-Delivery-Recovery-Postpartum Rooms: | 0 | Inpatient Studies | 984,595 | Total: | 133 |
| C-Section Rooms: | 2 | Outpatient Studies | 1,110,288 | | |
| CSections Performed: | 299 | Studies Performed Under Contract | 5,254 | | |

Surgery and Operating Room Utilization

| Surgical Specialty | Operating Rooms | | | | Surgical Cases | | Surgical Hours | | | Hours per Case | |
|--------------------|-----------------|------------|----------|-----------|----------------|------------|----------------|------------|--------------|----------------|------------|
| | Inpatient | Outpatient | Combined | Total | Inpatient | Outpatient | Inpatient | Outpatient | Total Hours | Inpatient | Outpatient |
| Cardiovascular | 0 | 0 | 0 | 0 | 1212 | 0 | 6352 | 0 | 6352 | 5.2 | 0.0 |
| Dermatology | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |
| General | 27 | 0 | 0 | 27 | 3723 | 0 | 11817 | 0 | 11817 | 3.2 | 0.0 |
| Gastroenterology | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |
| Neurology | 0 | 0 | 0 | 0 | 873 | 0 | 4166 | 0 | 4166 | 4.8 | 0.0 |
| OB/Gynecology | 0 | 0 | 0 | 0 | 864 | 0 | 2912 | 0 | 2912 | 3.4 | 0.0 |
| Oral/Maxillofacial | 0 | 0 | 0 | 0 | 178 | 0 | 761 | 0 | 761 | 4.3 | 0.0 |
| Ophthalmology | 0 | 0 | 0 | 0 | 28 | 0 | 94 | 0 | 94 | 3.4 | 0.0 |
| Orthopedic | 0 | 0 | 0 | 0 | 1795 | 0 | 7059 | 0 | 7059 | 3.9 | 0.0 |
| Otolaryngology | 0 | 0 | 0 | 0 | 1514 | 0 | 4545 | 0 | 4545 | 3.0 | 0.0 |
| Plastic Surgery | 0 | 0 | 0 | 0 | 422 | 0 | 1333 | 0 | 1333 | 3.2 | 0.0 |
| Podiatry | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |
| Thoracic | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |
| Urology | 0 | 0 | 0 | 0 | 1243 | 0 | 4253 | 0 | 4253 | 3.4 | 0.0 |
| Totals | 27 | 0 | 0 | 27 | 11852 | 0 | 43292 | 0 | 43292 | 3.7 | 0.0 |

| | | | | |
|-----------------------------------|---------------------------|----|---------------------------|---|
| SURGICAL RECOVERY STATIONS | Stage 1 Recovery Stations | 34 | Stage 2 Recovery Stations | 6 |
|-----------------------------------|---------------------------|----|---------------------------|---|

Dedicated and Non-Dedicated Procedure Room Utilization

| Procedure Type | Procedure Rooms | | | | Surgical Cases | | Surgical Hours | | | Hours per Case | |
|----------------------|-----------------|------------|----------|-------|----------------|------------|----------------|------------|-------------|----------------|------------|
| | Inpatient | Outpatient | Combined | Total | Inpatient | Outpatient | Inpatient | Outpatient | Total Hours | Inpatient | Outpatient |
| Gastrointestinal | 0 | 0 | 6 | 6 | 3866 | 5417 | 5219 | 5417 | 10636 | 1.3 | 1.0 |
| Laser Eye Procedures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |
| Pain Management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |
| Cystoscopy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |

Multipurpose Non-Dedicated Rooms

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|-----|-----|
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 | 0.0 |

Cardiac Catheterization Labs

| | |
|--|---|
| Total Cath Labs (Dedicated+Nondedicated labs): | 9 |
| Cath Labs used for Angiography procedures | 0 |
| Dedicated Diagnostic Catheterization Labs | 0 |
| Dedicated Interventional Catheterization Labs | 0 |
| Dedicated EP Catheterization Labs | 4 |

Cardiac Catheterization Utilization

| | |
|---|-------|
| Total Cardiac Cath Procedures: | 4,875 |
| Diagnostic Catheterizations (0-14) | 0 |
| Diagnostic Catheterizations (15+) | 2,298 |
| Interventional Catheterizations (0-14): | 0 |
| Interventional Catheterization (15+) | 931 |
| EP Catheterizations (15+) | 1,646 |

Emergency/Trauma Care

| | |
|---|--------------------|
| Certified Trauma Center | Yes |
| Level of Trauma Service | Level 1 Level 2 |
| | Adult Not Answered |
| Operating Rooms Dedicated for Trauma Care | 1 |
| Number of Trauma Visits: | 2,709 |
| Patients Admitted from Trauma | 2,286 |
| Emergency Service Type: | Comprehensive |
| Number of Emergency Room Stations | 33 |
| Persons Treated by Emergency Services: | 48,522 |
| Patients Admitted from Emergency: | 12,282 |
| Total ED Visits (Emergency+Trauma): | 51,231 |

Cardiac Surgery Data

| | |
|--|-------|
| Total Cardiac Surgery Cases: | 1,179 |
| Pediatric (0 - 14 Years): | 18 |
| Adult (15 Years and Older): | 1,161 |
| Coronary Artery Bypass Grafts (CABGs) performed of total Cardiac Cases : | 323 |

Outpatient Service Data

| | |
|--|-----------|
| Total Outpatient Visits | 1,245,757 |
| Outpatient Visits at the Hospital/ Campus: | 764,543 |
| Outpatient Visits Offsite/off campus | 481,214 |

| Diagnostic/Interventional | Equipment | | Examinations | | | Treatment Equipment | Owned Contract | | Therapies/ Treatments |
|-------------------------------------|-----------|----------|--------------|--------|----------|-------------------------------|----------------|----------|-----------------------|
| | Owned | Contract | Inpatient | Outpt | Contract | | Owned | Contract | |
| General Radiography/Fluoroscopy | 26 | 0 | 61,463 | 72,992 | 0 | Lithotripsy | 1 | 0 | 11 |
| Nuclear Medicine | 16 | 0 | 1,921 | 8,098 | 0 | Linear Accelerator | 3 | 0 | 12,940 |
| Mammography | 6 | 0 | 12 | 18,767 | 0 | Image Guided Rad Therapy | 0 | 0 | 3634 |
| Ultrasound | 14 | 0 | 4,219 | 17,165 | 0 | Intensity Modulated Rad Thrpy | 0 | 0 | 5766 |
| Angiography | 4 | 0 | | | | High Dose Brachytherapy | 1 | 0 | 143 |
| Diagnostic Angiography | | | 0 | 0 | 0 | Proton Beam Therapy | 0 | 0 | 0 |
| Interventional Angiography | | | 1582 | 1879 | 0 | Gamma Knife | 1 | 0 | 608 |
| Positron Emission Tomography (PET) | 1 | 1 | 14 | 1,048 | 420 | Cyber knife | 0 | 0 | 0 |
| Computerized Axial Tomography (CAT) | 7 | 0 | 14,033 | 21,445 | 0 | | | | |
| Magnetic Resonance Imaging | 8 | 0 | 4,013 | 12,640 | 0 | | | | |

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

1757003

State of Illinois
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

FOSTER G. MCGAW HOSPITAL

| | | |
|-----------------|----------|-----------|
| EXPIRATION DATE | CATEGORY | ID NUMBER |
| 06/29/13 | BGBD | 0005801 |

FULL LICENSE
GENERAL HOSPITAL LICENSE

EFFECTIVE: 06/30/12

FOSTER G. MCGAW HOSPITAL
LOYOLA UNIVERSITY MEDICAL CENTER
2160 SOUTH 1ST AVENUE
MAYWOOD, IL 60153-3304

FEE RECEIPT NO.

State of Illinois 1757003 Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

LA MAR HASBROUCK, MD, MPH
DIRECTOR

Issued under the authority of
The State of Illinois
Department of Public Health

| | | |
|-----------------|----------|-----------|
| EXPIRATION DATE | CATEGORY | ID NUMBER |
| 06/29/13 | BGBD | 0005801 |

FULL LICENSE
GENERAL HOSPITAL LICENSE
EFFECTIVE: 06/30/12

BUSINESS ADDRESS

FOSTER G. MCGAW HOSPITAL
LOYOLA UNIVERSITY MEDICAL CENTER
2160 SOUTH 1ST AVENUE
MAYWOOD, IL 60153-3304

The face of this license has a colored background. Printed by Authority of the State of Illinois • 4/97 •

0010

Attachment 1
Application Fee

A check in the sum of Two Thousand, Five Hundred Dollars (\$2,500) and payable to the Illinois Department of Public Health is attached at Attachment 1.



Attachment 2
Funding

There is no purchase price associated with the Transaction (as described and defined in Attachment 3).

Attachment 3
Narrative

CHE Trinity Inc. (“CHE Trinity”) and Trinity Health Corporation (“Trinity”) hereby seek a Certificate of Exemption (“COE”) from the Illinois Health Facilities & Services Review Board (the “Board”) to allow consummation of a proposed transaction (the “Transaction”), whereby CHE Trinity will become the sole corporate member of Trinity and Catholic Health East (“CHE”).

More specifically, under the terms of the Transaction, Trinity and CHE will consolidate under CHE Trinity and will establish a structure to address the rapidly changing health care environment that requires more focus on population health and the delivery of more coordinated and integrated care and health and wellness services. The Transaction will create a health system that serves people in 21 states from coast to coast with 82 hospitals, 89 continuing care facilities and home health and hospice programs that provide nearly 2.8 million visits annually. However, it is important to note that currently Trinity and CHE do not provide any health care services in the same geographic areas.

In addition, there will be no purchase or sale of the assets and no funds will be exchanged pursuant to the Transaction. Trinity and CHE will preserve their charitable and Catholic identity and will continue to be subject to the Ethical and Religious Directives for Catholic Health Care Services.

As this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on their downstream entities. Notably, the downstream entities will continue, as of the effective date of the Transaction, to (i) maintain their own existing licenses, provider numbers and accreditations; (ii) furnish the services they are currently furnishing; and (iii) operate as organizations currently exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Moreover, none of the tax identification numbers will change for any of the downstream entities. Further, the downstream entities currently licensed by the State of Illinois will remain the licensed entities with no change in facility name or location. Again, there will be no purchase or sale of the assets and no funds will be exchanged, in any regard, pursuant to the Transaction.

The reserved powers and reserved authority of Trinity and CHE related to their respective subsidiaries will not change as a result of the Transaction. However, following the Transaction, CHE Trinity, Trinity and CHE will work together to eventually effectuate a merger, consolidation or reorganization of CHE Trinity, Trinity and CHE into a single corporation (the “Post-Closing Transaction”). At this time, it is unknown which entity will survive the Post-Closing Transaction and when the Post-Closing Transaction will occur. The form of the Post-Closing Transaction will take into consideration all relevant business and legal issues, including those relating to financing, licensure, necessary government approvals, reimbursement and other important matters. In connection with the Post-Closing Transaction, CHE Trinity, Trinity and CHE will develop a community benefit plan, a debt financing plan, a plan to integrate professional and general liability insurance and other such programs, a plan to combine employee benefit and pension plans, a framework for rationalizing operations and programs, and

a plan to facilitate the amendment of the corporate governance documents of their respective subsidiaries.

In terms of the Transaction's specific connection to Illinois, Trinity is currently the sole corporate member of Loyola University Health System ("LUHS") and Mercy Health System of Chicago ("Mercy System").

LUHS owns and operates (either directly or through its affiliates) the following Illinois licensed facilities:

- (1) Foster G. McGaw Hospital - Loyola University Medical Center ("LUMC"), a 569 bed general acute care hospital located in Maywood, Illinois;
- (2) Gottlieb Memorial Hospital ("Gottlieb"), a 264 bed general acute care hospital located in Melrose Park, Illinois;
- (3) Loyola University Medical Center Outpatient Dialysis Center (the "LUMC Dialysis Center"), a provider based, 31 station end stage renal disease facility located in Maywood, Illinois; and
- (4) Loyola University Medical Center Ambulatory Surgery Center (the "LUMC Surgery Center"), a provider based, 8 operating room ambulatory surgery center located in Maywood, Illinois.

LUMC, Gottlieb, LUMC Dialysis Center, and LUMC Surgery Center are collectively referred to herein as the "LUHS Illinois Licensed Facilities."

Mercy System owns and operates (either directly or through its affiliates) the following Illinois licensed facility:

- (1) Mercy Hospital & Medical Center ("Mercy Hospital"), a 449 bed general acute care hospital located in Chicago, Illinois.

The LUHS Illinois Licensed Facilities and Mercy Hospital are collectively referred to herein as the "Trinity Illinois Licensed Facilities."

Separate COE Applications have been simultaneously filed for each of the Trinity Illinois Licensed Facilities.

CHE does not currently own or operate any Illinois licensed facilities; nor will CHE own or operate any Illinois licensed facilities as a result of the Transaction.

Because the Transaction will result in a change in the membership or sponsorship of a not-for-profit corporation that owns or controls an Illinois licensed facility (as well as its physical plant and capital assets), the Transaction constitutes a change of ownership under Section 1130.140 of the Board's rules. The Transaction is set to close on or about May 1, 2013, subject to regulatory approvals.

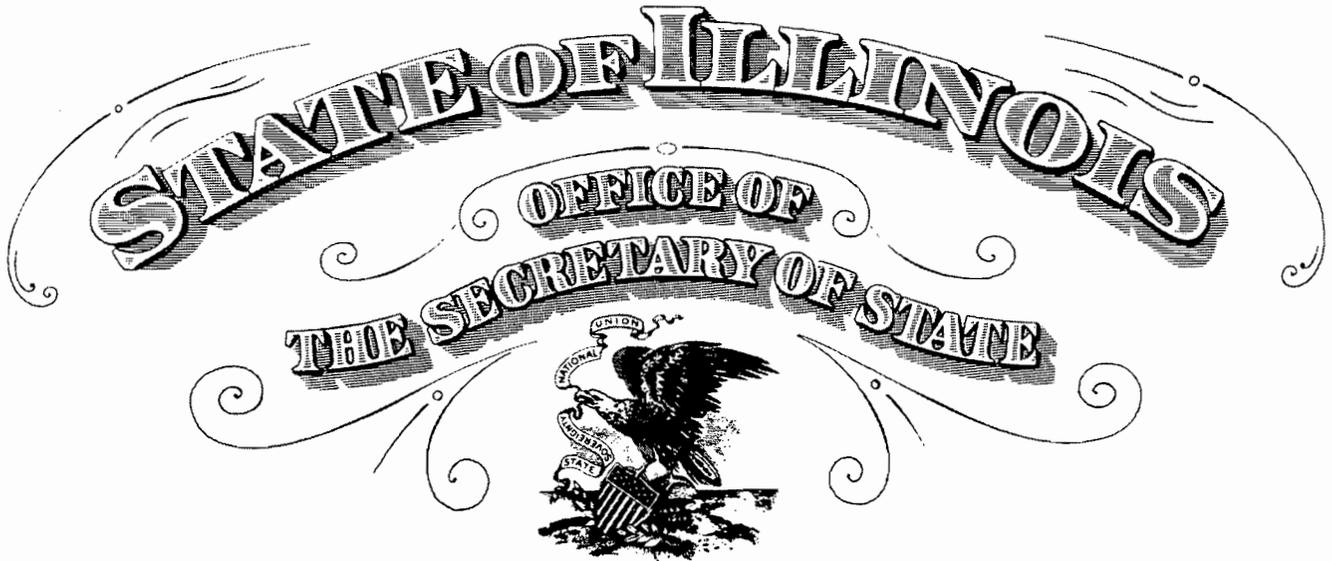
Attachment 4
Background of Applicants

The following documents are attached at Attachment 4:

1. Certificate of Good Standing for Trinity Health Corporation (issued by the Illinois Secretary of State).
2. Certificate of Good Standing for CHE Trinity Inc. (issued by the Illinois Secretary of State).
3. Organizational charts for Loyola University Health System and Mercy Health System of Chicago prior to and following the Transaction.
4. Background information on Trinity Health Corporation and biographical information on Trinity Health Corporation's senior management (which was originally set forth in Appendix A to that certain Official Statement, dated April 25, 2012, for certain Trinity Health Corporation bonds that were offered on May 14, 2012). Please note that Larry Warren has replaced Joseph Swedish as the President and Chief Executive Officer of Trinity Health Corporation.
5. There is no background information available for CHE Trinity Inc. because CHE Trinity Inc. was incorporated specifically for the Transaction.

For informational purposes only, the following document is attached at Attachment 4:

6. Background information on Catholic Health East and biographical information on Catholic Health East's senior management (which was originally set forth in Appendix A to a recent bond offering).



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

TRINITY HEALTH CORPORATION, INCORPORATED IN INDIANA AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON MARCH 02, 2011, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.



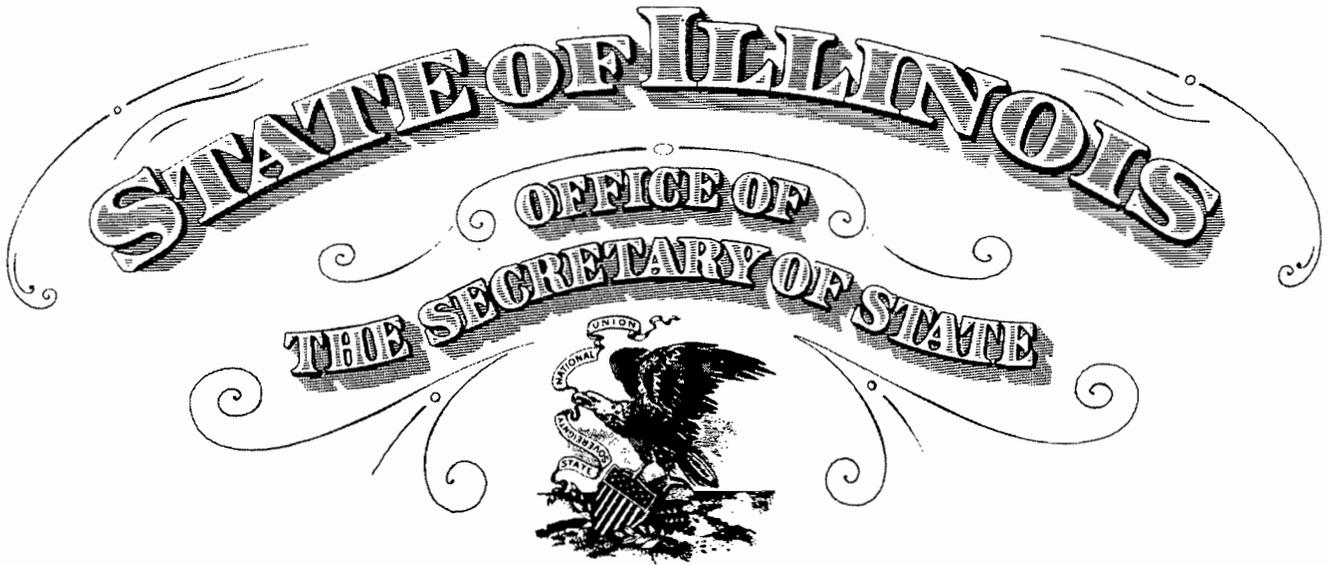
In Testimony Whereof, I hereto set
*my hand and cause to be affixed the Great Seal of
the State of Illinois, this 11TH
day of APRIL A.D. 2013*

Jesse White

Authentication #: 1310102310

Authenticate at: <http://www.cyberdriveillinois.com>

SECRETARY OF STATE



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

CHE TRINITY INC., INCORPORATED IN INDIANA AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON MARCH 12, 2013, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.



In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of MARCH A.D. 2013 .

Jesse White

Authentication #: 1307301276

Authenticate at: <http://www.cyberdriveillinois.com>

SECRETARY OF STATE



OFFICE OF THE SECRETARY OF STATE

JESSE WHITE • Secretary of State

MARCH 12, 2013

6877-834-4

CSC
801 ADLAI STEVENSON DR
SPRINGFIELD, IL 62703

RE CHE TRINITY INC.

DEAR SIR OR MADAM:

ENCLOSED YOU WILL FIND THE AUTHORITY OF THE ABOVE NAMED CORPORATION TO CONDUCT AFFAIRS IN THIS STATE.

PAYMENT OF THE FILING FEE IS HEREBY ACKNOWLEDGED.

CERTAIN NOT FOR PROFIT CORPORATIONS ORGANIZED AS A CHARITABLE CORPORATION ARE REQUIRED TO REGISTER WITH THE OFFICE OF THE ATTORNEY GENERAL. UPON RECEIPT OF THE ENCLOSED AUTHORITY, YOU MUST CONTACT THE CHARITABLE TRUST DIVISION, OFFICE OF THE ATTORNEY GENERAL, 100 W. RANDOLPH, 3RD FLOOR, CHICAGO, ILLINOIS 60601, TELEPHONE (312) 814-2595.

SINCERELY,

JESSE WHITE
SECRETARY OF STATE
DEPARTMENT OF BUSINESS SERVICES
CORPORATION DIVISION
TELEPHONE (217) 782-6961

FORM NFP 113.15 (rev. Dec. 2003)
**APPLICATION FOR AUTHORITY
 TO CONDUCT AFFAIRS IN
 ILLINOIS** (Foreign Corporations)
 General Not For Profit Corporation Act

FILED

MAR 12 2013

**JESSE WHITE
 SECRETARY OF STATE**

Secretary of State
 Department of Business Services
 Springfield, IL 62756
 217-782-1834
 www.cyberdriveillinois.com

Remit payment in the form of a cashier's check, certified check, money order or an Illinois attorney's or CPA's check payable to Secretary of State.

File # 6877-834.4 Filing Fee: \$50 Approved: [Signature]

----- Submit in duplicate ----- Type or Print clearly in black ink ----- Do not write above this line -----

1. a. Corporate Name: CHE Trinity Inc.
 b. Assumed Corporate Name (Complete only if the new corporate name is not available in this state.):

By electing this assumed name, the Corporation hereby agrees NOT to use its corporate name in the transaction of business in Illinois. Form NFP 104.15 is attached.

2. a. State or Country of Incorporation: Indiana
 b. Date of Incorporation: January 17, 2013
 c. Period of Duration: Perpetual
 3. a. Address of Principal Office, wherever located: 20555 Victor Parkway, Livonia, MI 48152-7018
 b. Address of Principal Office in Illinois: None

4. Name and Address of Registered Agent and Registered Office in Illinois:

Registered Agent: F & L Corporation

| First Name | Middle Name | Last Name |
|------------|-------------|-----------|
| | | |

 Registered Office: 321 North Clark Street, Suite 2800

| Number | Street | Suite # (P.O. Box alone is unacceptable) |
|--------------------------|---------------------------|--|
| <u>321</u> | <u>North Clark Street</u> | <u>2800</u> |
| City | ZIP Code | County |
| <u>Chicago, Illinois</u> | <u>60654</u> | <u>Cook</u> |

5. States and Countries in which Corporation is admitted or qualified to conduct affairs: See Attachment One

6. Names and respective addresses of Corporation's officers and directors:

| | Street Address | City | State | ZIP |
|-----------|--------------------|------|-------|-----|
| President | See Attachment Two | | | |
| Secretary | | | | |
| Director | | | | |
| Director | | | | |
| Director | | | | |

If there are additional officers or more than three directors, please attach list.

7. Purpose(s) for which the Corporation is organized and proposes to pursue in the conduct of affairs in this State:

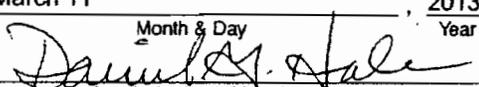
For more space, attach additional sheets of this size.

See Attachment Three

8. This application must be accompanied by an originally certified copy of the Articles of Incorporation and any amendments or mergers, duly authenticated within the last 90 days by the proper officer of the state or country wherein the corporation is incorporated.

9. The undersigned Corporation has caused this statement to be signed by a duly authorized officer who affirms, under penalties of perjury, that the facts stated herein are true and correct. All signatures must be in **BLACK INK**.

Dated March 11, 2013 CHE Trinity Inc.
Month & Day Year Exact Name of Corporation


Any Authorized Officer's Signature

Daniel Hale, Chairman
Name and Title (type or print)

A Corporation that is to function as a club, as defined in Section 1-3.24 of the Liquor Control Act of 1934, must insert in its purpose clause a statement that **It will comply with the State and local laws and ordinances relating to alcoholic liquors.**

**ATTACHMENT ONE TO
APPLICATION FOR AUTHORITY TO CONDUCT AFFAIRS IN ILLINOIS**

CHE TRINITY INC.

CHE Trinity Inc. is admitted or qualified to conduct affairs in the following states:

California (CA)

Idaho (ID)

Indiana (IN)

Iowa (IA)

Maryland (MD)

Massachusetts (MA)

Michigan (MI)

Nebraska (NE)

New York (NY)

Ohio (OH)

Oregon (OR)

**ATTACHMENT TWO TO
APPLICATION FOR AUTHORITY TO CONDUCT AFFAIRS IN ILLINOIS**

CHE TRINITY INC.

Names and respective addresses of Corporation's officers and directors:

| NAME | TITLE | ADDRESS |
|--------------------|--------------|---|
| Clayton Fitzhugh | President | 20555 Victor Parkway Livonia, MI 48152 |
| Daniel Hale | Chairman | 20555 Victor Parkway Livonia, MI 48152 |
| Michael Hemsley | Secretary | 20555 Victor Parkway Livonia, MI 48152 |
| Paul Neumann, Esq. | Treasurer | 20555 Victor Parkway Livonia, MI 48152 |

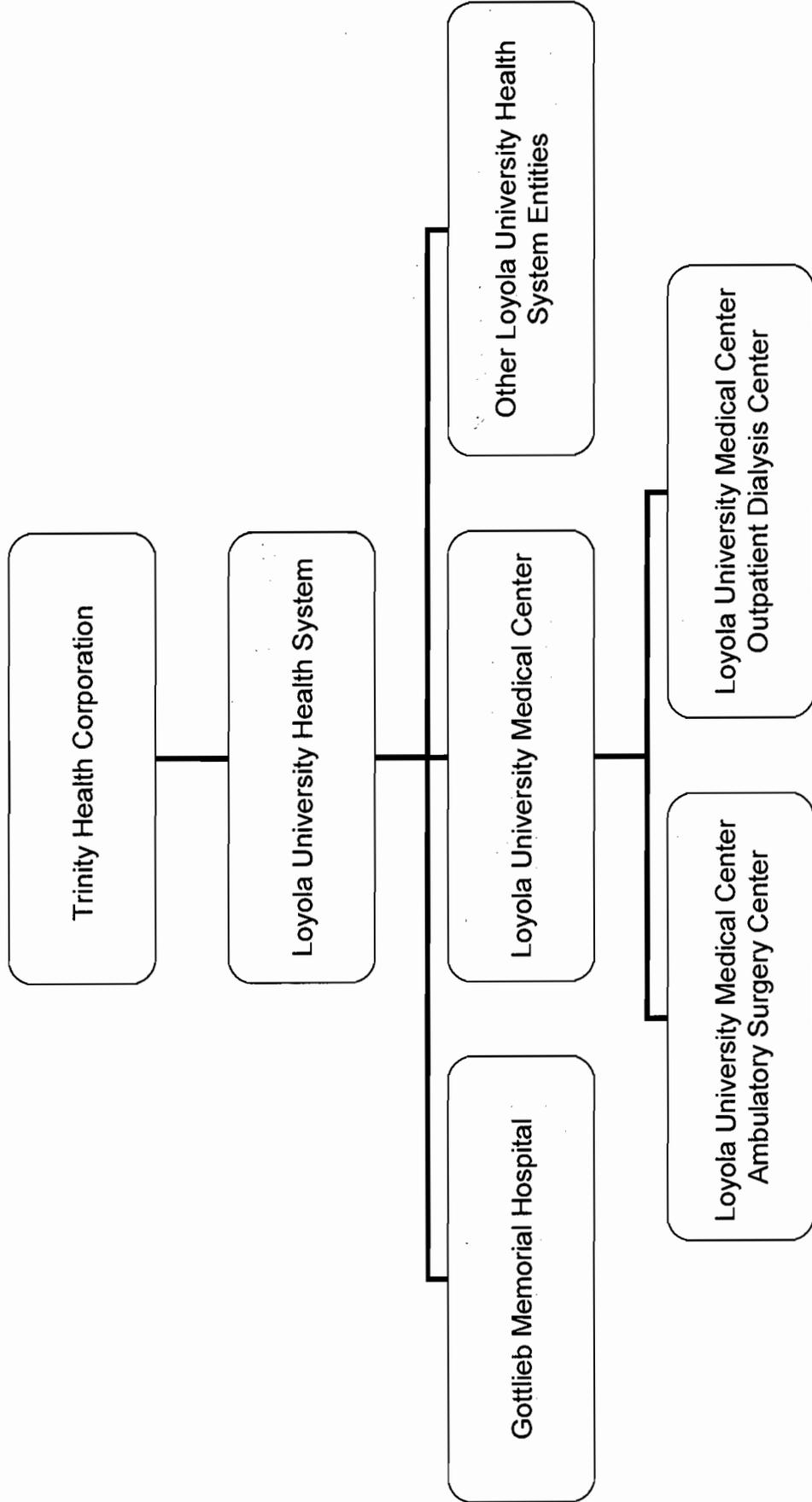
**ATTACHMENT THREE TO
APPLICATION FOR AUTHORITY TO CONDUCT AFFAIRS IN ILLINOIS**

CHE TRINITY INC.

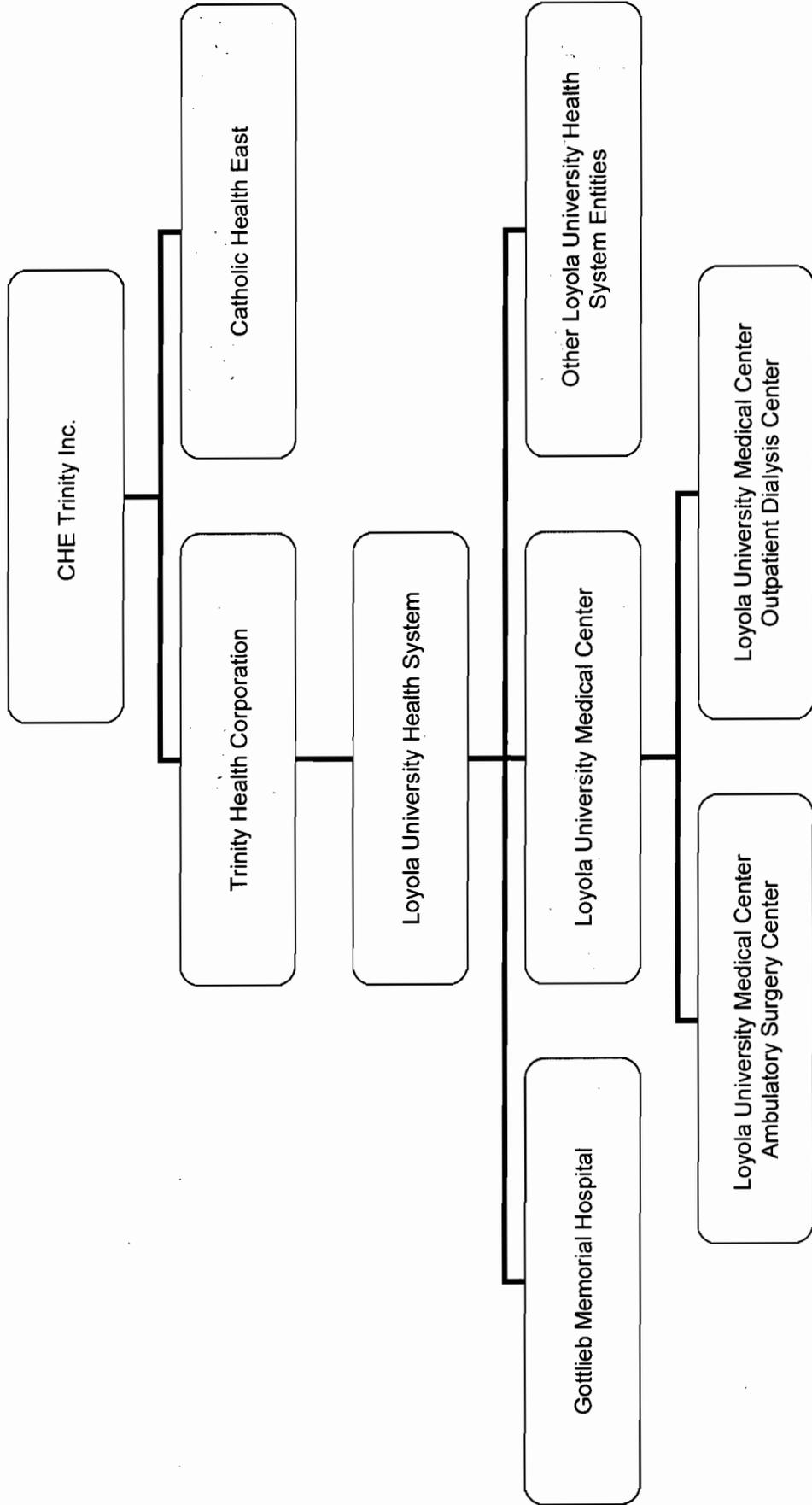
The purposes for which the Corporation has been organized and proposes to pursue in the conduct of affairs in the State of Illinois:

- A. To further any and all scientific, religious and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended from time to time, or comparable provisions of subsequent legislation (the "Code") and at all times shall be operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more Code Section 509(a)(1) or 509(a)(2) organizations that carry out the healthcare mission of Catholic Health Ministries, on behalf of and as an integral part of the Roman Catholic Church in the United States.
- B. To take all such actions as may be necessary or desirable to accomplish the foregoing purposes within the restrictions and limitations of these Articles of Incorporation, the Bylaws of the Corporation and applicable law, provided that no substantial part of the activities of the Corporation shall be to carry out the propaganda, or to otherwise attempt to influence legislation; and the Corporation shall not participate or intervene in any political campaign on behalf of or in opposition of any candidate for public office (by the publishing or distribution of statements or otherwise), in violation of any provisions applicable to corporations exempt from taxation under Code Section 501(c)(3) and the regulations promulgated thereunder as they now exist or as they may be amended;
- C. No part of the net earnings of the Corporation shall inure to the benefit of, or be distributable to, its Directors, Officers or other private individuals, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services rendered to or for the Corporation and to make payments and distributions in furtherance of the purposes set forth herein; and
- D. Notwithstanding any other provisions of these Articles of Incorporation, the Corporation shall not carry on any activity not permitted to be carried on by (i) a corporation exempt from federal income tax under Code Section 501(c)(3), (ii) a corporation, contributions of which are deductible under Code Section 170(c)(2), or (iii) a corporation described in Code Section 509(a)(3) (or, if the Corporation is so classified, Code Section 509(a)(1)).

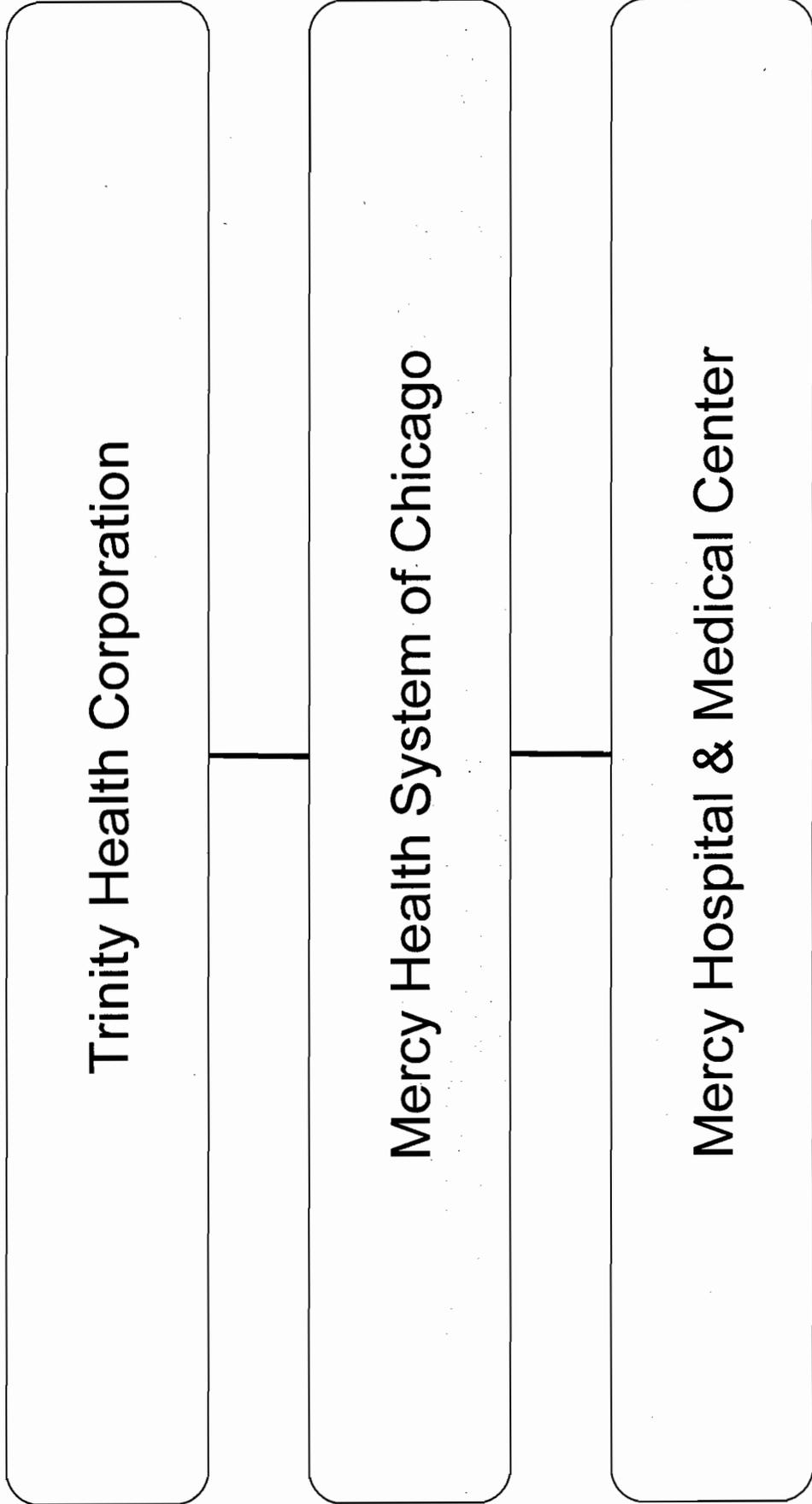
Current Corporate Structure (Loyola University Health System)



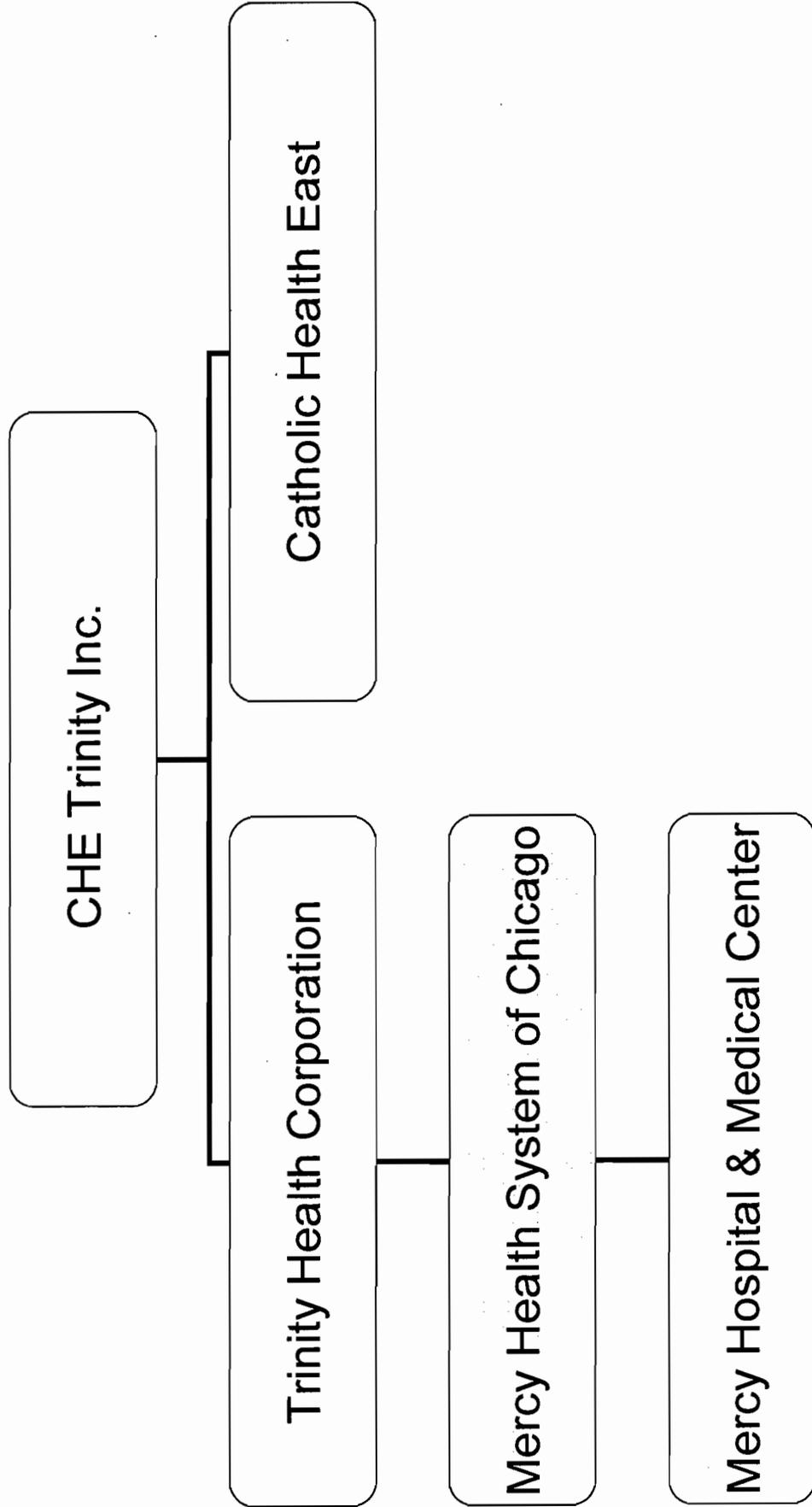
Corporate Structure After Transaction (Loyola University Health System)



**Current Corporate Structure
(Mercy Health System of Chicago)**



Corporate Structure After Transaction (Mercy Health System of Chicago)



APPENDIX A

Information Concerning



Novi, Michigan

TRINITY HEALTH CREDIT GROUP

The information contained herein as
Appendix A to this Official Statement
has been obtained from Trinity
Health on behalf of itself and
the members of its Credit Group.

TRINITY HEALTH CREDIT GROUP

History

Trinity Health Corporation (“Trinity Health”), an Indiana nonprofit corporation, was formed by the consolidation of Holy Cross Health System Corporation (“Holy Cross”) and Mercy Health Services (“Mercy”) in May 2000. Holy Cross, an Indiana nonprofit corporation, was incorporated in 1978 to coordinate the health care activities of the Congregation of the Sisters of the Holy Cross (the “Holy Cross Sisters”). Mercy, a Michigan nonprofit corporation, was incorporated in 1976 to assume ownership of and to coordinate the health care services of the Sisters of Mercy Regional Community of Detroit, now part of Sisters of Mercy of the Americas West Midwest Community (the “Sisters of Mercy”). In conjunction with its formation, Trinity Health formed the Trinity Health Credit Group (described below) to facilitate its capital formation and capital management activities.

Trinity Health is sponsored by Catholic Health Ministries (“CHM”), an association governed by individuals (“CHM Members”) who also comprise the Board of Directors of Trinity Health (the “Trinity Board”). New CHM Members are appointed by current CHM Members. CHM is recognized by the Roman Catholic Church as an entity that acts in its name with respect to CHM’s sponsored works. The health care ministries of CHM (previously the ministries of the Holy Cross Sisters and the Sisters of Mercy) have provided assistance to the sick and infirm for more than 125 years.

The Trinity Health Credit Group

Trinity Health controls or owns, directly or indirectly, various nonprofit and for-profit corporations and other organizations (the “Trinity Health Affiliates”) that currently operate primarily in California, Idaho, Illinois, Indiana, Iowa, Maryland, Michigan, Nebraska, Ohio and Oregon. Trinity Health and the Trinity Health Affiliates, which at present include all Designated Affiliates (described below), are sometimes collectively referred to in this APPENDIX A as the “Health System.” Trinity Health, the Trinity Health Affiliates and the Designated Affiliates are referred to in this APPENDIX A in the context of the Master Indenture as the “Trinity Health Credit Group” or the “Credit Group.” Trinity Health is the only member of the Trinity Health Credit Group with a direct obligation to make payments on Obligations issued under the Master Indenture, including the Series 2012 Obligation that secures the Bonds.

As described below, effective July 1, 2011, Trinity Health became the sole corporate member of Loyola University Health System (“LUHS”) and LUHS and its affiliates and subsidiaries became part of the Health System. Unless otherwise noted herein, financial and operational information as and for fiscal year 2011 does not include information for LUHS. In addition, effective July 1, 2011, Trinity Health through its subsidiary Trinity Health – Michigan, which held 50% of the shares in the Battle Creek Health System (“BCHS”), a Michigan nonprofit corporation, transferred its shares in BCHS to Bronson Healthcare Group, Inc. As a result, the results of operations of BCHS have been reclassified as discontinued operations. Therefore, revenue and expense items contained herein do not include BCHS. See “FINANCIAL AND OPERATING INFORMATION—Acquisitions, Divestitures and Other Transactions” herein.

As of December 31, 2011 the health care facilities owned and operated by members of the Health System include general acute care hospitals, long-term care facilities, skilled nursing facilities and behavioral health facilities with an aggregate of approximately 8,400 staffed beds, as well as residential facilities for the elderly with an aggregate of approximately 1,320 living units. Additional health care and related services provided by members of the Health System include physician services, home health, outpatient surgery, dental clinics, occupational health, mobile health care services, school-based health clinics, skilled nursing facilities, assisted living facilities, senior housing and managed care organizations.

Trinity Health may name Trinity Health Affiliates and other entities as “Designated Affiliates” under the Master Indenture. Designated Affiliates are not obligated to make payments on Obligations issued under the Master Indenture but, at Trinity Health’s direction, may be required to pay, loan or transfer funds to Trinity Health sufficient to make payments on Obligations issued under the Master Indenture, including the Series 2012 Obligation that secures the Bonds. In addition, pursuant to the Master Indenture, Trinity Health has caused the Designated Affiliates representing, when combined with Trinity Health, not less than 85% of the consolidated net revenues of the Credit Group to grant to Trinity Health security interests in their Pledged Property (as defined in APPENDIX E to this Official Statement) (which security interests have been assigned to the holder of the Series 2012 Obligation that secures the Bonds, as further discussed under “SECURITY FOR THE BONDS—Security for the Bonds” in the forepart of this Official Statement), in order to secure all Obligations issued under the Master Indenture, including the 2012 Obligation. As of December 31, 2011, there were 27 Designated Affiliates. For the six months ended December 31, 2011, these Designated Affiliates generated, in the aggregate, 90.0% of the Credit Group’s unrestricted revenue and owned, in the aggregate, 88.5% of the Credit Group’s total assets.

Those Designated Affiliates whose individual total revenues exceed 5% of the combined total revenues of the Credit Group in any fiscal year are considered “Material Designated Affiliates” as that term is defined in the Master Indenture. For additional information concerning the obligations of Designated Affiliates, see “THE TRINITY HEALTH CREDIT GROUP” and “SECURITY FOR THE BONDS—Security for the Bonds—The Master Indenture” in the forepart of this Official Statement.

Trinity Health and all of the current Designated Affiliates are exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as organizations described in Section 501(c)(3) of the Code, and are not private foundations within the meaning of Section 509(a) of the Code.

Facilities. The following is a list of the principal facilities owned by and health care services provided by Designated Affiliates as of December 31, 2011. The list does not include Trinity Home Health Services, other Designated Affiliates that do not own health care facilities or Mercy Health System of Chicago, which was acquired April 1, 2012. Some of the Designated Affiliates own and operate facilities at multiple geographic locations. Each of these facilities is individually licensed and has a distinct Medicare provider number.

Designated Affiliates as of December 31, 2011⁽¹⁾

| State | Designated Affiliate | Description of Facility/Activity | Number of Licensed Facilities and Staffed Beds⁽²⁾ | Location | |
|--------------|---|--|---|-----------------|---|
| California | Saint Agnes Medical Center ⁽³⁾ | Acute Care | 1/436 | Fresno | |
| Idaho | Saint Alphonsus Regional Medical Center, Inc. ⁽³⁾ | Acute Care | 1/368 | Boise | |
| Illinois | Mercy Hospital | Acute Care | 1/120 | Nampa | |
| | Loyola University Medical Center ⁽³⁾ | Acute Care and Burn Center | 1/502 | Maywood | |
| Indiana | Gottlieb Memorial Hospital | Acute Care | 1/227 | Melrose Park | |
| | Saint Joseph Regional Medical Center – South Bend Campus, Inc. ⁽³⁾ | Acute Care | 1/287 | South Bend | |
| Iowa | Saint Joseph Regional Medical Center – Plymouth Campus, Inc. | Acute Care | 1/45 | Plymouth | |
| | Trinity Continuing Care Services – Indiana, Inc. | Comprehensive and Residential Care | 4/198 | South Bend | |
| | Mercy Health Services – Iowa, Corp. ⁽³⁾ | Acute and Long-Term Care | 2/269 | Dubuque | |
| | | Acute and Long-Term Care | 1/25 | Dyersville | |
| Maryland | | Acute and Psychiatric Care, Skilled Nursing and Acute Rehabilitation | 2/240 | Mason City | |
| | | Acute Care and Skilled Nursing | 1/17 | New Hampton | |
| | | Acute Care | 1/238 | Sioux City | |
| | | Mercy Medical Center – Clinton, Inc. | Acute and Long-Term Care | 2/319 | Clinton |
| | | Holy Cross Hospital of Silver Spring, Incorporated | Acute Care | 1/425 | Silver Spring |
| Michigan | Trinity Continuing Care Services – Indiana, Inc. | Comprehensive Care | 1/145 | Burtonsville | |
| | Trinity Health – Michigan ⁽³⁾ | Acute and Psychiatric Care | 1/289 | Livonia | |
| | | Acute Care | 1/119 | Port Huron | |
| | | Acute and Psychiatric Care | 2/481 | Ann Arbor | |
| | | Acute and Psychiatric Care | 1/102 | Chelsea | |
| | | Acute Care | 1/43 | Howell | |
| | | Acute and Psychiatric Care | 1/400 | Pontiac | |
| | | Acute Care | 1/56 | Cadillac | |
| | | Acute and Long-Term Care | 1/89 | Grayling | |
| | | Acute and Psychiatric Care | 2/344 | Grand Rapids | |
| | | Mercy Health Partners | Acute and Psychiatric Care | 2/204 | Muskegon |
| | | Mercy Health Partners – Hackley Campus | Acute Care | 1/201 | Muskegon |
| | | Mercy Health Partners – Lakeshore Campus | Acute Care | 1/24 | Shelby |
| | | Trinity Continuing Care Services | Nursing Home, Long-Term Care and Home for the Aged | 7/955 | Warren, Royal Oak, Battle Creek, Fraser, Grand Rapids, Grand Haven and Muskegon |
| Ohio | Mount Carmel Health ⁽³⁾ | Acute and Psychiatric Care | 2/720 | Columbus | |
| | Mount Carmel New Albany Hospital | Acute Care | 1/60 | New Albany | |
| | St. Ann’s Hospital of Columbus, Inc. | Acute Care | 1/273 | Westerville | |
| Oregon | Trinity St. Elizabeth Health Services | Acute Care | 1/75 | Baker City | |
| | Trinity Holy Rosary Medical Center | Acute Care | 1/49 | Ontario | |

⁽¹⁾ Does not include Trinity Health Home Services, other Designated Affiliates that do not own health care facilities or Mercy Health System of Chicago acquired April 1, 2012.

⁽²⁾ Includes all licensure categories except for normal newborn bassinets and partial hospitalization psychiatric beds.

⁽³⁾ Material Designated Affiliate.

GOVERNANCE AND MANAGEMENT

Governance

The Trinity Health Bylaws provide that the Trinity Board will consist of not fewer than nine nor more than 15 people, who are also CHM Members. The President and Chief Executive Officer of Trinity Health serves *ex-officio*, with a vote, on both the Trinity Board and CHM. Directors not serving *ex-officio* are appointed for three-year terms, with total service not to exceed ten consecutive years, coterminous with their membership on CHM.

The following powers and responsibilities are reserved to CHM: (i) approval of any amendments, modifications or restatements of the Articles of Incorporation of Trinity Health; (ii) approval of any amendments, modifications or restatements of the Bylaws of Trinity Health; (iii) approval of any changes to the Mission and Core Values of Trinity Health, and matters affecting the Catholic identity of Trinity Health; (iv) approval of the sale, lease, mortgage, transfer or encumbrance of or easement on any property of Trinity Health which requires approval under Canon Law; (v) approval of any merger, consolidation, liquidation or dissolution of Trinity Health, the acquisition of Trinity Health or the sale of all or substantially all of the assets of Trinity Health; (vi) appointment of and removal, with or without cause, of the members of the Trinity Board; (vii) ratification of the appointment of the President and Chief Executive Officer of Trinity Health and of the Trinity Board Chair; and (viii) removal, with or without cause, of the President and Chief Executive Officer of Trinity Health.

The current members of the Trinity Board are set forth below.

| Name | Occupation | Term Expires December 31, |
|---------------------------|---|------------------------------|
| Mary Mollison, CSA, Chair | Vice President of Ministry and Spirituality Agnesian Health Care Fond du Lac, Wisconsin | 2012 |
| James Bentley, PhD | Retired Silver Spring, Maryland | 2012 |
| Joseph Betancourt, MD | Director, The Disparities Solution Center Mongan Institute for Health Policy Massachusetts General Hospital, Boston, MA | 2012 |
| Suzanne Brennan, CSC | Executive Director Holy Cross Ministries Salt Lake City, Utah | 2014 |
| Melanie Dreher, PhD, RN | Dean, College of Nursing Rush University Chicago, Illinois | 2013 |
| Sarah Eames | Executive Director Russell Reynolds Associates, Inc. New York, New York | 2013 |
| Uma Kotagal, MD | Senior Vice President, Quality and Transformation and Director of Policy and Clinical Effectiveness Cincinnati Children's Hospital Medical Center Cincinnati, Ohio | 2014 |
| Paul Robertson | Chairman and Chief Executive Officer Robertson Brothers Company Bloomfield Hills, Michigan | 2012 |
| Jose Santillan | Former Head of Investments Harris Bank-Private Client Group Chicago, Illinois | 2012 |
| Linda Werthman, RSM | Former Councilor, Institute Leadership Team Member Sisters of Mercy of the Americas Livonia, Michigan | 2014 |
| Joseph R. Swedish | President and Chief Executive Officer Trinity Health | <i>Ex-officio</i> |
| Larry Warren | President and Chief Executive Officer Howard University Washington, DC | 2013 |

Senior Management

Management of Trinity Health is vested in the President and Chief Executive Officer, who is appointed by the Trinity Board, with the ratification of the CHM Members. Management of Trinity Health then is coordinated through the senior management team. Michael Murphy resigned from his position as Executive Vice President Health Networks effective April 24, 2012. Trinity Health intends to conduct a national search for his replacement. Following Mr. Swedish, certain executive and finance leaders are listed below in alphabetical order.

Joseph R. Swedish, President and Chief Executive Officer. Age: 60. Mr. Swedish has 38 years of diverse senior executive operations experience in both investor-owned and non-profit health care systems that spans faith-based and secular health care, university and community based academic medical centers, integrated delivery systems and regional rural referral hospitals in the mid-Atlantic states, Florida and Colorado, and now the ten states that encompass Trinity Health's markets. Prior to joining Trinity Health, Mr. Swedish was president and chief executive officer of Centura Health in Denver, Colorado and President of the East Florida Division for Hospital Corporation of America. He is Chair-Elect of the Catholic Health Association Board and will serve as Chairman of the Catholic Health Association Board during the 2012/2013 term. He also currently serves as a member of the National Quality Forum Board and the Coventry Health Care Board of Directors. He is Chairman of the American Hospital Association's Task Force for Medicare Wage Index Analysis. He has served as chairman of the American Hospital Association's Institute for Diversity in Health Management as a member of the Special Advisory Group on Improving Hospital Care for Minorities, and the Nonprofit System CEO group examining health care tax-exempt status. He has also been a member of the American Hospital Association's Long Range Policy Committee and the Ad Hoc Committee on Payment for Health Services.

Mr. Swedish has been named to Modern Healthcare's "Top 100 Most Powerful Leaders in Healthcare" every year since 2006. In 2009, he was honored with the CEO Diversity Leadership Award from Diversity Best Practices. Among his many other recognitions are the University Medal by the Board of Regents for the University of Colorado, the 2003 Ernst & Young Entrepreneur of the Year – Rocky Mountain Region, and the American College of Healthcare Executives Regents Award for Career Achievement.

Mr. Swedish received his bachelor's degree from the University of North Carolina at Charlotte and a master's degree in health administration from Duke University.

Kedrick D. Adkins, President, Integrated Services. Age: 59. Mr. Adkins oversees the complete span of financial services, treasury, information services, supply chain management, insurance/risk management and operations improvement at Trinity Health. Prior to assuming this role at Trinity Health in 2007, Mr. Adkins was a senior partner at Accenture, where he held a number of positions over a 30-year tenure, including U.S. country managing director and global chief diversity officer. Mr. Adkins currently serves on the University of Michigan ("U of M") College of Engineering Advisory Council, and on the board of the U of M Alumni Association. He is also on the board of Blue Cross Blue Shield of Michigan's Blue Care Network. Mr. Adkins earned his bachelor's degree in industrial and operations engineering and his master's degree in business administration in accounting and finance from the University of Michigan.

Donald D. Bignotti, MD, Senior Vice President and Chief Medical Officer. Age: 57. Dr. Bignotti was appointed to his position in September 2011. In this role, he will provide executive leadership for physician services throughout Trinity Health. Prior to this appointment, Dr. Bignotti served as Chief Medical Officer at Saint Joseph Mercy Oakland, a Trinity Health hospital located in Pontiac, Michigan. Dr. Bignotti is currently a Clinical Assistant Professor at both Wayne State

University's School of Medicine and Michigan State University's School of Osteopathic Medicine. Prior to joining Saint Joseph Mercy Oakland, Dr. Bignotti served as Chief Medical Officer for Bon Secours Cottage Health System and Bon Secours of Michigan. Dr. Bignotti holds certifications from the American Board of Family Medicine and the American Board of Quality Assurance and Utilization Review Physicians. He received a bachelor's degree in microbiology from Michigan State University and a medical degree from Wayne State University School of Medicine.

James Bosscher, Senior Vice President, Treasury and Chief Investment Officer. Age: 63. Mr. Bosscher was appointed to his present position in January 2009. Prior to that appointment, Mr. Bosscher served as vice president, treasury. He is responsible for all treasury activities including investment management, debt management, cash management, the tax department and interfacing with all external capital market audiences (rating agencies, investors, bond insurance companies, investment and commercial banks, etc.). Prior to joining Trinity Health, Mr. Bosscher was an assistant treasurer with Ford Motor Company. Mr. Bosscher has a bachelor's degree in finance from Michigan State University and a master's degree in business administration from Wayne State University.

Debra A. Canales, Executive Vice President and Chief Administrative Officer. Age: 50. Ms. Canales was appointed to her current position in July 2009. Prior to that appointment, Ms. Canales served as executive vice president/chief human resource officer, organization and talent effectiveness. Prior to joining Trinity Health, Ms. Canales was senior vice president of human resources at Centura Health. Ms. Canales previously served as a human resource executive at Compaq Computer Corporation, KFC/PepsiCo and R.H. Macy's, Inc. Ms. Canales is an accredited executive coach with the International Coaching Federation. Ms. Canales has a bachelor's degree in business administration from the University of Texas at Austin.

Benjamin Carter, Senior Vice President and Chief Financial Officer. Age: 53. Mr. Carter oversees Trinity Health's financial management, financial reporting, financial operations, strategic financial and capital planning, and budget development. He also provides leadership for the Trinity Health Unified Revenue Organization, a shared services department managing six revenue functions. Prior to assuming this role in March 2010, Mr. Carter served as an executive vice president and chief operating officer at the Detroit Medical Center, where he was responsible for the operations of the regional system's eight hospitals and related outpatient facilities. Prior to the Detroit Medical Center, he spent nearly 20 years in executive-level financial positions at Oakwood Healthcare in Dearborn, Michigan. Prior to his experience at Oakwood, Mr. Carter was a director of the Plante Moran accounting firm and spent eight years in various roles in addition to earning his certified public accountant certification. Mr. Carter graduated *magna cum laude* and earned both a bachelor's degree and a master's degree in business from the University of Michigan.

Catherine DeClercq, OP, Senior Vice President, Governance and Sponsorship. Age: 76. Sister DeClercq supports CHM, the Public Juridic Person that sponsors Trinity Health, and the Trinity Board. She previously served as assistant to the president of Mercy from 1987 to 2000, assuming responsibility for Mercy governance and working with the sponsors, the Sisters of Mercy, Regional Community of Detroit. From 1978 to 1986 she held the position of general council member and administrator for the Adrian Dominican Congregation based in Adrian, Michigan. In her leadership role with the Adrian Dominican Congregation, Sister DeClercq helped guide the Adrian Dominican Hospitals in California and Nevada into Catholic Healthcare West (now Dignity Health). She has a bachelor's degree from Siena Heights University and a master's degree from the University of Michigan.

Daniel P. Dwyer, Senior Vice President, Mission Integration. Age: 65. Mr. Dwyer oversees mission services, leadership formation, ethics and spiritual care for Trinity Health. Mr. Dwyer was appointed to his current position in August 2008. Previously, Mr. Dwyer served as director, mission and community health at Sisters of Mercy Health System in Chesterfield, Missouri, director of ethics at St.

John's Health System in Springfield, Missouri, and various teaching, clinical and corporate positions spanning his 32-year career. Mr. Dwyer has a bachelor's degree from Marquette University, a master of science degree in social work, a doctor of philosophy degree in urban social institutions from the University of Wisconsin-Milwaukee and a master of theology degree in health care mission from Aquinas School of Theology.

Preston Gee, Senior Vice President, Strategic Planning and Marketing. Age: 57. Mr. Gee was appointed to his current position in May 2008. Previously, Mr. Gee served in that position in an interim role since September 2007. Mr. Gee provides leadership and guidance throughout Trinity Health in the development of strategic, business, service line, marketing and communications planning and execution. Mr. Gee also helps orchestrate system-wide strategy, and provides leadership in identifying and prioritizing market-differentiating initiatives and consumer-centric approaches. Mr. Gee has more than 25 years of experience as a senior strategist and marketer with hospitals and health systems. Mr. Gee has authored or co-authored nine books on health care strategy, including three on service-line management. He has also written more than 250 articles on emerging trends and leading issues, and is a frequent presenter at national and state forums. Previously, Mr. Gee served as senior director at Phase 2 Consulting in Houston, Texas, and senior vice president of strategic planning for St. David's Healthcare Partnership in Austin, Texas. Mr. Gee started his career with The Quaker Oats Company in marketing and new product development. Mr. Gee received a bachelor's degree and a master's degree in business administration from Brigham Young University.

Daniel G. Hale, Executive Vice President, Trinity Institute for Health and Community Benefit and Special Advisor to the President. Age: 65. Mr. Hale was appointed to his current position effective September 1, 2009. Prior to that appointment, Mr. Hale served as executive vice president, community benefit ministry and public affairs. Mr. Hale was appointed as the Interim President and Chief Executive Officer of Loyola University Health System (Maywood, Illinois) and will continue to serve in that role until the permanent Chief Executive Officer takes office in mid-October 2011. Mr. Hale also served Holy Cross and Trinity Health as general counsel beginning in August 1996. Previously, Mr. Hale was vice president for legal services with Franciscan Health System, Aston, Pennsylvania, and was a partner in the law firms Drinker Biddle & Reath in Philadelphia, Pennsylvania and Baker & Hostetler in Columbus, Ohio. Mr. Hale received his bachelor's degree in English from Kenyon College and his juris doctor degree from Capital University Law School. A frequent speaker and author on various aspects of health care law, Mr. Hale is a member of the American Bar Association and the American Health Lawyers Association. He previously was an adjunct professor of law at Capital University Law School.

Paul G. Neumann, Esq., Senior Vice President and General Counsel. Age: 53. Mr. Neumann was appointed to his current position, effective November 2, 2009. Prior to this appointment, Mr. Neumann was senior vice president, legal services and general counsel at Catholic Health Initiatives in Denver, Colorado. Prior to assuming that position with Catholic Health Initiatives in 1997, Mr. Neumann was a partner with both Foley & Lardner LLP in San Francisco, California and Weissburg & Aronson in San Francisco, California, where he represented hospitals and other health care entities in governance, mergers and acquisitions, business transactions and compliance matters. He received a bachelor's degree from Haverford College and a juris doctor degree from the University of Virginia School of Law.

James Richard O'Connell, President, Hospital Operations. Age: 58. Mr. O'Connell has held his position since July 2009. His responsibilities include managing the day-to-day functions of hospital operations. Mr. O'Connell has been with Trinity Health since October 2008 as interim chief operations officer of Saint Alphonsus Regional Medical Center in Boise, Idaho. Mr. O'Connell has 35 years of progressive health care experience in executive level roles including president and chief executive officer of four hospital systems: Penrose – St. Francis Health Services in Colorado Springs, Colorado; Lucerne Medical Center in Orlando, Florida; Columbia Medical Center – Daytona in Daytona Beach, Florida; and

Pembroke Pines Hospital in Pembroke Pines, Florida. Mr. O'Connell earned a bachelor's degree in business administration from Central State University in Edmund, Oklahoma.

P. Terrence O'Rourke, MD, Executive Vice President & Chief Clinical Officer. Age: 69. Dr. O'Rourke is responsible for advancing clinical effectiveness and quality, as well as patient safety across the system. He serves as an advocate for Trinity Health's medical staffs and is working to advance physician alignment initiatives throughout the organization. Dr. O'Rourke was appointed to his current position in June 2008. Prior to joining Trinity Health, Dr. O'Rourke was chief medical officer at Centura Health. Dr. O'Rourke was a member of the board of trustees of Centura Health and chaired the Centura board for seven years. Dr. O'Rourke is a past member of the board of trustees of the Catholic Health Association and chairs of the Physician Committee of the Catholic Health Association. He is also a past member and vice-chair of the Holy Cross Health System Board of Directors. He has been a member of the Executive Advisory Committee of the Diocese of Colorado Springs and has also been a member of the Advisory Board of the College of Letters, Arts, and Sciences of the University of Colorado. He has served on the board of directors and is a past president of the El Paso Unit of the American Cancer Society. He received the Sword of Hope Award from the American Cancer Society in 1992 and was recognized as one of the "Best Doctors in America" in 2000. Dr. O'Rourke serves on the Boards of Directors of the Michigan Peer Review Organization, Venzke Insurance Company, LTD, and LUHS. Dr. O'Rourke holds certifications from the Board of Surgery and Advanced Trauma Life Support. He received a bachelor's degree from Georgetown University and a medical degree from the University of Michigan Medical School. Dr. O'Rourke is a member of the American Medical Association, fellow of the American College of Surgeons, the Western Surgical Association and the Denver Academy of Surgery.

Maria Szymanski, Senior Vice President, Chief Development Officer. Age: 62. Ms. Szymanski was appointed to her current position in July 2006. Ms. Szymanski is responsible for merger, acquisition, divestiture and joint venture activities. Prior to this appointment, Ms. Szymanski served as senior vice president, business development and senior vice president, finance. Previously, Ms. Szymanski served as vice president, finance for Mercy Health Services, chief financial officer and treasurer for SelectCare and vice president and controller of St. Joseph's Health Network in Mt. Clemens, Michigan. Ms. Szymanski is currently Chair of the Boards of Trinity Continuing Care Services and Trinity Home Health Services. She has a bachelor's degree in accounting from the University of Detroit.

APPENDIX A

**Information Concerning
Catholic Health East and Certain
System Affiliates**

The information contained herein as Appendix A
to this Official Statement has been obtained from
Catholic Health East.

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CATHOLIC HEALTH EAST

General

Catholic Health East, or CHE, was incorporated as a Pennsylvania nonprofit corporation in 1997. CHE controls, directly or indirectly, various affiliates that together with CHE constitute the "CHE Health System." These affiliates own and operate or manage health care facilities and provide health care and related services in eleven states: Alabama, Connecticut, Delaware, Florida, Georgia, Maine, Massachusetts, New Jersey, New York, North Carolina and Pennsylvania. The health care facilities include general acute care hospitals, long-term care facilities, skilled nursing facilities, behavioral health facilities, residential facilities for the elderly and Programs for All Inclusive Care for the Elderly ("PACE"). Additional health care services include physician services, home health, outpatient surgery, dental clinics, occupational health, mobile health care services, school-based health clinics and others.

Regional Corporate Structure and Management

The organizational structure of the CHE Health System consists of CHE and a number of "Regional Health Corporations," or RHCs, that exercise governance and oversight responsibility over CHE-affiliated health care facilities and their ancillary operations, all of which operate as constituent corporations of CHE. CHE serves as the sole corporate member of each of the Regional Health Corporations and, in most cases, each of the Regional Health Corporations serves as the sole corporate member of those CHE component corporations operating within a defined geographic region. Included on the inside back cover of this Official Statement is a map that depicts the locations of CHE's Regional Health Corporations and certain other health ministries described herein under the captions "**Recent Developments Affecting the CHE Health System**" and "**Certain Existing Relationships.**"

The CHE Health System also includes a number of constituent corporations whose primary purpose is not the direct provision of health care services. Some of these "Supportive Health Corporations" or SHCs are Members of the Obligated Group.

Each CHE Regional Health Corporation has a president/chief executive officer who has primary management responsibility for CHE-affiliated activities within each respective region. Each such president/chief executive officer is appointed to office upon the concurring approval of both the responsible CHE executive vice president and the Board of Directors of the Regional Health Corporation.

CHE has a System Office which is headquartered in Newtown Square, Pennsylvania. CHE operates two satellite offices located in Tampa, Florida and Springfield, Massachusetts.

See "**CORPORATE ORGANIZATION, GOVERNANCE AND MANAGEMENT**" herein for a more detailed discussion of CHE's organizational structure and governance, as well as a description of its senior management.

The Members of the Obligated Group and the Other System Affiliates

CHE, each other Member of the Obligated Group (as identified below) on the date of issuance of the Bonds and each affiliate of CHE are referred to in this **APPENDIX A** individually as a System Affiliate and collectively as the System Affiliates. As described in the forepart of this Official Statement, System Affiliates that collectively generate and own a substantial portion (approximately 70% of revenues and 66% of assets as of March 31, 2012) of the revenues and assets of the CHE Health System are at the present time Members of the Obligated Group under the Master Indenture. CHE, certain other Members of the Obligated Group and certain of the other System Affiliates are exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended, as organizations described in Section 501(c)(3) of the Code, and are not private foundations within the meaning of Section 509(a) of the Code.

The following is a list of the Regional Health Corporations, including, those Regional Health Corporations (and certain of their related component corporations) that are the Members of the Obligated Group. Included in the list for those entities that operate facilities is the location in which their principal facilities or primary operations are located. The Members of the Obligated Group are identified in bold. Not all Regional Health Corporations are Members of the Obligated Group. The list does not include all corporate entities within the CHE System.

| Regional Health Corporations and Supportive Health Corporations | Member(s) of the Obligated Group | Principal Facilities (type, location) |
|--|--|--|
| n/a | Catholic Health East | |
| <i>Mercy Medical, A Corporation</i> Daphne, Alabama | Mercy Medical, A Corporation | Home Care, Hospice and PACE (Daphne) |
| <i>Mercy Community Health, Inc.</i> West Hartford, Connecticut | McAuley Center, Incorporated | Residential (West Hartford) |
| | Mercy Community Health, Inc. | |
| | Mercy Community Home Care Services, Inc. | |
| | Mercyknoll, Incorporated | Long-Term Care (West Hartford) |
| | Mercy Services, Inc. | |
| | Saint Mary Home, Incorporated | Long-Term Care (West Hartford) |
| | Saint Mary Home II, Incorporated | Long-Term Care (West Hartford) |
| <i>St. Francis Hospital, Inc.</i> Wilmington, Delaware | Franciscan Eldercare Corporation | Long-Term Care (Wilmington) |
| | St. Francis Hospital, Inc. d/b/a Saint Francis Healthcare | Acute Care (Wilmington) |
| <i>Allegany Franciscan Ministries, Inc.</i> Palm Harbor, Florida | Allegany Franciscan Ministries, Inc. | |
| <i>Holy Cross Hospital, Inc.</i> Fort Lauderdale, Florida | Holy Cross Hospital, Inc. | Acute Care (Ft. Lauderdale) |
| | Holy Cross Long Term Care, Inc. | Long-Term Care (Ft. Lauderdale) |
| <i>St. Mary's Health Care System, Inc.</i> Athens, Georgia | Good Samaritan Hospital, Inc. | Acute Care (Greensboro) |
| | St. Mary's Health Care System, Inc. | Acute Care (Athens) |
| | St. Mary's Highland Hills Inc. | |
| <i>Saint Joseph's Health System, Inc.</i> Atlanta, Georgia | Saint Joseph's Health System, Inc. | |
| | Saint Joseph's Mercy Care Services, Inc. | |
| | Mercy Senior Care, Inc. | |

| | | |
|--|--|---|
| <i>Mercy Health System of Maine</i> Portland, Maine | Mercy Health System of Maine | |
| | Mercy Hospital | Acute Care (Portland) |
| <i>Sisters of Providence Health System, Inc.</i> Springfield, Massachusetts | Brightside, Inc. | Behavioral Health (Holyoke) |
| | Farren Care Center, Inc. | Long-Term Care (Turners Falls) |
| | The Mercy Hospital, Inc. | Acute Care (Springfield) |
| | Providence HomeCare, Inc. † | |
| | Sisters of Providence Care Centers, Inc. | Long-Term Care (Holyoke) |
| | Sisters of Providence Health System, Inc. | |
| | System Coordinated Services, Inc. † | |
| <i>Our Lady of Lourdes Health Care Services, Inc.</i> Camden, New Jersey | The Osborn Family Health Center, Our Lady of Lourdes Medical Center | |
| | Our Lady of Lourdes Health Care Services, Inc. | |
| | Our Lady of Lourdes Medical Center, Inc. | Acute Care (Camden) |
| | Our Lady of Lourdes School of Nursing, Inc. | |
| | Lourdes Ancillary Services, Inc. | |
| | Lourdes Medical Center of Burlington County | Acute Care (Willingboro) |
| <i>Saint Michael's Medical Center, Inc.</i> Newark, New Jersey | n/a | Acute Care (Newark) |
| <i>St. Francis Medical Center</i> Trenton, New Jersey | St. Francis Medical Center | Acute Care (Trenton) |
| <i>St. James Mercy Health System</i> Hornell, New York | n/a | Acute Care (Hornell) |
| <i>St. Peter's Health Partners</i> Albany, New York | n/a | Acute Care and Long-Term Care (Albany) |
| <i>Saint Joseph of the Pines, Inc.</i> Southern Pines, North Carolina | Saint Joseph of the Pines, Inc. | Long-Term Care (Southern Pines) |

Mercy Health System of Southeastern Pennsylvania
Conshohocken, Pennsylvania

Mercy Catholic Medical Center of Southeastern Pennsylvania

Acute Care
(Philadelphia and Darby)

Mercy Eastwick, Inc. †

Mercy Family Support

Mercy Health Care

Mercy Health Plan

Mercy Health System of Southeastern Pennsylvania

Mercy Home Health

Mercy Home Health Services

Mercy Management of Southeastern Pennsylvania

Mercy Suburban Hospital

Acute Care
(Norristown)

Nazareth Hospital

Acute Care
(Philadelphia)

St. Agnes Continuing Care Center

Continuing Care
(Philadelphia)

Pittsburgh Mercy Health System, Inc.
Pittsburgh, Pennsylvania

McAuley Ministries

Pittsburgh Mercy Health System, Inc.

Mercy Life Center Corporation

St. Mary Medical Center
Langhorne, Pennsylvania

Langhorne Physician Services†

Langhorne MRI, Inc.

St. Mary Medical Center

Acute Care
(Langhorne)

Maxis Health System
Carbondale, Pennsylvania

Maxis Health System

Marian Community Hospital

Carbondale Physicians' Services, Inc. †

Maxis Medical Services

Tri-County Human Services Center

† For profit entities.

Recent Developments Affecting the CHE Health System

Mercy Hospital, Inc. (Florida). Effective May 1, 2011, Mercy Hospital, Inc., a Florida not for profit corporation, (Mercy Miami), together with Mercy Outpatient Services, Inc. and Mercy Medical Development, Inc., both Florida not for profit corporations, completed the sale of substantially all of their assets and certain liabilities to Plantation General Hospital, L.P. and HCA Long Term Health Services of Miami, Inc. The results of these operations are reflected as discontinued operations in the audited consolidated financial statements of CHE for the two fiscal years ended December 31, 2010 and 2011 included as **APPENDIX B** to this Official Statement. Proceeds from the sale were used primarily to satisfy long-term debt obligations of Mercy Hospital. Mercy Hospital remains as a Regional Health Corporation within the CHE System as it winds down its business affairs.

St. Peter's Health Care Services (New York). Effective October 1, 2011, CHE together with St. Peter's Health Care Services, Northeast Health, Inc. (NEH), Seton Health System, Inc. (Seton) and Ascension Health (collectively, the "Parties") entered into an affiliation arrangement pursuant to an Affiliation Agreement which provided for the formation of St. Peter's Health Partners (SPHP). SPHP operates as a Regional Health Corporation (though as a secular corporation rather than a religiously sponsored entity). SPHP, based upon audited December 31, 2011 financial statements, had total operating revenue of \$669.1 million, total assets of \$1.329 billion and primary service area market share of 47.3% (based upon 2010 inpatient data, which is the most recently available data). At the current time, SPHP is not a Member of the CHE Obligated Group. However, CHE and SPHP continue to work with the New York State Department of Health in an effort to obtain approval for SPHP to join the CHE Obligated Group. For additional information regarding this transaction, see footnote 3 of the audited consolidated financial statements of CHE for the two fiscal years ended December 31, 2010 and 2011 included as **APPENDIX B** to this Official Statement.

Mercy Health System of Southeastern Pennsylvania (Pennsylvania). On November 30, 2011, Mercy Health System of Southeastern Pennsylvania (Mercy SEPA) sold its equity ownership interest in certain Medicaid managed care organizations. As consideration for the sale, Mercy SEPA received \$194 million and a pledge of \$43 million to the Mercy Health System Foundation to be paid over a seven year period.

Saint Joseph's Health System, Inc. (Georgia). Effective December 31, 2011, CHE together with Saint Joseph's Health System, Inc. (SJHS) and Emory Healthcare, Inc. negotiated a Joint Operating Agreement through a Contribution Agreement and Membership Agreement involving certain of the assets of SJHS. The resulting Joint Operating Company, Emory/Saint Joseph's Inc., is a Georgia nonprofit corporation comprised of two members, one of which is SJHS Holdings Inc., a newly formed component corporation of Saint Joseph's Health System. SJHS Holdings holds a 49% interest in the Joint Operating Company. The other member, EHC/JOC Holdings, Inc., a subsidiary of Emory Healthcare, Inc., holds a 51% interest. Saint Joseph's Hospital of Atlanta and Emory Johns Creek Hospital are among the assets contributed to the Joint Operating Company. SJHS and certain affiliated entities remain in the Obligated Group with total assets of \$203.3 million as of December 31, 2011. In connection with this transaction, CHE transferred approximately \$119 million of long-term debt relating to Saint Joseph's Hospital of Atlanta to Emory/Saint Joseph's Inc., and CHE has no payment obligations with respect to that transferred debt. Neither Emory/Saint Joseph's Inc. nor SJHS Holdings Inc. are Members of the Obligated Group under the Master Indenture.

Potential Transactions Affecting the CHE Health System

Efforts are currently underway to seek strategic partnerships or joint ventures with other regional or national health care providers for certain of the Regional Health Corporations, which may result in the divestiture of all or a portion of these Regional Health Corporations. No agreements have been reached with any potential partners.

Certain Existing Relationships

BayCare Health System (Florida). St. Joseph's Hospital, Inc., St. Joseph's Health Care Center, Inc., St. Anthony's Hospital, Inc. and John Knox Village of Tampa Bay, Inc., each of which are affiliates of CHE, are participants in the BayCare Health System pursuant to a joint operating agreement, referred to herein as the BayCare JOA, among such corporations and other provider corporations, including Morton Plant Mease HealthCare, Inc., South Florida Baptist Hospital, Inc. and BayCare Health System, Inc. (such entities, together with the affiliates of CHE that are BayCare JOA Participants, are referred to herein as the BayCare JOA Participants). Pursuant to the BayCare JOA, the BayCare Health System is responsible for the operations of all of the BayCare JOA Participants, including those that are affiliates of CHE, subject to certain powers reserved to the members of the BayCare Health System. The members of the BayCare Health System are CHE, Morton Plant Mease HealthCare Inc. and South Florida Baptist

Hospital, Inc. The Board of Trustees of the BayCare Health System is comprised of twenty-one voting members (including the Chief Executive Officer of the BayCare Health System, who serves as an *ex officio* trustee). CHE and Morton Plant Mease HealthCare Inc. each appoint nine trustees; the remaining two trustees are appointed by South Florida Baptist Hospital, Inc. Pursuant to a contractual formula, CHE has a 50.4% interest in the operating results of the BayCare Health System, Morton Plant Mease has a 46.0% interest and South Florida Baptist Hospital, Inc. has a 3.6% interest. CHE is not obligated on debt issued for the benefit of the BayCare JOA Participants, and the affiliates of CHE that are BayCare JOA Participants are not Designated Affiliates or Members of the Obligated Group under the Master Indenture.

Catholic Health System, Inc. (New York). CHE is a member of Catholic Health System, Inc. (CHS), located in Buffalo, New York, through a joint operating agreement with the Diocese of Buffalo and Ascension Health, who are the other members of CHS. Each member holds a one-third interest in CHS. CHS provides health care across a network of four hospitals, eleven primary care centers, nine diagnostic and treatment centers, a free standing surgery center, thirteen long term care facilities, adult homes, home care agencies, counseling services, social service and behavioral health programs. Sisters of Mercy of the Americas, New York, Pennsylvania and Pacific West (one of CHE's Sponsoring Organizations described herein); the Diocese of Buffalo and the Daughters of Charity of St. Vincent de Paul are the sponsoring congregations of CHS. Neither CHS nor any of its affiliates are System Affiliates under the Master Indenture.

Future Mergers, Acquisitions or Divestitures within the CHE Health System

From time to time, CHE may enter into discussions with health systems and providers concerning membership in the CHE Health System and/or their designation as a Designated Affiliate or Member of the Obligated Group. CHE promotes growth of the CHE Health System by encouraging its members to develop locally integrated networks with other providers and physicians in their service areas, including joint operating arrangements. CHE discusses opportunities for merger, affiliation or other collaboration from time to time. These discussions could result in the addition of corporations to the CHE Health System and/or the addition of Designated Affiliates or Members of the Obligated Group, the withdrawal of System Affiliates from the CHE Health System or as Designated Affiliates or Members of the Obligated Group or the purchase or sale of property or facilities. Any such discussions are preliminary in nature and do not necessarily indicate an intention to expand or contract the CHE Health System or the addition or withdrawal of Designated Affiliates or Members of the Obligated Group. Management of CHE cannot conclude whether any affiliation, purchase, sale, addition or withdrawal will result from any such discussions. The consummation of any such transaction will be based upon individual circumstances and conditions and the effect of any such transaction on the CHE Health System cannot be predicted.

CHE has in the past and will in the future make investments in certain of its subsidiaries and affiliates, including subsidiaries and affiliates that are not Members of the Obligated Group. Some of these investments may involve material amounts. Significant potential and recent changes in the CHE Health System are described in this Appendix A.

FINANCIAL AND OPERATING INFORMATION

General

The summary financial information under this caption reflects the financial condition and operating results of the CHE Health System, including all System Affiliates, for the periods described below. This information should be read in conjunction with the audited consolidated financial statements of CHE for the two fiscal years ended December 31, 2010 and 2011 included as **APPENDIX B** to this Official Statement, the related notes and the other financial information included herein.

The financial information for the three month periods ended March 31, 2011 and 2012 has been derived from the unaudited consolidated financial statements of CHE and includes all adjustments, consisting of normal recurring accruals, which CHE considers necessary for a fair presentation of the financial position and results of operations for these periods. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the entire fiscal year ended December 31, 2012.

As described above under the caption "**Recent Developments Affecting the CHE Health System,**" the statement of operations reflects the activity of SPHP (including NEH and Seton) from the date of that transaction (October 1, 2011) to December 31, 2011. CHE recorded contribution income of \$374,819,000 reflecting the fair value of the contributed net assets of NEH and Seton on the transaction date.

CHE affiliates that are BayCare JOA Participants, and CHE's membership interest in CHS are each recorded and disclosed in the financial statements of CHE under the "equity" method of accounting. Therefore, the financial information relating to CHS and the affiliates that are BayCare JOA Participants is reflected as "Investments in Unconsolidated Organizations" on the consolidated balance sheets of CHE included in **APPENDIX B** to this Official Statement. Net income from these unconsolidated organizations is included in total operating revenue in the Statement of Operations of CHE. Such presentation does not consolidate the assets (including cash and investments) or liabilities (including long-term indebtedness) of CHS or the CHE affiliates that are BayCare JOA Participants, and does not consolidate their revenues and expenses, but rather presents CHE's investment in the net assets of these affiliates and its equity interest in the change in such net assets. Neither CHE nor the Obligated Group are obligated on any long-term indebtedness of CHS or the CHE affiliates that are BayCare JOA Participants.

Consolidated Summary Statement of Operations and Changes in Unrestricted Net Assets - CHE Health System

The following table presents the consolidated summary statement of operations and changes in the unrestricted net assets of the CHE Health System for each of the years ended December 31, 2010 and 2011 and the three months ended March 31, 2011 and 2012.

Consolidated Summary Statement of Operations and Changes in Unrestricted Net Assets

(Numbers in Thousands)

| | Fiscal Year Ended December 31, | | Three Months Ended March 31, | |
|---|--------------------------------|-------------|------------------------------|-----------|
| | 2010 | 2011 | 2011 | 2012 |
| Revenue: | | | | |
| Net patient service revenue | \$3,774,570 | \$4,018,757 | 908,219 | 1,070,748 |
| Other operating revenues | 267,469 | 322,693 | 66,535 | 83,442 |
| | 4,042,039 | 4,341,450 | 974,754 | 1,154,190 |
| Expenses: | | | | |
| Salaries, wages and benefits | 2,049,423 | 2,201,788 | 522,314 | 637,701 |
| Medical supplies and drugs | 585,859 | 579,299 | 148,671 | 160,364 |
| Purchased services, professional fees and other expenses | 843,273 | 968,582 | 214,542 | 260,296 |
| Depreciation and amortization | 170,354 | 183,319 | 43,796 | 53,777 |
| Interest | 56,301 | 61,311 | 14,737 | 16,212 |
| Insurance | 48,073 | 49,620 | 17,282 | 19,711 |
| Provision for bad debts | 251,643 | 249,218 | (9) | 0 |
| | 4,004,926 | 4,293,137 | 961,333 | 1,148,061 |
| Operating Income before losses from St. Joseph's Health System: | 37,113 | 48,313 | 13,421 | 6,129 |
| Losses from St. Joseph's Health System | (20,679) | (31,249) | (847) | 0 |
| Operating Income (including losses from St. Joseph's Health System): | 16,434 | 17,064 | 12,574 | 6,129 |
| Investment returns, net | 87,900 | 9,118 | 34,224 | 62,721 |
| Equity in gains in earnings of unconsolidated organizations (2) | 163,776 | 93,536 | 46,960 | 70,489 |
| Restructuring expenses and impairment losses | (17,364) | (5,588) | (406) | 0 |
| Gain (loss) on sale of assets | 334 | 100,707 | (44) | 159 |
| Unrestricted contribution income – St. Peter's Health Partners | 0 | 322,947 | 0 | 0 |
| Other non-operating gains | 671 | 2,626 | 86 | 0 |
| Gain (loss) on extinguishment of debt | 657 | (539) | (3) | 0 |
| Change in value of derivative financial instruments | (13,036) | (1,232) | 9,321 | 13,122 |
| Excess of Revenue over Expenses | 239,372 | 538,639 | 102,712 | 152,620 |
| Change in unrealized gain (loss) on available-for-sale securities (1) | 4,704 | (3,638) | 1,759 | 2,829 |
| Decrease in pension liability adjustment – consolidated organizations | (37,096) | (143,002) | (599) | (55) |
| Decrease in pension liability adjustment – unconsolidated organizations | (8,585) | (30,485) | 0 | 0 |
| Cumulative effect of change in accounting principle - goodwill | (32,625) | 0 | 0 | 0 |
| Loss from discontinued operations | (48,046) | (38,527) | (3,933) | (3,867) |
| Net assets released from restriction for capital expenditures | 14,967 | 35,478 | 0 | 0 |
| Other changes | 2,321 | 12,080 | 2,264 | (1,159) |
| Increase in Unrestricted Net Assets | \$135,012 | \$370,545 | \$102,223 | \$150,368 |

(1) All investment income (realized and unrealized) is reported as one line called investment return in the non-operating section of the consolidated Statement of Operations (except for investment income from Foundations which is reported as a separate line and included in Operating Income).

Based on management's continued assessment of evaluation of the organization's investment portfolios relative to investment philosophy and strategy and applicable accounting guidance, CHE financial management determined that all investments (except those designated as either temporarily and permanently restricted investments) are more appropriately classified as trading and the unrealized gains (losses) on investments have appropriately been included as part of investment returns, net in the non-operating section of the Statement of Operations.

(2) CHE's share of equity in unconsolidated organizations is classified as a non-operating gain in the consolidated statement of operations.

Consolidated Summary Balance Sheets - CHE Health System

The following table presents the consolidated summary balance sheets of the CHE Health System at December 31, 2010 and 2011 and at March 31, 2012.

| | <i>(Numbers in Thousands)</i> | | |
|---|---------------------------------------|--------------------|--|
| | <u>Fiscal Year Ended December 31,</u> | | <u>Unaudited</u> |
| | <u>2010</u> | <u>2011</u> | <u>Three Months</u> <u>Ended March 31,</u> <u>2012</u> |
| ASSETS | | | |
| Current Assets: | | | |
| Cash & Short-term Investments | \$540,149 | \$894,095 | \$765,579 |
| Patient Accounts Receivables, net | 489,120 | 465,386 | 513,688 |
| Other Accounts Receivable | 137,811 | 119,132 | 126,216 |
| Prepaid Expenses and Inventories | 123,386 | 116,985 | 113,852 |
| Collateral received on securities pledged | 35,104 | 130,364 | 100,192 |
| Assets Held for Sale | 214,724 | 27 | 0 |
| Total Current Assets | 1,540,294 | 1,725,989 | 1,619,527 |
| Investments | 408,382 | 429,986 | 540,221 |
| Marketable Securities Whose Use is Limited: | | | |
| Board Designated Funds | 371,095 | 363,459 | 392,223 |
| Trustee Held Funds | 211,623 | 174,154 | 166,957 |
| Donor Restricted Funds | 72,467 | 126,342 | 133,843 |
| Property, Plant & Equipment, net | 1,723,102 | 2,070,526 | 2,080,580 |
| Investments in Unconsolidated Organizations | 1,325,201 | 1,450,068 | 1,528,843 |
| Equity investments in managed funds | 286,121 | 250,982 | 257,502 |
| Assets held for sale | 161,159 | 36,117 | 41,670 |
| Other Assets | 136,619 | 229,547 | 228,176 |
| Total Assets | \$6,236,063 | \$6,857,170 | \$6,989,542 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Current Portion of Long-Term Debt and capital lease obligations | \$58,306 | \$75,258 | \$71,157 |
| Current portion of variable rate demand obligations classified as current | 29,518 | 17,332 | 17,332 |
| Accounts Payable and Accrued Expenses | 625,432 | 647,928 | 685,908 |
| Collateral due broker on securities pledges | 35,104 | 130,364 | 100,192 |
| Other | 262,193 | 304,967 | 301,965 |
| Liabilities Related to Assets Held for Sale | 28,307 | 18,850 | 18,850 |
| Total Current Liabilities | 1,038,860 | 1,194,699 | 1,195,404 |
| Long-Term Debt, net | 1,669,177 | 1,534,848 | 1,539,162 |
| Deferred Revenue from Entrance Fees | 45,679 | 92,085 | 91,345 |
| Pension Liabilities | 290,536 | 438,537 | 432,772 |
| Insurance Liabilities, net of current portion | 303,718 | 295,981 | 296,857 |
| Other Liabilities | 143,781 | 159,117 | 128,510 |
| Total Liabilities | 3,491,751 | 3,715,267 | 3,684,050 |
| Net Assets: | | | |
| Unrestricted | 2,584,038 | 2,954,583 | 3,104,951 |
| Temporarily Restricted | 132,304 | 140,614 | 153,043 |
| Permanently Restricted | 27,970 | 46,706 | 47,498 |
| Total Net Assets | 2,744,312 | 3,141,903 | 3,305,492 |
| Total Liabilities and Net Assets | \$6,236,063 | \$6,857,170 | \$6,989,542 |

Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management of CHE to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any.

Management of CHE considers critical accounting policies to be those that require the more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net operating revenues, which includes contractual allowances; impairment of long-lived assets; accounting for expenses in connection with restructuring activities; provisions for bad debt; and reserves for losses and expenses related to health care professional and general liability risks. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgment and estimates. Actual results could differ materially from those estimates.

Outstanding Debt and Derivative Financial Instruments

As of March 31, 2012, long term debt of CHE totaled \$1.63 billion, of which \$660.0 million represents debt of non-obligated group System Affiliates. In addition to the issuance of the Bonds, from time to time CHE may incur or guarantee debt for capital improvements, equipment acquisitions or other corporate purposes within the CHE Health System, or to refinance outstanding debt of System Affiliates. In addition, if other health care providers become part of the CHE Health System, CHE may from time to time incur or guarantee debt in connection with such transactions.

As of March 31, 2012, CHE had a total of twenty seven interest rate swap transactions with notional amounts totaling \$971.3 million, which have been entered into for the purpose of reducing total interest expense. Additionally, CHE had four outstanding cost of funds swaps with a notional amount of \$27.7 million that are used to convert the Series 2007 index bonds to a fixed rate. As of March 31, 2012, the market value of all interest rate swap transactions represented an asset of \$2.6 million, which is included in the consolidated CHE balance sheet as other assets. The market value of CHE's interest rate swap transactions has increased by \$12.8 million between December 31, 2011 and March 31, 2012. This increase in market value is reflected in Excess of Revenues Over Expenses for the three months ended March 31, 2012. As of March 31, 2012, CHE has not posted any collateral under its swap agreements. CHE may in the future enter into other similar financial arrangements, including additional interest rate swaps or similar hedging arrangements. In addition to the interest rate swaps described in this paragraph, there are approximately \$51.5 million of interest rate swaps with a market value of (\$4.8 million) as of March 31, 2012, currently in place related to existing debt of SPHP.

Investment in Information Technology

CHE is committed to transforming and advancing patient care through the use of information technology with the goals of improving quality and care consistency, operational efficiency, interoperability within each hospital and across the care continuum, clinician and physician satisfaction and patient satisfaction as well as reducing the overall cost of care. To further these goals, CHE has dedicated significant resources to implement CareLink, its system-wide initiative that focuses on providing technology support required to implement a system of evidence-based care throughout the CHE Health System. Over the next five years, CHE plans to invest approximately \$320 million in the CareLink project, a portion of which (presently estimated to be approximately \$72 million) CHE intends to finance with additional long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As described elsewhere herein, the financial information concerning the CHE Health System included in this APPENDIX A and in APPENDIX B to this Official Statement reflects the inclusion of the System Affiliates that are BayCare JOA Participants and CHE's membership interest in CHS in accordance with GAAP under the "equity" method of accounting. Such presentation does not consolidate the assets (including cash and investments) or liabilities (including long-term indebtedness) of these System Affiliates, and does not consolidate their revenue and expenses, but rather presents CHE's investment in the net assets of these affiliates, and its equity interest in the change in such net assets. CHE's share of the earnings from these Unconsolidated Organizations is included in Operating Revenue in the Statement of Operations included in APPENDIX A and APPENDIX B as Income from Unconsolidated Organizations.

Included in this **APPENDIX A** is financial information for the three months ended March 31, 2011 and 2012.

Balance Sheet

As of December 31, 2011, total assets increased by \$621.1 million, or 10.0%, to \$6.86 billion, over December 31, 2010. Total cash and investments increased by 18.4% to \$1.76 billion at December 31, 2011, an increase of \$274 million over the prior year end. Days cash on hand improved from 151.8 to 152.7 over the same period. While the absolute level of cash increased, the days cash metric reflects the addition of NEH and Seton expenses into the CHE Health System.

Net patient accounts receivable decreased by 4.9% (\$23.7 million) from December 31, 2010 to December 31, 2011. Days in accounts receivable also declined from 39.2 to 38.7. The days in AR metric is currently at a historical low for the CHE Health System, reflecting strong revenue management function led at the System office.

Long term debt declined by \$134.3 million from December 31, 2010 to December 31, 2011. This decrease is the result of the repayment of Mercy Miami debt issuances of \$119.0 million, the contribution of SJHS debt into the JOC with Emory Healthcare of \$125.0 million, offset by the contribution of the debt of NEH and Seton to SPHP of \$118.5 million. There were no new debt issuances during 2011.

The increase in cash and investments and decrease in long-term debt resulted in an increase in the cash to debt ratio from 88.2% at December 31, 2010 to 114.3% as of December 31, 2011. The decreased long term debt also resulted in a reduction in debt to capitalization from 40.5% at December 31, 2010 to 35.4% at December 31, 2011.

Total net assets increased 14.4% from December 31, 2010 to December 31, 2011. The primary drivers of this increase are operating income before losses from St. Joseph's Health System of \$48.3 million, contribution income of \$317.8 million from the contributed unrestricted net assets of NEH and Seton, and gains on the sale of assets (primarily Mercy Health Plan interests) of \$100.7 million. These gains are offset by losses from SJHS of \$34.1 million, and an unfavorable pension adjustment of \$165.2 million.

For the three months ended March 31, 2012, total cash and investments declined by \$23 million while days cash on hand declined by 7.9 days to 144.8, reflecting the adoption of the Health Insurance Portability and Accountability Act (HIPAA) 5010 requirements on January 1, 2012 which caused temporary delays in accounts receivable collections.

Accordingly, net patient accounts receivable increased by \$48.3 million, resulting in days in accounts receivable of 43.7 days. This increase of 5.0 days is also due to the change in classification of the provision for doubtful accounts, which is presented as a component of net patient service revenue January 1, 2012. Certain system conversions have also contributed to a temporary delay in collections.

There have been no debt issuances during the three months ending March 31, 2012 and there has been no change in total debt during that period.

Total net assets have increased 5.2% (\$163.6 million) from December 31, 2011 to March 31, 2012 driven by operating income before losses from St. Joseph's Health System, income from joint operating agreements and net investment gains from the CHE investment program.

Statement of Operations

Operating revenue for the year ended December 31, 2011 totaled \$4.34 billion, an increase of \$299 million over the prior year. Total net patient service revenue for 2011 increased by 6.5% over the prior year, and total operating revenue increased by 7.4%. On a same facility basis, total operating revenue increased by 4.1% from 2010 to 2011. Traditional charity care totaled \$101.0 million in 2011, a decrease of 1.9% from the prior year, as Mercy Hospital in Miami's results did not reflect a full year of service in 2011.

Total operating expenses increased by 7.2% in 2011. Labor costs (salaries and benefits) increased by 7.4% from 2010 to 2011 but remained constant as a percentage of total operating revenue at 50.7%. Supply and drug costs declined by \$6.5 million, decreasing as a percentage of net patient service revenue from 15.5% in 2010 to 14.4% in 2011.

The CHE Health System's benefit plan expense increased from \$55 million in 2010 to \$58 million in 2011, however the portion of the expense attributable to defined benefit pension plans dropped from \$23 million in 2010 to \$17 million in 2011. Sixteen (16) of the System's seventeen (17) defined benefit pension plans within the CHE Health System were fully frozen in 2010 and transitioned to defined contribution plans. The one remaining active benefit plan will be frozen on July 1, 2012.

As revenue growth outpaced expense growth, operating income before losses from St. Joseph's Health System improved to \$48.3 million in 2011, an increase of \$11.2 million over the prior year. For the three months ending March 31, operating income before losses from St. Joseph's Health System totaled \$6.1 million in 2012 versus \$13.4 million for the three months ended March 31, 2011. Increased expenses for implementing the system-wide electronic health record along with higher merger related costs at SPHS account for the decline in profitability in the first quarter.

During 2011, each Regional Health Corporation within CHE participated in a strategic repositioning process with the understanding that margins would need to be higher to carry out the mission under healthcare reform. Strategic initiatives and associated tactics were developed at the RHCs based on sound market analyses, and prioritized with rationale and reasonable assumptions. This work led to revised strategic plans for each RHC focused on achieving sustainable margins and improved financial performance in the future.

Sources of Revenue

The System Affiliates derive their net patient revenue from Medicare, state Medicaid programs, managed care providers, commercial insurers, self-paying patients and other sources. The following table presents the sources of patient service revenue for the CHE Health System (excluding CHS and the affiliates that are BayCare JOA Participants) for the periods indicated. The sources of revenue of the CHE Health System can be expected to change from time to time. For further information respecting the sources of revenue, see the forepart of this Official Statement under the caption "BONDHOLDERS' RISKS--Payment and Reimbursement."

| Sources of Revenue | | | |
|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2009 | December 31, 2010 | December 31, 2011 |
| Medicare | 37.0% | 38.1% | 38.3% |
| Medicaid | 7.2 | 7.6 | 7.2 |
| Self Pay | 5.3 | 5.7 | 5.7 |
| Managed Care | 37.3 | 34.6 | 35.1 |
| Commercial | 8.6 | 9.9 | 9.5 |
| Other | <u>4.6</u> | <u>4.1</u> | <u>4.2</u> |
| Total | 100.0% | 100.0% | 100.0% |

Pro Forma Debt Service Coverage

The following table sets forth the pro forma maximum annual debt service coverage ratio of the CHE Health System and the Obligated Group, assuming for purposes of calculation that the Bonds were issued and the proceeds thereof were applied on the first day of each fiscal year. For purposes of this debt service coverage table, the Income Available for Debt Service includes CHE's income from unconsolidated organizations (including, without limitation, CHS and the BayCare JOA Participants). As described above under the caption "FINANCIAL AND OPERATING INFORMATION," the results of operations and financial position of CHS, which is not a System Affiliate, and CHE affiliates that are BayCare JOA Participants, are not consolidated with CHE in the same manner as other System Affiliates.

| | Pro Forma Debt Service Coverage (Dollars in Thousands) | | | | | |
|---|---|------------------|------------------|------------------|------------------|-----------------|
| | CHE System | | Obligated Group | | CHE System | Obligated Group |
| | December 31, | | | | March 31, | |
| | 2010 | 2011 | 2010 | 2011 | 2012 | 2012 |
| Excess of Revenue Over Expenses before restructuring expenses, impairment losses, non-recurring charges and earnings in managed funds | \$16,434 | \$17,064 | \$32,599 | \$53,830 | \$6,129 | \$8,541 |
| Equity in gains in earnings of unconsolidated subsidiaries included in non-operating gains and losses | 163,776 | 93,536 | 3,304 | 5,539 | 70,489 | (990) |
| Interest on Long-Term Debt | 56,301 | 61,311 | 31,132 | 29,783 | 16,212 | 7,689 |
| Depreciation and Amortization | <u>170,354</u> | <u>183,319</u> | <u>131,754</u> | <u>137,157</u> | <u>53,777</u> | <u>33,844</u> |
| Income Available for Debt Service | <u>\$406,865</u> | <u>\$355,230</u> | <u>\$198,789</u> | <u>\$226,309</u> | <u>\$146,607</u> | <u>\$49,084</u> |
| Pro Forma Maximum Annual Debt Service Requirements ⁽¹⁾ | \$117,600 | \$117,600 | \$69,700 | \$69,700 | 29,400 | \$17,425 |
| Pro Forma Maximum Annual Debt Service Coverage Ratio | 3.46x | 3.02x | 2.85x | 3.25x | 4.99x | 2.82x |

¹ Pro Forma Maximum Annual Debt Service assumes the issuance of the Bonds and the application of the proceeds thereof. For the period ended March 31, 2012, the historical maximum annual debt service is calculated to be three-twelfths of the Pro Forma Maximum Annual Debt Service Requirements.

Capitalization

The following table sets forth both the historical capitalization of the CHE Health System and the Obligated Group.

| | Historical Capitalization (Dollars in Thousands) | |
|---|---|---|
| | CHE Health System March 31, 2012 | Obligated Group March 31, 2012 |
| Outstanding Long-Term Debt | \$1,627,651 | \$ 967,206 |
| Less: Current Maturities | 71,157 | 42,008 |
| Less: Current Portion of Variable Rate Demand Obligations | <u>17,332</u> | <u>17,332</u> |
| Net Long-Term Debt | <u>\$1,539,162</u> | <u>\$907,866</u> |
| Unrestricted Net Assets | \$3,104,951 | \$2,286,661 |
| Percent Long-Term Debt to Capitalization | <u>33.1%</u> | <u>28.4%</u> |

Liquidity

As of March 31, 2012, the entities comprising the CHE Health System (excluding CHS and the affiliates that are BayCare JOA Participants, as described above) have consolidated cash and investments and board designated investments of approximately \$1.96 billion. CHE has a Consolidated Investment Program and a Cash Management Program, which represents the majority of all cash and investments of the System Affiliates. The Consolidated Investment Program is managed by CHE corporate finance management with direct oversight from the CHE Investment Committee. CHE has retained various investment managers to oversee its investments in different classes of securities according to asset allocation targets that CHE sets in accordance with CHE's comprehensive asset and liability management program.

The Cash Management Program aggregates the operating cash of all System Affiliates into a single concentration account that is used to cover all disbursements. Initial program benefits are control of funds flow, reduced banking costs, enhanced short-term investment results and efficiencies through the use of the latest banking technology and systems. The combination of CHE's Cash Management Program and Consolidated Investment Program is invested such that \$1.5 billion could be converted to cash within 30 days.

In addition to the above referenced liquid balances, CHE maintains a \$200 million revolving line of credit with a group of five commercial banks to provide readily available funding for short-term working capital and/or permanent capital purchases in anticipation of external borrowing or for other temporary capital requirements. At CHE's option, the line can be increased to \$250 million. As of March 31, 2012, draws on the line of credit totaled \$141.1 million, of which \$34.5 million related to letters of credit.

The CHE System also maintains certain letters of credit to support certain series of outstanding variable rate demand bonds. For a description of these letters of credit and their related expiration dates, see footnote 10 of the audited consolidated financial statements of CHE for the two fiscal years ended December 31, 2010 and 2011 included as **APPENDIX B** to this Official Statement.

Utilization Statistics - CHE Health System

The following table shows selected summary utilization statistics for the health care facilities operated by the System Affiliates (other than the affiliates that are Baycare JOA Participants) for the fiscal years ended December 31, 2010, 2011 and the three month periods ended March 31, 2011 and 2012. As described above, CHS is not a System Affiliate, and the information set forth in the following table does not include utilization statistics for the health care facilities operated by CHS.

| | Fiscal Year Ended December 31, | | Three Month Period Ended March 31, | |
|---|-----------------------------------|-----------|---------------------------------------|-----------|
| | 2010 | 2011 | 2011 | 2012 |
| Acute Care¹: | | | | |
| Beds in Operation | 3,905 | 4,349 | 3,790 | 4,028 |
| Total Discharges | 189,382 | 184,620 | 45,674 | 48,411 |
| Total Patient Days | 949,774 | 936,506 | 232,353 | 241,561 |
| Average Length of Stay | 5.02 | 5.07 | 5.09 | 4.99 |
| Outpatient, Primary Care and Emergency Room Visits | 3,622,387 | 3,876,190 | 799,429 | 1,098,022 |
| Long-Term Care: | | | | |
| Long-Term Care/Skilled Nursing Facility Patient Days | 580,757 | 621,018 | 134,014 | 176,281 |
| Other: | | | | |
| Home Health Visits | 643,367 | 775,737 | 224,125 | 255,988 |

¹ Excludes entities classified as discontinued operations

CORPORATE ORGANIZATION, GOVERNANCE AND MANAGEMENT

Sponsoring Organizations and Sponsors Council

CHE is sponsored by nine "Sponsoring Organizations." Eight of the sponsors are either Regional Communities of the Institute of the Sisters of Mercy of the Americas or other religious congregations of the Roman Catholic Church, and the ninth is Hope Ministries, a Public Juridic Person of the Pontifical Right (Hope Ministries). One representative from each Sponsoring Organization together with each Member of Hope Ministries comprises the Sponsors Council. The Sponsors Council is vested with certain powers over the organization and development of CHE and the CHE Health System.

The initial Sponsoring Organizations were the Franciscan Sisters of Allegany, New York; the Franciscan Sisters of St. Joseph of Hamburg, New York; the Sisters of Providence, Massachusetts; and the Regional Communities of the Institute of the Sisters of Mercy of the Americas of Albany, Baltimore, Buffalo, Connecticut, Merion, New York, Pittsburgh, Portland and Rochester. In February, 1999, the Sisters of St. Joseph of St. Augustine, Florida, became a sponsor of CHE. In 2001, Hope Ministries, Newtown Square, Pennsylvania, became a sponsor of CHE, in 2003, Sisters of Charity of Seton Hill, Greensburg, Pennsylvania, became a sponsor of CHE, and in 2004, the Congregation of Sisters, Servants of the Immaculate Heart of Mary, Scranton, Pennsylvania, became a sponsor of CHE. In July 2006, the Regional Communities of the Institute of the Sisters of Mercy of the Americas of Albany, Connecticut and Portland merged into the new Sisters of Mercy of the Americas, Northeast Community. As of January 1, 2007, the Regional Communities of the Institute of the Sisters of Mercy of the Americas of Merion and New York merged into the new Mercy Mid-Atlantic Community. In July 2008, the Regional Communities of the Institute of the Sisters of Mercy of the Americas of Pittsburgh, Buffalo and Rochester merged into the new Sisters of Mercy of the Americas, New York, Pennsylvania, Pacific West Community. In September 2008, the Regional Community of the Institute of the Sisters of Mercy of the Americas of Baltimore merged into the new Sisters of Mercy

of the Americas, South Central Community. Effective April 1, 2009, the Franciscan Sisters of St. Joseph of Hamburg, New York withdrew from Sponsorship and the CHE Sponsors Council; and effective March 15, 2012, the Sisters, Servants of the Immaculate Heart of Mary withdrew from Sponsorship and the CHE Sponsors Council.

Board of Directors

The Board of Directors of CHE consists of 16 individuals, 14 of whom are elected by the Sponsors Council, plus the President of CHE and the Sponsors Council Coordinator of CHE, both of whom serve as a voting ex-officio Director. The following are the current members of the Board of Directors:

| <u>Name</u> | <u>Professional Affiliation</u> | <u>Term Expires</u> |
|--------------------------------------|--|---------------------|
| John C. Babka, MD FACP, FACPE, FACHE | Consultant and Clinical Professor of Medicine and Family Practice, University of South Florida College of Medicine | 2014 |
| Rev. William J. Byron, SJ | University Professor of Business and Society at St. Joseph's University in Philadelphia. | 2013 |
| Sr. Avril Chin-Fatt, OSF | General Minister, Franciscan Sisters of Allegany | 2012 |
| Eugene Davidson, MD | Assistant Clinical Professor of Surgery, Emory University School of Medicine | 2012 |
| Sr. Mary M. Fanning, RSM | Assistant Professor of Business and Economics College of Notre Dame of Maryland | 2014 |
| Dennis A. Fitzpatrick, <i>Chair</i> | President The O'Connell Companies, Inc. | 2014 |
| Barry R. Furrow | Professor, Drexel University Earle Mack School of Law; Director, Health Law Program, Drexel University Earle Mack School of Law; Associate, Center for Bioethics, University of Pennsylvania | 2012 |
| Mary Catherine Karl | Principal in Surgical Safety Institute which brings aviation safety techniques into hospital operating rooms | 2012 |
| Sr. Therese O'Rourke, IHM | President, Congregation of the Sisters, Servants of the Immaculate Heart of Mary, Scranton, PA. | 2014 |
| Judith M. Persichilli Ex-Officio | President and Chief Executive Officer Catholic Health East | N/A |
| Michael J. Rooney | Former President, M & C Consulting Inc. | 2014 |
| Sr. Margaret Taylor, RSM | Member of the Sisters of Mercy of the Americas, Mid-Atlantic Community; Director of Sponsorship for the Mid-Atlantic Community | 2014 |
| Roberta L. Waite, Ed.D. | Assistant Dean of Academic Integration and Evaluation of Community Programs, Drexel University, Eleventh Street Family Health Services | 2014 |
| Sr. Mary Anne Weldon, RSM, CSW | Currently working with Neighborhood Legal Services of Western New York | 2014 |

| <u>Name</u> | <u>Professional Affiliation</u> | <u>Term Expires</u> |
|---|--|---------------------|
| Michael Wert, <i>Vice Chair</i> | Consultant, Previously Co-Founder, Vice Chairman and CEO of DiMark, Inc. | 2012 |
| Sr. Barbara Wheeley, RSM, CHE Sponsors Council Coordinator Ex-Officio | Member of Sisters of Mercy of the Americas, South Central Community; formerly president of the Sisters of Mercy, Regional Community of Baltimore, Maryland | N/A |

Management

The management of CHE is vested in the President of CHE, who is appointed by the Board of Directors. Biographical information regarding the President and the other members of CHE's senior management is set forth below.

Judith M. Persichilli, President and Chief Executive Officer. Prior to assuming her current position in 2010, Mrs. Persichilli was the CHE Health System's Executive Vice President and Chief Operating Officer. Before that, Mrs. Persichilli served as CHE's Executive Vice President – Acute Care Division for six years. Mrs. Persichilli was also President and CEO of St. Francis Medical Center, Trenton, NJ from 1995 to 2003. Mrs. Persichilli began her healthcare career as a nurse, graduating in 1968 from St. Francis Hospital's School of Nursing. She graduated summa cum laude from Rutgers University in 1976 with a bachelor's degree and summa cum laude from Rider College in 1980 with a master's degree in Administration. Mrs. Persichilli is a member of various community affiliations and boards including the Health Care Administration Board of New Jersey where she was appointed by Governor Cody, the New Jersey Health Care Quality Institute Board of Directors, the Hopewell Valley Community Bank Board of Directors, the Kerney Foundation Board of Trustees. Mrs. Persichilli was appointed to the AHA Health Care Systems Governing Council in January 2012. Additionally, she currently serves on the United Health Group Hospital Executive Advisory Council and was invited to serve on the Healthcare Financial Management Association's Healthcare Leadership Council for a two-year term beginning in May 2012.

Peter L. DeAngelis, Jr., Executive Vice President and Chief Operating Officer. Mr. DeAngelis is responsible for providing mission and values-based leadership, direction, support and assistance to CHE's operating divisions to optimize operational effectiveness and strategic position. From 2003 to 2010, he served as CHE's Executive Vice President and Chief Financial Officer. Prior to joining CHE, Mr. DeAngelis was an executive with the University of Pennsylvania Health System from 1997 – 2003, where he served most recently as the Senior Vice President and Chief Financial Officer. Before that, he was the Chief Financial Officer for the Germantown Hospital and Medical Center in Philadelphia from 1992 to 1997. He held a similar position for the Philadelphia Child Guidance Center from 1990 to early 1992. A graduate of LaSalle University, Mr. DeAngelis earned a Bachelor of Science Degree in Accounting in 1979. He went on to earn an M.B.A. in accounting from LaSalle in 1985 and became a Certified Public Accountant that same year. He is a diplomat of the American College of Healthcare Administrators, and a fellow of the Healthcare Financial Management Association (HFMA). He presently serves on the HFMA National Board.

John Johnson, Executive Vice President, Ministry Operations. Mr. Johnson joined the Catholic Health East Senior Management Team in May 2010. In his role, Mr. Johnson provides oversight for CHE's ministries in the southeastern United States. For the prior 12 years, Mr. Johnson served as President and Chief Executive officer of Holy Cross Hospital in Ft. Lauderdale, Fla. Since 2008, he concurrently served as President and Chief Executive officer at Mercy Hospital in Miami, Fla. Previously, Mr. Johnson was CEO of Tenet Healthcare Corporation's Palmetto General Hospital in Hialeah, Fla., since 1995. He has also served as President and CEO of Mercy Medical Center in Rockville Center, N.Y. and Berkshire Health System in Pittsfield, Mass. along with holding other administrative positions for Eastern Maine Medical Center in Bangor, Maine and Rogers Memorial Hospital in Washington, D.C. Mr. Johnson earned a Bachelor of Arts in Zoology from the University of Maine and a Master of Arts in Healthcare Administration from George Washington University. He is a Fellow of the American College of Healthcare Executives.

H. Ray Welch, Executive Vice President, Ministry Operations. Mr. Welch joined the Catholic Health East Senior Management Team as Executive Vice President, Ministry Operations in September 2010. Mr. Welch had served as President and Chief Executive Officer of Mercy Health System of Southeastern Pennsylvania (MHS SEPA), since 2005. In his role as Executive Vice President, Mr. Welch provides oversight for CHE's ministries in the mid-Atlantic region and provides system-wide leadership in enhancing regional strategies and ambulatory development. Prior to joining Mercy, Mr. Welch had more than 20 years of health care management experience with ARAMARK Corporation, Johnson & Johnson and Pharmacia. Mr. Welch earned a Business Degree from Bethel College in South Bend, Indiana.

Jenny Barnett, Executive Vice President and Chief Financial Officer. Ms. Barnett is responsible for financial oversight and stewardship of CHE and serves as a member of the organization's Senior Management Team. Prior to assuming her current position, Ms. Barnett served as CHE's Executive Vice President of Finance, and prior to that she was the System's Vice President of Finance and Chief Accounting Officer. Before joining CHE in 2006, Ms. Barnett was at Texas-based CHRISTUS Health where she served as system director of finance and corporate controller. Prior to serving at CHRISTUS Health, she was the director of accounting at Memorial Hermann Healthcare System in Houston, Texas and the assistant director of accounting at Hermann Hospital located in the Texas Medical Center in Houston, Texas. Before entering the health care industry, Ms. Barnett was in public accounting. Ms. Barnett is a certified public accountant and holds a Bachelor's Degree in Accounting from Louisiana State University.

John A. Capasso, President and Chief Executive Officer Continuing Care Management Services Network. Mr. Capasso has been employed by Catholic Health East since 2001 and has more than 25 years of experience in health care and senior living services. Prior to his current role, Mr. Capasso served as the President and Chief Executive Officer of St. Joseph of the Pines Health System, a continuing care ministry providing a variety of housing and health care services to seniors in central North Carolina. Prior to joining St. Joseph of the Pines, Mr. Capasso served in a variety of executive roles at Asbury Services, Gaithersburg, Md., a provider of senior living services across multiple states. Before joining Asbury, he was Assistant Vice President of Clinical Services at Holy Cross Hospital in Silver Spring, Md. Mr. Capasso holds a Master of Science Degree in Health Services Administration from George Washington University; a Bachelor of Arts Degree in Biology from Geneva College, Beaver Falls, Pa.; and is a certified health care executive with the American College of Healthcare Executives. He is also a licensed nursing home administrator.

Clayton Fitzhugh, Executive Vice President, Shared Services and Chief Human Resources Officer. Mr. Fitzhugh has been with Catholic Health East since June 2003. As Executive Vice President, Shared Services and Chief Human Resources Officer, he is responsible for improving the quality, efficiency and effectiveness of our shared services in support of our RHCs as well as the overall development and leadership of the human resources and organizational effectiveness function within CHE. Before joining the CHE System Office, he served as Senior Vice President, Human Resources and Operational Performance at Holy Cross Hospital, Fort Lauderdale, Fla., a Regional Health Corporation and member of CHE. In addition, he has served in a variety of capacities involving human resources, quality management, corporate development and training, and general administration in a number of health care and other corporate organizations. Mr. Fitzhugh received his Bachelor of Science from Hyles Anderson College in Crown Point, Ind., in 1980. In addition, he has served two terms as a member of the Board of Examiners for the Malcolm Baldrige National Quality Award.

Michael C. Hemsley, Esq., Executive Vice President, Legal Services and General Counsel. Mr. Hemsley joined Catholic Health East in 1998, first as Vice President for Corporate Compliance and Legal Services, then as Vice President for Legal Services and General Counsel. He was appointed to his current position in 2012. Mr. Hemsley serves as the principal legal advisor to the organization through its Board of Directors and executive management, and is responsible for corporate legal services and counsel. Prior to joining CHE, Mr. Hemsley spent more than 20 years in private practice as a partner with several law firms, last with Wolf, Block, LLP. He is a member of the American Health Lawyers Association, the Pennsylvania Bar Association and the District of Columbia Bar Association. A certified healthcare compliance professional, Mr. Hemsley is a member of the Health Care Compliance Association where he served as a board member and officer. He is a lecturer and author, and was a principal drafter of the series *Corporate Responsibility and Corporate Compliance: A Resource for Health Care Boards of Directors*, sponsored by the American Health Lawyers Association and the Office of Inspector General of the U.S. Department of Health and Human Services. Mr. Hemsley is a member of the adjunct faculty of St. Joseph's University, Philadelphia, PA. Mr. Hemsley received his law degree (J.D.) from Villanova University School of Law, a Master of Arts in Legislative Affairs from The George Washington University, Washington, D.C., and a Bachelor of Science in International Relations from St. Joseph's University in Philadelphia, PA.

Jeffrey I. Komins, M.D., Executive Vice President, Chief Quality Officer/Chief Medical Officer. Dr. Komins joined Catholic Health East as Executive Vice President, Chief Quality Officer/Chief Medical Officer in April 2011. In this role, he is responsible for leading system-wide efforts to improve quality patient care and services, patient safety, enhance physician relationships, and serve as the principle conduit for clinical perspectives throughout CHE. Prior to joining the CHE System Office, Dr. Komins had served since 2006 with Mercy Health System of Southeastern Pennsylvania (MHS SEPA), a member of Catholic Health East, most recently as Chief Medical Officer. Dr. Komins has held a broad range of medical and administrative posts, including Department Chief of Obstetrics and Gynecology and Vice President of Medical Affairs and Clinical Outcomes at Virtua Memorial Hospital in New Jersey. He is a fellow of the American College of Obstetricians and Gynecologists. At a national level, Dr. Komins serves as a member of the Patient Safety and Quality Improvement Committee for the American College of Obstetricians and Gynecologists. He received his medical degree from Hahnemann University Medical College in Philadelphia, Pa., and completed both his internship and residency at the Hospital of the University of Pennsylvania. He is board-certified by the National Board of Medical Examiners and American Board of Obstetrics and Gynecology.

Sr. Mary Persico, I.H.M., Executive Vice President, Mission Integration. Sr. Mary has served as Executive Vice President, Mission Integration at Catholic Health East since September 2010. Previously she served as the CHE Sponsors Council Coordinator and President of the Religious Congregation of the Sisters, Servants of the Immaculate Heart of Mary, Scranton, Pa. Sister Mary has served on several boards including Catholic Health East; Maxis Health System, Carbondale, Pa.; Marywood University, Scranton, Pa.; Our Lady of Grace Montessori School and Center, Manhasset, N.Y.; Lourdesmont School, Clarks Summit, Pa.; and the Guest House for Women Religious Advisory Board, Lake Orion, Mich. She served on the Leadership Conference of Women Religious Finance Committee and is the past president of the Lackawanna County Chapter of Habitat for Humanity International. Sister Mary has spent most of her life in the field of education as teacher, administrator, and adjunct professor. She holds a Bachelor's Degree in French and Education from Marywood College (now University), a Master's Degree in French from Assumption College, Worcester, Mass.; and a Doctoral Degree in Educational Leadership from Lehigh University, Bethlehem, Pa. She was one of the founding members of the African Sisters Education Collaborative (ASEC), a program designed to provide leadership education in business, administration and spirituality to leaders of congregations of women religious in six African countries.

Nora Triola, Ph.D., R.N., N.E.A.-B.C., Executive Vice President and Chief Nursing Officer. Dr. Triola joined Catholic Health East in 2010. She previously held the position of Senior Vice President and Chief Nursing Officer for Holy Cross Hospital (Ft. Lauderdale, Fla.) and Mercy Hospital (Miami, Fla.), both members of CHE. As CNO and a member of CHE's Senior Management Team, Dr. Triola is responsible for leading CHE's nursing practice in anticipating and adapting to changes in the health care environment. She also helps to provide mission and values-based vision and leadership in the achievement of nursing excellence throughout the continuum of care. Dr. Triola has more than 20 years experience in nursing administration, including CNO positions with Broward General Medical Center and Imperial Point Medical Center, in Ft. Lauderdale, Fla., as well as Methodist Hospital in Indianapolis, Ind. Dr. Triola holds a Ph.D. in Nursing from the University of Miami in Coral Gables, Fla., where she also received her Master of Science in Nursing (M.S.N.) degree. She received a Bachelor of Science in Nursing (B.S.N.) from the University of the State of New York, Albany, N.Y., and a Nursing Diploma from St. Vincent's Hospital School of Nursing in New York. She is a Wharton Fellow and serves as a Magnet appraiser for the American Nurses Credentialing Center.

Governance of Certain System Affiliates

Certain powers over the organization and development of each of the CHE Regional Health Corporations and component corporations are reserved to CHE. Among the powers generally reserved to CHE relative to the Regional Health Corporations and component corporations in most cases are the authority to amend articles of incorporation and key corporate bylaws provisions; to authorize significant financial transactions; and to approve the establishment or dissolution of organizational relationships including matters such as partnerships, joint ventures and mergers. CHE generally possesses additional powers in most cases over the Regional Health Corporations, including the authority to appoint and remove Trustees, with or without cause; to adopt the interpretation of philosophy and mission; and in most cases to adopt the consolidated strategic plans and consolidated operating plans and budgets of the Regional Health Corporations and their associated component corporations.

Limitations on Obligations of Certain Members of the Obligated Group and Other System Affiliates

Mercy Hospital, a Member of the Obligated Group that owns and operates an acute care hospital facility in Portland, Maine (referred to herein as Mercy-Maine), is party to a loan agreement with the Maine Health and Higher

Educational Facilities Authority (the Maine Issuer) that limits its ability to transfer funds to CHE. Mercy-Maine has agreed that it will not transfer more than \$3,000,000 to CHE in any fiscal year without the consent of the Maine Issuer, notwithstanding its agreement to be jointly and severally liable on all Obligations issued under the Master Indenture. Additionally, CHE may in the future enter into contractual arrangements with entities pursuant to which such entities will become Designated Affiliates subject to existing contractual limitations that limit their ability to provide funds to CHE for the payment of Obligations.

Employees

As of March 31, 2012 the System Affiliates employed approximately 31,600 full-time equivalent employees. Of this number approximately 7.4% are represented by collective bargaining groups.

Management of CHE believes that the salary levels and benefits packages for employees of the System Affiliates are competitive. Management of CHE believes that the System Affiliates generally have good relationships with their employees.

Accreditations and Memberships

Each of the hospital facilities of the System Affiliates is accredited and/or licensed by The Joint Commission or the appropriate state or regional body, unless such accreditation and/or license is not deemed appropriate by CHE. All of these hospital facilities are licensed, as required, by applicable state licensing agencies and are certified for Medicare and Medicaid reimbursement. The skilled nursing and long-term care facilities of the CHE Health System are licensed, as required, by applicable state licensing agencies and are certified, where applicable, for Medicare and Medicaid reimbursement.

Pending Litigation/Regulatory Matters

The System Affiliates, like all major health care systems, are periodically subject to investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. In addition, the System Affiliates have internal policies and procedures, and have developed and implemented compliance programs, aimed at reducing exposure for violations of these laws and regulations. These investigations and compliance programs seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practices for certain services, maintenance of 501(c)(3) status for certain System Affiliates as well as maintenance of the tax status for any tax-exempt bonds issued for the benefit of the System Affiliate. In addition, as a result of these internal reviews, a System Affiliate could determine that it has violated such laws. Violations could result in substantial monetary fines, civil and/or criminal penalties, exclusion from participation in Medicare, Medicaid or similar programs or threaten the tax exempt status of a System Affiliate or of bonds issued on behalf the System Affiliate.

Nationwide Review of Certain Hospital Charges. The Civil Division of the Department of Justice ("DOJ") contacted CHE in connection with its nationwide review of whether, in certain cases, hospital charges to the federal government relating to implantable cardio-defibrillators ("ICDs") met the Centers for Medicare & Medicaid Services criteria. In connection with this nationwide review, the DOJ indicated that it intends to review certain ICD billing and medical records at certain of CHE's hospitals for the period from October 2002 to the present. The review could potentially give rise to claims against CHE under the federal False Claims Act or other statutes, regulations or laws. At this time, CHE management cannot predict what effect, if any, this review or any resulting claims could have on any Member of the Obligated Group.

Bondholder Litigation and Related Inquiries. CHE and Merrill Lynch, Pierce, Fenner & Smith, one of CHE's underwriters, are named as defendants in an action filed by Emmet & Co, Inc. and First Manhattan Co. (together "Plaintiffs") with respect to three series of bonds issued for the benefit of CHE. Plaintiffs allege that CHE breached the Indentures relating to those bonds and violated the covenant of good faith and fair dealing in the exercise of its optional redemption rights for those bonds in connection with its tender offer for those bonds. CHE filed a motion to dismiss this complaint in November 2011, and in March 2012 the parties appeared in New York Supreme Court for oral argument on CHE's motion to dismiss as well as Plaintiffs' cross-motion for summary judgment. The motions remain pending. In September 2011, CHE received a subpoena from the Securities and Exchange Commission (SEC) seeking the production of certain documents relating to this matter. CHE produced documents in response to this

subpoena in October and December 2011. CHE management does not believe that this matter, if decided adversely to CHE, would have a material adverse effect on the financial condition of the CHE Obligated Group.

Insurance

As of March 31, 2012, certain System Affiliates of CHE are insured for healthcare professional and general liability risks by Stella Maris Insurance Company, Limited (SMICL), a Cayman Island, British West Indies domiciled captive insurance company. CHE is the sole shareholder of SMICL. SMICL was established in 1986. SMICL provides Primary healthcare professional liability coverage of \$3 million per Medical Incident for Acute Care System Affiliates located in all states except Pennsylvania and Florida. SMICL provides Primary healthcare professional liability coverage of \$7 million per Medical Incident for Acute Care System Affiliates located in Pennsylvania and Florida. SMICL provides primary healthcare professional liability coverage for all Long Term Care and Home Health Care System Affiliates of \$2 million per Medical Incident. SMICL provides Primary general liability coverage of \$1 million per occurrence and \$8 million annual aggregate for all System Affiliates irrespective of location. Primary healthcare professional liability coverage is underwritten on a claims made basis. Primary general liability coverage is underwritten on an occurrence basis. SMICL provides "Buffer Layer" healthcare professional liability coverage of \$3 million per medical incident and \$9 million aggregate excess of either \$3 million per medical incident for Acute Care System Affiliates located in all states except Pennsylvania and Florida and \$7 million per medical incident for Acute Care System Affiliates located in Pennsylvania and Florida. SMICL provides Excess healthcare professional liability coverage of \$100 million per Medical Incident and \$100 million aggregate to Acute Care System Affiliates located in all states except Pennsylvania and Florida; \$96 million per Medical Incident and \$96 million aggregate for Acute Care System Affiliates located in Pennsylvania and Florida and \$100 million per medical incident and \$100 million aggregate for Long Term Care and Home Health Care System Affiliates. Coverage is underwritten on a claims made basis. This coverage is 100% reinsured by commercial reinsurers and insurers. SMICL provides Umbrella coverage of \$100 million per occurrence and \$100 million aggregate for risks traditionally covered by an Umbrella program. This coverage is 100% reinsured by commercial reinsurers and insurers. Coverage is underwritten on an occurrence basis. The Excess and Umbrella limits of coverage are shared by all System Affiliates that are participants in the CHE Healthcare Professional and General Liability Insurance Program.

Effective January 1, 2012, SMICL provides Workers' Compensation Coverage to certain System Affiliates of CHE through a deductible reimbursement program for employee related claims occurring on or after January 1, 2012. Coverage provided is \$150,000 per loss , excess of \$350,000 per incident.

Certain System Affiliates of CHE are insured for a portion of their healthcare professional liability and general liability risks through commercial insurance companies, self insurance programs or captive insurance programs. In these cases, coverage excess of these amounts is provided by SMICL up to the levels outlined in the preceding paragraph.

Certain System Affiliates of CHE maintain commercial insurance coverage for other Property and Casualty risks such as Property, Directors' & Officers' Liability, Business Automobile, Workers' Compensation and other traditional coverages. Certain of these coverages have deductibles in amounts consistent with those generally found at healthcare organizations with demographics similar to CHE.

Attachment 5
Transaction Documents

On January 11, 2013, CHE Trinity Inc., Trinity Health Corporation, Catholic Health East and various other affiliates and subsidiaries executed a Consolidation Agreement regarding the Transaction. A copy of the Consolidation Agreement is attached at Attachment 5.

CONSOLIDATION AGREEMENT

This CONSOLIDATION AGREEMENT ("Agreement") is entered into to be effective the 11th day of January, 2013 among CATHOLIC HEALTH EAST, a Pennsylvania nonprofit corporation ("CHE"), TRINITY HEALTH CORPORATION, an Indiana nonprofit corporation ("Trinity"), and CHE TRINITY, INC., an Indiana nonprofit corporation ("New Ministry"). CATHOLIC HEALTH MINISTRIES, HOPE MINISTRIES, THE FRANCISCAN SISTERS OF ALLEGANY, NEW YORK, THE SISTERS OF PROVIDENCE, MASSACHUSETTS, SISTERS OF MERCY OF THE AMERICAS, MID-ATLANTIC COMMUNITY, SISTERS OF MERCY OF THE AMERICAS, NEW YORK, PENNSYLVANIA, PACIFIC WEST COMMUNITY, SISTERS OF MERCY OF THE AMERICAS, NORTHEAST COMMUNITY, SISTERS OF MERCY OF THE AMERICAS, SOUTH CENTRAL COMMUNITY, and SISTERS OF ST. JOSEPH OF SAINT AUGUSTINE, FLORIDA, which are Public Juridic Persons authorized by the Roman Catholic Church, are consenting to and joining in those sections of this Agreement identified in the attached Consent and Joinder.

RECITALS

WHEREAS, CHE and Trinity are each the parent of Catholic health care systems devoted to a ministry of healing the body, spirit, and mind by providing quality medical care and nurturing living communities; and

WHEREAS, CHE was formed in 1997 as the result of actions taken by three different Catholic nonprofit health systems to combine their health ministries and is presently sponsored by Hope Ministries and seven religious congregations and communities: the Franciscan Sisters of Allegany, New York; the Sisters of Providence, Massachusetts; the Sisters of Mercy of the Americas, Mid-Atlantic Community; the Sisters of Mercy of the Americas, New York, Pennsylvania, Pacific West Community; the Sisters of Mercy of the Americas, Northeast Community; the Sisters of Mercy of the Americas, South Central Community; and Sisters of St. Joseph of Saint Augustine, Florida (the congregations and communities are collectively referred to as "CHE Sponsoring Congregations"); and

WHEREAS, Trinity was formed in 2000 as a consolidation of two Catholic nonprofit corporations and is presently sponsored by Catholic Health Ministries; and

WHEREAS, CHE and Trinity and their predecessor corporations and congregations have been providing health care to communities across the United States for over 100 years; and

WHEREAS, CHE and Trinity share a vision of healthcare for the future which envisions superior care with compassion throughout their healthcare ministries; and

WHEREAS, CHE and Trinity have each identified the other as having consistent goals to integrate networks of care toward a healthier future for all, to provide compassionate care to individuals, to collaborate with others to be a transforming and healing presence in the world, and to advocate for all who suffer, especially persons who are poor and vulnerable; and

WHEREAS, based in this common vision of the future, CHE and Trinity wish to consolidate their ministries into a single health care system, the name of which will be determined by the Parties ("New Ministry System") and which will:

- a. Combine their respective resources to improve and enhance the health of the people and communities they serve, and provide new opportunities to strengthen the efforts of the Parties to meet the needs of the poor and underserved;
- b. Assist in strengthening and preserving Catholic healthcare by bringing together Catholic healthcare systems that share similar missions and values;
- c. Be consistent with the intended evolution of a Public Juridic Person model of sponsorship and governance that will accommodate participation by additional Catholic organizations in the future;
- d. Operate in a manner that is consistent with the goals of Catholic collaboration in mission and ministry;
- e. Create a structure that will seek to achieve economies of scale by taking advantage of opportunities to consolidate or rationalize common or redundant system resources to improve quality and reduce cost, while at the same time building on the unique resources which now reside in each of the Parties or their affiliates;
- f. Achieve increased mission and financial strength through added geographic diversity, which would be further enhanced by the potential addition of other partners in the future;
- g. Develop an integrated delivery system through consolidated governance and oversight of combined System resources;
- h. Better allow each of CHE, Trinity, CHM, HM, and the CHE Sponsoring Congregations to pursue their respective missions, and make the resources of the New Ministry System available to other congregations and partners involved in the mission of delivering health care services;
- i. Be consistent with and in furtherance of the strategic plans of Trinity and CHE;
- j. Better position the Trinity and CHE resources to meet the challenges of health care delivery in a rapidly evolving health care market across the United States;
- k. Create opportunities for a more effective, fiscally sound, high quality, coordinated health services delivery system across the continuum of care;
- l. Increase opportunities for influence in the development of healthcare policy at all levels; and

m. Create an organization that will encourage partnering with Catholic and other-than-Catholic organizations, as well as with physicians and other professional providers of care; and

WHEREAS, New Ministry, CHE and Trinity believe that it is in each of their best interests to enter into this Agreement on the terms and conditions set forth herein,

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements and covenants set forth herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I.

DEFINITIONS

The Definitions of certain defined terms used in this Agreement are set forth in Exhibit 1.

ARTICLE II.

CANONICAL SPONSORSHIP

2.1 Canonical Sponsorship of New Ministry System. The canonical sponsors of Trinity (Catholic Health Ministries) and CHE (Hope Ministries and the CHE Sponsoring Congregations) believe that a single canonical sponsor of New Ministry System will support the evolution of Catholic health care by supporting positive and engaging partnership with the laity. To that end, the canonical sponsors of Trinity and CHE agree that pursuant to the process outlined in this Article II, Catholic Health Ministries will serve as the sole Public Juridic Person and sponsor of New Ministry System. The Statutes and Bylaws of Catholic Health Ministries will be amended to recognize its expanded sponsorship role and responsibilities relative to New Ministry System.

2.2 Reserved Powers. The following powers and responsibilities with respect to New Ministry System shall be reserved to Catholic Health Ministries, as its sponsor, either directly or by delegation from the CHE Sponsoring Congregations, and set forth in the appropriate Amended and Restated New Ministry Governance Documents:

2.2.1 To ratify the Articles of Incorporation of New Ministry, and to adopt and approve any amendments, modifications or restatements thereto;

2.2.2 To ratify the Bylaws of New Ministry and to adopt and approve any amendments, modifications or restatements thereto which affect the rights of the members of Catholic Health Ministries as set forth in the Bylaws of New Ministry;

2.2.3 To adopt and approve the Mission and Core Values of New Ministry, and any changes thereto, and final approval of matters which affect the Catholic Identity of New Ministry;

2.2.4 To approve the sale, lease, mortgage, transfer, easement or encumbrance of any property of New Ministry or its subsidiaries or affiliates, the alienation of which would require approval under Canon Law;

2.2.5 To approve the merger, consolidation, acquisition, liquidation or dissolution of New Ministry, or the sale of all or substantially all of the assets of New Ministry;

2.2.6 To ratify the appointment of, and to remove, with or without cause, the members of the Board of Directors of New Ministry;

2.2.7 To ratify the appointment of, and to remove, with or without cause, the President/Chief Executive Officer of New Ministry, with such action to include the involvement of the New Ministry Board of Directors; and

2.2.8 To ratify the election of the Chair of the Board of Directors of New Ministry.

2.3 Recognition of Heritage of the Participating Congregations. New Ministry System will publicly recognize and honor the heritage of the Participating Congregations and will continue to work with the Participating Congregations to maintain ongoing and collaborative relationships.

2.4 Suppression and Transfer of Sponsorship by Hope Ministries. By the Closing Date or such other date as the Parties and Hope Ministries may agree, which date shall not be later than two years following the Closing Date, Hope Ministries will take the actions necessary to be suppressed by the Congregation for Institutes of Consecrated Life and Societies of Apostolic Life in accordance with Canon Law and alienate its properties to Catholic Health Ministries.

2.5 Delegation of Sponsorship Duties by the CHE Sponsoring Congregations. As of the Closing Date, the CHE Sponsoring Congregations shall delegate their respective day-to-day sponsorship rights and responsibilities relative to CHE and CHE's System Affiliates to Catholic Health Ministries; *provided, however,* that until the CHE Sponsoring Congregations alienate their property to Catholic Health Ministries as described in Section 2.6, the CHE Sponsoring Congregations shall retain and reserve unto themselves all acts of administration requiring approval of the local ordinary or *Holy See*, together with any additional acts reserved to the CHE's Sponsoring Organizations pursuant to the governance documents of the CHE System Affiliates, which reserved acts, the Parties acknowledge, shall be limited to those related to alienation of stable patrimony used in the operations of CHE and its System Affiliates. Catholic Health Ministries agrees that it shall exercise all delegated sponsorship rights and responsibilities in accordance with the Code of Canon Law.

2.6 Alienation of Property by the CHE Sponsoring Congregations. Following the Closing each of the CHE Sponsoring Congregations shall use their reasonable best efforts and take all action necessary to effectuate the alienation to Catholic Health Ministries of canonical responsibility for their stable patrimony used in the operations of CHE and its System Affiliates, said alienations to be completed within two (2) years after the Closing Date.

2.7 Sponsorship Fees. After the Closing Date, there shall be no sponsorship fees paid to the Participating Congregations for their involvement with the New Ministry System.

2.8 Sale, Transfer or Closure of Facilities. Following the approval of the alienations contemplated in Section 2.6, New Ministry shall not be required to obtain the approval of any of the Participating Congregations prior to, or in connection with, any sale, transfer, closure, long-term lease, or other transaction.

ARTICLE III.

CORPORATE ORGANIZATION AND GOVERNANCE

3.1 Formation of New Ministry System. CHE and Trinity intend to consolidate into a single entity which will be the parent of a multi-state Catholic health care system, New Ministry System. To that end, New Ministry was formed on January 11, 2013, by the filing of Articles of Incorporation with the Indiana Department or Secretary of State with Bylaws of New Ministry having been adopted by the New Ministry Board of Directors. At the Closing, both CHE and Trinity will amend their governing documents so that New Ministry will become the sole corporate member of both CHE and Trinity.

3.2 The Parties will take the following steps to effectuate the consolidation:

3.2.1 Pursuant to a process agreed upon by CHE and Trinity that will include input from both such Parties, the Parties will identify and recommend individuals to serve as the initial post-Closing members of Catholic Health Ministries. With the exception of the New Ministry President and CEO, who shall serve *ex officio* with vote, the initial post-Closing members of Catholic Health Ministries shall reflect, as nearly as practicable, appointment in equal numbers of individuals who are currently serving in governance or sponsorship roles for CHE and Trinity, respectively, together with individuals who have not previously served in a governance capacity for either such Party. Consistent with the Canonical Bylaws of Catholic Health Ministries, the members of Catholic Health Ministries as constituted prior to the Closing will appoint the individuals who are to serve as the initial post-Closing members of Catholic Health Ministries effective on the Closing Date. A list of those individuals who will serve as members of Catholic Health Ministries effective on the Closing Date shall be attached to this Agreement at the Closing as Exhibit 3.2.1.

3.2.2 The Boards of Directors of Trinity, CHE and New Ministry will comprise the same individuals who are the members of Catholic Health Ministries.

3.2.3 Effective on the Closing Date, the same individuals will serve as the Chair of the Board, President, Treasurer, and Secretary of CHE, Trinity and New Ministry. A list of those individuals serving in such officer capacity shall be attached to the Agreement at the Closing as Exhibit 3.2.3.

3.2.4 The New Ministry Articles of Incorporation and Bylaws shall be amended and restated effective as of the Closing Date to be substantially in the form found at Exhibit 3.2.4 (the "Amended and Restated New Ministry Governance Documents").

3.2.5 The Trinity Articles of Incorporation and Bylaws shall be amended and restated effective as of the Closing Date to be substantially in the form found at Exhibit 3.2.5 (the “Amended and Restated Trinity Governance Documents”).

3.2.6 The CHE Articles of Incorporation and Bylaws shall be amended and restated effective as of the Closing Date to be substantially in the form found at Exhibit 3.2.6 (the “Amended and Restated CHE Governance Documents”).

3.2.7 The reserved powers and reserved authority of Trinity and CHE related to their respective System Affiliates shall not change on the Closing Date.

ARTICLE IV.

ASSETS AND LIABILITIES, DEBT STRUCTURE, AND ACCOUNTING

4.1 Assets and Liabilities. Except as the Parties may otherwise agree and memorialize at the Closing, all of the assets and liabilities of each of Trinity, CHE and their respective System Affiliates, shall continue to be owned by the existing owners thereof immediately after the Closing.

4.2 Post-Closing Transaction. Following the Closing, Trinity, CHE and New Ministry, shall work together, diligently and in good faith, to effectuate a merger, consolidation or reorganization of Trinity, CHE and New Ministry into a single corporation (the “Post-Closing Transaction”). The form of the Post-Closing Transaction shall take into consideration all relevant business and legal issues, including those relating to financing, licensure, necessary government approvals, reimbursement and other current matters. The Parties intend to develop and execute a plan to facilitate the Post-Closing Transaction that will combine the activities and operations of the Parties in a way which the Parties believe is most advantageous to New Ministry System, which shall include:

4.2.1 A community benefit plan which will continue the work of CHE and Trinity to serve the poor and vulnerable in the communities they serve;

4.2.2 A debt financing plan, which plan may include consolidation of debt and any Master Trust Indentures of Trinity and CHE into one or more integrated debt structures;

4.2.3 A plan to integrate the professional and general liability programs of insurance and self-insurance including the captive insurance carriers of Trinity and CHE;

4.2.4 A plan to combine employee benefit and pension plans and funds;

4.2.5 A framework for rationalizing overlapping, redundant or unnecessary programs within New Ministry System; and

4.2.6 A plan to facilitate the amendment and restatement, as required, of the Governance Documents of the System Affiliates to reflect and conform to the terms of the Post-Closing Transaction.

4.3 Transactions in Process. The Parties acknowledge that as of the Closing certain significant, fundamental transactions will have been approved by the Boards of Directors of CHE or Trinity and/or the respective System Affiliates, but will not yet have been completed. At the Closing, the Parties will attached as Exhibit 4.3 to this Agreement a list of those then-pending significant fundamental transactions for which no further corporate approvals will be required from any other Party except for the specific Party which is a party to the transaction. The Parties acknowledge that such a list will not be exclusive and that its sole purpose and use will be to provide assurances to third parties involved in such transactions relative to the matters set forth in this Section 4.3.

4.4 Restricted Funds. The Parties and their System Affiliates shall continue to be bound by and honor the terms of all endowments and donor restricted funds, and the beneficial interests of the Parties and their System Affiliates in any gifts or bequests shall continue. Any future contributions to any of the Parties and their System Affiliates, whether under will, trust or otherwise, shall be treated as contributions to the named Party or System Affiliate.

ARTICLE V.

CONDUCT OF THE PARTIES PRIOR TO CLOSING

5.1 Access to Information. From and after the Effective Date of this Agreement, each Party will give, and shall cause its System Affiliates to provide, to the other Parties and appropriate representatives of each Party (defined for purposes of this Section as such Party's directors or trustees, officers, employees, agents or advisors) access, during normal business hours, to documents pertaining to business, properties, and assets of the Party and its System Affiliates, as may be reasonably requested by such Party. In addition, each Party and its System Affiliates shall make available its representatives to confer with appropriate representatives of a Party to report with respect to material operational matters and the general status of ongoing operations. Each Party shall notify the other Parties of any unexpected emergency or other unanticipated change that is so material in nature that it substantially impedes the operations or prospects of the business of the Party or its System Affiliates.

5.2 Cooperation in Public Communication. Except for disclosures as may be required by or in connection with a Party's respective debt financing documents, no Party shall release information to the public concerning the formation of New Ministry System, this Agreement, the Post-Closing Transaction, or any related matters, and no Party shall issue any public statement or public announcement regarding the transactions contemplated in this Agreement without the prior approval of the other Parties. Furthermore, Trinity and CHE shall exercise reasonable efforts to discuss and consult with each other relative to their respective significant internal communications regarding activities related to the creation of the New Ministry System.

5.3 Operation in the Ordinary Course of Business. Each Party shall conduct its business in the ordinary course of business and shall exercise commercially reasonable efforts to preserve intact its business organizations, including its System Affiliates, as well as its goodwill, and material assets, and relationships with employees and governmental authorities. No Party shall take any action that would reasonably be expected to result in a Material Adverse Effect or otherwise prevent, materially delay or materially impair the consummation of the transactions

contemplated by, or the performance of the Party under, this Agreement. The foregoing notwithstanding, no Party shall engage in a Significant Financial Transaction (as that term is defined below) without providing prior written notice to the other Party(ies) and allowing the other Party(ies) to consult with respect to such Significant Financial Transaction. For purposes of this Section 5.3, the term "Significant Financial Transaction" shall mean the execution and delivery by a Party or any System Affiliate of such Party of any agreement, contract or understanding (whether binding or non-binding) with respect to any affiliation, exchange, incurrence of indebtedness, purchase, sale, recapitalization, transfer or like kind arrangement (whether by consolidation, merger or other arrangement) involving any material property or assets of such Party or System Affiliate, including any hospital or skilled nursing facility, any joint operating company, or other "whole" facility, or like kind, venture.

5.4 Governance Documents. No Party shall amend, modify or revise its Governance Documents, or those of any of its System Affiliates other than (a) in the ordinary course of business in such a way that does not impede the goals of the transactions contemplated by this Agreement or (b) as specifically contemplated by this Agreement. The foregoing notwithstanding, neither CHE nor Trinity shall amend, modify or revise any Key Provision (as that term is defined below) of any Governance Document of such Party or any System Affiliate without first providing prior written notice to the other and providing the other the opportunity to consult with respect to such amendment, modification or revision. For purposes of this Section 5.4, the term "Key Provision" shall mean and include, but not be limited to, Governance Document provisions pertaining or relating to the authority to:

5.4.1 Amend, modify or revise Governance Documents;

5.4.2 Appoint and remove directors/trustees;

5.4.3 Adopt or approve strategic plans;

5.4.4 Adopt or approve capital and/or operating budgets;

5.4.5 Approve significant or fundamental change transactions, including mergers, consolidations or sales, transfers or exchanges of all or substantially all of the assets of an entity;

5.4.6 Authorize, establish or dissolve subsidiaries, significant partnerships or joint ventures; and

5.4.7 Transfer or encumber corporate assets and grant security interests.

5.5 Adverse Actions. No Party shall take any action or fail to take any action, or cause any of its System Affiliates to take any action or fail to take any action, that results in (a) any of the representations or warranties of such Party set forth in this Agreement being or being reasonably expected to become untrue in any material respect at any time at or prior to the Closing Date, or (b) any of the conditions precedent to the Closing set forth in Article VII not being satisfied, except, in each case, to the extent required by applicable law.

5.6 Accounting; Billing Practices. No Party shall make any material change in any method of accounting, keeping of books of account or accounting practices of such Party or any of its System Affiliates, except to the extent required by applicable law or GAAP.

5.7 Litigation. Without prior written notice to and consultation with the other Parties, no Party shall settle or compromise, nor cause any System Affiliate to settle or compromise, any Litigation (actual, pending or threatened), including, without limitation, any investigation, inquiry, enforcement or disciplinary proceedings or process commenced or undertaken by any governmental authority, or compromise any material rights with respect to such Party or its System Affiliates, which settlement or compromise would have a material and adverse impact on the business, financial condition or operations of such Party or any of its System Affiliates.

5.8 Approvals, Registrations, Consents. Each Party shall, and shall cause such of its System Affiliates to, take any and all actions, and execute, file and deliver any and all documents and instruments appropriate and necessary to obtain all approvals and consents from any and all governmental entities, as well as other third parties, as may be necessary to consummate the transaction contemplated hereby to be completed on the Closing Date.

5.9 Bond Compliance. Each of CHE and Trinity shall provide all necessary notices to and seek all necessary consents of bond trustees, bond insurers, bond issuers, and other third-party creditors or lenders for the transactions contemplated hereby to be completed on the Closing Date under the respective Trinity Indebtedness or CHE Indebtedness, or other Trinity or CHE debt documents, and shall cause to be made all amendments to the applicable Trinity Indebtedness or CHE Indebtedness documents or other Trinity or CHE debt documents necessary to effect the transactions contemplated hereby to be completed on the Closing Date. CHE and Trinity each shall engage nationally recognized bond counsel (which may be the same as corporate counsel to either of CHE and/or Trinity) to provide one or more opinions addressed to the Parties and delivered at the Closing to the effect that the transactions contemplated hereby to be completed on the Closing Date (i) will not adversely affect the tax-exempt status of the outstanding tax-exempt CHE Indebtedness and Trinity Indebtedness, respectively and (ii) will not constitute a default under the CHE Master Trust Indenture or Trinity Master Trust Indenture, respectively, or any loan agreement entered into in connection with such tax-exempt bonds (the "Bond Counsel Opinions").

ARTICLE VI.

REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of the Parties. As a condition to entering into this Agreement, each Party represents and warrants to the other Parties that the statements set forth in this Section 6.1 are true, correct, and complete:

6.1.1 Organization and Good Standing. The Party and each of its direct subsidiaries is a corporation or limited liability company duly organized, validly existing, and in good standing under the laws of the applicable state of incorporation or organization with all requisite power to own, lease, and operate its properties and assets and to carry on its business as it is now being conducted.

6.1.2 Authority to Enter into Agreement; Enforceability. The Party has full corporate power and authority to enter into and carry out the terms and provisions of this Agreement and the transactions contemplated hereby to be completed at the Closing; all corporate actions have been taken and all corporate authorizations have been obtained by the Party that are necessary to authorize the execution and delivery of this Agreement and the transactions contemplated hereby to be completed at the Closing; this Agreement has been duly and properly executed and delivered and is a legal, valid, and binding obligation of such Party.

6.1.3 Compliance with Laws and Other Instruments. To the Knowledge of the Party, the execution and delivery of this Agreement, and the consummation by the Party of the transactions contemplated hereby to be completed at the Closing, will not conflict with or result in a violation or breach of any term or provision of, or constitute a default under, any Governance Documents, indenture, debt instrument, bond document, agreement, or other arrangement to which the Party or its System Affiliates is a party or by which it is or may be bound, which violation would have a material adverse impact on the Party or System Affiliate. In addition, such action will not result in any violation of any statute, order, judgment, writ, injunction, decree, license, permit, ordinance, rule, or regulation of any court or any governmental or regulatory body to which such Party or System Affiliate is or may be subject.

6.1.4 Tax-exempt Status. The Party and each of its System Affiliates identified on Schedule 6.1.4 is exempt from federal income taxation pursuant to Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code (or if so indicated on Schedule 6.1.4, pursuant to Section 501(c)(2) for title holding companies and 501(c)(4) for health maintenance organizations and their managers) and each such Code Section 501(c)(3) organization is classified as other than a private foundation under Section 509(a)(3) of the Code. To the Knowledge of the Party, no event has occurred and no condition exists which might jeopardize the existing federal income tax-exempt status of such Party or its System Affiliates identified on Schedule 6.1.4. Except as disclosed on Schedule 6.1.4, neither the Party nor any of its System Affiliates is currently the subject of any IRS or state revenue department audit, and each such entity is currently in compliance in all material respects with all applicable closing agreements entered into with the IRS by or on behalf of or otherwise binding upon such Party or such System Affiliates.

6.1.5 No Litigation or Investigation. Except as set forth on Schedule 6.1.5, attached hereto and made a part hereof, neither the Party nor any of its System Affiliates is a party to, nor to the Knowledge of the Party, aware of any pending, threatened or contemplated Litigation or governmental investigation which: (i) would materially and adversely impact its, or their collective, financial condition and which is not covered by adequate insurance; (ii) seeks, or would seek, to enjoin the execution, delivery or performance of this Agreement or the establishment and operation of the New Ministry System; or (iii) seeks material damages on account of the Party or the consummation of any transaction contemplated hereby to be completed on the Closing Date.

6.1.6 Financial Statements. The financial statements of the Party and its System Affiliates provided to the other Parties (i) have been prepared on a consistent basis in accordance with the books and records of the relevant entities, (ii) are true and correct in all material respects, and (iii) have been prepared in accordance with GAAP. Except as otherwise set forth

on Schedule 6.1.6, attached hereto and made a part hereof, since January 1, 2012, the Party and its System Affiliates have conducted their businesses and operations in the ordinary course of business and there has been no material adverse change in the condition, financial or otherwise, or in the results of operations of the Party or any of its material System Affiliates.

6.1.7 Due Diligence. In connection with the due diligence review undertaken relative to the transactions contemplated by this Agreement to be completed at the Closing, the agreements, contracts, data, documents, instruments, projections and information provided by, or caused to be provided by each of CHE and Trinity (the "Disclosing Party") to the other pursuant to the transactional due diligence list, dated October 24, 2012, attached hereto as Exhibit 6.17, constituted full, accurate and complete disclosure of the matters disclosed, was an accurate and complete response to the requests of the other and included updates of all material changes thereto through January 1, 2013. Such disclosure did not misstate, mischaracterize or omit any fact, agreement, contract, item of data, document, instrument, projection or information which a reasonable business person would consider (either alone or in combination with other information) material in assessing whether or not to enter into this Agreement and consummate the transaction contemplated hereby to be completed on the Closing Date.

6.1.8 Compliance with Certain Material Arrangements. The Party, and any of its System Affiliates that are subject or a party to any of the agreements, arrangements, contracts, documents or instruments described at subsections 6.1.8.1-3 below, are each in material compliance with the terms, covenants and conditions of and are not in default under, nor has any event occurred which with the passage of time or giving of notice or both, would constitute a default under:

6.1.8.1 Any material joint operating arrangement or agreement;

6.1.8.2 Any material information technology agreement; or

6.1.8.3 Any other arrangement, agreement, contract, document, instrument or understanding, the breach of, or default under, would have a Material Adverse Effect on the Party and its System Affiliates, on a consolidated basis, or would impede the transactions contemplated hereunder to be completed on the Closing Date.

The execution and delivery of this Agreement and the consummation of the transactions contemplated hereunder to be completed on the Closing Date in accordance with the terms hereof will not result in a default under or an event which with the passage of time or giving of notice or both would constitute a default under any of the arrangements, agreements, contracts documents or instruments described in Sections 6.1.8.1 – 6.1.8.3.

6.1.9 Nonhospital Bonds. CHE and Trinity have disclosed information which is accurate to the best of their knowledge as to the amount and status of nonhospital bonds as that term is defined in the Code. Each of CHE and Trinity shall cooperate with each other, in good faith to determine whether any prior or future issuance of nonhospital bonds requires consent or requires any remedial or other action and to provide the other Party with all information regarding its nonhospital bonds that the other Party may reasonably request. For purposes of this Section 6.1.9, a "nonhospital bond" is any bond that is a qualified Code Section 501(c)(3) bond

that is not (i) a qualified hospital bond within the meaning of Section 145(c) of the Code, (ii) a bond described in Code Section 145(b)(5), or (iii) a bond for which the issuer has elected under Section 145(e) of the Code not to have Section 145 of the Code apply; *provided, however*, that the term “nonhospital bond” does not include bonds issued after August 5, 1997, ninety-five percent (95%) or more of the net proceeds of which are used to finance capital expenditures incurred after such date. As used in this Agreement, the term “CHE Property” means substantially all of the current and after-acquired assets of CHE and the other members of its Obligated Group under the CHE Master Trust Indenture, and the term “Trinity Property” shall have the meaning assigned to it in the Trinity Master Trust Indenture. In addition, the term Obligated Group shall have the meaning assigned to that term in the respective CHE and Trinity Master Trust Indentures.

6.1.10 Statements True and Correct. To the Knowledge of each Party, this Agreement and the Exhibits and Schedules attached hereto do not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made not misleading. Copies of all documents referred to in any Exhibit or Schedule delivered at the time this Agreement is entered into have been either delivered to or made available by each Party to the other Parties hereto and, to the Knowledge of each Party, all such documents constitute, or will constitute with respect to Exhibits and Schedules to be delivered at Closing, true, correct and complete copies thereof and include all amendments, exhibits, schedules, appendices, supplements and modifications thereto, and waivers thereunder.

6.2 Representations and Warranties of Catholic Health Ministries, Hope Ministries and the CHE Sponsoring Congregations: As a condition precedent to entering into this Agreement, Catholic Health Ministries, Hope Ministries and each CHE Sponsoring Congregation represent and warrant to one another and to the Parties that the statements set forth in this Section 6.2 are true, correct and complete:

6.2.1 Authority to Enter into Agreement; Enforceability. Catholic Health Ministries and Hope Ministries and each CHE Sponsoring Congregation have full power and authority to enter into and carry out the terms and provisions of this Agreement and the transactions contemplated by this Agreement, specifically including without limitation those described in Article II hereof; all requisite actions have been taken and all authorizations have been obtained as necessary to authorize the execution and delivery of this Agreement and the transactions contemplated by this Agreement, specifically including without limitation those described in Article II; and this Agreement has been duly and properly executed and delivered and is a valid and binding obligation.

ARTICLE VII.

CONDITIONS PRECEDENT TO CLOSING

The Parties acknowledge that each of the following conditions precedent to Closing must be satisfied prior to or simultaneously with the Closing or waived by the Party(ies) with respect to whose benefit any such condition inures (the “Conditions Precedent to Closing”):

7.1 Performance. Each Party shall have performed and complied in all material respects with all agreements, obligations, and covenants contained in this Agreement that are required to be performed or complied with prior to or on the Closing Date.

7.2 Governance Approvals. Each Party shall have received all required approvals of its members, sponsors, boards of directors, and other governing bodies required for entering into this Agreement and consummating the transactions contemplated by this Agreement to be completed on the Closing Date.

7.3 Representations and Warranties. The various representations and warranties made by each Party in this Agreement and in any document, instrument or certificate delivered hereunder shall be true and correct in all material respects as if made as of the Closing Date.

7.4 Necessary Consents. Each Party shall have obtained all required approvals and consents with respect to any material contractual relationships of such Party that are in force as of Closing that require such approval or consent prior to consummating the transactions to be completed on the Closing Date. The material contractual relationships to which the requirements of this Section 7.4 shall apply shall be identified by each Party and disclosed to the other Parties not later than forty-five (45) days after the date of this Agreement.

7.5 No Pending Legal Challenges. No Litigation against or any investigation, inquiry, or proceeding by any governmental authority, or any legal or administrative proceeding shall have been instituted or threatened on or before the Closing Date that: (a) questions the validity or legality of this Agreement or any transaction contemplated hereby; (b) seeks to enjoin any transaction contemplated hereby; or (c) seeks material damages on account of any Party or the consummation of any transaction contemplated hereby.

7.6 Legally Valid Transaction. No change shall have occurred or been announced or proposed prior to the Closing Date in the laws, rules, regulations, or policies of any governmental authority which might reasonably be expected to materially and adversely impact on the execution and delivery of this Agreement or the consummation of any transaction contemplated hereby.

7.7 Canon Law Submissions. Catholic Health Ministries, Hope Ministries and the CHE Sponsoring Congregations shall have submitted to the Holy See all applications and supporting materials necessary to obtain all approvals required under the Canon Law of the Roman Catholic Church for the consummation of the transactions contemplated by this Agreement to be completed on the Closing Date, including: (a) required approvals for the suppression of Hope Ministries and the alienation of real property that comprises stable patrimony of Hope Ministries and the CHE Sponsoring Congregations and which is used in the operations of CHE and its System Affiliates; and (b) approval of the requisite amendments to the Canonical Statutes of Catholic Health Ministries, as necessary or appropriate, to evidence those aspects of the transaction impacting on the canonical responsibilities of Catholic Health Ministries, Hope Ministries and the CHE Sponsoring Congregations.

7.8 Pre-Closing Confirmations by Governmental and Regulatory Authorities. The Parties shall have obtained documentation or other evidence reasonably satisfactory to such

Parties that all approvals and consents required from governmental and regulatory authorities required in connection with the transactions contemplated hereunder which are to be completed on the Closing Date have been received.

7.9 Tax-Exempt Status of New Ministry. The Parties shall have received such assurances as they deem reasonably necessary to confirm New Ministry's tax-exempt status under Section 501(c)(3) of the Code and status as a supporting organization under Section 509(a)(3) of the Code.

7.10 Bond Compliance. The Bond Counsel Opinions described in Section 5.9 shall have been delivered to CHE and Trinity. In addition, CHE and Trinity shall have received all necessary consents and approvals from their lenders, bond trustees, bond insurers, and bond issuers as provided for in Section 5.9 hereof.

7.11 Closing Deliverables. The Parties shall have executed and delivered to each other prior to or at the Closing, as applicable, all of the items required to be executed and delivered by such Parties as contemplated by this Agreement or otherwise agreed to by the Parties, specifically including without limitation, all Exhibits and Schedules to be delivered at Closing which shall be satisfactory to each Party in its sole discretion and the following:

7.11.1 The Amended and Restated New Ministry Governance Documents, all duly executed;

7.11.2 The Amended and Restated CHE Governance Documents, all duly executed;

7.11.3 The Amended and Restated Trinity Governance Documents, all duly executed;

7.11.4 A copy of resolutions duly adopted by the applicable Party's Board of Directors and all other requisite governing bodies authorizing and approving such Party's execution and delivery of this Agreement and the documents described herein and the performance of the transactions contemplated hereby to be completed on the Closing Date, said resolutions to be certified by the Party's appropriate officers to be true, correct and in full force and effect as of the Closing Date;

7.11.5 A certificate of incumbency for the respective officers of such Party who are executing this Agreement dated as of the Closing Date;

7.11.6 A certificate of good standing and existence (or the equivalent as available in the applicable jurisdiction) for such Party certified by the Department or Secretary of State, as applicable, of such Party's state of incorporation as of the most recent practicable date prior to the Closing Date;

7.11.7 A copy of the Articles of Incorporation and all amendments for such Party duly certified by the Department or Secretary of State, as applicable, of such Party's state of incorporation as of the most recent practicable date prior to the Closing Date;

7.11.8 Evidence of the resignations (or other appropriate action) of all members, directors, and key officers (i.e. Chair of the Board, President, Treasurer and Secretary) of New Ministry, CHE and Trinity, respectively, except with regard to those individuals listed on Exhibit 3.2.1, to be effective as of the Closing Date; and

7.11.9 Such other instruments and documents as the Parties deem reasonably necessary to consummate the transactions contemplated hereby to be completed on the Closing Date; provided however, that such other instruments and documents will be consistent with and not materially alter the Parties' existing agreements and covenants.

7.12 Appointment of Post-Closing Members of Catholic Health Ministries. The members of Catholic Health Ministries shall have taken all actions necessary to appoint the individuals identified on Exhibit 3.2.1 as the initial post-Closing members of Catholic Health Ministries, effective upon the Closing Date.

ARTICLE VIII.

CLOSING

8.1 The closing of the transactions contemplated under this Agreement (except for the Post-Closing Transaction) shall take place at such other place as Trinity and CHE shall mutually agree (the "Closing").

8.2 The Closing shall take place on April 30, 2013, to become effective at 12:01 a.m. prevailing local time on May 1, 2013 (the "Closing Date"), or such other date and time as the Parties may agree; provided, however, that the Closing shall not occur until each of the conditions precedent to Closing described in this Agreement shall have been satisfied or waived.

ARTICLE IX.

TERMINATION

This Agreement may be terminated, and all the transactions contemplated by this Agreement may be abandoned:

9.1 Mutual Consent. At any time prior to the Closing Date, by the mutual consent of Trinity and CHE.

9.2 Failure of Conditions Precedent to Closing. By either Trinity or CHE (the "Terminating Party") if, on or prior to the Closing Date, satisfaction of any condition in Article VII is or becomes impossible or impractical with the use of commercially reasonable efforts (unless the impossibility or impracticality results primarily from Terminating Party's breach of any representation, warranty, or covenant herein) and such condition shall not have been waived by Terminating Party.

9.3 Failure to Close. By either CHE or Trinity if the Closing shall not have taken place by September 1, 2013 or such later date as mutually agreed to by CHE and Trinity.

9.4 Material Adverse Effect. By CHE or Trinity, as the case may be, in the event there shall have been a change in the business or financial condition, or the occurrence of some event, which change or occurrence shall have had a Material Adverse Effect on the other such Party.

9.5 Government Order. By either CHE or Trinity if any court or government entity issues an order restraining or prohibiting such Party from consummating any transaction contemplated by this Agreement and such order becomes final and non-appealable.

ARTICLE X.

DISSOLUTION OF NEW MINISTRY

In the event New Ministry is ever dissolved and unwound, the remaining assets of New Ministry will be distributed as follows: the assets remaining after satisfaction of all obligations will be distributed to a qualifying entity, exempt from taxation under Section 501(c)(3) of the Code, as determined by the Board of Directors of New Ministry, and approved by Catholic Health Ministries, taking into account the requirements of civil law and Canon Law.

ARTICLE XI.

GENERAL PROVISIONS

11.1 Confidentiality. Each Party shall take all commercially reasonable and prudent steps to ensure that the confidentiality of the terms and conditions of this Agreement ("Confidential Information") are maintained, including, without limitation, not disclosing such Confidential Information to any person, corporation, entity or other firm not authorized to receive it and, further, restricting its disclosure solely to such Party's directors, officers, employees, consultants, professional representatives, attorneys, advisors, financing sources or agents with a need to know such terms and conditions (each, a "Representative" and, collectively, the "Representatives"). Each Party's Representatives will be required by such Party to treat the Confidential Information as confidential, and such Party will cause them to observe the terms and conditions of this Section 11.1. The foregoing notwithstanding, each Party acknowledges and agrees that this Agreement and the Confidential Information shall be subject to disclosure, including to various governmental entities and agencies, lenders and financing sources, and in order to obtain the various approvals and consents necessary consummate the various transactions contemplated hereunder and that no such disclosure shall be deemed a breach of this Section 11.1.

11.2 Strict Compliance. No failure by any Party to insist upon the strict performance of any covenant, agreement, term, or condition of this Agreement, shall constitute a waiver of any breach of any such covenant, agreement, term, or condition. No waiver of any breach shall affect or alter this Agreement, but each and every covenant, agreement, term, and condition of this Agreement shall continue in full force and effect.

11.3 Notices. All notices, requests, approvals, demands, and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed

to have been duly given and to be effective if delivered personally (including delivery by express or courier services), received by electronic facsimile transmission with confirmation sent by registered or certified mail, postage prepaid, or, if mailed, four business days after being deposited in the United States mail as registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to New Ministry: CHE Trinity, Inc.
20555 Victor Parkway
Livonia, MI 48152-7018
Attention: Daniel Hale, President and CEO
Facsimile: (734) 343-5411

If to CHE: Catholic Health East
West Chester Pike, Suite 100
Newtown Square, PA 19073
Attention: Judith M. Persichilli, President and CEO
Facsimile: (610) 355-2180

with a copy to: Catholic Health East
West Chester Pike, Suite 100
Newtown Square, PA 19073
Attention: Michael C. Hemsley, Executive Vice President,
Legal Services and General Counsel
Facsimile: (610) 355-2171

If to Trinity: Trinity Health Corporation
20555 Victor Parkway
Livonia, MI 48152-7018
Attention: Joseph R. Swedish, President and CEO
Facsimile: (734) 343-5440

with a copy to: Trinity Health Corporation
Victor Parkway
Livonia, MI 48152-7018
Attention: Paul G. Neumann, Senior V.P. and
General Counsel
Facsimile: (734) 343-5402

11.4 Amendments. Neither this Agreement nor any term or provision hereof may be changed, waived, discharged, or terminated, except pursuant to a written agreement between New Ministry, Trinity and CHE.

11.5 Captions. The captions to this Agreement are for convenience of reference only and in no way define, limit, or describe the scope or intent of this Agreement or any part hereof, nor in any way affect this Agreement or any part hereof. Unless the context otherwise indicates, words importing the singular shall include the plural and vice versa and the use of the neuter,

masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender.

11.6 Assignment. No Party may assign any of its rights or obligations under this Agreement without the prior written consent of New Ministry, Trinity and CHE.

11.7 Third Parties. Nothing in this Agreement shall be construed to give any person (including patients, employees and their family members or personal or other representatives) other than the Parties any benefits, rights, or remedies hereunder.

11.8 Governing Law. This Agreement shall be construed, and the rights and liabilities of the Parties hereto determined, in accordance with the laws of the State of Indiana.

11.9 Severability. If any provision of this Agreement shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid or unenforceable provision were omitted.

11.10 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Parties hereto, and their respective successors and permitted assigns.

11.11 Expenses. Each Party agrees to pay its own expenses incurred in connection with the creation of the New Ministry System and the transactions contemplated hereby to be completed on the Closing Date.

11.12 Injunctive Relief. In addition to other remedies available at law or provided for herein, the Parties shall be entitled to restraint by injunction of the violation, or attempted or threatened violation, of any condition or provision of this Agreement, or to a decree specifically compelling performance of any such condition or provision.

11.13 Integration. This Agreement supersedes and replaces that certain Letter of Intent dated October 15, 2012.

11.14 Cross-References; Schedules and Exhibits. Unless otherwise stated, all references to Articles, Sections, Exhibits, and Schedules in the text of this Agreement are to other Articles, Sections, Exhibits, and Schedules of this Agreement. All Exhibits and Schedules to this Agreement are incorporated by reference herein and made an integral part hereof. The Schedules and Exhibits delivered with this Agreement are complete as of the date hereof, and will be updated by the Parties in intervals of thirty (30) days succeeding the date hereof, and again within ten (10) days prior to Closing. All Schedules and Exhibits to be delivered for the first time at or in connection with the Closing will be complete at the time of Closing.

11.15 Execution in Counterparts. This Agreement may be executed in counterparts, each of which shall be an original, but all of which taken together shall constitute one and the same Agreement.

11.16 Survival. Notwithstanding the rights of each Party to rely on the representations, warranties, covenants and agreements of the other Parties contained in this Agreement through

the Closing, all such representations, warranties, covenants and agreements will not survive and will expire upon completion of the Closing, except for those set forth in Sections 2.2-2.8, 4.2-4.5, Article X and Article XI which shall survive indefinitely.

[Intentionally left blank – signature pages follow]

the Closing, all such representations, warranties, covenants and agreements will not survive and will expire upon completion of the Closing, except for those set forth in Sections 2.2-2.8, 4.2-4.5, Article X and Article XI which shall survive indefinitely.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their authorized officers, all as of the date and year first above written.

CHE TRINITY, INC.

By: Daniel G. Hale
Name: Daniel G. Hale
Title: Chairperson of the Board

By: _____
Name: _____
Title: President and CEO

CATHOLIC HEALTH EAST

By: _____
Name: _____
Title: Chairperson of the Board

By: _____
Name: _____
Title: President and CEO

TRINITY HEALTH CORPORATION

By: Mary Morrison, CSA
Name: MARY MORRISON, CSA
Title: Chairperson of the Board

By: Joseph R. Swedish
Name: Joseph R. Swedish
Title: President and CEO

CONSENT AND JOINDER

Catholic Health Ministries, Hope Ministries and the CHE Sponsoring Congregations agree with the goals of the transactions contemplated by this Agreement as described in the Recitals and are executing and entering into this Agreement solely for the purpose of consenting to and joining in Article II, Section 6.2, Section 7.7, Section 11.1 and Section 11.16 of this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their authorized officers, all as of the date and year first above written.

CHE TRINITY, INC.

By: _____
Name: _____
Title: Chairperson of the Board

By: Clayton J. Fitzhugh
Name: CLAYTON J. FITZHUGH
Title: President and CEO

CATHOLIC HEALTH EAST

By: _____
Name: _____
Title: Chairperson of the Board

By: Judith Persicelli
Name: JUDITH PERSICELLI
Title: President and CEO

TRINITY HEALTH CORPORATION

By: _____
Name: _____
Title: Chairperson of the Board

By: _____
Name: _____
Title: President and CEO

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their authorized officers, all as of the date and year first above written.

CHE TRINITY, INC.

By: _____
Name: _____
Title: Chairperson of the Board

By: _____
Name: _____
Title: President and CEO

CATHOLIC HEALTH EAST

By: Dennis A. Fitzpatrick
Name: DENNIS A. FITZPATRICK
Title: Chairperson of the Board

By: _____
Name: _____
Title: President and CEO

TRINITY HEALTH CORPORATION

By: _____
Name: _____
Title: Chairperson of the Board

By: _____
Name: _____
Title: President and CEO

CATHOLIC HEALTH MINISTRIES

By: Jose Santillan
Name: JOSE SANTILLAN
Title: CHAIR

HOPE MINISTRIES

By: _____
Name: _____
Title: _____

FRANCISCAN SISTERS OF ALLEGANY, NEW YORK

By: _____
Name: _____
Title: _____

THE SISTERS OF PROVIDENCE, MASSACHUSETTS

By: _____
Name: _____
Title: _____

SISTERS OF MERCY OF THE AMERICAS, MID-ATLANTIC COMMUNITY

By: _____
Name: _____
Title: _____

SISTERS OF MERCY OF THE AMERICAS NEW YORK, PENNSYLVANIA, PACIFIC WEST COMMUNITY

By: _____
Name: _____
Title: _____

CONSENT AND JOINDER

Catholic Health Ministries, Hope Ministries and the CHE Sponsoring Congregations agree with the goals of the transactions contemplated by this Agreement as described in the Recitals and are executing and entering into this Agreement solely for the purpose of consenting to and joining in Article II, Section 6.2, Section 7.7, Section 11.1 and Section 11.16 of this Agreement.

CATHOLIC HEALTH MINISTRIES

By: _____
Name: _____
Title: _____

HOPE MINISTRIES

By: Stanley T Urban
Name: STANLEY T URBAN
Title: CHAIRPERSON

**FRANCISCAN SISTERS OF
ALLEGANY, NEW YORK**

By: _____
Name: _____
Title: _____

**THE SISTERS OF PROVIDENCE,
MASSACHUSETTS**

By: _____
Name: _____
Title: _____

CONSENT AND JOINDER

Catholic Health Ministries, Hope Ministries and the CHE Sponsoring Congregations agree with the goals of the transactions contemplated by this Agreement as described in the Recitals and are executing and entering into this Agreement solely for the purpose of consenting to and joining in Article II, Section 6.2, Section 7.7, Section 11.1 and Section 11.16 of this Agreement.

CATHOLIC HEALTH MINISTRIES

By: _____
Name: _____
Title: _____

HOPE MINISTRIES

By: _____
Name: _____
Title: _____

**FRANCISCAN SISTERS OF
ALLEGANY, NEW YORK**

By: MARGARET M. KIMMINS, OSF
Name: Margaret M. Kimmins, OSF
Title: Congregational Minister

**THE SISTERS OF PROVIDENCE,
MASSACHUSETTS**

By: _____
Name: _____
Title: _____

CONSENT AND JOINDER

Catholic Health Ministries, Hope Ministries and the CHE Sponsoring Congregations agree with the goals of the transactions contemplated by this Agreement as described in the Recitals and are executing and entering into this Agreement solely for the purpose of consenting to and joining in Article II, Section 6.2, Section 7.7, Section 11.1 and Section 11.16 of this Agreement.

CATHOLIC HEALTH MINISTRIES

By: _____
Name: _____
Title: _____

HOPE MINISTRIES

By: _____
Name: _____
Title: _____

FRANCISCAN SISTERS OF ALLEGANY, NEW YORK

By: _____
Name: _____
Title: _____

THE SISTERS OF PROVIDENCE, MASSACHUSETTS

By: Sister Kathleen Popko, SP
Name: SISTER KATHLEEN POPKO, SP
Title: PRESIDENT

**SISTERS OF MERCY OF THE
AMERICAS, MID-ATLANTIC
COMMUNITY**

By: Sister Patricia Vetrano, RSM
Name: Sister Patricia Vetrano, R.S.M.
Title: President

**SISTERS OF MERCY OF THE
AMERICAS NEW YORK,
PENNSYLVANIA, PACIFIC WEST
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, NORTHEAST
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, SOUTH CENTRAL
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF ST. JOSEPH OF SAINT
AUGUSTINE, FLORIDA**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, MID-ATLANTIC
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS NEW YORK,
PENNSYLVANIA, PACIFIC WEST
COMMUNITY**

By: Sr. Jo Anne Courneen RSM
Name: Sr. Jo Anne Courneen RSM
Title: President

**SISTERS OF MERCY OF THE
AMERICAS, NORTHEAST
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, SOUTH CENTRAL
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF ST. JOSEPH OF SAINT
AUGUSTINE, FLORIDA**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, MID-ATLANTIC
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS NEW YORK,
PENNSYLVANIA, PACIFIC WEST
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, NORTHEAST
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, SOUTH CENTRAL
COMMUNITY**

By: Barbara Wheelley, RSM
Name: Barbara Wheelley, RSM
Title: South Central Representative

**SISTERS OF ST. JOSEPH OF SAINT
AUGUSTINE, FLORIDA**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, MID-ATLANTIC
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS NEW YORK,
PENNSYLVANIA, PACIFIC WEST
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, NORTHEAST
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF MERCY OF THE
AMERICAS, SOUTH CENTRAL
COMMUNITY**

By: _____
Name: _____
Title: _____

**SISTERS OF ST. JOSEPH OF SAINT
AUGUSTINE, FLORIDA**

By: *Sister Jane Stoecker, S.S.J.*
Name: *SISTER JANE STOECKER, S.S.J.*
Title: *GENERAL SUPERIOR*

Electronic Signatures

| | | |
|--|---|------|
| Hope Ministries |  | JPG |
| Franciscan Sisters Of Allegany | <i>Margaret Mary Higgins, O.S.F.</i> | TIF |
| Sisters of Providence | <i>Sister Kathleen Pyles, S.P.</i> | DOCX |
| Sisters of Mercy Mid-Atlantic | <i>Sister Patricia Vetrano, RSM</i> | JPEG |
| Sisters of Mercy NYPPAW | <i>St. Jo Anne Carver, RSM</i> | DOCX |
| Sisters of Mercy Northeast | <i>Kathleen Turley, RSM</i> | JPEG |
| Sisters of Mercy South Central | <i>Barbara Wheeler, RSM</i> | JPEG |
| Sisters of St. Joseph Saint Augustine, FL | <i>Sister Jane Stankovic, RSM</i> | DOCX |

Exhibit 3.2.1

Members of Catholic Health Ministries

1. James Bentley, PhD
2. Joseph Betancourt, MD
3. Suzanne Brennan, CSC
4. Melanie Dreher, PhD
5. Mary Mollison, CSA
6. Linda Werthman, RSM
7. Mary Catherine Karl
8. George M. Phillip
9. Kathleen Popko, SP
10. Stanley T. Urban
11. Roberta Waite
12. Barbara Wheelley, RSM

Exhibit 3.2.3

Officers

1. Chief Executive Officer: Judy Persichilli
2. Chief Operating Officer: Larry Warren

Exhibits 3.2.4-3.2.6

Governing Documents

To be provided.

DRAFT
4/12/13

AMENDED AND RESTATED BYLAWS
OF
CHE TRINITY, INC.

An Indiana Nonprofit Corporation

Date: _____, 2013

**[This draft is intended only as a discussion draft and does not
reflect any level of final agreement among the parties]**

AMENDED AND RESTATED BYLAWS

OF

CHE TRINITY, INC.

An Indiana Nonprofit Corporation

ARTICLE I. DEFINITIONS

For the purposes of these Bylaws, the following defined terms shall have the following meanings:

“Affiliate” means a corporation or other entity that is subject to the direct or indirect Control or Ownership of the Corporation, a Subsidiary or a Regional Health Ministry.

“Articles of Incorporation” means the Articles of Incorporation of the Corporation, as amended or restated from time to time.

“Board” or “Board of Directors” means the Board of Directors of the Corporation, and the term “Director” means an individual member of the Board.

“Catholic Health Ministries” or “CHM” means Catholic Health Ministries, a public juridic person of pontifical right that exercises canonical sponsorship responsibilities over the Corporation as canonical owner of the stable patrimony associated with certain Regional Health Ministries or by delegated authority from one of the Participating Congregations.

“Catholic Identity” means the theological, ethical, and canonical underpinnings of a Catholic-sponsored organization without which the entity cannot be considered a Roman Catholic church-related ministry.

“CHE” means Catholic Health East, a Pennsylvania nonprofit corporation.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

“Control” or “Ownership” will be deemed to exist:

(i) as to a corporation: (a) through ownership of the majority of voting stock or the ownership of the class of stock which exercises reserved powers, if it is a stock corporation; or (b) through serving as member and having the power to appoint (including through appointing one’s own directors or officers who then serve *ex officio* as to the Affiliate) the majority of the voting members or the class of members which exercises reserved powers, if it is a corporation with members; or (c) through having the power to appoint (including through appointing one’s own directors or officers who then serve *ex officio* as to the Affiliate) the majority

of the voting directors or trustees or the controlling class of directors or trustees, if it is a corporation without members; or

(ii) as to a partnership or other joint venture: through the possession of sufficient controls over the activities of the partnership or joint venture that the entity having control is permitted to consolidate the activities of the partnership or joint venture on its financial statements under Generally Accepted Accounting Principles.

The terms “Controlled,” “Controlling,” “Owned” or “Owning” shall be subsumed within the definitions of “Control” or “Ownership.”

“Corporation” means CHE Trinity, Inc., an Indiana nonprofit corporation, unless from its context or use, a different meaning is clearly intended.

“Corporation Reserved Powers” shall have the definition set forth in Section 6.02 of these Bylaws.

“Governance Documents” means the Articles of Incorporation, Certificate of Incorporation, Bylaws, Governance Matrix, Code of Regulations or equivalent organizational documents of a corporation or other entity.

“Governance Matrix” means a document that may be adopted by the Board of Directors allocating corporate governance authority across the Corporation and its Subsidiaries.

“Health System” means the health system which consists of the Corporation, the Subsidiaries, and their respective Affiliates.

“Participating Congregations” means those public juridic persons, except for Catholic Health Ministries, that are or were the sponsoring organizations of Trinity and CHE.

“Regional Health Ministry” or “RHM” is an Affiliate or operating division of CHE or Trinity that maintains a governing body that has day to day management oversight of a designated portion of the Health System, subject to authorities reserved to the Corporation, Trinity or CHE. RHMs may be based on a geographical market or dedication to a service line or business and shall be designated as RHMs by action of the Board of the Corporation, Trinity or CHE, as applicable.

“Subsidiary” means a business entity that is solely Controlled or Owned by the Corporation. Subsidiaries shall include, but not be limited to, Trinity and CHE.

“Trinity” means Trinity Health Corporation, an Indiana nonprofit corporation.

ARTICLE II. PURPOSES AND CATHOLIC IDENTITY

Section 2.01 Purposes.

The purposes of the Corporation shall be as set forth in the Articles of Incorporation of the Corporation.

Section 2.02 Catholic Identity.

The activities of the Corporation shall be carried out in a manner consistent with the teachings of the Roman Catholic Church and “Founding Principles of Catholic Health Ministries” or successor documents which set forth principles describing how the apostolic and charitable works of Catholic Health Ministries are to be carried out, as well as the values and principles inherent in the medical-moral teachings of the Roman Catholic Church (such as the *Ethical and Religious Directives For Catholic Health Care Services*) as promulgated from time to time by the United States Conference of Catholic Bishops (or any successor organization), as amended from time to time.

Section 2.03 Mission and Core Values.

The Mission and Core Values of the Corporation shall be as developed and adopted from time to time pursuant to these Bylaws.

Section 2.04 Alienation of Property.

Under Canon Law, Catholic Health Ministries shall retain its canonical stewardship with respect to those facilities, real or personal property, and other assets that constitute the temporal goods belonging, by operation of Canon Law, to Catholic Health Ministries. No alienation, within the meaning of Canon Law, of property considered to be stable patrimony of Catholic Health Ministries shall occur without prior approval of Catholic Health Ministries.

Section 2.05 Action by CHM.

The following powers related to the Corporation are reserved exclusively to CHM which may initiate and implement any proposal with respect to any of the following, or if a proposal with respect to any of the following is otherwise initiated, it shall not become effective unless approved by CHM:

- (a) To adopt and amend the Articles of Incorporation of the Corporation;
- (b) To adopt and approve the Bylaws of the Corporation, and any amendments, modifications or restatements thereto;

- (c) To adopt and approve the Mission and Core Values of the Corporation and the Founding Principles of Catholic Health Ministries and any changes thereto, and approve matters that affect the Catholic Identity of the Corporation;
- (d) To approve the sale, lease, mortgage, transfer, easement or encumbrance of any property of the Corporation, the alienation of which would require approval under the Canon Law of the Roman Catholic Church;
- (e) To approve the merger, consolidation, acquisition, liquidation or dissolution of the Corporation, or the sale of all or substantially all of the assets of the Corporation;
- (f) To ratify the appointment and removal of the President of the Corporation; and
- (g) To ratify the election of the Chair of the Board of Directors of the Corporation.

ARTICLE III. DIRECTORS

Section 3.01 Number and Composition.

There shall be the same number of Directors as those serving at any given time as the members of CHM.

Section 3.02 Appointment and Removal of the Directors.

The Directors of the Corporation shall be the same individuals serving from time to time as the members of CHM. Each Director shall hold office for as long as he or she serves as a member of CHM.

Section 3.03 Term of Office.

Terms of office for Directors of the Board shall be coterminous with their term as members of CHM. A Director's resignation or removal as a member of CHM shall automatically result in resignation or removal as a Director of the Corporation.

Section 3.04 Vacancies.

Vacancies on the Board of Directors shall be filled pursuant to the same processes and by those same persons that fill vacancies as members of CHM.

Section 3.05 Duties, Powers and Responsibilities of the Board.

- (a) Except as otherwise provided in the Articles of Incorporation or these Bylaws, the business and affairs of the Corporation shall be governed, regulated and directed by or under the direction of its Board of Directors, which may exercise all such powers of the Corporation, do all such lawful acts and things

and delegate all such matters as are not by law, the Articles of Incorporation, these Bylaws, or the Corporation's policies directed or required to be exercised, done or carried out by CHM. The duties and powers of the Board shall include, without limitation, assuring that the Corporation maintains its Catholic Identity and that at all times the affairs of the Corporation are conducted consistent with the Catholic Identity of the Corporation;

- (b) The responsibilities of the Board shall be fulfilled in part by the exercise of the following powers:
 - (i) To develop, support and abide by the Mission and Core Values of the Corporation;
 - (ii) To establish and approve the policies governing the Health System and assure an effective management process for the Corporation;
 - (iii) To exercise stewardship over the assets of the Health System; and
 - (iv) To take action on all matters required as the member or stockholder or equivalent position or interest holder in any corporation or other entity in which the Corporation holds such membership, stock, or equivalent position or interest, including taking action on powers reserved to the Corporation.

Section 3.06 Performance Review.

The Board of Directors shall periodically review its own performance.

Section 3.07 Board Meetings.

Regular meetings of the Board of Directors shall be held as determined by the Board but no less frequently than quarterly at such time, place and date as determined from time to time by the Board of Directors. One such regular meeting shall be designated by the Board of Directors as the annual meeting of the Corporation. If the time and place of the meeting is fixed by these Bylaws or the Board of Directors, the meeting shall be a regular meeting. All other meetings shall be special meetings.

Section 3.08 Board Meeting Notices.

- (a) Any special meeting of the Board of Directors of the Corporation may be called and notice thereof given by the Chair of the Board of Directors, the President of the Corporation or any two (2) Directors of the Corporation.
- (b) All meetings of the Board of Directors of the Corporation must be preceded by at least two (2) days' notice to each Director of the date, time and place of the

meeting. The notice is not required to describe the purpose of or business to be transacted at the meeting.

- (c) Notice of any meeting of the Board of Directors of the Corporation may be given by registered, certified, or other first class mail addressed to each Director at his or her address as it appears on the records of the Corporation, with postage thereof prepaid. Such notice shall be deemed given at the time when the notice is deposited in a post office or official depository under the exclusive custody of the United States Postal Service. In addition, any notice may be provided by email or electronic transmittal to a Director at his or her email address as it appears on the records of the Corporation. Notwithstanding the foregoing, if notice is provided less than four (4) days in advance of a meeting, such notice shall be provided telephonically as well as in writing electronically.

Section 3.09 Waiver of Notice.

A Director may waive a meeting notice required by these Bylaws if either (a) before or after the meeting, the waiver is in writing, signed by the Director entitled to the notice, and filed with the meeting minutes or the corporate records of the Corporation, or (b) the Director attends or participates in a meeting, unless the Director at the beginning of the meeting or promptly upon the Director's arrival objects to holding the meeting or transacting business at the meeting and does not vote for or assent to action taken at the meeting.

Section 3.10 Quorum and Valid Director Action.

At all meetings of the Board, a simple majority of the Directors then in office shall constitute a quorum for the transaction of business. The vote of a majority of the Directors present and voting at any meeting at which a quorum is present shall constitute the act of the Board, unless the vote of a larger number is specifically required by law or the Governance Documents of the Corporation.

Section 3.11 Written Consents.

Any action required or permitted to be taken by vote at any meeting of the Board or of any committee thereof may be taken without a meeting, if before or after the action, all Directors of the Board or committee consent in writing. Written consents shall describe the action taken, be signed by each Director and filed either with the meeting minutes of the Board or committee or the corporate records of the Corporation. Such consents shall have the same effect as a vote of the Board or committee for all purposes.

Section 3.12 Communications Equipment.

Directors of the Board, or the members of any committee designated by the Board or subcommittee thereof, may participate in a meeting of the Board or committee by means

of teleconference, video conference or similar communications equipment, by virtue of which all persons participating in the meeting may simultaneously hear each other if all participants are advised of the communications equipment, and the names of the participants in the conference are divulged to all participants. Participation in a meeting pursuant to this Section shall constitute presence in person at such meeting.

ARTICLE IV. COMMITTEES AND SUBCOMMITTEES

Section 4.01 General, Types of Committees and Subcommittees, Responsibilities.

Committees may be established by the Board to facilitate actions of the Board and to enable it to function more efficiently and effectively. Committees of the Board may be standing or special. In this regard, the Board shall maintain the following standing committees: Executive and Governance, Stewardship, Organizational Integrity and Audit, Quality and Safety, Human Resources and Compensation and Mission, Ministry and Advocacy.

The functions, responsibilities and composition of standing committees may be set forth in a Committee Charter adopted by the Board, which may be amended from time to time by action of the Board. Special committees may be appointed by the Chair of the Board for special tasks as circumstances warrant. A special committee shall limit its activities to accomplishment of the task specifically conferred to it by action of the Board or Chair. Committees may request that the Board appoint one or more subcommittees to undertake a particular task or portion of the charge of the committee.

Except as otherwise provided in these Bylaws, or specifically determined by the Board, committees shall have the responsibility of achieving their purpose described in these Bylaws or the action creating them, shall exercise the authority reasonably necessary to achieve those responsibilities, and shall account to the Board of Directors. Committee members shall be appointed by the Chair of the Board of Directors.

Each subcommittee shall report to its committee, and the subcommittee activities shall be included in the committee report to the Board of Directors unless otherwise directed by the Board of Directors.

Except as otherwise determined by resolution of the Board, the composition, quorum and voting requirements for each committee and subcommittee of the Board and the length of service of the members of each such committee and subcommittee shall be as provided in Sections 4.02, 4.03 and 4.04 herein.

Section 4.02 Composition of Committees and Subcommittees.

- (a) **Committees.** Except for (i) the Executive and Governance Committee and (ii) the Human Resources and Compensation Committee, all committees of the Board, whether standing or special, shall (a) have at least two (2) of its members be Directors and such additional persons as the Board shall designate

or establish through committee charters or otherwise; and (b) have as *ex officio* committee members the President and the Chair of the Board who shall serve with vote; *provided that* the President shall not be a member of any committee serving the functions of either an audit committee or a compensation committee. The Chair of the Board shall appoint from among the committee or subcommittee members a committee or subcommittee chair, as the case may be. The committee chair shall be a Director. The (i) Executive and Governance Committee and (ii) the Human Resources and Compensation Committee shall consist solely of Board members.

- (b) **Subcommittees.** A subcommittee must have at least two of its members who are Directors. The subcommittee chair must be a member of the committee and a Director of the Board.

Section 4.03 Term.

Standing committee and subcommittee members shall be appointed for such term as shall be designated by the Board. Any committee or subcommittee member may resign by written notice to the chair of the committee or subcommittee on which he or she serves or to the Chair of the Board. Any committee or subcommittee member may be removed therefrom with or without cause at any time by the Chair of the Board of Directors.

Section 4.04 Quorum, Meetings, Rules and Procedures.

A quorum for any meeting of a committee/subcommittee shall be a simple majority of the committee/subcommittee members, except that any *ex officio* members of the committee/subcommittee shall not be included in calculating the quorum requirement unless they are present at the meeting, in which event they shall be included towards meeting the quorum requirement. The affirmative vote of a majority of the quorum is necessary to take action of the committee/subcommittee, including the affirmative vote of at least one Director of the Board present at the meeting of the committee/subcommittee in order to take any action other than recommendation by the committee to the Board or the Executive and Governance Committee. Minutes of all committee/subcommittee meetings shall be kept and forwarded to the Board. Each committee/subcommittee shall adopt rules for its own governance not inconsistent with these Bylaws or the acts of the Board.

Section 4.05 Executive and Governance Committee.

There shall be an Executive and Governance Committee of the Board, consisting of the Chair, the President of the Corporation, the Chair of CHM, and at least one other voting Director of the Board.

The Executive and Governance Committee shall meet at the call of the Chair. Except as restricted by law or otherwise reserved by or to the Board or CHM in the Articles of Incorporation, these Bylaws, or otherwise, the Executive and Governance Committee

shall exercise the power and authority of the Board when necessary or advisable between meetings of the Board and shall exercise such other powers as may be assigned or reserved to it from time to time by the Board.

The Executive and Governance Committee shall monitor the effectiveness of the members of the Board of Directors and establish and maintain an orientation and continuing education program for the Board of Directors. It shall also monitor and provide counsel to Boards of Directors throughout the Health System with respect to Board governance and its improvement for the benefit of the Health System.

The Executive and Governance Committee shall report to the Board on its actions at the next meeting of the Board.

Section 4.06 Stewardship Committee.

The Stewardship Committee shall be responsible for providing counsel with respect to the administration of fiscal matters for the Health System.

Section 4.07 Organizational Integrity and Audit Committee.

The Organizational Integrity and Audit Committee shall assist the Board of Directors in the oversight of the quality and integrity of the Health System's audited consolidated financial statements and its internal controls and the assessment and testing of those controls, as well as to oversee the development, implementation and maintenance of the Health System's compliance program.

Section 4.08 Quality and Safety Committee.

The Quality and Safety Committee shall be responsible for providing counsel with respect to the overall administration and implementation of efforts to improve the quality and safety of the services provided by the Health System.

Section 4.09 Human Resources and Compensation Committee.

The Human Resources and Compensation Committee shall be responsible for providing counsel with respect to the overall administration and implementation of the Health System's human resources and compensation programs and investments in the development and maintenance of its workforce.

Section 4.10 Mission, Ministry and Advocacy Committee.

The Mission, Ministry and Advocacy Committee shall advise, consult with, and make recommendations to the Board of Directors on strategic matters affecting the Health System, including the development of short and long term strategic plans, the establishment of priorities, and the oversight of advocacy in support of the Mission and Core Values of the Corporation.

ARTICLE V. CORPORATE OFFICERS

Section 5.01 Corporate Officers.

The officers of the Corporation shall consist of a Chair, President, Secretary and Treasurer, and such other corporate officers as may be determined by the Board. The Chair shall be elected by the Board, subject to ratification by CHM. The President of the Corporation shall be appointed by the Board of Directors, subject to ratification by CHM. The President and CEO of the Corporation shall be the Corporation's chief executive officer. All other corporate officers of the Corporation shall be appointed and removed by the Board. The Treasurer and Secretary need not be members of the Board.

Section 5.02 Removal of Corporate Officers.

Corporate officers may be removed by the Board of the Corporation, with or without cause. The removal of the President by the Board is subject to ratification by CHM. Any vacancy occurring in any office of the Corporation shall be filled in the same manner as the original appointment.

Section 5.03 Resignation.

Any corporate officer may resign by written notice to the Board; the resignation is effective upon its receipt by the Board or at a subsequent time specified in the notice of resignation.

Section 5.04 Duties and Powers of Corporate Officers.

Duties and powers of corporate officers shall be as determined by the Board.

Section 5.05 Acting Corporate Officers.

The Board of Directors may appoint any person to perform the duties of a corporate officer whenever, for any reason, it is impractical for the corporate officer to act personally. An acting corporate officer so appointed shall have the power and be subject to all the restrictions upon the corporate officer to whose office he or she is appointed, unless otherwise provided by resolution of the Board of Directors, and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

ARTICLE VI. TRINITY AND CHE

Section 6.01 Reserved Powers of CHM.

Each of CHE and Trinity shall include in its Governance Documents the following powers that shall be reserved exclusively to CHM, which may initiate and implement any

proposal with respect to any of the following, or if a proposal with respect to any of the following is otherwise initiated, it shall not become effective unless approved by CHM:

- (a) To adopt and amend the Articles of Incorporation of CHE or Trinity;
- (b) To adopt and approve the Bylaws of CHE or Trinity, and any amendments, modifications or restatements thereto;
- (c) To adopt and approve the Mission and Core Values of CHE and Trinity and any changes thereto, and approve matters that affect the Catholic Identity of CHE and Trinity;
- (d) To approve the sale, lease, mortgage, transfer, easement or encumbrance of any property of CHE and Trinity only, the alienation of which would require approval under the Canon Law of the Roman Catholic Church;
- (e) To approve the merger, consolidation, acquisition, liquidation or dissolution of CHE and Trinity, or the sale of all or substantially all of the assets of CHE and Trinity;
- (f) To ratify the appointment of, and to remove, with or without cause, the President of CHE and Trinity; and
- (g) To ratify the election of the Chair of the Board of Directors of CHE and Trinity.

Section 6.02 Reserved Powers of the Corporation.

Each of CHE and Trinity shall include in its Governance Documents the following powers (the “Corporation Reserved Powers”) that shall be reserved exclusively to the Corporation, which may initiate and implement any proposal with respect to any of the following, or if a proposal with respect to any of the following is otherwise initiated, it shall not become effective unless approved by the Corporation:

- (a) To approve of an integrated strategic plan for the Corporation, CHE and Trinity;
- (b) To approve any change to the structure or operation of CHE or Trinity which would affect its status as a nonprofit entity, exempt from taxation under Code Section 501(c);
- (c) To adopt or modify the Governance Documents of CHE or Trinity, subject to the approval of CHM, as applicable;
- (d) To approve the transfer or encumbrance of assets by purchase, sale, capital lease, mortgage, disposition or hypothecation in excess of limits established by

the Corporation (transfers or encumbrances of certain real property and immovable goods may be subject to approval by Catholic Health Ministries);

- (e) To approve the incurrence of long or short term debt in excess of limits established by the Corporation;
- (f) To approve the dissolution of CHE or Trinity or the winding up or abandonment of their operations, liquidation of their assets, or the filing of any action in bankruptcy, receivership or similar action affecting CHE or Trinity;
- (g) To approve the sale or transfer of a membership interest or stock or other ownership interest in CHE or Trinity, sale or transfer of all or substantially all of the assets of CHE or Trinity, merger or consolidation of CHE or Trinity or formation of partnerships, co-sponsorship arrangements or other joint ventures between or among CHE or Trinity and third parties (or the execution of a letter of intent or other document in contemplation of any such transaction);
- (h) To approve the annual combined capital plan and operating budget of the Corporation, CHE and Trinity;
- (i) To appoint and remove the independent fiscal auditor of the Corporation, CHE and Trinity; and
- (j) To take action on all other matters reserved to members of nonprofit corporations (or for-profit corporations, as the case may be) by the state laws of the state in which CHE or Trinity is domiciled or as reserved to the Corporation in the Governance Documents of CHE or Trinity.

Section 6.03 Duties and Powers.

Subject to the actions reserved to the Corporation and CHM, and consistent with the Corporation's Articles of Incorporation, these Bylaws, the Governance Documents of CHE and Trinity, and applicable law, the business and affairs of each of CHE and Trinity shall be governed by its respective governing body.

Section 6.04 Members of the Boards of CHE and Trinity.

- (a) **Composition.** Except as otherwise authorized by action of the Board, the members of each of CHE and Trinity's boards shall consist of the Directors of the Corporation which shall include the President of CHE or Trinity, as applicable (who shall serve *ex officio* with vote).
- (b) **Term of Office.** The term of office of each board member of CHE and Trinity shall be the same as the term of office of such Director on the Board of the Corporation.

- (c) **Appointment and Removal of CHE and Trinity Board Members.** Directors serving on the board of CHE and Trinity shall be the same as those individuals serving on the Board of the Corporation, subject to the same term limits and appointments. The resignation, removal or termination from the Board of the Corporation shall result in the automatic termination from the boards of CHE and Trinity.

Section 6.05 Governance Matrix.

The Corporation's Board of Directors may develop and adopt a Governance Matrix which if adopted, shall be incorporated into these bylaws by reference, and become a part of the Corporation's Bylaws. The existing Governance Matrices of CHE and Trinity shall remain in place until a Governance Matrix is adopted by the Board.

ARTICLE VII. INDEMNIFICATION AND STANDARD OF CARE

Section 7.01 Indemnification.

The Corporation shall, to the maximum extent allowed by law, indemnify those persons (including without limitation religious congregations and their members or other public juridic persons and their members) who:

- (a) are serving or have served as members, trustees, Directors, sponsors, corporate officers, employees, committee or subcommittee members, or agents of the Corporation, or
- (b) are serving or have served at the request of the Corporation as a member, trustee, director, sponsor, officer, employee, committee or subcommittee member, agent, manager, or partner of, an Affiliate or Subsidiary, another corporation, partnership, joint venture, trust, employee benefit plan, limited liability company or other enterprise, whether for profit or nonprofit,

against expenses (including attorney's fees), judgments, fines, and amounts paid in settlement, that are actually and reasonably incurred in connection with the defense of an action, suit, or proceeding that relates to their service.

Section 7.02 Insurance.

Except as may be limited by law, the Corporation may purchase and maintain insurance on behalf of any person (including religious congregations and their members or other canonical persons and their members) who

- (a) is or was a member, trustee, Director, sponsor, corporate officer, employee, committee or subcommittee member, or agent of the Corporation, or

- (b) is or was serving at the request of the Corporation as a member, trustee, director, sponsor, officer, employee, committee or subcommittee member, agent, manager, or partner of, an Affiliate or Subsidiary, another corporation, partnership, joint venture, trust, employee benefit plan, limited liability company or other enterprise, whether for profit or nonprofit,

to protect against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not this Corporation would have power to indemnify him or her against such liability under applicable law.

Section 7.03 Standard of Care.

Each Director (as used in Sections 7.03 through 7.07, the term “Director” shall mean a member of the Board of Directors of the Corporation) shall stand in a fiduciary relation to the Corporation and shall perform his or her duties as a Director, including his or her duties as a member of any committee/subcommittee of the Board upon which he or she may serve, in good faith, in a manner he or she reasonably believes to be in the best interests of the Corporation, and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances.

Section 7.04 Justifiable Reliance.

- (a) In performing his or her duties, a Director (including when such Director is acting as a corporate officer of the Corporation) shall be entitled to rely in good faith on information, opinions, reports, or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:
 - (i) One or more corporate officers or employees of the Corporation whom the Director reasonably believes to be reliable and competent in the matters presented;
 - (ii) Counsel, public accountants or other persons on matters that the Director reasonably believes to be within the professional or expert competence of such person; or
 - (iii) A committee/subcommittee of the Board upon which he or she does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee/subcommittee the Director reasonably believes to merit confidence.
- (b) A Director shall not be considered to be acting in good faith if he or she has knowledge concerning the matter in question that would cause his or her reliance to be unwarranted.

Section 7.05 Consideration of Factors.

In discharging the duties of their respective positions, the Board of Directors, committees/subcommittees of the Board and individual Directors may, in considering the best interests of the Corporation, consider the effects of any action upon employees, upon communities in which offices or other establishments of the Corporation are located, and all other pertinent factors. The consideration of those factors shall not constitute a violation of the standards described in these Bylaws.

Section 7.06 Presumption.

Actions taken as a Director or any failure to take any actions shall be presumed to be in the best interests of the Corporation.

Section 7.07 Personal Liability of Directors.

No Director shall be personally liable for any action taken, or any failure to take any action, unless the Director has breached or failed to perform the duties of his or her office under the standards described in these Bylaws, has engaged in self-dealing, or the action or inaction constitutes willful misconduct or recklessness. The provisions of this Section shall not apply to the responsibility or liability of a Director pursuant to any criminal statute or the liability of a Director for the payment of taxes pursuant to local, state or federal law.

Nothing in this Article is intended to preclude or limit the application of any other provision of law that may provide a more favorable standard or higher level of protection for the Corporation's Directors.

ARTICLE VIII. GENERAL PROVISIONS

Section 8.01 Fiscal Year.

The fiscal year of the Corporation shall commence on July 1 of each year, unless changed by action of the Board of Directors.

Section 8.02 Books and Records of Account.

The Corporation shall keep within or without the State of Indiana books and records of account and minutes of the actions of the Board of Directors and committees. The Corporation shall keep at its registered office records containing the names and addresses of all Directors. Any of such books, records or minutes may be in written form or in any other form capable of being converted into written form within a reasonable time.

Section 8.03 Confidentiality.

Except as otherwise publicly disclosed, or in order to appropriately conduct the Corporation's business, the records and reports of the Corporation shall be held in confidence by those persons with access to them.

Section 8.04 Conflict of Interest.

Each of the Corporation's corporate officers and Directors shall at all times act in a manner that furthers the Corporation's purposes, and shall exercise care that he or she does not act in a manner that furthers his or her private interests to the detriment of the Corporation's purposes. A conflict of interest can be considered to exist in any instance where the actions or activities of an individual on behalf of the Corporation also involve the obtaining of a direct or indirect personal gain or advantage, or an adverse or potentially adverse effect on the interests of the Corporation. The Corporation's corporate officers and Directors shall avoid conflicts of interest and otherwise fully disclose to the Corporation any potential or actual conflicts of interest, if such conflicts cannot be avoided, so that such conflicts are dealt with in the best interests of the Corporation. The Corporation and all its corporate officers and Directors shall comply with any policies of the Corporation regarding conflicts of interest, as well as the requirements of Indiana law regarding such conflicts, and shall complete any and all disclosure forms as may be deemed necessary or useful by the Corporation for identifying potential conflicts of interest.

ARTICLE IX. EXEMPT ACTIVITIES

Notwithstanding any other provision of these Bylaws, no member, Director, corporate officer, employee, agent or other representative of this Corporation shall take any action or carry on any activity by or on behalf of the Corporation not permitted to be taken or carried on by an organization exempt under Section 501(c)(3) of the Code, and the regulations promulgated thereunder as they now exist or as they hereafter may be amended (the "Regulations"), or by an organization contributions to which are deductible under Section 170(c)(2) of such Code and corresponding Regulations, or a corporation described in Section 509(a) of such Code and corresponding Regulations.

ARTICLE X. AMENDMENTS

These Bylaws may be amended or repealed, or new Bylaws may be adopted, only by action of the Board of Directors and such other action of CHM as may be required under the Articles of Incorporation and these Bylaws.

Exhibit 4.3

CHE Fundamental Transactions

1) Affiliation Agreement between Catholic Health East (CHE), Mercy Health System of Maine (MHSM), Mercy Hospital (MH), and VNA Home Health & Hospice (VNA) and Eastern Maine Healthcare System (EMHS) dated January 14, 2013 - Pursuant to this Agreement, EMHS will be substituted for CHE as the Sole Member of MHSM which in turn is the Sole Member of MH and VNA. It is anticipated that the Closing will occur in the Summer 2013.

2) Asset Purchase Agreement between Saint Michael's Medical Center, Inc. (SMMC), Saint James Care, Inc. (SJC), Columbus Acquisition Corp. (CAC), and University Heights Property Company (UHPC) and Prime Healthcare Services – Saint Michael's, LLC (Prime) dated February 8, 2013 – Pursuant to this Agreement, Prime will purchase substantially all of the assets held by SMMC, SJC, CAC and UHPC. It is anticipated that the Closing will occur in the Summer 2013.

TRINITY Fundamental Transactions

None.

SCHEDULE 6.1.4

CHE EXEMPT PARTIES AND SYSTEM AFFILIATES

1. Catholic Health East
2. Allegany Franciscan Ministries, Inc.
3. Holy Cross Hospital, Inc.
4. Mercy Community Health, Inc.
5. Mercy Health System of Maine
6. Mercy Health System of Southeastern Pennsylvania
7. Mercy Hospital, Inc.
8. Mercy Medical, A Corporation
9. Our Lady of Lourdes Health Care Services, Inc.
10. Pittsburgh Mercy Health System, Inc.
11. Saint Joseph of the Pines, Inc.
12. Sisters of Providence Health System, Inc.
13. St. Francis Hospital, Inc.
14. St. Francis Medical Center
15. St. James Mercy Health System
16. Saint Joseph's Health System, Inc.
17. St. Mary Medical Center
18. St. Mary's Health Care System, Inc.
19. St. Peter's Health Partners
20. Stella Maris Insurance Company, Limited
21. Maxis Health System
22. Saint Michael's Medical Center, Inc.
23. Continuing Care Management Services Network
24. Global Health Ministry
25. Intracoastal Health Systems, Inc.
26. Franciscan Eldercare Corporation
27. St. Anthony's Hospital, Inc.
28. St. Anthony's Health Care Foundation, Inc.
29. St. Joseph's Hospital, Inc.
30. St. Joseph's Hospital of Tampa Foundation, Inc.
31. St. Joseph's Health Care Center, Inc.
32. John Knox Village of Tampa Bay, Inc.
33. Mercy Uihlein Health Corporation
34. Holy Cross Long Term Care, Inc.
35. Nursing Network, Inc.
36. Holy Cross Medical Properties, Inc.
37. Carbondale Area Physician Hospital Organization, P.C.
38. Marian Community Hospital
39. Maxis Foundation
40. Maxis Medical Services
41. Tri County Human Services Center, Inc
42. Marian Community Hospital Auxiliary

43. Mercy Community Home Care Services, Inc.
44. Mercyknoll, Incorporated
45. Saint Mary Home, Incorporated
46. The McAuley Center, Incorporated
47. Mercy Services, Inc.
48. Saint Mary Home II, Incorporated
49. Mercy Hospital
50. VNA Home Health & Hospice
51. McAuley Residence, Inc.
52. Mercy Physician Network
53. Mercy Catholic Medical Center of Southeastern Pennsylvania d/b/a Mercy Fitzgerald Hospital and Mercy Hospital of Philadelphia
54. Mercy Family Support
55. Mercy Health Foundation of Southeastern Pennsylvania
56. Mercy Health Plan
57. Mercy Home Health
58. Mercy Home Health Services
59. Mercy Management of Southeastern Pennsylvania
60. Mercy Suburban Hospital
61. Nazareth Hospital
62. St. Agnes Continuing Care Center
63. NE Physician Services, Inc.
64. Nazareth Physician Services, Inc.
65. Nazareth Medical Office Building Associates, LP
66. St. Agnes Long Term Intensive Care, LLP
67. Mercy Elderly Housing Corporation
68. East Norriton Physician Services
69. Nazareth Health Care Foundation
70. St. Agnes Continuing Care Center Foundation
71. Mercy Haverford Hospital d/b/a Mercy Community Hospital
72. SSJ Health Foundation, Inc.
73. Mercy Medical Development, Inc.
74. Mercy Mission Services, Inc.
75. Mercy Outpatient Services, Inc. d/b/a/ Sister Emmanuel Hospital
76. Mercy Medical, A Corporation
77. Mercy Life of Alabama
78. Lourdes Ancillary Services, Inc.
79. Lourdes Home Health Services Inc.
80. The Osborn Family Health Center, Our Lady of Lourdes Medical Center
81. Our Lady of Lourdes Health Foundation, Inc.
82. Our Lady of Lourdes Medical Center, Inc.
83. Our Lady of Lourdes School of Nursing, Inc.
84. Lourdes Medical Center of Burlington County
85. Health Management Services Organization, Inc.
86. Lourdes Medical Associates
87. LIFE at Lourdes Inc.

88. Lourdes Dialysis at Innova, Inc.
89. Mercy Life Center Corporation
90. Pittsburgh Mercy Foundation
91. McAuley Ministries
92. Mercy JH, Inc.
93. Mercy Jeannette Hospital Foundation
94. Jefferson PPT, Inc.
95. Venture Health Services, Inc.
96. HealthNet
97. St. Pius X Residence, Inc.
98. LIFE St. Joseph of the Pines, Inc.
99. Mercy Senior Care, Inc.
100. Saint Joseph's Hospital of Atlanta , Inc.
101. Saint Joseph's Mercy Care Services, Inc.
102. Saint Joseph's Mercy Foundation, Inc.
103. Saint Joseph's Translational Research Institute, Inc.
104. Saint Joseph's Service Corporation
105. Saint Joseph's Real Estate Management Corporation
106. The Medical Group of Saint Joseph's, LLC
107. SJHS/JOC Holdings, Inc.
108. Chestnut Risk Services Ltd.
109. University Heights Property Company, Inc.
110. Saint James Care, Inc.
111. Columbus Acquisition Corp.
112. LIFE at Saint Michael's, Inc.
113. Saint Michael's Medical Center Foundation
114. Mercy Specialist Physicians, Inc.
115. Brightside, Inc.
116. Providence Behavioral Health Hospital
117. The Mercy Hospital, Inc.
118. Mercy Medical Center
119. Mercy Senior Care Network
120. Catherine Horan Building Corporation
121. Diversified Community Services Inc.
122. Mercy Inpatient Medical Assoc Inc.
123. Providence Place, Inc.
124. Physicians Medical Office Building Condominium Trust
125. Farren Care Center, Inc.
126. Sisters of Providence Care Centers, Inc.
127. Mercy LIFE, Inc.
128. St Francis Foundation
129. Franciscan Eldercare Corporation
130. St Francis Medical Center Foundation, Inc.
131. Central New Jersey Heart Services, LLC
132. LIFE St. Francis, a New Jersey Non-Profit Corporation
133. LifeCare Physicians PC

134. Multicare Plus, Inc.
135. St. James Mercy Foundation
136. St. James Mercy Hospital
137. Langhorne MRI, Inc.
138. Langhorne Physician Services
139. St. Mary Medical Center Foundation
140. Langhorne MOB Partners, Inc.
141. St. Mary Medical Center MOB II, LP
142. St. Mary Building and Development
143. LIFE St. Mary
144. St. Mary's Foundation, Inc.
145. St. Mary's Highland Hills, Inc.
146. Good Samaritan Hospital, Inc.
147. St. Mary's Medical Group, Inc.
148. St. Peter's Health Care Services
149. Our Lady of Mercy Life Center
150. St. Peter's Hospital Foundation Inc.
151. St. Peter's Auxiliary
152. St. Peter's Hospital of the City of Albany
153. The Community Hospice, Inc.
154. The Community Hospice Foundation, Inc.
155. Villa Mary Immaculate d/b/a St. Peter's Nursing and Rehabilitation Center
156. St. Peter's Ambulatory Surgery Center, LLC
157. Eddy Licensed Home Care Agency, Inc., a subsidiary of the Northeast Health entity, LTC (Eddy), Inc. dba The Eddy
158. Northeast Health, Inc.
159. Memorial Hospital, Albany, NY
160. Samaritan Hospital of Troy, New York
161. The Northeast Health Foundation, Inc.
162. Samaritan Child Care Center, Inc.
163. Samaritan Medical Office Building, Inc.
164. LTC (Eddy), Inc. d/b/a The Eddy
165. Northeast Health Workers Compensation
166. Seton Health System, Inc.
167. Seton Licensed Home Care, Inc.
168. Affiliated Management Services, Corp
169. Seton Health at Schuyler Ridge Residential Healthcare
170. Seton Health Foundation, Inc.
171. Seton Auxiliary, Inc.
172. Sunnyview Hospital and Rehabilitation Center
173. Sunnyview Hospital and Rehabilitation Foundation, Inc.
174. The James A. Eddy Memorial Geriatric Center, Inc.
175. Beverwyck, Inc.
176. The Capital Region Geriatric Center, Inc. dba Eddy Village Green
177. Glen Eddy, Inc.
178. Heritage House Nursing Center, Inc.

179. Hawthorne Ridge, Inc.
180. Senior Care Connection, Inc. dba Eddy SeniorCare
181. The Marjorie Doyle Rockwell Center, Inc.
182. Home Aide Service of Eastern New York, Inc. dba Eddy Visiting Nurse Association
183. Beechwood Inc. dba Eddy Property Services
184. Empire Home Infusion Service Inc.
185. Eddy Licensed Home Care Agency, Inc.
186. SPHP Medical Associates, PC
187. Mercy Health-Care Center, Inc.
188. The Uihlein Mercy Center, Inc.

TRINITY EXEMPT PARTIES AND SYSTEM AFFILIATES

1. Trinity Health Corporation
2. Trinity Health - Michigan
3. Mercy Health Services - Iowa, Corp.
4. Holy Cross Hospital of Silver Spring, Inc.
5. Mount Carmel Health System
6. Alphonsus Health System
7. Saint Agnes Medical Center
8. Saint Joseph Regional Medical Center, Inc.
9. Loyola University Health System
10. Mercy Health System of Chicago
11. Trinity Continuing Care Services
12. Trinity Home Health Services
13. Mercy Health Network
14. Trinity Health International
15. Catherine McAuley Health Services
16. Hospice of Washtenaw II
17. IHA Health Services Corp
18. Mission Health Corp
19. Washtenaw/Livingston Medical Control Corp
20. Gottlieb Community Health Services
21. Gottlieb Memorial Hospital
22. Loyola University Medical Center
23. RMLHP Corporation
24. Mercy Foundation, Inc.
25. Mercy Hospital and Medical Center
26. Mercy Medical Center , Clinton
27. Diley Ridge Medical Center
28. Mount Carmel Health Plan Inc. (HMO) d/b/a Medigold
29. Mount Carmel Health System Foundation
30. Mount Carmel College of Nursing
31. OSU/Mount Carmel Alliance
32. Professional Office Corporation
33. Advantage Health -St. Mary's Medical Group
34. Grand Rapids Medical Education Partners
35. Pennant Health Alliance
36. Saint Mary's Foundation f/k/a Doran Foundation
37. Hospice of North Iowa
38. Iowa Falls Clinic
39. Mercy Medical Center - North Iowa Foundation
40. YMCA and Rehabilitation Center
41. Mercy Health Partners d/b/a Mercy Health Partners Mercy Campus and Mercy Health Partners General Health Campus
42. HPCN

43. Mercy Health Partners - Hackley Campus
44. Mercy Health Partners - Lakeshore Campus
45. MRI Mobile Services of West Michigan
46. Hackley Life Counseling d/b/a Mercy Health Partners Life Counseling and Mercy Health Partners Work Life Services
47. Muskegon Community Health Project
48. PACE Program for All Inclusive Care for the Elderly d/b/a Life Circles
49. Pennant Health Alliance (see also Grand Rapids)
50. Professional Med Team, Inc.
51. Port Huron Mercy Family Care
52. Tri-Hospital EMS
53. Saint Alphonsus Building Company
54. Saint Alphonsus Diversified Care
55. Saint Alphonsus Medical Center - Baker City, Inc.
56. Saint Alphonsus Medical Center - Ontario, Inc.
57. Saint Alphonsus Regional Medical Center , Inc.
58. Saint Alphonsus Medical Center - Nampa, Inc.
59. Saint Joseph Regional Medical Center, Inc. - South Bend Campus, Inc.
60. Saint Joseph Regional Medical Center, Inc. - Plymouth Campus, Inc.
61. Foundation of Saint Joseph Regional Medical Center, Inc.
62. Community Health Partners of South Bend, Inc.
63. Buam Harmon Memorial Hospital
64. Health, Inc.
65. Oakland Mercy Hospital
66. Siouxland Medical Education Foundation
67. Mercy Medical Center - Souix City Foundation
68. Siouxland Paramedics, Inc.
69. Siouxland PACE, Inc.
70. Siouxland Regional Cancer Center d/b/a/ June E. Nylen Center
71. Hospice of Siouxland
72. Trinity Continuing Care Services - Indiana d/b/a Sanctuary at St. Paul's and Sanctuary at Holy Cross
73. Saint Joseph's Tower, Inc. d/b/a Sanctuary at Trinity Tower
74. Holy Cross CareNet, Inc. d/b/a Sanctuary at Holy Cross - Burtonville
75. Mercy Services Nonprofit Housing Corporation d/b/a Sanctuary at Bellbrook
76. Mercy Amicare Home Healthcare, Port Huron d/b/a/Mercy Home Care, Port Huron
77. Saint Mary's Amicare Home Healthcare d/b/a Saint Mary's Home Care
78. Mercy Amicare Home Healthcare, Oakland d/b/a Mercy Home Care, Oakland
79. Mercy North Homecare and Hospice d/b/a Mercy Home Care, Cadillac; Mercy Hospice, Cadillac; Mercy Home Care, Grayling; and Mercy Hospice, Grayling
80. Mercy General Health Partners, Amicare Homecare d/b/a Mercy VNS and Hospice Services
81. Cranbrook Hospice Care d/b/a Mercy Hospice
82. Marycrest Heights

SCHEDULE 6.1.5

LITIGATION AND INVESTIGATIONS

CHE

1. Emmet & Co., Inc. and First Manhattan Co. v. CHE and Merrill Lynch Pierce Fenner and Smith Inc.
2. SEC Subpoena dated September 12, 2011 relating to Certain Municipal Bond Tender Offers.
3. United States Department of Justice Civil Investigative Demand – This False Claims Act Investigation concerns allegations regarding the implantation of cardiac defibrillators or “ICDs”.

Trinity

1. United States Department of Justice Civil Investigative Demand – This False Claims Act Investigation concerns allegations regarding the implantation of cardiac defibrillators or “ICDs”.
2. Agreement to settle with the United States Department of Justice regarding Kyphoplasty Investigation. Awaiting receipt of signed settlement agreement.

SCHEDULE 6.1.6

FINANCIAL STATEMENTS

CHE

There have been no material adverse changes in the condition, financial or otherwise, or in the results of operations of CHE or any of its material System Affiliates.

Trinity

There have been no material adverse changes in the condition, financial or otherwise, or in the results of operations of Trinity or any of its material System Affiliates.

Attachment 6
Financial Information

The following documents are attached at Attachment 6:

1. Proof of Trinity Health Corporation's "AA" bond rating from Standard & Poors (dated as of April 10, 2012).
2. Proof of Trinity Health Corporation's "Aa2" bond rating from Moody's Investor's Services (dated as of April 13, 2012).
3. Proof of Trinity Health Corporation's "AA" bond rating from Fitch Ratings (dated as of April 23, 2012).
4. Trinity Health Corporation's audited consolidated financial statements for the year ended June 30, 2012 (which includes comparative data for the year ended June 30, 2011).
5. Trinity Health Corporation's audited consolidated financial statements for the year ended June 30, 2010 (which includes comparative data for the year ended June 30, 2009).
6. There is no historical financial information available for CHE Trinity Inc. because CHE Trinity Inc. was incorporated specifically for the Transaction.

For informational purposes only, the following documents are also attached at Attachment 6:

7. Proof of Catholic Health East's "A2" bond rating from Moody's Investor's Services (dated as of December 5, 2012).
8. Proof of Catholic Health East's "A+" bond rating from Fitch Ratings (dated as of December 12, 2012).
9. Catholic Health East's audited consolidated financial statements for the year ended December 31, 2011 (which includes comparative data for the year ended December 31, 2010).
10. Catholic Health East's audited consolidated financial statements for the year ended December 31, 2010 (which includes comparative data for the year ended December 31, 2009).

Michigan Finance Authority Trinity Health; CP; Hospital; System

Primary Credit Analyst:

J. Kevin Holloran, Dallas (1) 214-871-1412; kevin_holloran@standardandpoors.com

Secondary Contact:

Martin D Arrick, New York (1) 212-438-7963; martin_arrick@standardandpoors.com

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Rationale

Outlook

Enterprise Profile

Financial Profile

Related Criteria And Research

Michigan Finance Authority Trinity Health; CP; Hospital; System

| Credit Profile | | |
|--|-----------|----------|
| US\$106.93 mil hosp rfdg bnds (Trinity Health) ser 2012MI due 06/30/2031 | | |
| Long Term Rating | AA/Stable | New |
| US\$102.84 mil hosp rev bnds (Trinity Health) ser 2009B&C rmktd 05/14-16/2012 due 06/30/2049 | | |
| Long Term Rating | AA/Stable | New |
| US\$97.160 mil hosp rev bnds (Trinity Health) ser 2008C rmktd 05/15/2012 due 06/30/2049 | | |
| Long Term Rating | AA/Stable | New |
| Franklin Cnty, Ohio | | |
| Trinity Health, Michigan | | |
| Series 2005A, 2010C | | |
| Long Term Rating | AA/Stable | Affirmed |

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to the Michigan Finance Authority's \$106.93 million fixed rate series 2012MI bonds, all issued for Trinity Health, Mich. In addition, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) and 'AA/A-1+' dual rating on various series of debt issued by various parties for Trinity Health. The outlook, where applicable, is stable.

The 'A-1+', short-term component of the dual rating reflects the credit strengths inherent in the 'AA' long-term rating, as well as our view that Trinity Health's assets provide sufficient liquidity support for approximately \$1.2 billion of variable-rate debt. Trinity Health has clear and detailed procedures to meet any liquidity demands on a timely basis. Standard & Poor's does monitor the liquidity and sufficiency of Trinity Health's fixed-income assets on a monthly basis.

Trinity Health is one of the largest health systems in the U.S. as it owns and operates hospitals and related health facilities nationwide. Trinity Health completed its consolidation of Loyola University Health System (Loyola) on July 1, 2011. Trinity Health had 7,032 staffed beds in related acute-care, generating operating revenue of \$8.7 billion (annualized) on a total asset base of \$11 billion.

Bond proceeds of approximately \$106.93 million will be used to refund Trinity Health's outstanding 2002C series of debt. At the same time, Trinity Health will execute a mode conversion on a portion of Trinity Health's 2008C series debt, and on all or a portion of Trinity Health's outstanding 2009B and 2009C bonds. The total par amount to be converted from variable rate to fixed rate (on the 2008C, 2009B, and 2009C bonds) will not exceed \$200 million.

The 'AA' long-term rating further reflects the health system's:

- Consistent financial performance, with an adjusted operating margin (including taxes paid) of 2.9% as of fiscal 2012 year to date (unaudited six month results through Dec. 31, 2011) which generated good pro forma

maximum annual debt service (MADS) coverage of 4.3x;

- Maintenance of a sound balance sheet, highlighted by excellent operational liquidity equal to 204 days' cash on hand;
- Improving financial risk dispersion, with no single local market accounting for more than 17.3% of unrestricted revenue, and facilities in 10 states (now including Illinois); and
- Tenured management team that has demonstrated a very measured approach to capital expenditures and operations, scaling back spending when economic conditions warrant and maintaining consistent operating income during periods of economic stress.

Partly offsetting the above strengths is our view of projected capital expenditures (including routine, technology, expansion, and replacement projects) of about \$2.3 billion during the next several years, with a significant portion expected to be funded through future debt issuances. Given Trinity Health's effective management of sizable, prior capital plans, we anticipate that the system will be able to absorb the projected capital spending at the current rating level.

An additional rating factor that continues to define the credit is regional concentration of facilities in the Michigan and Ohio markets, which combine for 52.8% of unrestricted revenue although this figure will attenuate with the addition of Loyola, further diversifying the geographic footprint of its revenue base.

Outlook

The stable outlook reflects our view that Trinity Health's operating performance will likely remain solid during the outlook period of two years. The outlook incorporates the absorption of Chicago-based Mercy Health System into the Trinity Health system, as well as Trinity Health's planned capital expenditures.

Should Trinity Health's balance sheet or operations decline significantly such that days' cash on hand were less than 175 or MADS coverage were less than 3.5x for a period of time, we could lower the rating or revise the outlook to negative. Trinity Health has additional, but not unlimited, debt capacity at the existing rating level. A higher rating is unlikely during the outlook period.

Enterprise Profile

Market Position

Organizational Overview. Trinity Health is one of the largest Catholic health care systems in the country, with hospitals and other health-related facilities in 10 states (now including Illinois, and a joint venture facility in South Dakota). Patient service volume increased in fiscal 2011 by 2.1% to more than 338,000 discharges. Loyola will add an additional 32,000 admissions on a yearly basis. As noted, Trinity Health's hospitals are concentrated in Michigan and Iowa-Nebraska (originally Mercy Health Services facilities) but are more dispersed in Illinois, Indiana, Ohio, Maryland, Idaho, Oregon, and California (originally Holy Cross Health System facilities). The health system derives approximately 52.8% of its hospital revenue from Michigan and Ohio. Both states' economies are still under pressure due to their historical dependence on manufacturing, particularly Michigan's dependence on the automotive industry although there is a general sense that the automotive industry has recovered and further growth should occur.

Trinity Health's Mount Carmel Health System in Columbus, Ohio is the largest contributor to the credit group's total unrestricted revenue, at 17.3%. The next top four key markets in which the health system operates, in order of

relative contribution to consolidated unrestricted revenue, are St. Joseph Mercy Health System, Mich. (15.9%), Illinois (12.4%), Oregon-Idaho (8.0%), and Grand Rapids, Mich. (6.2%). Trinity Health's hospitals hold a strong position in each market, but the health system is not the leader in most because of strong competition from hospitals or other health systems that have aggressive capital spending programs. The health system's market presence has become more diversified with the inclusion of Loyola and lessens the potential for the economy to negatively affect facilities in Michigan and Ohio. Nevertheless, profitability could decrease should economic fundamentals deteriorate in these Midwest states.

Legal Security. Trinity Health, the parent, is the sole obligated group member under its corporate-style master trust indenture (MTI). The previously issued Trinity Health bonds are general, unsecured obligations of the obligated group. The credit group includes the obligated group and 27 designated affiliates, as well as other Trinity Health affiliates. Trinity Health's commercial paper (CP) is also a general, unsecured obligation, not secured with a note under the MTI. Holders of the CP cannot have the MTI covenants enforced on their behalf. Several ministry organizations that are not designated affiliates were included in the credit group at fiscal year-end 2011, but these account for only about 10% of the credit group's total assets and unrestricted revenue.

The designated affiliates are not obligated to make debt service payments under the MTI, but Trinity Health is obligated to transfer assets as necessary from designated affiliates to make debt service payments and to accomplish other objectives. Trinity Health recently changed its legal documents so that the designated affiliates are granted access to the system's security interests in pledged property (security interests assigned to the master trustee), to secure all obligations issued under the MTI. The MTI includes limitations on the creation of liens and a rate covenant with consultant call-in provisions.

Financial Profile

Operations

Trinity Health's financial performance was solid again in fiscal 2012 year to date, comparing similarly to fiscal 2011. For the first six months of fiscal 2012, Trinity Health has produced an operating income of \$128 million, which is equal to a 2.9% operating margin. By comparison, in fiscal 2011, Trinity Health produced full year operating income of \$225 million, which was equal to a 3.1% operating margin. The slight decline in margin is attributed to the addition of Loyola, which pulled Trinity Health's same-store margins down from what would have been a 3.5% operating margin. The same-store improvements at Trinity Health's facilities are the result of continuous cost containment initiatives, and management anticipates these facilities to maintain their current level of profitability. Trinity Health has initiated an operations improvement plan at the Loyola campus, which, when fully implemented should result in a benefit of between \$31 million to \$45 million. Given Trinity Health's past success with existing facilities, Standard & Poor's feels that Trinity Health will realize the improvement opportunities they have identified.

Thus far in fiscal 2012, Trinity Health has produced an excess income of \$154 million (as calculated by Standard & Poor's), which generated good pro forma MADS coverage of 4.3x.

Balance Sheet

Unrestricted liquidity increased in fiscal 2011 to just over \$4.5 billion, or 246 days' cash on hand, and a solid, 1.4x cash to debt ratio in our view (inclusive of Loyola's outstanding debt). Cash to puttable debt is very strong at almost 4.0x. Trinity Health's overall leverage is still appropriate for the rating at about 39%, but this metric has come

under some recent pressure with the Loyola transaction. More recently in fiscal 2012, due to some equity market volatility in the second quarter, Trinity Health's unrestricted liquidity had declined slightly to just under \$4.5 billion, or 204 days' cash on hand.

After making adjustments since the last review by increasing equity exposure and reducing fixed-income holdings, Trinity Health has a slightly more aggressive asset allocation for its operating funds: approximately 45% fixed income and cash, 20% hedge funds and real assets, and 35% in equities.

Trinity Health's projected benefit obligations (for fiscal 2011) for its defined benefit pension plan has an unfunded status of approximately \$315 million (an approximately 92% funding level), with Trinity Health making financial contributions to the plans and cutting this obligation significantly since hitting recent highs of more than \$600 million. This improvement, and the fact that substantially all of Trinity Health's defined-benefit plans have church plan status, provides the system with additional financial flexibility.

Capital expenditures

Trinity Health projects that capital expenditures (including routine, technology, and expansion and replacement projects) will total about \$2.3 billion during the next several years. Annual capital expenditures averaged a little more than \$443 million in each of the past two full fiscal years, about equal to depreciation expense for the same period. Future capital expenditures are spread over a variety of routine, strategic, and major capital projects. Management has not yet finalized all of its future financing plans, but Trinity Health plans to issue new-money debt during the next several years to partly fund its capital expenditures.

Trinity Health has demonstrated a very measured approach to capital expenditures in our view, effectively managing large projects and scaling back spending when economic conditions warrant. We anticipate that Trinity Health will continue to be able to absorb the projected capital spending at the current rating level.

| | Year to date as of | | --Fiscal year-- | |
|--|--------------------|-----------|-----------------|-----------|
| | Dec. 31, 2012 | 2011 | 2010 | 2009 |
| Financial performance | | | | |
| Net patient revenue (\$000s) | 3,870,225 | 6,495,919 | 6,186,536 | 5,953,806 |
| Total operating revenue (\$000s) | 4,348,304 | 7,351,349 | 7,008,678 | 6,750,887 |
| Total operating expenses (\$000s) | 4,220,446 | 7,126,590 | 6,846,989 | 6,541,021 |
| Net non-operating income (\$000s) | 26,144 | 175,373 | 129,558 | (195,002) |
| Operating margin (%) | 2.94 | 3.06 | 2.31 | 3.11 |
| Excess margin (%) | 3.52 | 5.32 | 4.08 | 0.23 |
| Net available for debt service (\$000s) | 435,693 | 889,834 | 787,290 | 508,571 |
| Maximum annual debt service (\$000s) | 202,919 | 202,919 | 178,681 | 178,681 |
| Maximum annual debt service coverage (x) | 4.29 | 4.39 | 4.41 | 2.85 |
| Liquidity and financial flexibility | | | | |
| Unrestricted cash and investments (\$000s) | 4,466,157 | 4,527,535 | 4,060,116 | 3,496,161 |
| Unrestricted days' cash on hand | 204.4 | 245.9 | 230.7 | 208.1 |
| Unrestricted cash/total long-term debt (%) | 139.8 | 170.7 | 159.2 | 153.0 |
| Average age of plant (years) | 9.0 | 9.8 | 9.2 | 9.3 |
| Capital expenditures/depreciation and amortization (%) | 98.2 | 108.7 | 105.4 | 149.0 |

Trinity Health And Affiliates, (cont.)**Debt and liability**

| | | | | |
|-----------------------------------|-----------|-----------|-----------|-----------|
| Total long-term debt (\$000) | 3,194,415 | 2,652,172 | 2,550,488 | 2,284,611 |
| Long-term debt/capitalization (%) | 39.1 | 34.2 | 38.2 | 37.3 |
| Debt burden (%) | 2.32 | 2.69 | 2.50 | 2.72 |

*Fiscal 2010 and 2009 include Battle Creek operations.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- General Criteria: Methodology: The Interaction Of Bond Insurance And Credit Ratings, Aug. 24, 2009
- USPF Criteria: Municipal Swaps, June 27, 2007
- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011

Ratings Detail (As Of April 10, 2012)

| | | |
|--|-----------------|----------|
| Series 2008 | | |
| Short Term Rating | A-1+ | Affirmed |
| California Statewide Communities Dev Auth, California | | |
| Trinity Health , Michigan | | |
| Series 2011CA | | |
| Long Term Rating | AA/Stable | Affirmed |
| Franklin Cnty, Ohio | | |
| Trinity Health , Michigan | | |
| Franklin Cnty (Trinity Health) Series 1998 | | |
| Unenhanced Rating | AA(SPUR)/Stable | Affirmed |
| Series 1995 | | |
| Long Term Rating | AA/A-1+/Stable | Affirmed |
| Series 2011OH | | |
| Long Term Rating | AA/Stable | Affirmed |
| Idaho Hlth Fac Auth, Idaho | | |
| Trinity Health , Michigan | | |
| Series 2008B, 2010D | | |
| Long Term Rating | AA/Stable | Affirmed |
| Illinois Fin Auth, Illinois | | |
| Trinity Health , Michigan | | |
| Series 2011IL | | |
| Long Term Rating | AA/Stable | Affirmed |

Ratings Detail (ASOf April 10, 2012)(cont.)

Indiana Fin Auth, Indiana

Trinity Health , Michigan

Series 2006B, 2009A

Long Term Rating AA/Stable Affirmed

Series 2008D

Long Term Rating AA/A-1+/Stable Affirmed

Series 2010B

Long Term Rating AA/Stable Affirmed

Michigan Fin Auth, Michigan

Trinity Health , Michigan

Series 2010A

Long Term Rating AA/Stable Affirmed

Series 2011MI

Long Term Rating AA/Stable Affirmed

Michigan St Hosp Fin Auth, Michigan

Trinity Health , Michigan

Michigan St Hosp Fin Auth (Trinity Health) Series 2005D

Unenhanced Rating AA(SPUR)/Stable Affirmed

Series 2002C, 2005D, 2006A, 2008A

Long Term Rating AA/Stable Affirmed

Series 2005E, 2005F, 2008C, 2009B&C

Long Term Rating AA/A-1+/Stable Affirmed

Montgomery Cnty, Maryland

Trinity Health , Michigan

Series 2011MD

Long Term Rating AA/Stable Affirmed

Ontario Hosp Fac Auth, Oregon

Trinity Health , Michigan

Series 2010E

Long Term Rating AA/Stable Affirmed

Many issues are enhanced by bond insurance.

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MOODY'S

INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa2 RATING TO TRINITY HEALTH CREDIT GROUP'S (MI) \$106.9 MILLION OF SERIES 2012MI FIXED RATE BONDS; OUTLOOK REMAINS STABLE

Global Credit Research - 13 Apr 2012

TRINITY HEALTH CREDIT GROUP HAS A TOTAL OF \$2.95 BILLION OF RATED DEBT AND COMMERCIAL PAPER TO BE OUTSTANDING

MICHIGAN FINANCE AUTHORITY
Hospitals & Health Service Providers
MI

Moody's Rating

| ISSUE | RATING |
|---|--------|
| Hospital Revenue Bonds, Series 2012MI | Aa2 |
| Sale Amount \$106,930,000 | |
| Expected Sale Date 04/18/12 | |
| Rating Description Revenue: 501c3 Unsecured General Obligation | |

Moody's Outlook N/A

Opinion

NEW YORK, April 13, 2012 –Opinion

Moody's Investors Service has assigned a Aa2 rating to Trinity Health Credit Group's (Trinity Health) proposed \$106.9 million of Series 2012MI fixed rate revenue refunding bonds to be issued by the Michigan Finance Authority. The outlook remains stable. At this time Moody's has affirmed the Aa2 unenhanced and Aa2/VMIG 1 self-liquidity supported ratings assigned to Trinity Health's \$2.85 billion of rated debt to remain outstanding and the P-1 rating assigned to the taxable commercial paper program (see RATED DEBT section in this report).

Trinity also anticipates converting a portion of its Series 2008C, 2009B and 2009C bonds issued in Michigan and for an estimated total \$200 million in bonds to a fixed rate mode from a variable rate mode. These bonds are currently variable rate bonds whose tenders are supported by self-liquidity. Upon conversion, Moody's will withdraw the VMIG 1 short term rating currently associated with these bonds.

SUMMARY RATING RATIONALE

The Aa2 rating is attributable to Trinity Health's position as one of the nation's largest multi-state health systems with anticipated operating revenues to exceed \$8 billion in fiscal year (FY) 2012 following the acquisition of Loyola University Health System (LUHS) and Mercy Health System, expanding the system to ten states. This geographic diversification generates cash flow diversification, with only two ministry organizations generating greater than 10% of system operating cash flow in FY 2011. Margins softened some in recent years but still remain good with a 9.6% operating cash flow margin in FY 2011 and good debt service coverage of over 5 times. The balance sheet continues to improve with growth in liquidity driving cash on hand to remain over 200 days, and improvement in cash-to-debt as cash growth exceeds the increases in debt load.

Trinity Health recently acquired the \$1 billion revenue LUHS in the very competitive Chicago market and will face the issues of integration in the near-term. The merger of Mercy Health System in south Chicago expands this local market presence but unfavorably impacts balance sheet and income statement measures at the time of merger. Management will need to improve performance at the newly acquired facilities to return to more historically favorable

ratios. Capital plans remain high with anticipated annual debt issuances to partially support the capital program. The recent decline in market values of investments and acquisitions have negatively impacted liquidity.

STRENGTHS

*Geographic diversification across ten states with six markets making the largest contributions to operating cash flow in fiscal year (FY) 2011 located in five different states, and only two markets comprising greater than 10% individually of system operating cash flow (Columbus, OH and Ann Arbor, MI) and maintaining good operating performance; recent acquisitions in Chicago further diversifies cash flow generation

*Good operating profit (3.0% margin) and operating cash flow (9.6% margin) that generated strong 5.44 times Moody's-adjusted maximum annual debt service (MADS) coverage in FY 2011; pro forma margins and MADS coverage weaken only slightly with the addition of Loyola University Health System and Mercy Health System (Chicago) to Trinity Health

*Liquidity remains at or above 200 days cash on hand, with continued growth after the decline in FY 2009, improving to 246 days at fiscal yearend (FYE) 2011; yet declining through the first six months of FY 2012 (December 31) to 204 days with a decline in the financial markets and acquisitions

*Good cash-to-debt ratio of 163% at FYE 2011 and debt-to-cash flow ratio of 3.14 times in FY 2011, although these ratios weaken to 135% and 3.30 times, respectively, by December 31, 2011 and further on a pro forma basis with Mercy Health System

CHALLENGES

*Sizable concentration of operating cash flow generated by Michigan operations (41% in FY 2011) with Blue Cross Blue Shield the largest insurer in the state and the state fiscally challenged with unfavorable economic indicators; concentration declines in FY 2012 with the addition of \$1.1 billion revenue LUHS and \$260 million Mercy Health System in Chicago

*Sizable capital plans in the near term, with expectations to issue debt annually to fund master facility plans at several ministry organizations (MOs), though management has proven an ability and willingness to pull back on capital when either operations or liquidity are stressed

*Third year of declining operating cash flow margin in FY 2011 with certain markets struggling with margins below the system total (Fresno, Muskegon, and Oregon/Idaho); interim FY 2012 shows operational improvement in these markets

*Initial entry into the highly competitive Chicago market with the acquisitions of Loyola University Health System and Mercy Health System may add short-term competitive challenges as Trinity Health integrates these sites into the existing culture and evaluates strategic initiatives; sizable variation in operating cash flow generation both favorable and unfavorable in several MOs in FY 2011

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: The bond proceeds, along with an equity contribution, will be used to: (1) refund the Series 2002C bonds, and (2) pay the costs of issuance.

LEGAL SECURITY: Trinity Health is the only obligated group member of the Trinity Health Credit Group. Twenty four entities, accounting for 90% of revenues and 89% of total assets are currently Designated Affiliates. Designated Affiliates are not obligated to make payments on the bonds, but may be required to transfer funds to Trinity Health that may then be used to make payments on the bonds. The Designated Affiliates provide a security interests in their pledged property (as defined in an amendment to the master indenture, and including unrestricted receivables), in order to secure all obligations issued under the Master Indenture. Moody's views the restricted affiliate structure as a weaker security for bondholders than is a joint and several obligation.

INTEREST RATE DERIVATIVES: Trinity Health utilizes various financial instruments to hedge interest rates and other exposures, but has policies that prohibit trading in derivative financial instruments on a speculative basis. Trinity Health has entered into various interest rate swaps for a total notional amount of \$1.44 billion with different counterparties (including Merrill Lynch, Goldman, JP Morgan, Morgan Stanley, and Scotia Bank). As of June 30, 2011, Trinity Health had \$80.0 million in fixed-receiver swaps, \$526.7 million in fixed-payer swaps and \$830.0 million

in basis swaps outstanding, and recorded a net liability in the amount of \$75 million. The net market value represented only 1.7% of unrestricted liquidity at fiscal yearend 2011. As of March 30, 2012 the fair market value of the swaps had increased to a net liability of \$136 million. Trinity Health had \$53.8 million of collateral posted as of March 31, 2012, up from \$30.6 million in collateral posted as of June 30, 2011. With the LUHS purchase, Trinity Health assumed two additional swap agreements for a total notional amount of \$210 million. The counterparty is Citi and the mark to market value at March 30, 2012 was a liability of \$12.7 million, which was fully collateralized.

MARKET POSITION/COMPETITIVE STRATEGY: GEOGRAPHIC DIVERSITY OF CASH FLOWS A CREDIT POSITIVE, THOUGH SOME CONCENTRATION EXISTS; RECENT EXPANSION INTO CHICAGO INTENSIFIES DIVERSIFICATION

Moody's believes that one of Trinity Health's primary credit strengths is its geographically diversified portfolio of hospitals. Trinity Health is one of the largest not-for-profit health care systems in the U.S., generating \$7.3 billion in annual operating revenues (before investment income) in FY 2011 and operating 47 owned or managed acute care hospitals, along with continuing care and other health related services, in ten states. The majority of Trinity Health's hospitals are sizable (greater than 200 beds) and are located in major metropolitan markets. Several of the hospitals are located in competitive markets, but hold leading to near-leading market shares in their primary service areas.

Moody's views the diversification of operating cash flow across the system as a credit strength, though certain pockets of concentration exist. The six Ministry Organizations (MOs) generating the largest percentages of operating cash flow in FY 2011 are located in four different states - Ohio (Columbus), Michigan (Ann Arbor, Grand Rapids, and Oakland), Idaho (Boise), and Maryland (Silver Spring). This diversification reduces the risk to the system due to changes in the dynamics of any one local market.

Effective July 1, 2011 (FY 2012), Trinity Health effectuated two major transactions - the acquisition of Loyola University Health System (LUHS) and the sale of its equity interest in Battle Creek Health System. For closing consideration of approximately \$164 million, Trinity Health became the sole member of LUHS and, along with LUHS and Loyola University of Chicago (LUC), agreed to certain additional conditions, including 1) Trinity Health's commitment to invest at least \$300 million in capital in LUHS over seven years; 2) Trinity Health's commitment of fund \$75 million over seven years of a \$150 million cost to construct and operate a research facility to be owned by LUC; and 3) Trinity Health's commitment to provide annual academic support payments to LUC, beginning at \$22.5 million and adjusted annually for inflation. LUHS will add approximately \$1.1 billion in revenue to the system, making it Trinity Health's third largest Ministry Organization. Positive elements of the acquisition include an increase in geographic and cash flow diversification and a decrease in the concentration of system revenues generated in Michigan. Challenges include the entry into a new and highly competitive health care market with competing multi-facility systems and the short-term risk of system integration. The sale of ownership in the Battle Creek Health System removes a \$230 million revenue joint venture entity in Michigan. Trinity Health continues to invest in expansion and physician affiliation strategies in its long-standing markets.

Effective April 1, 2012, Trinity Health became the sole member of Mercy Health Services (MHS). MHS is a \$260 million acute care, 179 licensed bed facility in south Chicago. This addition enhances Trinity Health's market presence in Chicago. With the merger, Trinity Health has committed to invest a minimum of \$140 million in capital over the next five years.

OPERATING PERFORMANCE: OPERATING CASH FLOW MARGIN DECLINES FOR THIRD CONSECUTIVE YEAR IN FY 2011 BUT DEBT COVERAGE REMAINS GOOD; ADDITIONAL EROSION IN YEAR-TO-DATE 2012 WITH RECENT ACQUISITION

Revenue growth rebounded in FY 2011, increasing 8.4% over FY 2010 (restated for discontinued operations), driving improvement in operating profit to \$218.3 million (3.0% margin) from \$180.1 million (2.8% margin) (all numbers adjusted as detailed in the KEY INDICATORS section). Absolute increase in total operating revenue was \$578 million, of which \$199 million (34%) was due to acquisitions, primarily in Idaho and Oregon and a sizable physician group in Southeast Michigan. While operating cash flow improved 5.9% to \$708.0 million, the operating cash flow margin declined slightly to 9.6% from 9.9% due to the higher revenue growth. Nonetheless, debt-to-cash flow remained stable at 3.14 times (3.10 times in FY 2010) and Moody's-adjusted MADS coverage improved to 5.44 times from 5.03 times which included higher normalized investment returns due to growth in liquidity.

The six largest MOs (by revenue) combined accounted for 66% of system operating cash flow in FY 2011. Four of these are the largest contributors to operating cash flow and continue to be Columbus, Ohio (22.5%), Southeast Michigan with the flagship in Ann Arbor (18.5%), Grand Rapids, Michigan (9.1%), and Oregon and Idaho with the

flagship in Boise (7.6%). Each of these MOs, except for Oregon and Idaho, generated operating cash flow margins in excess of the system's 9.6% margin. Collectively, there is some degree of concentration risk within Michigan, as the MOs in the state accounted for 41% of the system's FY 2011 reported operating cash flow. We note, however, that these hospitals are diversified around the state and are not over burdened with a high Medicaid load. Management has proven an ability to operate effectively in the state, but we retain some concerns for the near-term due to the economic challenges Michigan continues to face. The system's Fresno, California MO struggled financially with multiple years of declining operating cash flow (5.3% operating cash flow margin in FY 2011) but has experienced operational improvement in FY 2012. This decline in performance in Fresno in FY 2011, however, was well offset by growth in other markets, demonstrating the benefits of geographic diversification.

In FY 2012, LUHS became one of the largest revenue MOs in the system with over \$1 billion in total operating revenues annually. Without operational improvement in FY 2012, however, we anticipate a weakening of operating cash flow margin due to the lower performance level at LUHS in FY 2011. For the first six months of FY 2012 (ending December 31, 2011), operating revenue of \$4.35 billion was 22.6% greater than the \$3.55 billion for the same period of the prior year. The increase was driven by both same store growth and acquisitions. Operating profit increased to \$127.9 million from \$94.8 million and contributed to a 9.4% operating cash flow margin (9.5% the prior year period), ahead of Moody's previous expectations closer to 9.1%. The increase in debt load and lower cash flow margin, however, slightly weakened debt-to-cash flow to 3.32 times and Moody's adjusted MADS coverage to 5.40 times. Moody's anticipates minimal impact to these ratios from the addition of MHS.

BALANCE SHEET POSITION: DAYS CASH REMAINS OVER 200 DAYS; DEBT LOAD INCREASING SLIGHTLY

Unrestricted liquidity grew \$516 million (12.8%) in FY 2011 to \$4.54 billion, with cash on hand improving to 246 days from 238 days the prior year, a peak over the past five years. As a result, cash-to-debt improved to 163% from 154% despite the 6.7% increase in debt load. Management consistently maintains unrestricted liquidity in excess of 200 days. Through the first six months of FY 2012, liquidity declined \$70 million to \$4.47 billion due largely to unfavorable investment returns (\$161.4 million net realized and unrealized loss) and acquisitions. As a result, cash on hand declined to 204 days as of December 31, 2011. We anticipate the addition of MHS to negatively impact cash on hand without additional same store liquidity growth, but not to fall below 200 days. Liquidity is expected to improve with a rebound in the financial markets and cash flow generation.

Trinity Health has projected total capital capacity of approximately \$2.8 billion for the three years 2012-2014. Should management decide to spend at this level, averaging \$900 million per year, it would well exceed historical levels of spending (\$633 million in FY 2009 was the largest spend in the last five years). Management has a well developed capital spending decision process that has proven in the past to reduce capital spending levels should certain metrics not be met. Trinity Health has committed to a minimum capital investment of \$300 million in the newly acquired LUHS and \$140 million at MHS. Capital is historically funded through cash flow, debt borrowings, and philanthropy.

Trinity Health issued Series 2011 bonds in the first half of FY 2012, adding about 541.4 million in new debt by December 31, 2011. The Series 2012 bonds will refund the Series 2002C bonds without increasing the outstanding debt load. At the time of the sale, Trinity Health plans to convert the Series 2009B and 2009C bonds, and a portion of the Series 2008C bonds to fixed rate modes from variable rate modes. Post financing, the fixed to variable rate debt distribution will approximate 70%/30% (including the Series 2008A-2 \$120.5 million long-mode term bond at a fixed rate until December 1, 2013 (\$10.0 million), December 1, 2015 (\$35.0 million) and December 1, 2017 (\$75.5 million) when the bonds will be remarketed and a new rate determined).

The variable rate bonds are secured by self-liquidity. The amount of pro forma demand debt, including the long mode term bonds and commercial paper is \$967 million, with cash-to-demand debt comfortable at over 460%. Management maintains a taxable commercial paper (CP) program with capacity of up to \$400 million that it utilizes to fund key capital projects on an interim basis during the year, and currently anticipates issuing bond debt annually to reimburse itself for these and other key capital expenditures. MHS holds a minimal amount of debt (\$38.6 million as of June 30, 2011) that is not material to Trinity Health's overall debt load.

Operating leases and underfunded pension plan increase the debt load 31% at FYE 2011 to \$3.63 billion. We note that, due to sizable contributions across the past couple of years, the defined benefit plan was very comfortably funded at 92% at FYE 2011. Furthermore, as a church plan, Trinity Health is not required to meet ERISA funding requirements.

SHORT-TERM VMIG 1 RATINGS AND P-1 COMMERCIAL PAPER RATING BASED ON SYSTEM'S INTERNAL

LIQUIDITY AND BACKUP BANK FACILITY AS WELL AS OTHER POSITIVE FACTORS

The short-term VMIG 1 ratings and P-1 commercial paper rating are based on the system's strong treasury management function, large portfolio of diversified investments, strong daily liquidity, availability of a backup bank facility, and other factors that suggest manageable liquidity needs.

Trinity Health supports a total self-liquidity program of \$1.38 billion, including \$519 million in weekly variable rate demand obligations (VRDBs), \$480 million variable rate bonds in commercial paper mode, and \$277 million long mode put bonds. These bonds are supported by the system's internal liquidity in the event of a failed remarketing. The long mode put bonds are well staggered across three put dates across five years (2013-2017). Trinity Health also has a \$400 million commercial paper program (CP), with \$100 million currently outstanding. Internal procedures limit the current maximum amount of combined commercial paper mode bonds and CP to no more than \$400 million in a 5-business day period.

As of December 31, 2011, the system had \$964 million in discounted daily liquidity, including \$825 million in discounted Moody's rated money market funds, \$93 million in discounted U.S. treasuries and agencies, \$36 million in demand accounts, and \$9 million in discounted repurchase agreements. The system has an additional \$1.76 billion in undiscounted weekly liquidity in fixed income and equities.

In addition to good internal liquidity, the system has a \$916 million credit agreement (Facility) that serves as a backup bank facility, which we are including as a dollar-for-dollar source of daily liquidity to support the system's self-liquidity program. The Facility is provided by 11 P-1 rated banks with staggered expiration dates in July across four years. The banks and their respective commitment levels are Bank of America, N.A. (\$155 million), JPMorgan Chase Bank, N.A. (\$150 million), Northern Trust (\$125 million), U.S. Bank (\$115 million), Comerica Bank (\$100 million), The Bank of New York Mellon (\$85 Million), PNC Bank, National Association (\$75 million), Wells Fargo (\$31 million), Bank of the West (\$30 million), Barclays Bank. (\$25 million), and Bank of Montreal (\$25 million).

The Facility is dedicated to providing funds for unremarketed tenders of bonds. If the Facility is used as a Liquidity Loan (for maturing commercial paper notes that cannot be placed or variable rate demand bonds not remarketed), the automatic termination events are restricted to severe credit events, which is consistent with Moody's methodology for "hybrid" bank lines (backup bank facilities) to be included as a source of daily liquidity for self-liquidity programs.

Based on Moody's methodology for self-liquidity (updated January 2012), Trinity Health's coverage metrics are good. Daily liquidity and the backup bank facility provide 2 times coverage. Coverage is 1 times excluding the backup bank facility, indicating the system is dependent on the facility for the self-liquidity program. The system has ample assets that can be liquidated within a week to replace the bank facility if needed.

At the time of the current bond financing, Trinity Health is also planning on converting a portion of its variable rate bonds to fixed rate. This will reduce by \$200 million the amount of variable rate bonds in a commercial mode.

Outlook

The stable outlook reflects our belief that management will continue to generate strong operating cash flow margins to support existing debt service, while maintaining its liquidity and balance sheet profile. Recent acquisitions and financial market performance, however, have weakened financial metrics.

WHAT COULD MOVE THE RATNG UP

Material improvement in operating and operating cash flow margins; continued liquidity growth; demonstrated sustained market leadership in most major MOs

WHAT COULD MOVE THE RATING DOWN

Substantial increase in debt load without a corresponding increase in cash flow; material decline in operating performance; weakening of liquidity; operational losses at several MOs concurrently

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Trinity Health

-First number reflects audit year ended June 30, 2010 (restated)

-Second number reflects pro forma on audit year ended June 30, 2011

-Third number represents combination pro forma statements with December 31, 2011 balance sheet, annualized six month performance, plus the June 30, 2011 audited financial statements of Mercy Health System's financial position and performance

-Excludes from other operating revenues \$13.0 million and \$6.5 million of investment income in FY 2010 and FY 2011, respectively.

-Excludes from operating expenses \$49.0 million pension settlement charge in FY 2010.

-Excludes from non-operating (\$23.7 million) and \$29.3 million of change in market value of interest rate swaps (non-cash) in FY 2010 and FY 2011, respectively, \$0.9 million and \$10.2 million of loss from early extinguishment of debt in FY 2010 and FY 2011, respectively, and \$20.8 million tax conversion charge for newly acquired entity in FY 2011. Non-operating includes \$16.2 million and \$15.7 million of cash payments on swaps in FY 2010 and FY 2011, respectively, \$10.9 million and \$7.9 million of other non-operating charges in FY 2010 and FY 2011, respectively, and \$4.1 million and \$6.6 million reduction for net revenue attributable to non-controlling interest in FY 2010 and FY 2011, respectively.

-Investment returns smoothed at 6%

*Inpatient discharges: 331,206; 338,012

*Total operating revenues: \$6.77 billion; \$7.34 billion; \$8.95 billion

*Moody's-adjusted net revenue available for debt service: \$895.5 million; \$968.4 million; \$1.12 billion

*Total debt outstanding: \$2.60 billion; \$2.78 billion; \$3.47 billion

*Total comprehensive debt (including operating leases and underfunded pension): \$3.8 billion; \$3.6 billion; not applicable

*Maximum annual debt service (MADS): \$177.9 million; \$177.9 million; \$204.0 million

*MADS Coverage with reported investment income (realized only): 5.42 times; 4.99 times; not applicable

*Moody's-adjusted MADS Coverage with normalized investment income: 5.03 times; 5.44 times; 5.50 times

*Debt-to-cash flow: 3.16 times; 3.14 times; 3.39 times

*Days cash on hand: 238 days; 246 days; 200 days

*Cash-to-debt: 154%; 163%; 130%

*Operating margin: 2.8%; 3.0%; 3.0%

*Operating cash flow margin: 9.9%; 9.6%; 9.4%

RATED DEBT (as of December 31, 2011)

- \$400 million Taxable Commercial Paper Notes program (\$100 million outstanding), rated P-1 and supported by self liquidity

Issued by the Michigan Finance Authority:

- Series 2011MI fixed rate bonds (\$325.2 million outstanding), rated Aa2

- Series 2010A fixed rate bonds (\$124.6 million outstanding), rated Aa2

Issued by the Michigan State Hospital Finance Authority:

- Series 2009B, variable rate bonds (\$51.4 million outstanding), rated Aa2/VMIG 1, short term rating supported by Trinity Health's own self liquidity; converting to fixed rate bonds
- Series 2009C, variable rate bonds (\$51.4 million outstanding) rated Aa2/VMIG 1, short term rating supported by Trinity Health's own self liquidity; converting to fixed rate bonds
- Series 2008A-1 fixed rate bonds (\$192.8 million outstanding), rated Aa2
- Series 2008A-2 fixed rate long-mode term bonds (\$120.5 million outstanding), with mandatory tenders on December 1, 2013 (\$10.0 million), December 1, 2015 (\$35.0 million) and December 1, 2017 (\$75.5 million), rated Aa2
- Series 2008C variable rate bonds (\$376.8 million outstanding) rated Aa2/VMIG 1, short term rating supported by Trinity Health's own self liquidity; \$97.2 million converting to fixed rate bonds
- Series 2006A fixed rate bonds (\$98.0 million outstanding), rated Aa2
- Series 2005D fixed rate bonds (\$43.6 million outstanding), rated Aa2
- Series 2005E variable rate bonds (\$30.7 million outstanding), rated Aa2/VMIG1, short term rating supported by Trinity Health's own self liquidity
- Series 2005F variable rate bonds (\$38.2 million outstanding), rated Aa2/VMIG1, short term rating supported by Trinity Health's own self liquidity
- Series 2002C fixed rate bonds (\$126.2 million outstanding, \$0 to remain outstanding post financing), rated Aa2

Issued by the California Statewide Communities Development Authority:

- Series 2011CA fixed rate bonds (\$106.3 million outstanding), rated Aa2

Issued by the Idaho Health Facilities Authority:

- Series 2010D fixed rate term bond (\$28.9 million outstanding), rated Aa2 and maturing December 2037
- Series 2008B fixed rate bonds (\$178.3 million outstanding), rated Aa2

Issued by the Illinois Finance Authority:

- Series 2011IL fixed rate bonds (\$139.7 million outstanding), rated Aa2

Issued by the Indiana Finance Authority:

- Series 2010B fixed rate bonds (\$65.9 million outstanding), rated Aa2
- Series 2008D-1 & D-2 variable rate bonds (\$378.6 million outstanding) rated Aa2/VMIG 1, short term rating supported by Trinity Health's own self liquidity
- Series 2006B fixed rate bonds (\$5.5 million outstanding), rated Aa2

Issued by Iowa Finance Authority:

- Series 2009A fixed rate bonds (\$228.0 million outstanding), rated Aa2
- Series 2000D variable rate bonds (\$45.7 million outstanding), rated Aa2/VMIG1, short term rating supported by Trinity Health's own self liquidity

Issued by County of Franklin, Ohio:

- Series 2011OH fixed rate bonds (\$14.5 million outstanding), rated Aa2

- Series 2010C fixed rate bonds (\$25.7 million outstanding), rated Aa2
- Series 2005A fixed rate bonds (\$33.9 million outstanding), rated Aa2

Issued by Montgomery County, MD:

- Series 2011MD fixed rate bonds (\$63.0 million outstanding), rated Aa2

Issued by Hospital Facility Authority of the City of Ontario, Oregon:

- Series 2010 E fixed rate term bonds (\$20.9 million outstanding), rated Aa2, term bonds maturing December 2037

Trinity Health (formerly Holy Cross Health System) debt outstanding:

- County of Franklin, OH Series 1995 variable rate bonds (\$25.5 million outstanding), rated Aa2/MMIG1, short term rating supported by Trinity Health's own self liquidity
- County of Franklin, OH Series 1998 fixed rate bonds (\$35.0 million outstanding), insured by MBIA, Aa2 unenhanced rating

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Underwriters: James Olsen, Merrill Lynch (646)-743-1348, Michael Marcus, Goldman Sachs (212) 902-6531

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Trinity Health Credit Group, Michigan

Revenue Bonds New Issue Report

Ratings

New Issue

\$106,930,000 Michigan Finance Authority, Series 2012

AA

See Page 2 for a Full Listing of Outstanding Debt.

Rating Outlook

Stable

New Issue Details

Sale Information: \$106,930,000 Michigan Finance Authority, Series 2012, via negotiated sale the week of April 23.

Security: General unsecured obligations of the obligated group.

Purpose: To refund Trinity Health Credit Group's series 2002C and pay costs of issuance.

Final Maturity: 2029.

Key Rating Drivers

Size and Scale of Operations: The breadth and scope of Trinity's care delivery system, which includes 49 acute-care hospitals across 10 states, supports the system's overall operating platform while insulating the organization from adverse economic, demographic, or operational challenges from any one of its markets.

Strong Liquidity: At Dec. 31, 2011 (six months, unaudited), Trinity had approximately \$4.5 billion in unrestricted cash and investments, which translated into a favorable 216.4 days cash on hand, 22.0x pro forma cushion ratio, and nearly 140% of long-term debt.

Good Profitability Position: Income from operations totaled \$127.9 million through the six-month interim period on total revenues of \$4.3 billion (2.9% operating margin and 9.4% operating EBITDA margin). Fitch Ratings views management's effective practices in growing top-line revenue while maintaining its expense base favorably.

Competitive Markets: Many of Trinity's acute-care hospitals are located in competitive environments such as Southeastern Michigan, Central Ohio, and Central California.

Large Capital Plans: Over the next three fiscal years management has budgeted approximately \$2.8 billion of total capital spending including major facility replacement and renovations, IT, and routine capital expenditures.

Related Research

Fitch Rates Trinity Health (MI) 2012 Revs 'AA'; Affirms Outstanding Bonds at 'AA' & 'F1+'. April 12, 2012

Trinity Health Credit Group, Michigan New Issue Report, Oct. 5, 2011

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Rating History

| Rating | Action | Outlook/ Watch | Date |
|--------|----------|----------------|----------|
| AA/F1+ | Affirmed | Stable | 4/12/12 |
| AA/F1+ | Affirmed | Stable | 9/22/11 |
| AA/F1+ | Affirmed | Stable | 10/28/10 |
| AA/F1+ | Affirmed | Stable | 9/30/10 |
| AA/F1+ | Affirmed | Stable | 10/20/09 |
| AA/F1+ | Affirmed | Stable | 10/16/08 |
| F1+ | Assigned | — | 2/29/08 |
| AA | Affirmed | Stable | 2/29/08 |
| AA | Affirmed | Stable | 12/10/07 |
| AA | Upgraded | Stable | 10/19/06 |
| AA- | Affirmed | Positive | 10/20/05 |
| AA- | Affirmed | Stable | 10/25/04 |
| AA- | Affirmed | Stable | 10/21/03 |
| AA- | Affirmed | Stable | 3/28/03 |
| AA- | Affirmed | Stable | 10/30/02 |
| AA- | Affirmed | Positive | 10/16/01 |
| AA- | Assigned | Stable | 10/16/00 |

Outstanding Debt

| | |
|---|--------|
| \$325,195,000 Michigan Finance Authority, Series 2011 | AA |
| \$106,300,000 California Statewide Communities Development Authority, Series 2011 | AA |
| \$62,970,000 Montgomery County, Maryland, Series 2011 | AA |
| \$14,485,000 Franklin County, Ohio, Series 2011 | AA |
| \$139,710,000 Illinois Finance Authority, Series 2011 | AA |
| \$124,555,000 Michigan State Hospital Finance Authority Fixed-Rate Revenue Bonds (Trinity Health Credit Group), Series 2010A | AA |
| \$65,880,000 Indiana Finance Authority Revenue and Refunding Bonds (Trinity Health Credit Group), Series 2010B | AA |
| \$25,710,000 Franklin County, Ohio, Fixed-Rate Revenue and Refunding Bonds (Trinity Health Credit Group), Series 2010C | AA |
| \$28,945,000 Idaho Health Facilities Authority Hospital Revenue Bonds, Series 2010D | AA |
| \$20,885,000 Ontario Hospital Facility Authority Hospital Revenue Bonds, Series 2010E | AA |
| \$54,505,000 Michigan State Hospital Finance Authority Fixed-Rate Revenue Bonds (Trinity Health Credit Group), Series 2010F | AA |
| \$228,010,000 Indiana Finance Authority Revenue and Refunding Bonds (Trinity Health Credit Group), Series 2009A | AA |
| \$51,420,000 Michigan State Hospital Finance Authority Variable-Rate Refunding Bonds (Trinity Health Credit Group), Series 2009B ^a | AA/F1+ |
| \$51,420,000 Michigan State Hospital Finance Authority Variable-Rate Refunding Bonds (Trinity Health Credit Group), Series 2009C ^a | AA/F1+ |
| \$313,295,000 Michigan State Hospital Finance Authority Fixed-Rate Revenue Bonds (Trinity Health Credit Group), Series 2008A | AA |
| \$178,310,000 Idaho Health Facilities Authority Fixed-Rate Revenue Bonds (Trinity Health Credit Group), Series 2008B | AA |
| \$376,800,000 Michigan State Hospital Finance Authority Variable-Rate Revenue Bonds (Trinity Health Credit Group), Series 2008C ^a | AA/F1+ |
| \$378,620,000 Indiana Health Facilities Finance Authority Variable-Rate Revenue Bonds (Trinity Health Credit Group), Series 2008D ^a | AA/F1+ |
| \$97,990,000 Michigan State Hospital Finance Authority Fixed-Rate Revenue Bonds (Trinity Health Credit Group), Series 2006A | AA |
| \$5,455,000 Indiana Health and Educational Facility Financing Authority Fixed Rate Revenue Bonds (Trinity Health Credit Group), Series 2006B | AA |
| \$33,920,000 Franklin County, Ohio, Fixed-Rate Refunding Bonds (Trinity Health Credit Group), Series 2005A | AA |
| \$43,550,000 Michigan State Hospital Finance Authority Fixed-Rate Refunding Bonds (Trinity Health Credit Group), Series 2005D | AA |
| \$68,850,000 Michigan State Hospital Finance Authority Variable Rate Revenue Bonds (Trinity Health Credit Group), Series 2005E and F ^a | AA/F1+ |
| \$126,195,000 Michigan State Hospital Finance Authority Refunding and Revenue Bonds (Trinity Health Credit Group), Series 2002C | AA |
| \$45,725,000 Iowa Finance Authority Variable-Rate Refunding and Revenue Bonds (Trinity Health Credit Group), Series 2000D ^a | AA/F1+ |
| \$34,950,000 Franklin County, Ohio, Fixed-Rate Revenue and Refunding Bonds (Trinity Health Credit Group), Series 1998 ^a | AA |
| \$25,500,000 Franklin County, Ohio, Variable-Rate Demand Revenue Bonds (Trinity Health Credit Group), Series 1995 | AA/F1+ |

^aUnderlying rating of 'AA'.

Credit Profile

Headquartered in Novi, Michigan, Trinity owns and/or operates 49 acute-care hospitals in 10 states with a total number of 7,000 staffed beds as well as a variety of healthcare-related operations. In fiscal 2011, Trinity had total revenues of approximately \$7.35 billion. Trinity covenants to disclose annual audited financial statements and quarterly information to the MSRB's EMMA system.

Management and Governance

Trinity is sponsored by Catholic Health Ministries (previously the ministries of the Holy Cross Sisters and the Sisters of Mercy), which retain certain reserved powers. Trinity's board consists of no fewer than nine, but no more than 15 individuals. Board members are appointed and serve three-year terms, with total service not to exceed 10 consecutive years. Fitch views the composition of the board favorably as it combines members with backgrounds in medicine, business, finance, and mission.

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Related Criteria

Nonprofit Hospitals and Health Systems Rating Criteria, Aug. 12, 2011
Revenue-Supported Rating Criteria, June 20, 2011

Day-to-day management of the organization is led by CEO Joseph Swedish, who has been in his position for several years. Other members of the executive management team include Kedrick Adkins (president of integrated services), Benjamin Carter (CFO), and James Bosscher (senior vice president of treasury and chief investment officer). Fitch views the stability and experience of the management team favorably. Trinity has been one of the early adopters of consolidating certain shared or corporate services of its ministry organizations (i.e. insurance, payroll, billing, and collections) to reduce variation and improve efficiency.

Utilization Data

(Fiscal Years Ended June 30)

| | 2008 | 2009 | 2010 | 2011 |
|---------------------------------|-----------|-----------|-----------|-----------|
| Licensed Beds | 9,015 | 8,834 | 9,155 | 9,145 |
| Operated Beds | 7,809 | 7,646 | 7,854 | 7,842 |
| Acute Adult Admissions | 296,473 | 297,301 | 299,199 | 305,827 |
| Acute Adult Patient Days | 1,236,909 | 1,212,132 | 1,181,492 | 1,201,939 |
| Average Length of Stay (Days) | 4.2 | 4.1 | 3.9 | 3.9 |
| Average Daily Census | 3,389 | 3,321 | 3,237 | 3,293 |
| Observation Cases | 49,537 | 50,020 | 56,322 | 65,141 |
| Occupancy (%) | 43 | 43 | 41 | 42 |
| Births | 41,812 | 40,336 | 39,184 | 40,644 |
| Inpatient Surgeries | 83,875 | 86,213 | 84,609 | 85,912 |
| Outpatient Surgeries | 159,857 | 156,144 | 153,433 | 156,717 |
| Net Emergency Department Visits | 981,830 | 1,044,179 | 1,101,229 | 1,184,487 |
| Outpatient Visits | 6,149,826 | 6,548,930 | 6,834,693 | 7,553,158 |
| Medicare Case Mix Index | 1.44 | 1.51 | 1.51 | 1.51 |

Operating Profile and Financial Performance

Organizational Update

The credit factors supporting the Trinity's 'AA' rating remain largely unchanged from Fitch's last rating action in September 2011 and reflect the benefits that accrue from the size and scale of Trinity's operations, solid financial profile, and effective management practices. Trinity's geographic diversity of its operations, providing care in 10 states, allows the organization to realize economies of scale through ongoing consolidation of certain shared administrative and financial services, as well as the ability to export clinical and operational best practices across the system. Fitch believes that Trinity can generate further clinical and operational efficiencies throughout the system over the near to medium term, which should offset the effects of tighter reimbursement and slowing volume growth.

Trinity's balance sheet metrics (216.4 days cash on hand, 22.0x cushion ratio, and 140% cash to long-term debt) compare favorably against Fitch's 'AA' medians of 240 days, 22.4x, and 159%. However, operating EBITDA margins of 9.3%, 9.8%, and 9.4% in fiscal years 2010, 2011, and through the six months ended Dec 31, 2011 are light relative to the 'AA' median of 10.6%, but reflect the impact of reimbursement pressure, increased bad-debt expense and the effects of ongoing investments in IT, physician

Payor Mix

(% of Gross Revenues, Fiscal Years Ended June 30)

| | 2008 | 2009 | 2010 | 2011 |
|--------------|-------|-------|-------|-------|
| Medicare | 38.1 | 37.9 | 38.8 | 38.5 |
| Medicaid | 8.9 | 9.2 | 9.8 | 11 |
| Commercial | 16.9 | 17 | 16.3 | 18.3 |
| Managed Care | 36.1 | 35.9 | 35.1 | 32.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Note: Numbers may not add to 100% due to rounding.

alignment, and the acquisition of Loyola Medical Center. Trinity's debt burden is manageable, as demonstrated by MADS of approximately \$200 million, which represented 2.7% of fiscal 2011 revenues. Historical coverage of pro forma MADS by operating EBITDA is adequate at 3.5x and 3.1x in fiscal years 2011 and 2010, respectively.

Fitch's main concerns include the competitive risk associated with Trinity's various markets such as Southeast Michigan, Central Ohio, and Central California. Trinity has also been active in acquiring facilities, which may pressure financial performance temporarily as the new entities are integrated. Additionally, Trinity's Medicaid payor base as a percentage of gross revenues increased to 11.0% in 2011 from 9.7% in 2010. Fitch views this as a concern that could pressure profitability.

Mercy Health System of Chicago

As of April 1, 2012, Trinity became the sole corporate member of Mercy Health System of Chicago (MHS). Located in the city of Chicago, IL, MHS was Chicago's first teaching hospital and has a long operating history in the service area. In fiscal 2011, MHS had total operating revenue of \$260 million and an average daily census of approximately 200 patients.

As part of the agreement between Trinity and MHS, Trinity has agreed to provide \$150 million for various capital items over a five-year period. Overall, Fitch realizes the acquisition is in a competitive marketplace, but Trinity is expanding its reach into Illinois and expects the strategy will allow the Illinois market to gain more efficiencies.

Debt Profile

Outstanding Debt and Swaps

After the 2012 bond issuance, total outstanding debt will be approximately \$3.2 billion, which is approximately 88% fixed rate and 12% variable rate after the effect of swaps. Trinity has approximately \$1.8 billion in outstanding swaps with multiple counterparties. As of March 30, 2012 the total mark-to-market valuation on the system's swap portfolio was negative \$149 million.

Self-Liquidity

The 'F1+' rating reflects the adequacy of Trinity's eligible cash, investments, and dedicated lines of credit to fund any unremarketed puts on its variable-rate demand bonds and CP program. At Dec. 31, 2011, Trinity had a total of approximately \$1.8 billion of highly liquid, unrestricted cash and fixed income securities available. In 2011, Trinity secured a \$916 million dedicated credit facility from a consortium of 11 banks to for additional liquidity. Trinity has total funding sources available to meet the maximum one-week tender exposure well in excess of Fitch's 'F1+' threshold of 1.25x. Fitch received a written internal procedures letter from Trinity, which outlines internal policies to meet any funding requirements. Fitch receives monthly investment reports that are used to monitor Trinity's cash and investment position relative to its liquidity coverage.

Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

| | 2008 | 2009 | 2010 | 2011 | Six Mos. Ended 2012 |
|---|-----------|-----------|-----------|------------|------------------------|
| Balance Sheet Data | | | | | |
| Unrestricted Cash | 3,601,297 | 3,474,895 | 4,022,338 | 4,528,364 | 4,466,931 |
| Restricted Cash | 609,899 | 267,768 | 285,918 | 307,439 | 68,679 |
| Trustee-Held Cash | 149,524 | 62,939 | 55,159 | 14,860 | 130,265 |
| Net Patient Accounts Receivable | 754,421 | 703,463 | 693,689 | 722,465 | 894,490 |
| Gross Property, Plant, and Equipment (PP&E) | 6,625,695 | 7,207,130 | 7,090,354 | 7,363,970 | 8,074,653 |
| Accumulated Depreciation | 3,424,931 | 3,818,181 | 3,740,830 | 3,989,867 | 4,199,125 |
| Net PP&E | 3,200,764 | 3,388,949 | 3,349,524 | 3,374,103 | 3,875,528 |
| Total Assets | 9,092,173 | 8,580,531 | 9,321,580 | 10,029,657 | 10,939,406 |
| Short-Term Debt | 161,059 | 100,667 | 169,956 | 99,978 | 1,098,335 |
| Current Liabilities | 1,181,946 | 977,609 | 1,216,411 | 1,245,559 | 2,377,278 |
| Due to Third-Party Payors | 58,012 | 119,700 | 155,243 | 166,910 | 258,590 |
| Long-Term Debt | 2,015,602 | 2,284,611 | 2,550,488 | 2,652,172 | 3,194,415 |
| Unrestricted Net Assets | 5,075,744 | 3,832,806 | 4,119,660 | 5,007,518 | 4,963,404 |
| Income and Cash Flow Data | | | | | |
| Net Patient Revenue | 5,418,488 | 5,739,144 | 5,966,053 | 6,495,919 | 3,870,225 |
| Other Revenue | 740,833 | 783,425 | 813,975 | 855,430 | 478,079 |
| Total Revenue | 6,159,321 | 6,522,569 | 6,780,028 | 7,351,349 | 4,348,304 |
| Salaries, Wages, Fees, and Benefits | 3,020,624 | 3,189,197 | 3,313,273 | 3,637,156 | 2,178,679 |
| Depreciation and Amortization | 351,715 | 393,924 | 407,340 | 405,631 | 233,181 |
| Interest Expense | 99,905 | 80,988 | 70,651 | 84,071 | 48,510 |
| Provision for Bad Debts | 220,771 | 270,107 | 306,079 | 323,275 | 219,505 |
| Total Expenses | 5,891,530 | 6,325,341 | 6,625,704 | 7,126,590 | 4,220,446 |
| Income from Operations | 267,791 | 197,228 | 154,324 | 224,759 | 127,858 |
| Operating EBITDA | 719,411 | 672,140 | 632,315 | 714,461 | 409,549 |
| Non-Operating Gains/(Losses) | 18,651 | (473,163) | 138,488 | 188,407 | (190,879) |
| Excess Income | 286,442 | (275,935) | 292,812 | 413,166 | (63,021) |
| Total Investment Income | 89,973 | (182,441) | 149,344 | 217,172 | N.A. |
| Net Unrealized Gains/(Losses) | (251,245) | (463,235) | 195,979 | 279,942 | (199,123) |
| Net Change in Fair Market Value of Derivative Instruments | (32,758) | (37,292) | (39,928) | 13,554 | N.A. |
| Cash Flow from Operations | 556,013 | 726,876 | 463,218 | 474,182 | 409,550 |
| Net PP&E Acquisitions | 585,997 | 606,436 | 438,854 | 437,006 | 226,046 |
| EBITDA | 738,062 | 198,977 | 770,803 | 902,868 | 218,670 |
| CFFOBI | 655,918 | 807,864 | 533,869 | 558,253 | 458,060 |
| Free Cash Flow | (29,984) | 120,440 | 24,364 | 37,176 | 183,504 |
| MADS | 200,589 | 200,589 | 200,589 | 200,589 | 200,589 |
| Liquidity Ratios | | | | | |
| Days Cash on Hand | 247.1 | 224.0 | 248.3 | 258.4 | 216.4 |
| Days in Accounts Receivable | 50.8 | 44.7 | 42.4 | 40.6 | 42.2 |
| Days in Current Liabilities | 81.1 | 63.0 | 75.1 | 71.1 | 115.1 |
| Cushion Ratio (x) | 18.0 | 17.3 | 20.1 | 22.6 | 22.3 |
| Cash to Debt (%) | 178.7 | 152.1 | 157.7 | 170.7 | 139.8 |
| Profitability and Operational Ratios (%) | | | | | |
| Operating Margin | 4.3 | 3.0 | 2.3 | 3.1 | 2.9 |
| Operating EBITDA Margin | 11.7 | 10.3 | 9.3 | 9.7 | 9.4 |
| Excess Margin | 4.6 | (4.6) | 4.2 | 5.5 | (1.5) |
| EBITDA Margin | 11.9 | 3.3 | 11.1 | 12.0 | 5.3 |
| Cash Flow Margin | 9.0 | 12.0 | 6.7 | 6.3 | 9.9 |
| Investment Income as % of Excess Income | 31.4 | 66.1 | 51.0 | 52.6 | 0.0 |
| Personnel Cost as % of Revenues | 49.0 | 48.9 | 48.9 | 49.5 | 50.1 |
| Bad Debt Expense as % of Revenues | 3.6 | 4.1 | 4.5 | 4.4 | 5.0 |
| Capital-Related Ratios | | | | | |
| MADS Coverage – EBITDA (x) | 3.7 | 1.0 | 3.8 | 4.5 | 2.2 |
| MADS Coverage – Operating EBITDA (x) | 3.6 | 3.4 | 3.2 | 3.6 | 4.1 |

EBITDA – Earnings before interest, taxes, depreciation, and amortization. N.A. – Not available. CFFOBI – Cash flow from operations before interest. Note: Fitch Ratings may have reclassified certain financial statement items for analytical purposes.

Financial Summary (continued)

(\$000, Audited Fiscal Years Ended June 30)

| | 2008 | 2009 | 2010 | 2011 | Six Mos. Ended 2012 |
|--|--------|-------|-------|-------|------------------------|
| Capital-Related Ratios (continued) | | | | | |
| MADS Coverage – CFFOBI (x) | 3.3 | 4.0 | 2.7 | 2.8 | 4.6 |
| MADS Coverage – CFFOBI less Capital Expenditures (x) | 0.3 | 1.0 | 0.5 | 0.6 | 2.3 |
| MADS as % of Revenue | 3.3 | 3.1 | 3.0 | 2.7 | 2.3 |
| Debt to EBITDA (x) | 2.7 | 11.5 | 3.3 | 2.9 | 4.8 |
| Debt to Operating EBITDA (x) | 2.8 | 3.4 | 4.0 | 3.7 | 2.6 |
| Debt to Free Cash Flow (x) | (67.2) | 19.0 | 104.7 | 71.3 | 11.4 |
| Debt to Capitalization (%) | 28.4 | 37.3 | 38.2 | 34.6 | 29.7 |
| Average Age of Plant (Years) | 9.7 | 9.7 | 9.2 | 9.8 | 9.0 |
| Capital Expenditures as % of Depreciation Expense | 166.6 | 153.9 | 107.7 | 107.7 | 96.9 |
| Capital Expenditures as % of EBITDA | 79.4 | 304.8 | 56.9 | 48.4 | 103.4 |
| Capital Expenditures as % of Total Revenue | 9.5 | 9.3 | 6.5 | 5.9 | 5.2 |

CFFOBI – Cash flow from operations before interest. EBITDA – Earnings before interest, taxes, depreciation, and amortization. Note: Fitch Ratings may have reclassified certain financial statement items for analytical purposes.

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TRINITY HEALTH

*Consolidated Financial Statements for
the Years Ended June 30, 2012 and 2011,
Supplemental Consolidating Schedules
for the Year Ended June 30, 2012
and Independent Auditors' Reports*

TRINITY HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trinity Health
Novi, Michigan

We have audited the accompanying consolidated balance sheets of Trinity Health 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 consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2012 and 2011, and the results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 26, 2012

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2012 AND 2011

(In Thousands)

| ASSETS | 2012 | 2011 |
|--|---------------|---------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 708,889 | \$ 536,269 |
| Investments | 1,883,325 | 1,681,699 |
| Security lending collateral | 130,702 | 149,641 |
| Assets limited or restricted as to use, current portion | 27,420 | 8,233 |
| Patient accounts receivable, net of allowance for doubtful accounts of \$217.5 million and \$177.6 million in 2012 and 2011, respectively | 965,573 | 722,465 |
| Estimated receivables from third-party payors | 140,614 | 92,829 |
| Other receivables | 140,718 | 117,740 |
| Inventories | 133,634 | 109,136 |
| Assets held for sale | - | 185,437 |
| Prepaid expenses and other current assets | 159,674 | 97,005 |
| Total current assets | 4,290,549 | 3,700,454 |
| ASSETS LIMITED OR RESTRICTED AS TO USE, NONCURRENT PORTION: | | |
| Held by trustees under bond indenture agreements | 51,114 | 6,627 |
| Self-insurance, benefit plans and other | 419,685 | 207,236 |
| By Board | 2,153,574 | 2,309,567 |
| By donors | 129,628 | 100,203 |
| Total assets limited or restricted as to use, noncurrent portion | 2,754,001 | 2,623,633 |
| PROPERTY AND EQUIPMENT, NET | 4,221,827 | 3,374,103 |
| INVESTMENTS IN UNCONSOLIDATED AFFILIATES | 126,678 | 104,702 |
| GOODWILL | 107,704 | 108,297 |
| INTANGIBLE ASSETS, net of accumulated amortization of \$17.1 million and \$14.2 million in 2012 and 2011, respectively | 64,475 | 22,053 |
| OTHER ASSETS | 110,681 | 96,415 |
| TOTAL ASSETS | \$ 11,675,915 | \$ 10,029,657 |

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

LIABILITIES AND NET ASSETS**2012****2011****CURRENT LIABILITIES:**

| | | |
|---|------------|-----------|
| Commercial paper | \$ 134,989 | \$ 99,978 |
| Short-term borrowings | 892,865 | 1,121,270 |
| Current portion of long-term debt | 32,362 | 29,514 |
| Accounts payable | 351,931 | 281,213 |
| Accrued expenses | 259,159 | 132,417 |
| Salaries, wages and related liabilities | 421,448 | 356,968 |
| Payable under security lending agreements | 130,702 | 149,641 |
| Liabilities held for sale | - | 28,918 |
| Estimated payables to third-party payors | 269,377 | 166,910 |

Total current liabilities

2,492,833

2,366,829

LONG-TERM DEBT, NET OF CURRENT PORTION

2,302,236

1,530,902

SELF-INSURANCE RESERVES

513,602

282,175

ACCRUED PENSION AND RETIREE HEALTH COSTS

1,057,566

346,942

OTHER LONG-TERM LIABILITIES

440,668

288,497

Total liabilities

6,806,905

4,815,345

NET ASSETS:

| | | |
|---|-----------|-----------|
| Unrestricted net assets | 4,707,202 | 5,007,518 |
| Noncontrolling ownership interest in subsidiaries | 18,160 | 97,288 |
| Total unrestricted net assets | 4,725,362 | 5,104,806 |
| Temporarily restricted net assets | 102,978 | 73,287 |
| Noncontrolling ownership interest in subsidiaries | - | 1,628 |
| Total temporarily restricted net assets | 102,978 | 74,915 |
| Permanently restricted net assets | 40,670 | 34,462 |
| Noncontrolling ownership interest in subsidiaries | - | 129 |
| Total permanently restricted net assets | 40,670 | 34,591 |
| Total net assets | 4,869,010 | 5,214,312 |

TOTAL LIABILITIES AND NET ASSETS

\$ 11,675,915

\$ 10,029,657

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2012 AND 2011

(In Thousands)

| | 2012 | 2011 |
|--|-------------------|-------------------|
| UNRESTRICTED REVENUE: | | |
| Net patient service revenue | \$ 7,849,161 | \$ 6,495,919 |
| Capitation and premium revenue | 422,493 | 378,568 |
| Net assets released from restrictions | 12,120 | 12,357 |
| Other revenue | 617,136 | 464,505 |
| Total unrestricted revenue | <u>8,900,910</u> | <u>7,351,349</u> |
| EXPENSES: | | |
| Salaries and wages | 3,549,999 | 2,850,939 |
| Employee benefits | 831,816 | 729,746 |
| Contract labor | 82,903 | 56,471 |
| Total labor expenses | <u>4,464,718</u> | <u>3,637,156</u> |
| Supplies | 1,430,933 | 1,190,255 |
| Purchased services | 775,408 | 683,560 |
| Depreciation and amortization | 464,750 | 405,631 |
| Occupancy | 348,864 | 307,722 |
| Provision for bad debts | 431,457 | 323,275 |
| Medical claims and capitation purchased services | 210,245 | 198,355 |
| Interest | 102,781 | 84,071 |
| Other | 401,745 | 296,565 |
| Total expenses | <u>8,630,901</u> | <u>7,126,590</u> |
| OPERATING INCOME | 270,009 | 224,759 |
| NONOPERATING ITEMS: | | |
| Investment (loss) income | (19,159) | 483,550 |
| Change in market value and cash payments of interest rate swaps | (114,468) | 13,554 |
| Loss from early extinguishment of debt | (13,458) | (10,185) |
| Gain on bargain purchase and inherent contribution | 216,796 | - |
| Other, including income taxes | 27,333 | (28,765) |
| Total nonoperating items | <u>97,044</u> | <u>458,154</u> |
| EXCESS OF REVENUE OVER EXPENSES | 367,053 | 682,913 |
| Less excess of revenue over expenses attributable to noncontrolling interest | <u>8,312</u> | <u>6,580</u> |
| EXCESS OF REVENUE OVER EXPENSES, NET OF NONCONTROLLING INTEREST | <u>\$ 358,741</u> | <u>\$ 676,333</u> |

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

| | <u>Controlling Interest</u> | <u>Noncontrolling Interest</u> | <u>Total</u> |
|---|---------------------------------|------------------------------------|---------------------|
| UNRESTRICTED NET ASSETS: | | | |
| Excess of revenue over expenses | \$ 358,741 | \$ 8,312 | \$ 367,053 |
| Net assets released from restrictions for capital acquisitions | 20,496 | - | 20,496 |
| Net change in retirement plan related items | (673,340) | - | (673,340) |
| Other | 6,090 | (6,287) | (197) |
| (Decrease) increase in unrestricted net assets before discontinued operations | (288,013) | 2,025 | (285,988) |
| Discontinued operations - Battle Creek Health System (BCHS) | | | |
| Net change in retirement plan related items | 21,678 | - | 21,678 |
| Loss on transfer of shares | (28,534) | - | (28,534) |
| Loss from operations | (5,447) | - | (5,447) |
| Decrease due to transfer | - | (81,153) | (81,153) |
| Decrease in unrestricted net assets | (300,316) | (79,128) | (379,444) |
| TEMPORARILY RESTRICTED NET ASSETS: | | | |
| Contributions | 38,022 | - | 38,022 |
| Net assets released from restrictions | (32,616) | - | (32,616) |
| Decrease due to transfer of shares of BCHS | (1,628) | (1,628) | (3,256) |
| Acquisition of Loyola University Health System (LUHS) | 20,362 | - | 20,362 |
| Acquisition of Mercy Health System of Chicago (MHSC) | 4,016 | - | 4,016 |
| Other | 1,535 | - | 1,535 |
| Increase (decrease) in temporarily restricted net assets | 29,691 | (1,628) | 28,063 |
| PERMANENTLY RESTRICTED NET ASSETS: | | | |
| Contributions for endowment funds | 636 | - | 636 |
| Net investment loss | (421) | - | (421) |
| Decrease due to transfer of shares of BCHS | (129) | (129) | (258) |
| Acquisition of LUHS | 6,671 | - | 6,671 |
| Other | (549) | - | (549) |
| Increase (decrease) in permanently restricted net assets | 6,208 | (129) | 6,079 |
| DECREASE IN NET ASSETS | (264,417) | (80,885) | (345,302) |
| NET ASSETS, BEGINNING OF YEAR | 5,115,267 | 99,045 | 5,214,312 |
| NET ASSETS, END OF YEAR | <u>\$ 4,850,850</u> | <u>\$ 18,160</u> | <u>\$ 4,869,010</u> |

(Continued)

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TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2011

(In Thousands)

| | Controlling Interest | Noncontrolling Interest | Total |
|--|-------------------------|----------------------------|---------------------|
| UNRESTRICTED NET ASSETS: | | | |
| Excess of revenue over expenses | \$ 676,333 | \$ 6,580 | \$ 682,913 |
| Net assets released from restrictions for capital acquisitions | 8,914 | - | 8,914 |
| Net change in retirement plan related items | 209,467 | 2,594 | 212,061 |
| Cumulative effect of change in accounting principle | (7,823) | (32) | (7,855) |
| Other | (2,221) | (3,595) | (5,816) |
| Increase in unrestricted net assets before discontinued operations | 884,670 | 5,547 | 890,217 |
| Discontinued operations - BCHS | | | |
| Income from operations | 4,836 | 5,518 | 10,354 |
| Costs associated with transfer of shares | (1,648) | - | (1,648) |
| Increase in unrestricted net assets | 887,858 | 11,065 | 898,923 |
| TEMPORARILY RESTRICTED NET ASSETS: | | | |
| Contributions | 18,445 | 123 | 18,568 |
| Net investment gain | 4,549 | 26 | 4,575 |
| Net assets released from restrictions | (21,271) | - | (21,271) |
| Other | 907 | (131) | 776 |
| Increase in temporarily restricted net assets | 2,630 | 18 | 2,648 |
| PERMANENTLY RESTRICTED NET ASSETS: | | | |
| Contributions for endowment funds | 403 | 76 | 479 |
| Net investment gain | 2,534 | 1 | 2,535 |
| Other | (211) | - | (211) |
| Increase in permanently restricted net assets | 2,726 | 77 | 2,803 |
| INCREASE IN NET ASSETS | 893,214 | 11,160 | 904,374 |
| NET ASSETS, BEGINNING OF YEAR | 4,222,053 | 87,885 | 4,309,938 |
| NET ASSETS, END OF YEAR | \$ 5,115,267 | \$ 99,045 | \$ 5,214,312 |

(Concluded)

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

(In Thousands)

| | 2012 | 2011 |
|--|------------------|------------------|
| OPERATING ACTIVITIES: | | |
| (Decrease) increase in net assets | \$ (345,302) | \$ 904,374 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 464,750 | 420,774 |
| Provision for bad debts | 431,457 | 334,170 |
| Deferred retirement loss (gain) arising during the year | 718,203 | (142,612) |
| Cumulative effect of a change in accounting principle | - | 7,855 |
| Change in net unrealized and realized gains on investments | 80,538 | (429,117) |
| Change in market values of interest rate swaps | 97,189 | (29,258) |
| Undistributed equity earnings from unconsolidated affiliates | (33,584) | (25,664) |
| Loss (gain) on disposals of property and equipment | 777 | (2,307) |
| Restricted contributions and investment income received | (19,583) | (4,644) |
| Restricted net assets acquired related to LUHS and MHSC | (31,610) | - |
| Gain on bargain purchase agreement and inherent contribution - LUHS and MHSC | (216,796) | - |
| Net change in retirement plan related items due to transfer of shares of BCHS | (21,678) | - |
| Loss on transfer of shares of the BCHS | 28,534 | - |
| Decrease in noncontrolling interest due to transfer of the BCHS | 82,910 | - |
| Loss from extinguishment of debt | 5,557 | 2,638 |
| Gain on sales of unconsolidated affiliates | (1,712) | (6,617) |
| Other adjustments | (1,367) | 4,777 |
| Changes in, excluding assets acquired: | | |
| Patient accounts receivable | (478,813) | (346,572) |
| Other assets | (42,829) | (20,758) |
| Accounts payable and accrued expenses | 43,872 | 30,185 |
| Estimated receivables from and payables to third-party payors, net | 8,003 | (48,917) |
| Self-insurance reserves | 31,342 | (13,091) |
| Accrued pension and retiree health costs | (67,444) | (171,506) |
| Other liabilities | (32,063) | 10,472 |
| Total adjustments | <u>1,045,653</u> | <u>(430,192)</u> |
| Net cash provided by operating activities | 700,351 | 474,182 |

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

| | 2012 | 2011 |
|--|-------------------|-------------------|
| INVESTING ACTIVITIES: | | |
| Purchases of investments | (1,672,413) | (1,463,138) |
| Proceeds from sales of investments | 1,602,586 | 1,381,129 |
| Purchases of property and equipment | (605,288) | (441,052) |
| Acquisition of subsidiaries, net of \$85.0 million and \$7.0 million cash assumed in 2012 and 2011, respectively | (85,889) | (81,145) |
| Dividends received from unconsolidated affiliates and other changes | 25,748 | 20,374 |
| (Increase) decrease in assets limited as to use | (3,678) | 4,475 |
| Proceeds received from the transfer of shares of BCHS | 15,843 | 60,512 |
| Proceeds from sale of unconsolidated affiliates | 2,441 | 12,258 |
| Proceeds from disposal of property and equipment | 4,737 | 4,046 |
| Net cash used in investing activities | <u>(715,913)</u> | <u>(502,541)</u> |
| FINANCING ACTIVITIES: | | |
| Proceeds from issuance of debt | 1,073,790 | 341,298 |
| Repayments of debt | (961,604) | (254,571) |
| Net increase (decrease) in commercial paper | 35,011 | (69,978) |
| Increase in financing costs and other | (9,647) | (3,930) |
| Restricted net assets acquired related to LUHS and MHCS | 31,049 | - |
| Proceeds from restricted contributions and restricted investment income | 19,583 | 4,644 |
| Net cash provided by financing activities | <u>188,182</u> | <u>17,463</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 172,620 | (10,896) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>536,269</u> | <u>547,165</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 708,889</u> | <u>\$ 536,269</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for interest (net of amounts capitalized) | \$ 96,115 | \$ 99,799 |
| New capital lease obligations for buildings and equipment | 5,822 | 825 |
| Accruals for purchases of property and equipment and other long-term assets | 37,457 | 27,844 |
| Unsettled investment trades, purchases | 11,367 | 6,044 |
| Unsettled investment trades, sales | 12,346 | 77,019 |
| Decrease in security lending collateral | 18,940 | 6,521 |
| Decrease in payable under security lending agreements | (18,940) | (6,521) |

TRINITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2012 AND 2011

1. ORGANIZATION AND MISSION

Trinity Health, an Indiana not-for-profit corporation, and its subsidiaries are collectively referred to as the Corporation. The Corporation is sponsored by Catholic Health Ministries (CHM), a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in ten states. The mission statement for Trinity Health is as follows:

We serve together in Trinity Health, in the spirit of the Gospel, to heal body, mind and spirit, to improve the health of our communities and to steward the resources entrusted to us.

Community Benefit Ministry - Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments such as copays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States' (CHA), *A Guide for Planning and Reporting Community Benefit*, 2008 Edition.

The quantifiable costs of the Corporation's community benefit ministry for the years ended June 30 are as follows:

| | 2012 | 2011 |
|---|-------------------|-------------------|
| | (In Thousands) | |
| Ministry for the poor and underserved: | | |
| Charity care at cost | \$ 177,747 | \$ 136,493 |
| Unpaid cost of Medicaid and other public programs | 211,104 | 152,014 |
| Programs for the poor and the underserved: | | |
| Community health services | 18,210 | 19,613 |
| Subsidized health services | 39,296 | 34,854 |
| Financial contributions | 5,362 | 3,813 |
| Community building activities | 1,908 | 1,811 |
| Community benefit operations | 2,268 | 2,321 |
| Total programs for the poor and underserved | <u>67,044</u> | <u>62,412</u> |
| Ministry for the poor and underserved | <u>455,895</u> | <u>350,919</u> |
| Ministry for the broader community: | | |
| Community health services | 8,452 | 8,337 |
| Health professions education | 89,649 | 61,308 |
| Subsidized health services | 18,876 | 13,950 |
| Research | 9,203 | 6,782 |
| Financial contributions | 25,631 | 3,174 |
| Community building activities | 4,410 | 5,161 |
| Community benefit operations | 3,061 | 2,914 |
| Ministry for the broader community | <u>159,282</u> | <u>101,626</u> |
| Community benefit ministry | <u>\$ 615,177</u> | <u>\$ 452,545</u> |

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, which is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2012 and 2011, the Corporation reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of \$157.5 million and \$126.0 million, respectively.

Ministry for the poor and underserved represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured and the indigent. This is done with the conviction that healthcare is a basic human right.

Ministry for the broader community represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies as further described in Note 4. The cost of charity care is calculated using a cost to charge ratio methodology.

Unpaid cost of Medicaid and other public programs represents the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

Community health services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free immunization services, free or low cost prescription medications, and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Health professions education includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians and students in allied health professions.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

Research includes unreimbursed clinical and community health research and studies on health care delivery.

Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special system-wide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or asset assessments, and other costs associated with community benefit strategy and operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of the Corporation and all wholly owned, majority-owned and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments that are not controlled by the Corporation are accounted for using the equity method of accounting. The Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other revenue in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

As further described in Note 3, the Corporation transferred its shares of Battle Creek Health System (BCHS) to Bronson Healthcare Group, Inc. effective July 1, 2011. As a result, at June 30, 2011, substantially all of the assets and liabilities of BCHS met the criteria for classifying those assets and liabilities as held for sale. The consolidated financial statements have been reclassified to present the operations of BCHS as a discontinued operation. The statements of cash flows include impacts of cash flows related to BCHS. Notes to these consolidated financial statements exclude BCHS.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances; recorded values of investments and goodwill; provisions for bad debts; reserves for losses and expenses related to health care professional and general liability; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Investments – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds and other investments structured as limited liability corporations or partnerships. Commingled funds and investment funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. Limited liability corporations and partnerships are accounted for under the equity method.

Investment Earnings – Investment earnings include interest and dividends, realized gains and losses on investments, holding gains and losses, and equity earnings. Investment earnings on assets held by trustees under bond indenture agreements, assets designated by the Board for debt redemption, assets held for borrowings under the intercompany loan program, and assets deposited in trust funds by a captive insurance company for self-insurance purposes in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other unrestricted investments and board designated funds are included in nonoperating investment income unless the income or loss is restricted by donor or law.

Derivative Financial Instruments – The Corporation periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rates, equity downside risk and other exposures. The Corporation's policies prohibit trading in derivative financial instruments on a speculative basis.

Securities Lending – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. At June 30, 2012 and 2011, the Corporation had securities loaned of \$141.4 million and \$153.4 million, respectively, and received collateral (cash and noncash) totaling \$143.4 million and \$157.5 million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in investment (loss) income on the consolidated statements of operations and changes in net assets.

Assets Limited as to Use – Assets set aside by the Board for future capital improvements, future funding of retirement programs and insurance claims, retirement of debt, held for borrowings under the intercompany loan program, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

Donor-Restricted Gifts – Unconditional promises to give cash and other assets to the Corporation's various ministry organizations 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. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated statements of operations and changes in net assets.

Inventories – Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the weighted average cost method.

Property and Equipment – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using either the straight-line or an accelerated method and includes capital lease and internal-use software amortization. The useful lives of these assets range from 2 to 50 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Goodwill – Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized.

Intangible Assets – Intangible assets include both definite and indefinite-lived intangible assets. The majority of the definite-lived intangibles are noncompete agreements with finite lives amortized using the straight-line method over their estimated useful lives, which range from 2 to 23 years. Indefinite-lived intangible assets include trade names and renewable licenses.

Asset Impairment –

Property and Equipment – Impairment testing is performed following a triggering event or whenever events or changes in circumstances indicate an asset’s carrying value may not be recoverable.

Goodwill – Goodwill is tested for impairment on an annual basis or when an event or change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. There is a two-step process for determining goodwill impairment. Step one compares the carrying value of each reporting unit with its fair value. If this test indicates the fair value is less than the carrying value, then step two is required. Step two compares the implied fair value of the reporting unit’s goodwill with the carrying value of reporting unit’s goodwill. The Corporation estimates the fair value of its reporting units using a discounted cash flow analysis.

Intangible Assets:

Definite–Lived – Impairment testing is performed if events or changes in circumstances indicate that the asset might be impaired.

Indefinite–Lived – Impairment testing is performed on an annual basis or more frequently if events or changes in circumstance indicate the asset may be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount.

The following table provides information on changes in the carrying amount of goodwill, which is included in the accompanying consolidated financial statements of the Corporation at June 30:

| | 2012 | 2011 |
|------------------------------------|-----------------------|-------------------|
| | <u>(In Thousands)</u> | |
| As of July 1: | | |
| Goodwill | \$ 116,152 | \$ 54,480 |
| Accumulated impairment loss | <u>(7,855)</u> | <u>(7,855)</u> |
| Total | 108,297 | 46,625 |
| | | |
| Goodwill acquired during the year | 2,090 | 61,672 |
| Decrease due to sale of subsidiary | <u>(2,683)</u> | <u>-</u> |
| Total | <u>\$ 107,704</u> | <u>\$ 108,297</u> |
| | | |
| As of June 30: | | |
| Goodwill | \$ 115,559 | \$ 116,152 |
| Accumulated impairment loss | <u>(7,855)</u> | <u>(7,855)</u> |
| Total | <u>\$ 107,704</u> | <u>\$ 108,297</u> |

The following table provides information regarding other intangible assets, which are included in the accompanying consolidated balance sheets of the Corporation at June 30, 2012 and 2011:

| | (In Thousands) | | |
|--|--------------------------|-----------------------------|-------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net book Value |
| As of June 30, 2012: | | | |
| Definite-lived intangible assets: | | | |
| Noncompete agreements | \$ 19,439 | \$ 13,199 | \$ 6,240 |
| Physician guarantees | 5,256 | 2,384 | 2,872 |
| Other | 6,085 | 187 | 5,898 |
| Total definite-lived intangible assets | <u>30,780</u> | <u>15,770</u> | <u>15,010</u> |
| Indefinite-lived intangible assets: | | | |
| Trade names | 43,762 | - | 43,762 |
| Other | 7,022 | 1,319 | 5,703 |
| Total indefinite-lived intangible assets | <u>50,784</u> | <u>1,319</u> | <u>49,465</u> |
| Total intangible assets | <u>\$ 81,564</u> | <u>\$ 17,089</u> | <u>\$ 64,475</u> |
| As of June 30, 2011: | | | |
| Definite-lived intangible assets: | | | |
| Noncompete agreements | \$ 19,439 | \$ 9,970 | \$ 9,469 |
| Physician guarantees | 6,191 | 2,898 | 3,293 |
| Other | 2,271 | 1,051 | 1,220 |
| Total definite-lived intangible assets | <u>27,901</u> | <u>13,919</u> | <u>13,982</u> |
| Indefinite-lived intangible assets: | | | |
| Trade names | 5,474 | - | 5,474 |
| Other | 2,879 | 282 | 2,597 |
| Total indefinite-lived intangible assets | <u>8,353</u> | <u>282</u> | <u>8,071</u> |
| Total intangible assets | <u>\$ 36,254</u> | <u>\$ 14,201</u> | <u>\$ 22,053</u> |

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors and Net Patient Service Revenue – The Corporation has agreements with third-party payors that provide for payments to the Corporation's ministry organizations at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated receivables from and payables to third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Estimated receivables from third-party payors include amounts receivable from Medicare and state Medicaid meaningful use programs.

Allowance for Doubtful Accounts – Substantially all of the Corporation's receivables are related to providing healthcare services to patients. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Corporation's estimate for its allowance for doubtful accounts is based upon management's assessment of historical and expected net collections by payor.

Short-term Borrowings – Puttable variable rate demand bonds supported by self liquidity or liquidity facilities considered short-term in nature are included in short-term borrowings.

Other Long-Term Liabilities – Other long-term liabilities include accrued payments for the acquisition of Loyola University Health System as stipulated in the Definitive Agreement, deferred compensation, asset retirement obligations and interest rate swaps.

Premium and Capitation Revenue – The Corporation has certain ministry organizations that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on a yearly basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees. Premiums received prior to the period of coverage are recorded as deferred revenue and included in accrued expenses in the consolidated balance sheets.

Certain of the Corporation's ministry organizations have entered into capitation arrangements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's ministry organizations are financially responsible for services provided to the health plan members by other institutional health care providers. Capitation revenue is recognized during the period for which the ministry organization is obligated to provide services to health plan enrollees under capitation contracts. Capitation receivables are included in other receivables in the consolidated balance sheets.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services covered under the premium and capitation arrangements. The premium and capitation arrangement reserves are classified with accrued expenses in the consolidated balance sheets. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Subsequent actual claim experience will differ from the estimated liability due to variances in estimated and actual utilization of health care services, the amount of charges, and other factors. As settlements are made and estimates are revised, the differences are reflected in current operations. The Corporation limits a portion of its liability through stop-loss reinsurance.

Income Taxes – The Corporation and substantially all of its subsidiaries have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has taxable subsidiaries, which are included in the consolidated financial statements. Certain of the taxable subsidiaries have entered into tax sharing agreements and file consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation includes penalties and interest, if any, with its provision for income taxes in other nonoperating items in the consolidated statements of operations and changes in net assets.

Excess of Revenue Over Expenses – The consolidated statement of operations and changes in net assets includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include the effective portion of the change in market value of derivatives that meet hedge accounting requirements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), net change in postretirement plan related items, discontinued operations, extraordinary items and cumulative effects of changes in accounting principles.

Adopted Accounting Pronouncements –

On July 1, 2011, the Corporation adopted Accounting Standard Update (ASU) 2010-24, "*Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*," which provides clarification to companies in the healthcare industry on the accounting for professional liability and other similar insurance. This guidance states that receivables related to insurance recoveries should not be netted against the related claim liability and such claim liabilities should be determined without considering insurance recoveries. The adoption of this guidance resulted in an asset and liability being recorded in the consolidated financial statements at June 30, 2012, of \$44.7 million in self-insurance, benefit plans and other and in self-insurance reserves.

On July 1, 2011, the Corporation adopted ASU 2010-28, "*Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.*" This guidance modifies the goodwill impairment test performed at the reporting unit level. It requires step two of the impairment test to be performed if the carrying amount of a reporting unit is zero or negative and after considering any adverse qualitative factors, it is more likely than not a goodwill impairment exists. The adoption of this guidance had no impact on the Corporation's consolidated statement of financial position and results of operations.

Forthcoming Accounting Pronouncements –

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.*" This guidance amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and also the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements but for which the fair value is required to be disclosed. This guidance is effective for the Corporation beginning July 1, 2012. The adoption of this guidance will have no impact on the Corporation's consolidated statement of financial position and results of operations, but may result in additional disclosures to be presented in Note 10.

In July 2011, the FASB issued ASU 2011-07, "*Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.*" This guidance requires certain health care entities to present the provision for bad debts related to patient service revenues as a deduction from revenue, net of contractual allowances and discounts, versus as an expense in the statement of operations. In addition, it also requires enhanced disclosures regarding revenue recognition policies and the assessment of bad debt. This guidance is effective for the Corporation beginning July 1, 2012, with early adoption permitted, and must be retrospectively applied. This statement will result in a reduction of net patient service revenue, operating revenue and operating expense, but will have no impact on operating income in the statement of operations and changes in net assets and will also result in additional disclosures.

In September 2011, the FASB issued ASU 2011-08, "*Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment.*" This guidance provides entities with the option of first assessing qualitative factors about the likelihood of goodwill impairment to determine whether further impairment assessment is necessary. This guidance is effective for the Corporation beginning July 1, 2012, with early adoption permitted. This guidance will not have an impact on the Corporation's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, "*Disclosures About Offsetting Assets and Liabilities.*" This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance is effective for the Corporation beginning July 1, 2013 and retrospective application is required. The Corporation has not yet evaluated the impact this guidance may have on the Corporation's consolidated financial statements.

3. INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS AND DIVESTITURES

Investments in Unconsolidated Affiliates – The Corporation and certain of its ministry organizations have investments in entities that are recorded under the cost and equity methods of accounting. At June 30, 2012, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 0.1% to 50%. The Corporation's share of equity earnings from entities accounted for under the equity method was \$33.6 million and \$25.6 million for the years ended June 30, 2012 and 2011, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended June 30 are as follows:

| | 2012 | | | | | |
|---------------------------------|--------------------------------|--|----------------------------------|--|--------------------|------------|
| | (In Thousands) | | | | | |
| | Medical Office Buildings | Outpatient and Diagnostic Services | Ambulatory Surgery Centers | Physician Hospital Organizations | Other Investees | Total |
| Total assets | \$ 88,425 | \$ 116,970 | \$ 76,078 | \$ 17,530 | \$ 137,711 | \$ 436,714 |
| Total debt | \$ 51,182 | \$ 17,804 | \$ 36,003 | \$ 27 | \$ 35,800 | \$ 140,816 |
| Net assets | \$ 30,765 | \$ 69,368 | \$ 29,733 | \$ 5,576 | \$ 80,235 | \$ 215,677 |
| Revenue, net | \$ 22,823 | \$ 155,521 | \$ 125,615 | \$ 20,537 | \$ 169,724 | \$ 494,220 |
| Excess of revenue over expenses | \$ 1,607 | \$ 24,908 | \$ 44,245 | \$ (188) | \$ 13,972 | \$ 84,544 |

| | 2011 | | | | | |
|---------------------------------|--------------------------------|--|----------------------------------|--|--------------------|------------|
| | (In Thousands) | | | | | |
| | Medical Office Buildings | Outpatient and Diagnostic Services | Ambulatory Surgery Centers | Physician Hospital Organizations | Other Investees | Total |
| Total assets | \$ 90,205 | \$ 65,938 | \$ 73,366 | \$ 14,714 | \$ 147,207 | \$ 391,430 |
| Total debt | \$ 53,440 | \$ 19,721 | \$ 37,636 | \$ - | \$ 44,113 | \$ 154,910 |
| Net assets | \$ 30,347 | \$ 36,286 | \$ 26,718 | \$ 6,064 | \$ 71,001 | \$ 170,416 |
| Revenue, net | \$ 24,226 | \$ 97,757 | \$ 107,164 | \$ 43,943 | \$ 136,722 | \$ 409,812 |
| Excess of revenue over expenses | \$ 1,699 | \$ 18,733 | \$ 40,853 | \$ 3,141 | \$ 5,747 | \$ 70,173 |

Business Acquisitions – The Corporation entered into the following significant acquisition activities during the years ended June 30, 2012 and 2011:

Acquisition of Mercy Health System of Chicago (MHSC) – Effective April 1, 2012, the Corporation became the sole member of MHSC. MHSC is the parent of Mercy Hospital and Medical Center (Mercy Hospital) and other subsidiaries and affiliates that provide health care services in Chicago, Illinois. Mercy Hospital has a network of primary care clinics, physician offices and satellite facilities. The fair value of assets acquired exceeded liabilities assumed resulting in an inherent contribution of \$140.8 million, which was recorded in gain on bargain purchase and inherent contribution in the consolidated statement of operations and changes in net assets for the year ended June 30, 2012. The Corporation is still assessing the economic characteristics of certain assets acquired and liabilities assumed. Transactions costs accrued at June 30, 2012 totaled \$0.8 million, primarily for legal and consulting services, and are included in purchased services on the consolidated statement of operations and changes in net assets.

Summarized consolidated opening balance sheet information for MHSC is shown below:

| (In Thousands) | | | |
|--|-------------------|---------------------------------------|-------------------|
| Cash, cash equivalents and investments | \$ 13,777 | Current portion of long-term debt | \$ 819 |
| Patient accounts receivable, net | 42,746 | Accounts payable and accrued expenses | 41,815 |
| Other current assets | 35,018 | Other current liabilities | 12,957 |
| Assets limited or restricted as to use | 16,451 | Long-term debt | 48,907 |
| Property and equipment | 166,529 | Self-insurance reserves | 36,362 |
| Intangible assets | 11,000 | Total liabilities acquired | <u>\$ 140,860</u> |
| Other assets | 749 | | |
| Total assets acquired | <u>\$ 286,270</u> | Unrestricted noncontrolling interest | 561 |
| | | Temporarily restricted net assets | 4,016 |
| | | Total net assets | <u>\$ 4,577</u> |

The operating results of MHSC for the period April 1, 2012 through June 30, 2012 included total unrestricted revenue of \$68.3 million, operating income of \$4.7 million and excess of revenue over expense of \$4.5 million.

Acquisition of Loyola University Health System (LUHS) – On July 1, 2011, the Corporation replaced Loyola University of Chicago (University) as the sole member of LUHS, an Illinois not-for-profit corporation. LUHS is the sole member of Loyola University Medical Center and Gottlieb Memorial Hospital (Gottlieb), both Illinois not-for-profit corporations. LUHS was also the sole shareholder of Loyola University of Chicago Insurance Company (LUCIC), a Cayman Islands Corporation until December 31, 2011, as further described in Note 7. The Corporation will coordinate with the University to support health science education and research. The entities seek to work collaboratively both within and outside the Chicago market to become one of the nation’s leading providers of Catholic health care, research and medical education.

The Corporation acquired LUHS for \$212.9 million, \$88.3 million in cash at the effective date, \$49.6 million in cash based on a post closing reconciliation adjustment to the purchase price as stipulated in the Definitive Agreement and paid in October 2011, and an accrual of an additional \$75.0 million to be paid over future years. The Corporation recorded indefinite-lived intangible assets, primarily for a trade name, of \$36.1 million in the consolidated balance sheet at the acquisition date. Based on the purchase price allocation, the fair value of assets acquired and liabilities assumed exceeded the fair value of consideration paid and accrued. As a result, the Corporation recognized a gain of \$76.0 million in gain on bargain purchase and inherent contribution in the consolidated statement of operations and changes in net assets. Transaction costs, primarily for legal and consulting services, accrued at June 30, 2011 and subsequently paid during the three months ended September 30, 2011 totaled \$6.0 million.

Summarized consolidated opening balance sheet information for LUHS is shown below.

| (In Thousands) | | | |
|--|---------------------|--|-------------------|
| Cash, cash equivalents and investments | \$ 76,865 | Current portion of long-term debt | \$ 163,834 |
| Patient accounts receivable, net | 153,006 | Accounts payable and accrued expenses | 50,947 |
| Inventory | 15,276 | Estimated payables to third party payors | 72,320 |
| Other current assets | 49,568 | Other current liabilities | 48,245 |
| Assets limited or restricted as to use | 298,997 | Long-term debt | 212,536 |
| Property and equipment | 522,076 | Self-insurance reserves | 242,058 |
| Intangible assets | 36,170 | Pension and post retirement plan obligations | 59,866 |
| Other assets | 32,378 | Other liabilities | 18,596 |
| Total assets acquired | <u>\$ 1,184,336</u> | Total liabilities acquired | <u>\$ 868,402</u> |
| | | Temporarily restricted net assets | \$ 20,362 |
| | | Permanently restricted net assets | <u>6,671</u> |
| | | Total net assets | <u>\$ 27,033</u> |

As of August 8, 2011, all of LUHS' debt was retired with the proceeds from the Corporation's issuance of \$234 million of taxable commercial paper and cash on hand as further described in Note 6.

As part of the LUHS acquisition, certain executed agreements provide for ongoing financial support from the Corporation including:

- A Definitive Agreement upon which the Corporation has agreed that over the seven year period from July 1, 2011 to 2018, at least \$300 million will be expended on capital projects and, if certain operating thresholds are met, the amount may be increased to \$400 million.
- An Academic Affiliation Agreement, which has an initial term of ten years starting July 1, 2011 and provides for an annual academic support payment from the Corporation to the University of \$22.5 million for the year ended June 30, 2012, adjusted annually for inflation.
- A Shared Services Agreement between the University and LUHS who have agreed on a cost sharing agreement related to common employees and services.

The operating results of LUHS for the period July 1, 2011 through June 30, 2012, included total unrestricted revenue of \$1.1 billion, operating income of \$0.3 million and deficiency of revenue over expense of \$13.0 million.

The amount of the Corporation's revenue, earnings and changes in net assets had the acquisitions of LUHS and MHSC occurred on July 1, 2010 are as follows:

| | 2012 | 2011 |
|---|----------------|--------------|
| | (In Thousands) | |
| Total operating revenue | \$ 9,093,578 | \$ 8,670,670 |
| Excess of revenue over expenses | \$ 374,352 | \$ 720,773 |
| Change in unrestricted net assets | \$ (372,145) | \$ 1,003,973 |
| Change in temporarily restricted net assets | \$ 27,871 | \$ 3,632 |
| Change in permanently restricted net assets | \$ 6,079 | \$ 2,834 |

Integrated Health Associates (IHA) – Effective December 20, 2010, the Corporation through its operating division Saint Joseph Mercy Health System (SJMHS) acquired IHA, a physician practice group with approximately 200 physicians and practitioners, for \$60.5 million in cash and recorded related goodwill of \$46.6 million. Under the terms of the agreement, an additional \$2.0 million post closing adjustment to the purchase price was paid during the year ended June 30, 2012. IHA has been consolidated in the Corporation’s financial statements. Summarized balance sheet information for IHA at December 20, 2010, is shown below.

| (In Thousands) | | | | | |
|-----------------------------|----|---------------|----------------------------|----|---------------|
| Cash and investments | \$ | 7,035 | Current liabilities | \$ | 21,475 |
| Patient accounts receivable | | 16,389 | Other liabilities | | 2,742 |
| Other current assets | | 4,416 | Total liabilities acquired | | <u>24,217</u> |
| Property and equipment | | 5,382 | | | |
| Other assets | | 6,907 | | | |
| Total assets acquired | \$ | <u>40,129</u> | | | |

The operating results of IHA for the period July 1, 2011 through June 30, 2012, included total unrestricted revenue of \$150.3 million, operating income of \$6.2 million and excess of revenue over expenses of \$6.8 million and for the period December 20, 2010 through June 30, 2011, included total unrestricted revenue of \$52.4 million, operating income of \$1.9 million and deficiency of revenue over expense of \$18.9 million. The deficiency of revenue over expenses for the year ended June 30, 2011 includes a \$20.8 million charge for income taxes for conversion to non-profit status, which is included in nonoperating items.

Michigan Heart, PC – Effective December 31, 2010, the Corporation, through its operating division SJMHS, acquired the assets and liabilities of Michigan Heart, PC, a physician-owned specialty practice in cardiovascular medicine and research for \$11.7 million in cash and recorded related goodwill of \$13.2 million. The assets and liabilities were merged into and employees were transferred to two operating divisions of the Corporation and have been consolidated in the Corporation’s financial statements. SJMHS purchased \$3.6 million of property and equipment and assumed current liabilities of \$4.5 million and other liabilities of \$0.6 million. The operating results of this acquisition were not material to the consolidated financial statements of the Corporation.

Business Divestitures:

On July 1, 1991, Battle Creek Health System (BCHS) was formed through an agreement between the Corporation and Community Hospital Association of Battle Creek, Michigan with the Corporation owning 50% of the stock of BCHS with effective control of BCHS. Effective July 1, 2011, the Corporation transferred its shares of BCHS to Bronson Healthcare Group, Inc. for \$76.0 million, of which \$60.0 million was received as an advanced deposit in June 2011. As a result of the transfer, a loss of \$28.5 million was recognized which includes a pension curtailment gain of \$5.8 million and settlement loss of \$27.5 million.

As described in Note 2, the consolidated financial statements for all periods present the operations of BCHS as a discontinued operation. For the year ended June 30, 2012, the Corporation reported a loss on operations of \$5.4 million in discontinued operations in the statement of changes in net assets. For the year ended June 30, 2011, the Corporation reported income from operations, including a 50% provision for noncontrolling interest, in discontinued operations in the statements of operations and changes in net assets. As of June 30, 2011, assets held for sale were \$185.4 million and liabilities held for sale were \$28.9 million for BCHS prior to a 50% provision for noncontrolling interest. The majority of assets and liabilities held for sale consisted of:

| (In Thousands) | | | |
|-----------------------------|-------------------|-----------------------|------------------|
| Cash and investments | \$ 53,167 | Current liabilities | \$ 17,766 |
| Patient accounts receivable | 18,538 | Accrued pension costs | 10,197 |
| Other current assets | 10,765 | Other liabilities | 955 |
| Property and equipment | 97,808 | Total liabilities | <u>\$ 28,918</u> |
| Other assets | 5,159 | | |
| Total assets | <u>\$ 185,437</u> | | |

4. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors follows:

Medicare – Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

Medicaid – Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules, and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

Other – Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

During the years ended June 30, 2012 and 2011, 37% and 38% of net patient service revenue was recognized under the Medicare program and 52% and 51% was recognized from other payor contracts and patients, respectively. During the years ended June 30, 2012 and 2011, 11% of net patient service revenue was received under state Medicaid and indigent care programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity Care – The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify for charity care, they are not reported as net patient service revenue in the consolidated statements of operations and changes in net assets.

A summary of net patient service revenue for the years ended June 30 is as follows:

| | 2012 | 2011 |
|--|-----------------------|---------------------|
| | <u>(In Thousands)</u> | |
| Gross charges: | | |
| Acute inpatient | \$ 9,226,067 | \$ 7,559,780 |
| Outpatient, nonacute inpatient, and other | <u>10,045,912</u> | <u>7,534,024</u> |
| Gross patient service revenue | 19,271,979 | 15,093,804 |
| Less: | | |
| Contractual and other allowances | (10,725,957) | (8,044,327) |
| Charity care charges | (541,490) | (409,897) |
| Allowance for self-insured health benefits | <u>(155,371)</u> | <u>(143,661)</u> |
| Net patient service revenue | <u>\$ 7,849,161</u> | <u>\$ 6,495,919</u> |

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30 is as follows:

| | 2012 | 2011 |
|--|-----------------------|---------------------|
| | <u>(In Thousands)</u> | |
| Land | \$ 237,551 | \$ 188,787 |
| Buildings and improvements | 4,725,325 | 4,026,430 |
| Equipment | <u>3,168,354</u> | <u>2,966,349</u> |
| Total | 8,131,230 | 7,181,566 |
| Less accumulated depreciation and amortization | (4,240,315) | (3,989,867) |
| Construction in progress | <u>330,912</u> | <u>182,404</u> |
| Property and equipment, net | <u>\$ 4,221,827</u> | <u>\$ 3,374,103</u> |

Buildings and improvements include assets recorded under capital leases of \$74.0 million and \$31.7 million with accumulated amortization for such assets of \$12.9 million and \$9.3 million at June 30, 2012 and 2011, respectively. Equipment includes assets recorded under capital leases of \$10.1 million and \$10.9 million with accumulated amortization for such assets of \$7.1 million and \$7.5 million at June 30, 2012 and 2011, respectively. The associated charges to income are recorded in depreciation and amortization expense in the consolidated statements of operations and changes in net assets.

At June 30, 2012, commitments to purchase property and equipment of approximately \$256.1 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following ministry organizations: Mount Carmel Health System in Columbus, Ohio - \$89.2 million; Holy Cross Hospital in Silver Spring, Maryland - \$48.4 million; SJMHS in Ann Arbor, Michigan - \$39.1 million; MCHS in Chicago, Illinois - \$36.3 million; Saint Joseph Mercy Oakland in Pontiac, Michigan - \$21.0 million; and Mercy Medical Center in Dubuque, Iowa - \$6.2 million. Costs of these projects are expected to be financed by proceeds from bond issuances, available funds, future operations of the hospitals and contributions.

6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of short-term borrowings and long-term debt at June 30 is as follows:

| | 2012 | 2011 |
|--|----------------|--------------|
| | (In Thousands) | |
| Short-term borrowings: | | |
| Variable rate demand bonds with contractual maturities through 2048. Interest payable monthly at rates ranging from 0.02% to 0.86% during 2012 and from 0.05% to 0.35% during 2011 | \$ 892,865 | \$ 1,121,270 |
| Long-term debt: | | |
| Tax-exempt revenue bonds and refunding bonds, fixed rate term and serial bonds, payable at various dates through 2048. Interest rate ranges from 2.0% to 6.5% during 2012 and 2011 | \$ 2,162,070 | \$ 1,508,985 |
| Notes payable to banks. Interest payable at rates ranging from 2.0% to 8.9%, fixed and variable, payable in varying monthly installments through 2021 | 4,582 | 14,191 |
| Capital lease obligations (excluding imputed interest of \$51.2 million and \$16.4 million at June 30, 2012 and 2011, respectively) | 72,746 | 31,021 |
| Mortgage obligations. Interest payable at rates ranging from 4.1% to 6.0% during 2012 and 6.0% in year 2011 | 64,000 | 3,575 |
| Long-term debt | 2,303,398 | 1,557,772 |
| Less current portion | (32,362) | (29,514) |
| Unamortized bond premiums | 31,200 | 2,644 |
| Long-term debt | \$ 2,302,236 | \$ 1,530,902 |

Contractually obligated principal repayments on short-term borrowings and long-term debt are as follows:

| | (In Thousands) | |
|-----------------------|--------------------------|-------------------|
| | Short-Term Borrowings | Long-Term Debt |
| Years ending June 30: | | |
| 2013 | \$ 25,735 | \$ 32,362 |
| 2014 | 33,250 | 26,418 |
| 2015 | 23,710 | 38,141 |
| 2016 | 25,015 | 46,540 |
| 2017 | 26,590 | 41,053 |
| Thereafter | 758,565 | 2,118,884 |
| Total | \$ 892,865 | \$ 2,303,398 |

A summary of interest costs on borrowed funds primarily under the revenue bond indentures during the years ended June 30 is as follows:

| | 2012 | 2011 |
|---|-------------------|------------------|
| | (In Thousands) | |
| Interest costs incurred | \$ 108,390 | \$ 85,809 |
| Less capitalized interest | <u>(5,609)</u> | <u>(1,738)</u> |
| Interest expense included in operations | <u>\$ 102,781</u> | <u>\$ 84,071</u> |

Obligated Group and Other Requirements – The Corporation has debt outstanding under a Master Trust Indenture dated July 1, 1998, as amended and supplemented thereto, the Amended and Restated Master Indenture (ARMI). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are general, direct obligations of the Corporation and any future members of the Trinity Health Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI, the Corporation is the sole member of the Trinity Health Obligated Group. Certain ministry organizations of the Corporation constitute designated affiliates and the Corporation covenants to cause each designated affiliate to pay, loan or otherwise transfer to the Corporation such amounts necessary to pay the amounts due on all obligations issued under the ARMI. The Corporation, the designated affiliates and all other controlled affiliates are referred to as the Credit Group. The Corporation has granted a security interest in certain pledged property and has caused not less than 85% of the designated affiliates representing, when combined with the Corporation and any future members, not less than 85% of the consolidated net revenue of the Credit Group to grant to the Corporation security interests in certain pledged property in order to secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) were \$3,055 million and \$2,630 million at June 30, 2012 and 2011, respectively.

There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any material designated affiliate (a designated affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of the Credit Group for the most recent fiscal year). Long-term debt outstanding at June 30, 2012 and 2011, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

MHSC has a commitment from the U.S. Department of Housing and Urban Development (HUD) to insure an approximate \$66 million mortgage loan, under the Federal Housing Administration’s Section 242 Hospital Mortgage Insurance Program. At June 30, 2012, the outstanding obligation is \$53 million. MHSC’s main hospital campus and two satellite facilities are collateral for the mortgage. The mortgage loan agreement with HUD contains various covenants including those relating to limitations on incurring additional debt, disposing of property, financial performance, insurance coverage and timely submission of specified financial reports.

Issuance and Defeasance of Debt – In May 2012, the Corporation issued \$101.9 million in tax-exempt, fixed rate hospital revenue bonds (Series 2012 Bonds) under its ARMI. The proceeds, along with cash, were used to refund the Corporation’s \$126.2 million series 2002C bonds and pay costs of issuance. Concurrently, with the series 2012 financing, the Corporation re-offered approximately \$192.8 million of its existing series 2008C, series 2009B and series 2009C variable rate demand bonds in a long-term fixed rate mode. The Corporation also defeased \$35.0 million of outstanding hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of \$7.0 million, which has been included in nonoperating items in the consolidated statement of operations and changes in net assets. In addition, on June 1, 2012, the Corporation converted \$189.3 million of its currently outstanding variable rate bonds (Series 2008D-2 Bonds) from a weekly mode to a flexible mode.

In December 2011, the Corporation defeased \$36.2 million of outstanding hospital revenue bonds. This transaction resulted in a loss from extinguishment of debt of \$0.7 million, which has been included in nonoperating items in the consolidated statement of operations and changes in net assets.

In October 2011, the Corporation issued \$648.7 million in tax-exempt, fixed rate hospital revenue bonds and \$100.0 million in variable rate hospital revenue bonds (Series 2011 Bonds) under ARMI. The proceeds will be used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire \$69.4 million of the Corporation's then outstanding fixed rate hospital revenue bonds and \$102.9 million of the Corporation's then outstanding variable rate hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of \$2.5 million, which has been included in nonoperating items in the consolidated statement of operations and changes in net assets. In addition, \$354.0 million of the proceeds were used to pay off commercial paper obligations.

In July 2011, the Corporation extinguished \$338.4 million of outstanding hospital revenue bonds related to LUHS through the issuance of commercial paper. These transactions resulted in a loss from extinguishment of debt of \$3.3 million, which has been included in nonoperating items in the consolidated statement of operations and changes in net assets.

The Corporation advance refunded, through net defeasance, \$38.9 million of debt issued under the ARMI during June 2011. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. These transactions resulted in a loss from extinguishment of debt of \$5.2 million, which has been included in nonoperating items in the Corporation's consolidated statement of operations and changes in net assets.

In October 2010, the Corporation issued \$330 million par value tax-exempt, fixed rate hospital revenue bonds and refunding bonds under the ARMI at a premium of \$11.3 million. The proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire \$158.8 million of the Corporation's then outstanding fixed rate hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of \$5.0 million, which has been included in nonoperating items in the Corporation's consolidated statement of operations and changes in net assets.

The outstanding balance of all bonds advance refunded through net defeasance and excluded from the consolidated balance sheets was \$318.5 million and \$202.9 million at June 30, 2012 and 2011, respectively. The Corporation advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities.

Commercial Paper – The Corporation has entered into a commercial paper program authorized for borrowings up to \$400 million. Proceeds from this program are to be used to finance certain acquisitions and for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during the year ended June 30, 2012 ranged from 0.08% to 0.22% and ranged from 0.15% to 0.40% during the year ended June 30, 2011.

Liquidity Facilities – In July 2011, the Corporation renewed the 2010 Credit Agreements (2011 Credit Agreements) with Bank of America, N.A., which acts as an administrative agent for a group of lenders thereunder. The 2011 Credit Agreements establish a revolving credit facility for the Corporation under which that group of lenders agrees to lend to the Corporation amounts that may fluctuate from time to time; at June 30, 2012, the amount available was \$916 million. Amounts drawn under the 2011 Credit Agreements can only be used to support the Corporation’s obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the \$916 million, \$225 million expires in July 2012, \$195 million expires in July 2013, \$240 million expires in July 2014 and \$256 million expires in July 2015. There were no draws on these credit agreements during the years ended June 30, 2012 or 2011.

Standby Letters of Credit – The Corporation entered into various standby letters of credit totaling approximately \$21.5 million and \$18.3 million at June 30, 2012 and 2011, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs. There were no draws on these letters of credit during the years ended June 30, 2012 or 2011.

7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS

The Corporation’s insurance company, Venzke Insurance Company, Ltd. (Venzke), a wholly owned subsidiary of Trinity Health, qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to the Corporation’s ministry organizations. The Corporation is self-insured for certain levels of general and professional liability, workers’ compensation, and certain other claims. The Corporation, through Venzke, has limited its liability by purchasing reinsurance and commercial coverage from unrelated third-party insurers.

As discussed in Note 3, on July 1, 2011, Trinity Health-Michigan, a wholly-owned subsidiary of Trinity Health, replaced the University as the sole shareholder of LUCIC, a captive insurance company in the domicile where it operates. Effective July 1, 2011, Venzke’s policies include the facilities and individuals that were previously insured with LUCIC. Policies issued and reinsurance purchased by LUCIC prior to July 1, 2011 and all losses previous to July 1, 2011 were assumed through a merger with Venzke at December 31, 2011. As discussed in Note 3, on April 1, 2012, the Corporation became the sole member of MHSC, which included assuming MHSC’s professional liability losses.

For the years ended June 30, 2012 and 2011, the Corporation’s self-insurance program includes \$20 million per occurrence for the first layers of professional liability, as well as \$1 million per occurrence for directors and officers liability and \$1 million per occurrence for the insured auto liability program. Additional layers of professional liability insurance were available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is \$100 million in aggregate. The Corporation also insures \$500,000 in property damage liability with commercial insurance providing coverage up to \$1 billion.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation’s premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation’s expenses and available industry-wide data. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2012, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. While it is possible that

settlement of asserted claims and claims that may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of Counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations or cash flows of the Corporation.

8. PENSION AND OTHER BENEFIT PLANS

Self-Insured Employee Health Benefits – The Corporation administers self-insured employee health benefit plans for employees. The majority of the Corporation’s employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation’s ministry organizations or other health care providers. Gross patient service revenue has been reduced by an allowance for self-insured employee health benefits of \$155.4 million and \$143.7 million for the years ended June 30, 2012 and 2011, respectively, which represented revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

Retirement Plan Acquisitions – The Corporation acquired LUHS on July 1, 2011, including its benefit plans. LUHS maintains three qualified, noncontributory defined benefit pension plans that provide retirement benefits for substantially all full-time employees. Two of these plans are governed by the Employee Retirement Income Security Act of 1974 (ERISA). The third plan is a Church plan as determined by the Internal Revenue Service and is not governed by ERISA. One of the ERISA plans was frozen by LUHS for employees with service through March 2004. This plan is a multiple-employer plan and administration of the plan is the responsibility of Loyola University of Chicago. LUHS’s calculated accrued benefit obligation represents approximately 62% of the total multiple-employer plan accrued benefit obligation. Trinity Health amended the remaining two plans to freeze accrued benefits effective December 31, 2012, and participants in those plans will become participants of the Corporation’s defined benefit plan effective January 1, 2013. The amendments to freeze both plans resulted in a decrease in the plans’ liabilities of \$27.0 million at June 30, 2012.

LUHS also maintains qualified defined contribution plans for certain eligible employees as well as nonqualified pension programs and deferred compensation arrangements for eligible executives. In addition, LUHS provides other postretirement benefits (primarily health benefits) to an eligible group of employees. This plan is closed to new participants. Health benefits are provided subject to various cost-sharing features and are not prefunded.

The Corporation acquired MHSC on April 1, 2012, including its defined contribution plan. The plan covers substantially all of MHSC’s employees and provides an employer matching contribution of up to 3% of compensation.

Deferred Compensation – The Corporation has nonqualified deferred compensation plans at certain ministry organizations that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. At June 30, 2012 and 2011, the assets under these plans totaled \$60.8 million and \$52.7 million, and liabilities totaled \$67.4 million and \$54.9 million, respectively.

Defined Contribution Benefits – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. The plans include discretionary employer matching contributions of up to 3% of compensation. Employer and employee contributions are self-directed by plan participants in defined contribution plans. Contribution expense under the plans totaled \$71.4 million and \$62.2 million during the years ended June 30, 2012 and 2011, respectively.

Noncontributory Defined Benefit Pension Plans (Pension Plans) – Substantially all of the Corporation's employees participate in a qualified, noncontributory defined benefit pension plan. Certain non-qualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. In September 2009, the Corporation amended its defined benefit pension plan to modify the benefit formula from a final average pay formula to a cash balance formula effective July 1, 2010. Accrued benefits frozen through June 30, 2010 were based on years of service and employees' highest five years of compensation. Beginning July 1, 2010, participants accrue benefits based on the cash balance formula, which credits participants annually with a percentage of eligible compensation based on age and years of service, as well as an interest credit based on a benchmark interest rate. A transition adjustment is provided to participants who were vested as of June 30, 2010, whose age and service met certain requirements at that date. The transition adjustment applies to the pension benefit earned through June 30, 2010 and increased compensation under the final average pay formula over a 5-year period. Because the Pension Plan has Church Plan status as defined in the ERISA, funding in accordance with ERISA is not required. The Corporation's adopted funding policy for its qualified plan, which is reviewed annually, is to fund the current normal cost based on the accumulated benefit obligation at the plans' December 31 year-end, and amortization of any under or over funding over a ten year period. The Corporation funded \$64.2 million in excess of the stated funding policy for the combined fiscal years ending June 30, 2012 and 2011.

During the year ended June 30, 2012, the Corporation recorded a pension curtailment gain of \$5.8 million and a pension settlement loss of \$27.5 million related to the sale of BCHS described in Note 3. The net loss is included in the loss from discontinued operations in the consolidated statement of operations and changes in net assets.

Postretirement Health Care and Life Insurance Benefits (Postretirement Plans) – The Corporation sponsors both funded and unfunded contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The plans cover certain hourly and salaried employees who retire from certain ministry organizations. Medical benefits for these retirees are subject to deductibles and co-payment provisions. In June 2010, the Corporation approved an amendment to restructure the funded plans as Health Reimbursement Account arrangements for Medicare eligible participants effective January 1, 2011.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations, changes in plan assets and funded status of the plans for both the Pension and Postretirement Plans for the years ended June 30, 2012 and 2011:

| | 2012 | 2011 | 2012 | 2011 |
|--|-----------------------|---------------------|----------------------|--------------------|
| | (In Thousands) | | | |
| | Pension Plans | | Postretirement Plans | |
| Change in benefit obligation: | | | | |
| Benefit obligation, beginning of year | \$ 3,961,864 | \$ 3,756,053 | \$ 110,739 | \$ 112,807 |
| Service cost | 141,408 | 116,331 | 1,023 | 1,119 |
| Interest cost | 256,058 | 221,527 | 6,254 | 6,048 |
| Amendments | (32,761) | - | - | (442) |
| Actuarial loss (gain) | 601,102 | (9,007) | (482) | (2,741) |
| Benefits paid | (159,211) | (123,040) | (5,707) | (6,428) |
| Medicare Part D reimbursement | - | - | 674 | 376 |
| Acquisition of LUHS | 392,737 | - | 4,220 | - |
| Benefit obligation, end of year | <u>5,161,197</u> | <u>3,961,864</u> | <u>116,721</u> | <u>110,739</u> |
| Change in plan assets: | | | | |
| Fair value of plan assets, beginning of year | 3,647,407 | 3,140,162 | 78,254 | 71,203 |
| Actual return on plan assets | 168,122 | 372,678 | 4,649 | 12,039 |
| Employer contributions | 146,347 | 257,607 | 1,964 | 1,440 |
| Benefits paid | (159,211) | (123,040) | (5,707) | (6,428) |
| Acquisition of LUHS | 338,527 | - | - | - |
| Fair value of plan assets, end of year | <u>4,141,192</u> | <u>3,647,407</u> | <u>79,160</u> | <u>78,254</u> |
| Unfunded amount recognized June 30 | <u>\$ (1,020,005)</u> | <u>\$ (314,457)</u> | <u>\$ (37,561)</u> | <u>\$ (32,485)</u> |

Actuarial losses incurred during the year ended June 30, 2012 are primarily the result of a decrease in the discount rates used to measure the plan's liabilities.

The accumulated benefit obligation and fair value of plan assets for the qualified defined benefit pension plans for the years ended June 30 are as follows:

| | 2012 | 2011 |
|--------------------------------|---------------------|---------------------|
| | (In Thousands) | |
| | Pension Plans | |
| Accumulated benefit obligation | \$ 5,038,497 | \$ 3,853,728 |
| Fair value of plan assets | <u>4,141,192</u> | <u>3,647,407</u> |
| Funded status | <u>\$ (897,305)</u> | <u>\$ (206,321)</u> |

Components of net periodic benefit cost for the years ended June 30 consisted of the following:

| | 2012 | 2011 | 2012 | 2011 |
|------------------------------------|-------------------|-------------------|----------------------|-------------------|
| | (In Thousands) | | | |
| | Pension Plans | | Postretirement Plans | |
| Service cost | \$ 141,408 | \$ 116,331 | \$ 1,023 | \$ 1,119 |
| Interest cost | 255,990 | 221,527 | 6,254 | 6,048 |
| Expected return on assets | (317,290) | (252,402) | (6,025) | (5,465) |
| Amortization of prior service cost | (19,438) | (18,504) | (7,318) | (7,470) |
| Recognized net actuarial loss | 70,336 | 90,655 | 1,283 | 3,204 |
| Net periodic benefit cost (income) | <u>\$ 131,006</u> | <u>\$ 157,607</u> | <u>\$ (4,783)</u> | <u>\$ (2,564)</u> |

The amounts in unrestricted net assets (inclusive of \$21.7 million related to BCHS' pension plan liabilities held for sale at June 30, 2011 and sold on July 1, 2011), including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

| | (In Thousands) | | |
|---|---------------------|-----------------------|---------------------|
| | Pension Plans | | |
| | Net Loss (Gain) | Prior Service Cost | Total |
| Balance at July 1, 2010 | \$ 1,408,944 | \$ (217,422) | \$ 1,191,522 |
| Reclassified into net periodic benefit cost | (92,788) | 19,073 | (73,715) |
| Arising during the year | (132,908) | - | (132,908) |
| Balance at June 30, 2011 | 1,183,248 | (198,349) | 984,899 |
| Curtailements / settlements | (21,678) | - | (21,678) |
| Reclassified into net periodic benefit cost | (70,336) | 19,438 | (50,898) |
| Arising during the year | 750,047 | (32,762) | 717,285 |
| Balance at June 30, 2012 | <u>\$ 1,841,281</u> | <u>\$ (211,673)</u> | <u>\$ 1,629,608</u> |

| | (In Thousands) | | | |
|---|----------------------|-------------------------|---------------|---------------------|
| | Postretirement Plans | | | All Plans |
| | Net Loss (Gain) | Prior Service Credit | Total | Grand Total |
| Balance at July 1, 2010 | \$ 30,946 | \$ (31,823) | \$ (877) | \$ 1,190,645 |
| Reclassified into net periodic benefit cost | (3,204) | 7,470 | 4,266 | (69,449) |
| Arising during the year | (9,262) | (442) | (9,704) | (142,612) |
| Balance at June 30, 2011 | 18,480 | (24,795) | (6,315) | 978,584 |
| Curtailements / settlements | - | - | - | (21,678) |
| Reclassified into net periodic benefit cost | (1,283) | 7,318 | 6,035 | (44,863) |
| Arising during the year | 918 | - | 918 | 718,203 |
| Balance at June 30, 2012 | <u>\$ 18,115</u> | <u>\$ (17,477)</u> | <u>\$ 638</u> | <u>\$ 1,630,246</u> |

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during 2013:

| | (In Thousands) | |
|--------------------------------------|------------------|-------------------------|
| | Pension Plans | Postretirement Plans |
| Amortization of prior service credit | \$ (23,091) | \$ (7,318) |
| Recognized net actuarial loss | 122,721 | 1,242 |
| Total | <u>\$ 99,630</u> | <u>\$ (6,076)</u> |

Assumptions used to determine benefit obligations and net periodic benefit cost were as follows:

| | 2012 | 2011 | 2012 | 2011 |
|--|---------------|-------|----------------------|---------------|
| | Pension Plans | | Postretirement Plans | |
| Benefit Obligations: | | | | |
| Discount rate | 4.70% - 5.05% | 6.00% | 4.25% - 4.85% | 5.10% - 5.75% |
| Rate of compensation increase in 2012 | | | | |
| Graduated to 4% by 2016 | 2.0% | 4.0% | N/A | N/A |
| Net Periodic Benefit Cost: | | | | |
| Discount rate | 5.95% - 6.0% | 6.00% | 5.10% - 5.75% | 4.55% - 5.80% |
| Expected long-term return on plan assets | 7.80% - 8.0% | 8.00% | 8.00% | 8.00% |
| Rate of compensation increase in 2011 | | | | |
| Graduated to 4% by 2012 | 4.0% | 3.5% | N/A | N/A |

Approximately 91% of the Corporation's pension plan liabilities are measured using the 5.05% discount rate at June 30, 2012.

The Corporation uses an efficient frontier analysis approach in determining its asset allocation and long-term rate of return for plan assets. Efficient frontier analysis models the risk and return trade-offs among asset classes while taking into consideration the correlation among the asset classes. Historical market returns and risks are examined as part of this process, but risk-based adjustments are made to correspond with modern portfolio theory. Long-term historical correlations between asset classes are used, consistent with widely accepted capital markets principles. Current market factors, such as inflation and interest rates, are evaluated before long-term capital market assumptions are determined. The long-term rate of return is established using the efficient frontier analysis approach with proper consideration of asset class diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

Health Care Cost Trend Rates – Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as follows:

| | 2012 | 2011 |
|-------------------------------------|------|------|
| Medical and drugs, pre-age 65 | 8.3% | 8.9% |
| Medical and drugs, post-age 65 | 8.3% | 8.9% |
| Ultimate trend rate | 5.0% | 5.0% |
| Year rate reaches the ultimate rate | 2018 | 2018 |

A one-percentage point change in assumed health care cost trend rates would have the following effects at June 30, 2012:

| | (In Thousands) | |
|--|---|---|
| | <u>One-Percentage- Point Increase</u> | <u>One-Percentage- Point Decrease</u> |
| Effect on postretirement benefit obligation | \$ 3,787 | \$ (3,201) |
| Effect on total of service cost and interest cost components | \$ 258 | \$ (213) |

The Corporation's investment allocations at June 30, by investment category are as follows:

| Investment Category: | 2012 | 2011 | 2012 | 2011 |
|------------------------------------|--------------------------|-------------|---------------------------------|-------------|
| | <u>Pension Plans</u> | | <u>Postretirement Plans</u> | |
| Cash and cash equivalents | 10% | 8% | 2% | 1% |
| Marketable securities: | | | | |
| U.S. and non-U.S equity securities | 7% | 11% | 59% | 56% |
| Equity mutual funds | 2% | 2% | - | - |
| Debt securities | 35% | 33% | 39% | 43% |
| Other investments: | | | | |
| Commingled funds | 11% | 13% | - | - |
| Hedge funds | 30% | 29% | - | - |
| Private equity funds | 5% | 4% | - | - |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other investments such as hedge funds, interest rate swaps, and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. For the majority of the Corporation's pension plan investments, the combined target investment allocation at June 30, 2012 was U.S. and non-U.S. equity securities 15%; fixed income obligations 35%; hedge funds 20%; long/short equity 15%; private equity 5%; opportunistic fixed income 7%; and real assets 3%.

The following tables summarize the Pension and Postretirement Plans' assets measured at fair value at June 30, 2012 and 2011. See Note 10 for definitions of Levels 1, 2 and 3 of the fair value hierarchy.

| | 2012 (In Thousands) | | | Total Fair Value |
|--|--|---|--|------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Pension Plans: | | | | |
| Cash and cash equivalents | \$ 396,043 | \$ 1,422 | \$ - | \$ 397,465 |
| Equity securities | | | | |
| U.S. common stock | 260,667 | 682 | - | 261,349 |
| Non U.S. common stock | 12,458 | - | - | 12,458 |
| Debt securities | | | | |
| Government and government agency obligations | - | 433,634 | - | 433,634 |
| Corporate bonds | - | 1,010,844 | - | 1,010,844 |
| Asset backed securities | - | 23,046 | - | 23,046 |
| Mutual funds | | | | |
| Equity mutual funds | 96,352 | - | - | 96,352 |
| Fixed income mutual funds | 11,393 | 7,617 | - | 19,010 |
| Total marketable securities | 776,913 | 1,477,245 | - | 2,254,158 |
| Commingled funds | - | 438,575 | - | 438,575 |
| Hedge funds | - | 39,693 | 1,211,388 | 1,251,081 |
| Private equity | - | - | 204,250 | 204,250 |
| Real estate partnerships | - | - | 520 | 520 |
| Other | (7,392) | - | - | (7,392) |
| Total Pension Plans' assets at fair value | \$ 769,521 | \$ 1,955,513 | \$ 1,416,158 | \$ 4,141,192 |
| Postretirement Plans: | | | | |
| Mutual funds | | | | |
| Short-term investment mutual funds | \$ 1,178 | \$ - | \$ - | \$ 1,178 |
| Fixed income mutual fund | 31,291 | - | - | 31,291 |
| Commingled funds | - | 46,638 | - | 46,638 |
| Other | 53 | - | - | 53 |
| Total Postretirement Plans' assets at fair value | \$ 32,522 | \$ 46,638 | \$ - | \$ 79,160 |

2011
(In Thousands)

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|--|--|---|--|------------------------|
| Pension Plans: | | | | |
| Cash and cash equivalents | \$ 273,252 | \$ 101 | \$ - | \$ 273,353 |
| Equity securities | | | | |
| U.S. common stock | 395,957 | 29 | - | 395,986 |
| Non U.S. common stock | 16,285 | 63 | - | 16,348 |
| Debt securities | | | | |
| Government and government agency obligations | - | 289,614 | - | 289,614 |
| Corporate bonds | - | 894,178 | - | 894,178 |
| Asset backed securities | - | 18,585 | - | 18,585 |
| Mutual funds | | | | |
| Equity mutual funds | 94,044 | - | - | 94,044 |
| Total marketable securities | 779,538 | 1,202,570 | - | 1,982,108 |
| Commingled funds | - | 477,919 | - | 477,919 |
| Hedge funds | - | - | 1,045,751 | 1,045,751 |
| Private equity | 79 | - | 134,336 | 134,415 |
| Real estate partnerships | - | - | 3,848 | 3,848 |
| Other | 3,491 | (125) | - | 3,366 |
| Total Pension Plans' assets at fair value | <u>\$ 783,108</u> | <u>\$ 1,680,364</u> | <u>\$ 1,183,935</u> | <u>\$ 3,647,407</u> |
| Postretirement Plans: | | | | |
| Mutual funds | | | | |
| Short-term investment mutual funds | \$ 755 | \$ - | \$ - | \$ 755 |
| Fixed income mutual fund | 33,445 | - | - | 33,445 |
| Commingled funds | - | 44,054 | - | 44,054 |
| Total Postretirement Plans' assets at fair value | <u>\$ 34,200</u> | <u>\$ 44,054</u> | <u>\$ -</u> | <u>\$ 78,254</u> |

Unfunded capital commitments related to Level 3 private equity investments totaled \$191.5 million and \$198.5 million at June 30, 2012 and 2011, respectively.

There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2012 or 2011.

See Note 10 for the Corporation's methods and assumptions to estimate the fair value of marketable securities and commingled funds.

Hedge Funds – The Pension Plan invests in various hedge fund strategies. These funds utilize a “fund-of-funds” approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies, and derivatives. These funds are valued at net asset value, which is calculated using the most recent partnership financial statements.

Private Equity – These assets include several private equity funds that invest primarily in the United States, Asia and Europe, both directly and on the secondary market, pursuing distressed opportunities and natural resources, primarily energy. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

Real Estate Partnerships – These assets are reported at fair value based on either independent appraisals performed by the general partner during the year, or estimated using discounted cash flow and market analysis, supported by sales comparison information.

Other – Represents unsettled transactions relating primarily to purchases and sales of plan assets, accrued income, and derivatives. Due to the short maturity of these assets and liabilities, the fair value is equal to the carrying amounts. Concerning derivatives, the Pension Plans are party to certain agreements, which are designed to manage exposures to equities and interest rate risks. These instruments are used for the purpose of hedging changes in the fair value of assets and actuarial present value of accumulated plan benefits that result from interest rate changes, or as an efficient substitute for traditional securities. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The Pension Plans' investment policies specifically prohibit the use of derivatives for speculative purposes.

The following tables summarize the changes in Level 3 Pension Plan assets for the years ended June 30:

| | (In Thousands) | | | | |
|--------------------------|----------------------------|---------------------|-----------------------|-------------------------------------|---------------------|
| | Corporate Bonds | Hedge Funds | Private Equity | Real Estate Partnerships | Total |
| Balance at July 1, 2010 | \$ 6,242 | \$ 906,684 | \$ 104,209 | \$ 5,260 | \$ 1,022,395 |
| Transfers out of level 3 | (6,060) | - | - | - | (6,060) |
| Realized (loss) gain | (182) | (4,310) | 2,017 | 821 | (1,654) |
| Unrealized gain (loss) | - | 89,223 | 13,476 | (1,412) | 101,287 |
| Purchases | - | 96,438 | 26,972 | - | 123,410 |
| Sales | - | (42,746) | - | - | (42,746) |
| Settlements | - | 462 | (12,338) | (821) | (12,697) |
| Balance at June 30, 2011 | - | 1,045,751 | 134,336 | 3,848 | 1,183,935 |
| Acquisition of LUHS | - | - | 7,038 | 119 | 7,157 |
| Realized gain | - | 24,990 | 6,761 | 18 | 31,769 |
| Unrealized (loss) gain | - | (29,924) | 3,730 | (480) | (26,674) |
| Purchases | - | 537,598 | 75,340 | - | 612,938 |
| Sales | - | (367,524) | (2,911) | (36) | (370,471) |
| Settlements | - | 497 | (20,044) | (2,949) | (22,496) |
| Balance at June 30, 2012 | <u>\$ -</u> | <u>\$ 1,211,388</u> | <u>\$ 204,250</u> | <u>\$ 520</u> | <u>\$ 1,416,158</u> |

Transfers out of Level 3 into Level 2 were made in 2011 due to the availability of more accurate pricing data for a corporate bond security. At June 30, 2011, the fair value of this investment was estimated using unobservable inputs (i.e., extrapolated data, proprietary models, and indicative quotes) obtained from investment managers. At June 30, 2012, the fair value of this security was estimated using observable, market based bid evaluations obtained from Financial Times Interactive Data. The Corporation's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Expected Contributions – The Corporation expects to contribute \$185.1 million to its Pension Plans, and \$1.9 million to its Postretirement Plans during the year ended June 30, 2013 under the Corporation’s stated funding policy. The Corporation also elected to make an additional contribution of \$100 million to its Pension Plans in July 2012.

Expected Benefit Payments – The Corporation expects to pay the following for pension benefits, which reflect expected future service as appropriate, and expected postretirement benefits, before deducting the Medicare Part D subsidy.

| | <u>(In Thousands)</u> | | |
|-------------------|--------------------------|---------------------------------|---|
| | <u>Pension Plans</u> | <u>Postretirement Plans</u> | <u>Postretirement Medicare Part D Subsidy</u> |
| 2013 | \$ 191,524 | \$ 7,765 | \$ 125 |
| 2014 | 202,633 | 8,036 | 123 |
| 2015 | 223,758 | 8,319 | 119 |
| 2016 | 246,134 | 8,508 | 114 |
| 2017 | 272,488 | 8,639 | 107 |
| Years 2018 - 2022 | 1,751,325 | 42,728 | 424 |

9. COMMITMENTS AND CONTINGENCIES

Operating Leases – The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, was \$103.2 million and \$89.4 million for the years ended June 30, 2012 and 2011, respectively.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2012, that have initial or remaining lease terms in excess of one year:

| | <u>(In Thousands)</u> |
|-----------------------|-----------------------|
| Years ending June 30: | |
| 2013 | \$ 78,525 |
| 2014 | 66,498 |
| 2015 | 52,130 |
| 2016 | 43,616 |
| 2017 | 35,067 |
| Thereafter | 113,241 |
| Total | <u>\$ 389,077</u> |

Guarantees – The Corporation entered into debt guarantees to finance equipment purchases and to finance or construct professional office buildings, including outpatient surgery centers, rehabilitation facilities, medical facilities and medical office buildings.

Multiple guarantees that existed as of June 30, 2012 are at the following levels:

| (In Thousands) | | | |
|--|---------------------------------------|---------------------------|---|
| Percentage Guaranteed by Corporation | Percentage Guaranteed by Others | Total Principal Amount | Dollars Guaranteed by Corporation |
| 100% | 0% | \$ 5,985 | \$ 5,985 |
| 50% | 50% | 8,150 | 4,075 |
| 25% | 75% | 487 | 122 |
| 18.75% | 81.25% | 1,375 | 258 |
| | | \$ 15,997 | \$ 10,440 |

Asset Retirement Obligations – The Corporation has conditional asset retirement obligations for certain fixed assets mainly related to the removal of asbestos contained within facilities and the removal of underground storage tanks.

A reconciliation of the asset retirement obligations at June 30 follows:

| | 2012 | 2011 |
|--|----------------|-----------|
| | (In Thousands) | |
| Asset retirement obligation, beginning of year | \$ 17,487 | \$ 18,735 |
| Accretion | 587 | 842 |
| Liabilities incurred | 877 | 27 |
| Liabilities settled | (94) | (2,117) |
| Asset retirement obligation, end of year | \$ 18,857 | \$ 17,487 |

Litigation

In September 2007, a Boise, Idaho jury awarded \$58.9 million in damages to MRI Associates, an Idaho limited partnership (MRIA) against Saint Alphonsus Regional Medical Center and its subsidiary Saint Alphonsus Diversified Care, Inc. (collectively, “Saint Alphonsus”). The lawsuit involved Saint Alphonsus’ withdrawal from the MRIA partnership. The jury award was reduced by the trial judge to \$36.3 million, which was offset by the award of \$4.6 million to Saint Alphonsus, the value of its partnership interest in MRIA. St. Alphonsus appealed and, in October 2009, the Idaho Supreme Court overturned the trial court decision and remanded the case for a new trial. The second trial was held during October 2011 with a jury awarding approximately \$52 million in damages to MRIA. After Saint Alphonsus filed an objection, the trial court entered a second amended judgment indicating that the plaintiffs could execute 1 of 11 alternative judgments which vary in amount from approximately \$20 million to \$52 million. Saint Alphonsus continues to have an offset of \$4.6 million plus 10% interest running from September 21, 2007. Saint Alphonsus filed a Notice of Appeal to the Idaho Supreme Court in May 2012, because the Corporation believes that the proof of damages is insufficient to sustain the jury’s award under Idaho law. The Corporation recorded management’s estimation for litigation expense of \$20 million in the consolidated statement of operations and changes in net assets for the year ended June 30, 2007. As of June 30, 2012 and 2011, the liability is included in other long-term liabilities in the consolidated balance sheets in the event of an unfavorable resolution of this matter.

In June 2007, the Corporation was added to litigation pending in the United States District Court for the Eastern District of Michigan, alleging that certain hospitals in Southeastern Michigan conspired to suppress the wages of nurses over a period of five years. The plaintiffs brought the action on their own behalf and on behalf of all others similarly situated and seeking certification of the class. The complaint alleges that there was a direct agreement among the executives of defendant hospitals to suppress compensation and that they shared non-public compensation information, which had an anticompetitive effect on wages. The complaint specifically references St. Mary Mercy Hospital in Livonia, Michigan and St. Joseph Mercy Oakland in

Pontiac, Michigan. Discovery is complete. Defendants' motion for summary judgment, which has been pending since June 2009, was decided on March 22, 2012. The Judge granted summary judgment on Count I (conspiracy to hold down wages), but denied it on Count II (exchange of compensation-related information leading to reduced wages). Plaintiffs' motion to certify a class has also been pending since June, 2009 and has not yet been decided. If the outcome is adverse to the Corporation, the Corporation could potentially incur material damages or other financial consequences. At this time, it is premature to assess the likely course or outcome of this litigation.

The Corporation is involved in other litigation and regulatory investigations arising in the course of doing business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future consolidated financial position or results of operations.

10. FAIR VALUE MEASUREMENTS

The Corporation's consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in the Corporation's consolidated balance sheets include cash, cash equivalents, marketable securities, commingled funds, securities lending collateral, and derivatives. Defined benefit retirement plan assets are measured at fair value on an annual basis. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

To determine fair value, the Corporation uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation assesses the inputs used to measure fair value using a three level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets
- Quoted prices for identical or similar instruments in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.)
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.)
- Inputs that are derived principally from or corroborated by other observable market data

Level 3 – Unobservable inputs that cannot be corroborated by observable market data

Valuation Methodologies – Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The Corporation classifies these securities as Level 2 within the fair value hierarchy.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation used for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Cash and Cash Equivalents – The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets.

Commercial Paper – The fair value of commercial paper is based on amortized cost. Commercial paper is designated as Level 2 investments with significant observable inputs including security cost, maturity and credit rating. Commercial paper is classified as either cash and cash equivalents or marketable securities in the consolidated balance sheets depending upon the length to maturity when purchased.

Security Lending Collateral – The security lending collateral is invested in a Northern Trust sponsored commingled collateral fund, which is composed primarily of short-term securities. The fair value amounts of the commingled collateral fund are based on quoted market prices.

Marketable Securities – The fair value amounts of marketable securities, included in investments and assets limited or restricted as to use in the consolidated balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Commingled Funds – The Corporation invests in various commingled funds that are included in investments and assets limited or restricted as to use in the consolidated balance sheets. These funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value based on either the underlying investments that have a readily determinable market value or based on net asset value, which is calculated using the most recent fund financial statements.

The Corporation classifies its marketable securities and commingled funds as trading securities. Holding (losses) gains included in the excess of revenue over expenses for the years ending June 30, 2012 and 2011 were (\$44.3) million and \$155.2 million, respectively.

Other Investments – The Corporation accounts for certain other investments using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a combination of “fund-of-funds” and direct fund investment resulting in diversified multi-strategy, multi-manager investments approach. Some of these are developed by investment managers specifically for the Corporation's use and are similar to mutual funds, but are not traded on a public exchange. Underlying investments in these funds may include other funds, equities, fixed income securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds' year-end. Management's estimates of the fair values of these investments are based on information provided by the

third-party administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management's internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Investment managers meet with the Corporation's Investment Subcommittee of the Finance and Stewardship Committee of the Board of Directors on a periodic basis. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed. The balance of these investments at June 30, 2012 and 2011 was \$999.8 million and \$965.7 million, respectively. Unfunded capital commitments related to private equity investments totaled \$89.1 million and \$55.0 million at June 30, 2012 and 2011, respectively.

Cash, cash equivalents, marketable securities, commingled funds and other investments totaled \$5,308 million and \$4,831 million at June 30, 2012 and 2011, respectively.

Derivatives – The fair value of the Corporation's derivatives, which are mainly interest rate swaps, are estimated utilizing the terms of the swaps and publicly available market yield curves along with the Corporation's nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades. These swap agreements are classified as Level 2 within the fair value hierarchy.

The following tables present information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis and recorded at June 30:

| | 2012 (In Thousands) | | | |
|--|--|---|--|------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| Assets: | | | | |
| Cash and cash equivalents | \$ 1,295,525 | \$ 55,634 | \$ - | \$ 1,351,159 |
| Security lending collateral | - | 130,702 | - | 130,702 |
| Marketable securities: | | | | |
| Equity securities | 533,221 | 463 | 1,472 | 535,156 |
| Debt securities: | | | | |
| Government and government agency obligations | - | 405,740 | - | 405,740 |
| Corporate bonds | - | 273,845 | 1,114 | 274,959 |
| Asset backed securities | - | 76,537 | 559 | 77,096 |
| Other | - | 6,795 | - | 6,795 |
| Mutual funds: | | | | |
| Equity mutual funds | 199,080 | 39 | - | 199,119 |
| Fixed income mutual funds | 157,334 | 3,338 | - | 160,672 |
| Real estate investment funds | 7,173 | - | - | 7,173 |
| Other | 2,403 | 2,363 | - | 4,766 |
| Total marketable securities | 899,211 | 769,120 | 3,145 | 1,671,476 |
| Commingled funds | - | 1,167,130 | 109,165 | 1,276,295 |
| Interest rate swaps | - | 27,183 | - | 27,183 |
| Total Assets | <u>\$ 2,194,736</u> | <u>\$ 2,149,769</u> | <u>\$ 112,310</u> | <u>\$ 4,456,815</u> |
| Liabilities: | | | | |
| Interest rate swaps | <u>\$ -</u> | <u>\$ 205,111</u> | <u>\$ -</u> | <u>\$ 205,111</u> |

2011
(In Thousands)

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|--|--|---|--|------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 1,097,899 | \$ 40,695 | \$ - | \$ 1,138,594 |
| Security lending collateral | - | 149,641 | - | 149,641 |
| Marketable securities: | | | | |
| Equity securities | 589,498 | 1,913 | 500 | 591,911 |
| Debt securities: | | | | |
| Government and government agency obligations | - | 335,433 | 116 | 335,549 |
| Corporate bonds | - | 285,643 | 2,467 | 288,110 |
| Asset backed securities | - | 77,517 | 715 | 78,232 |
| Other | - | 13,620 | - | 13,620 |
| Mutual funds: | | | | |
| Equity mutual funds | 181,670 | - | - | 181,670 |
| Fixed income mutual funds | 46,438 | - | - | 46,438 |
| Real estate investment funds | 6,658 | - | - | 6,658 |
| Other | 1,540 | - | - | 1,540 |
| Total marketable securities | 825,804 | 714,126 | 3,798 | 1,543,728 |
| Commingled funds | - | 1,168,069 | 8,600 | 1,176,669 |
| Interest rate swaps | - | 33,422 | - | 33,422 |
| Total Assets | \$ 1,923,703 | \$ 2,105,953 | \$ 12,398 | \$ 4,042,054 |
| Liabilities: | | | | |
| Interest rate swaps | - | 107,926 | - | 107,926 |

There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2012 or 2011.

The following table summarizes the changes in Level 3 assets for the years ended June 30:

| (In Thousands) | | | | | | |
|--------------------------|----------------------|---|--------------------|----------------------------|---------------------|-------------------|
| | Equity Securities | Government and Government Agency Obligations | Corporate Bonds | Asset Backed Securities | Commingled Funds | Total |
| Balance at July 1, 2010 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Realized gain | - | - | 2 | 1 | - | 3 |
| Unrealized (loss) gain | (35) | 24 | 58 | 21 | 367 | 435 |
| Purchases | 535 | 92 | 2,436 | 885 | 8,233 | 12,181 |
| Settlements | - | - | (29) | (192) | - | (221) |
| Balance at June 30, 2011 | <u>\$ 500</u> | <u>\$ 116</u> | <u>\$ 2,467</u> | <u>\$ 715</u> | <u>\$ 8,600</u> | <u>\$ 12,398</u> |
| Realized gain | 35 | - | (7) | 44 | - | 72 |
| Unrealized (loss) gain | (35) | - | (81) | - | 2,361 | 2,245 |
| Purchases | 972 | - | 992 | - | 98,227 | 100,191 |
| Settlements | - | - | - | (200) | - | (200) |
| Transfers | - | (116) | (2,257) | - | (23) | (2,396) |
| Balance at June 30, 2012 | <u>\$ 1,472</u> | <u>\$ -</u> | <u>\$ 1,114</u> | <u>\$ 559</u> | <u>\$ 109,165</u> | <u>\$ 112,310</u> |

Investments in Entities that Calculate Net Asset Value per Share: The Corporation holds shares or interests in investment companies at year-end, included in commingled funds, where the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company. There were no unfunded commitments as of June 30, 2012 or 2011. The fair value and redemption rules of these investments are as follows:

| Investments Held at June 30, 2012 | | | |
|-----------------------------------|---------------------|----------------------------------|-----------------------------|
| (In thousands) | Fair Value | Redemption Frequency | Redemption Notice Period |
| Equity funds | 249,592 | Monthly, quarterly, semiannually | 30-95 days |
| Fixed income funds | 965,096 | Monthly | 5 days |
| Total | <u>\$ 1,214,688</u> | | |

| Investments Held at June 30, 2011 | | | |
|-----------------------------------|-------------------|----------------------------------|-----------------------------|
| (In thousands) | Fair Value | Redemption Frequency | Redemption Notice Period |
| Equity funds | 8,600 | Monthly, quarterly, semiannually | 30-95 days |
| Fixed income funds | 953,533 | Monthly | 5 days |
| Total | <u>\$ 962,133</u> | | |

The equity fund category includes investments in funds that invest both long and short, primarily in U.S. common stocks. Management of the fund has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The fixed income fund category invests in financial instruments of U.S. and non-U.S. entities, primarily bonds, notes, bills, debentures, currencies, and interest rate and derivative products. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

The composition of investment returns included in the consolidated statement of operations and changes in net assets for the years ended June 30 is as follows:

| | 2012 | 2011 |
|---|-----------------------|-------------------|
| | <u>(In Thousands)</u> | |
| Dividend, interest income and other | \$ 74,258 | \$ 79,703 |
| Realized gain, net | 68,360 | 138,901 |
| Realized equity loss, other investments | (2,258) | (1,432) |
| Change in net unrealized (loss) gain on investments | <u>(146,640)</u> | <u>279,942</u> |
| Total investment return | <u>\$ (6,280)</u> | <u>\$ 497,114</u> |
| Included in: | | |
| Operating income | \$ 13,300 | \$ 6,454 |
| Nonoperating items | (19,159) | 483,550 |
| Changes in restricted net assets | <u>(421)</u> | <u>7,110</u> |
| Total investment return | <u>\$ (6,280)</u> | <u>\$ 497,114</u> |

In addition to investments, assets restricted as to use include receivables for unconditional promises to give cash and other assets net of allowances for uncollectible promises to give.

Unconditional promises to give consist of the following at June 30:

| | 2012 | 2011 |
|--|-----------------------|------------------|
| | <u>(In Thousands)</u> | |
| Amounts expected to be collected in: | | |
| Less than one year | \$ 8,632 | \$ 9,049 |
| One to five years | 13,896 | 11,688 |
| More than five years | <u>3,676</u> | <u>3,841</u> |
| | 26,204 | 24,578 |
| Discount to present value of future cash flows | 2,094 | 1,885 |
| Allowance for uncollectible amounts | <u>2,301</u> | <u>2,566</u> |
| Total unconditional promises to give, net | <u>\$ 21,809</u> | <u>\$ 20,127</u> |

Patient Accounts Receivable, Estimated Receivables from Third-Party Payors and Current Liabilities – The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Long-Term Debt – The carrying amounts of the Corporation’s variable rate debt approximate their fair values. The fair value of the Corporation’s fixed rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed rate long-term revenue and refunding bonds was \$2,389 million and \$1,576 million at June 30, 2012 and 2011, respectively. The related carrying value of the fixed rate long-term revenue and refunding bonds was \$2,162 million and \$1,509 million at June 30, 2012 and 2011, respectively. The fair values of the remaining fixed rate capital leases, notes payable to banks, and mortgage loans are not materially different from their carrying values.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments – In the normal course of business, the Corporation is exposed to market risks, including the effect of changes in interest rates and equity market volatility. To manage these risks the Corporation enters into various derivative contracts, primarily interest rate swaps. Interest rate swaps are used to manage the effect of interest rate fluctuations.

Management reviews the Corporation’s hedging program, derivative position, and overall risk management on a regular basis. The Corporation only enters into transactions it believes will be highly effective at offsetting the underlying risk.

Interest Rate Swaps – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation’s variable interest rate debt, variable rate leases and a fixed income investment portfolio. Cash payments on interest rate swaps totaled \$17.3 million and \$15.7 million for the years ended June 30, 2012 and 2011, respectively and are included in nonoperating income.

Certain of the Corporation’s interest rate swaps contain provisions that give certain counterparties the right to terminate the interest rate swap if a rating is downgraded below specified thresholds. If a ratings downgrade threshold is breached, the counterparties to the derivative instruments could demand immediate termination of the swaps. Such termination could result in a payment from the Corporation or a payment to the Corporation depending on the market value of the interest rate swap.

Certain of the Corporation’s interest rate swaps are secured by \$89.4 million and \$30.6 million of collateral included in prepaid expenses and other current assets in the Corporation’s consolidated balance sheets at June 30, 2012 and 2011, respectively.

Investment Collars – The Corporation engaged in a downside risk mitigation strategy employing an equity collar structure utilizing a combination of equity call and put options. This hedging strategy was based on investment portfolio exposure to long only equities and contained no leverage. This investment collar expired in July 2010.

Effect of Derivative Instruments on Excess of Revenue over Expenses - The following table represents the effect derivative instruments had on the Corporation's financial performance for the years ended June 30:

| Derivatives not designated as hedging instruments | Location of Net Gain (Loss) Recognized in Excess of Revenue over Expenses or Unrestricted Net Assets | 2012 | | 2011 | |
|---|--|---|------------------|------|--------------|
| | | (In Thousands) | | | |
| | | Amount of Net Gain (Loss) Recognized in Excess of Revenue over Expenses | | | |
| Excess of Revenue over Expenses: | | | | | |
| Interest rate swaps | Change in market value and cash payment on interest rate swaps | \$ | (114,468) | \$ | 13,554 |
| Interest rate swaps | Investment income | | 1,087 | | 206 |
| Investment collars | Investment loss | | - | | (4,969) |
| | | \$ | <u>(113,381)</u> | \$ | <u>8,791</u> |

Balance Sheet Effect of Derivative Instruments - The following table summarizes the estimated fair value of the Corporation's derivative financial instruments at June 30:

| Derivatives not designated as hedging instruments | Consolidated Balance Sheet Location | 2012 | | 2011 | |
|---|-------------------------------------|----------------|---------------|------|---------------|
| | | (In Thousands) | | | |
| Asset Derivatives: | | | | | |
| Interest rate swaps | Investments | \$ | 8,401 | \$ | 6,356 |
| Interest rate swaps | Other assets | | 18,782 | | 27,066 |
| Total asset derivatives | | \$ | <u>27,183</u> | \$ | <u>33,422</u> |
| Liability Derivatives: | | | | | |
| Interest rate swaps | Other long-term liabilities | \$ | 205,111 | \$ | 107,926 |

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of non-performance. At June 30, 2012 and 2011 an adjustment for non-performance risk reduced derivative assets by \$1.1 million and \$2.6 million and derivatives liabilities by \$14.6 million and \$3.0 million, respectively.

12. ENDOWMENTS

The Corporation's endowments consist of funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Corporation considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of endowment funds for a prudent level of risk. The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Corporation can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

Endowment net asset composition by type of fund at June 30 is as follows:

| | 2012 (In Thousands) | | | |
|----------------------------------|--------------------------------------|--|--|------------------|
| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total |
| Donor-restricted endowment funds | \$ - | \$ 438 | \$ 40,670 | \$ 41,108 |
| Board-designated endowment funds | 34,291 | - | - | 34,291 |
| Total endowment funds | \$ 34,291 | \$ 438 | \$ 40,670 | \$ 75,399 |

| | 2011 (In Thousands) | | | |
|----------------------------------|--------------------------------------|--|--|------------------|
| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total |
| Donor-restricted endowment funds | \$ - | \$ 446 | \$ 34,462 | \$ 34,908 |
| Board-designated endowment funds | 34,988 | - | - | 34,988 |
| Total endowment funds | \$ 34,988 | \$ 446 | \$ 34,462 | \$ 69,896 |

Changes in endowment net assets for the years ended June 30 include:

| | (In Thousands) | | | |
|---|------------------------------------|--|--|------------------|
| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | Total |
| Endowment net assets, July 1, 2010 | \$ 19,737 | \$ 464 | \$ 31,736 | \$ 51,937 |
| Investment return: | | | | |
| Investment gain | 1,658 | 8 | 713 | 2,379 |
| Change in net realized and unrealized gain and loss | 3,964 | 373 | 1,820 | 6,157 |
| Total investment return | 5,622 | 381 | 2,533 | 8,536 |
| Contributions | 36 | - | 403 | 439 |
| Appropriation of endowment assets for expenditures | (967) | (5) | - | (972) |
| Transfer to create a board designated endowment | 10,560 | - | - | 10,560 |
| Other | - | (394) | (210) | (604) |
| Endowment net assets, June 30, 2011 | 34,988 | 446 | 34,462 | 69,896 |
| Investment return: | | | | |
| Investment gain (loss) | 1,477 | 7 | (30) | 1,454 |
| Change in net realized and unrealized gain and loss | (1,651) | (10) | (391) | (2,052) |
| Total investment return | (174) | (3) | (421) | (598) |
| Contributions | 91 | - | 636 | 727 |
| Appropriation of endowment assets for expenditures | (624) | (5) | - | (629) |
| Acquisition of LUHS | - | - | 6,671 | 6,671 |
| Other | 10 | - | (678) | (668) |
| Endowment net assets, June 30, 2012 | \$ 34,291 | \$ 438 | \$ 40,670 | \$ 75,399 |

The table below describes endowment amounts classified as permanently restricted net assets and temporarily restricted net assets at June 30:

| | 2012 | 2011 |
|---|-----------------------|------------------|
| | <u>(In Thousands)</u> | |
| Permanently restricted net assets: | | |
| Hospital operations support | \$ 17,537 | \$ 16,736 |
| Medical program support | 5,941 | 5,127 |
| Scholarship funds | 2,247 | 2,351 |
| Research funds | 8,241 | 3,433 |
| Community service funds | 5,496 | 5,764 |
| Other funds | 1,208 | 1,051 |
| Total endowment funds classified as permanently restricted net assets | <u>\$ 40,670</u> | <u>\$ 34,462</u> |
| Temporarily restricted net assets: | | |
| Term endowment funds | \$ 127 | \$ 133 |
| Other | 311 | 313 |
| Total endowment funds classified as temporarily restricted net assets | <u>\$ 438</u> | <u>\$ 446</u> |

Funds with Deficiencies – Periodically the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and/or continued appropriation for certain programs that was deemed prudent by the Corporation.

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 26, 2012, the date the consolidated financial statements were issued. The following subsequent events were noted:

Pension Funding – On July 2, 2012, the Corporation issued \$100 million in commercial paper and used the proceeds to make contributions to its Pension Plans.

Liquidity Facilities – In July 2012, the Corporation renewed the Amended and Restated 2010 Revolving Credit Agreements with U.S. Bank National Association, which acts as an administrative agent for a group of lenders thereunder. The 2010 Credit Agreements establish a revolving credit facility for the Corporation, under which that group of lenders agrees to lend to the Corporation amounts that may fluctuate from time to time but, as of September 26, 2012, the amount available was \$731 million. Amounts drawn under the 2010 Credit Agreements can only be used to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the \$731 million, \$150 million expires in July 2013, \$110 million expires in July 2014, \$256 million expires in July 2015 and \$215 million expires in July 2016. In addition, in August 2012, the Corporation added a second general purpose facility of \$200 million.

Commercial Paper – Subsequent to June 30, 2012, the Corporation intends to increase its commercial paper program for authorized borrowings from \$400 million to \$600 million.

* * * *

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL CONSOLIDATING SCHEDULES

To the Board of Directors of
Trinity Health
Novi, Michigan

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules (the Schedules) listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These Schedules are the responsibility of the Corporation's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such Schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such Schedules 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 of America. In our opinion such Schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

September 26, 2012

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS - INFORMATION

June 30, 2012

(In Thousands)

| | Hospital Entities | Non- Hospital Entities | Eliminations | Total |
|---|----------------------|------------------------------|-----------------------|----------------------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash, cash equivalents and investments | \$ 2,394,857 | \$ 197,357 | \$ - | \$ 2,592,214 |
| Assets limited or restricted as to use, current portion | 26,942 | 478 | - | 27,420 |
| Patient and other receivables, net | 1,202,304 | 182,944 | (138,343) | 1,246,905 |
| Other current assets | 166,805 | 257,278 | (73) | 424,010 |
| Total current assets | <u>3,790,908</u> | <u>638,057</u> | <u>(138,416)</u> | <u>4,290,549</u> |
| ASSETS LIMITED OR RESTRICTED AS TO USE, NON-CURRENT PORTION: | | | | |
| Held by trustees | 56,637 | 414,162 | - | 470,799 |
| By Board | 1,259,720 | 893,854 | - | 2,153,574 |
| By donors | 128,440 | 1,188 | - | 129,628 |
| Total assets limited or restricted as to use, noncurrent portion | <u>1,444,797</u> | <u>1,309,204</u> | <u>-</u> | <u>2,754,001</u> |
| PROPERTY AND EQUIPMENT, NET | 3,775,240 | 446,587 | - | 4,221,827 |
| OTHER ASSETS | <u>660,154</u> | <u>2,909,860</u> | <u>(3,160,476)</u> | <u>409,538</u> |
| TOTAL ASSETS | <u>\$ 9,671,099</u> | <u>\$ 5,303,708</u> | <u>\$ (3,298,892)</u> | <u>\$ 11,675,915</u> |
| LIABILITIES AND NET ASSETS | | | | |
| CURRENT LIABILITIES | \$ 1,160,221 | \$ 1,359,143 | \$ (26,531) | \$ 2,492,833 |
| LONG-TERM DEBT, NONCURRENT PORTION | 2,913,036 | 2,176,495 | (2,787,295) | 2,302,236 |
| OTHER LIABILITIES | 345,060 | 2,147,293 | (480,517) | 2,011,836 |
| NET ASSETS: | | | | |
| Unrestricted | 5,109,980 | (380,413) | (4,205) | 4,725,362 |
| Restricted | <u>142,802</u> | <u>1,190</u> | <u>(344)</u> | <u>143,648</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 9,671,099</u> | <u>\$ 5,303,708</u> | <u>\$ (3,298,892)</u> | <u>\$ 11,675,915</u> |

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS - INFORMATION

June 30, 2012

(In Thousands)

| ASSETS | Saint Agnes Medical Center, Fresno | Saint Alphonsus Health System, Oregon-Idaho | Mercy Medical Center, Clinton | Mercy Medical Center, Dubuque | North Iowa Mercy Medical Center, Mason City | Mercy Medical Center, Sioux City | Loyola University Health System, Chicago | Mercy Hospital & Medical Center, Chicago | Saint Joseph Regional Medical Center, South Bend | Saint Mary's Health Care, Grand Rapids | Subtotal Hospital Entries |
|--|------------------------------------|---|-------------------------------|-------------------------------|---|----------------------------------|--|--|--|--|---------------------------|
| CURRENT ASSETS: | | | | | | | | | | | |
| Cash, cash equivalents and investments | \$ 95,789 | \$ 267,092 | \$ 39,402 | \$ 38,509 | \$ 72,873 | \$ 44,367 | \$ 148,391 | \$ 72,403 | \$ 65,915 | \$ 61,665 | \$ 906,406 |
| Assets limited or restricted as to use, current portion | 280 | 128 | - | 34 | 71 | 270 | 1,276 | 18,959 | 619 | 81 | 21,718 |
| Patent and other receivables, net | 62,150 | 106,876 | 12,831 | 21,731 | 47,436 | 28,917 | 182,107 | 54,837 | 60,495 | 63,743 | 641,123 |
| Other current assets | 7,814 | 13,226 | 1,418 | 6,837 | 7,857 | 5,143 | 23,368 | 4,924 | 9,857 | 11,159 | 91,603 |
| Total current assets | 166,033 | 387,322 | 53,651 | 67,111 | 128,237 | 78,697 | 355,142 | 151,123 | 136,886 | 136,648 | 1,660,850 |
| ASSETS LIMITED OR RESTRICTED AS TO USE: | | | | | | | | | | | |
| NON-CURRENT PORTION: | | | | | | | | | | | |
| Held by trustees | - | 4,771 | 156 | - | 6,838 | 6,859 | 5,850 | 1,664 | 4,392 | 1,882 | 32,412 |
| By Board | 218,829 | 111,834 | 41,594 | 26,174 | 117,773 | 16,596 | 12,122 | - | - | 252,131 | 797,053 |
| By donors | 13,931 | 6,347 | 884 | 3,204 | 1,287 | 2,536 | 22,316 | 2,764 | 11,440 | 8,834 | 73,543 |
| Total assets limited or restricted as to use, noncurrent portion | 232,760 | 122,952 | 42,634 | 29,378 | 125,898 | 25,991 | 40,288 | 4,428 | 15,832 | 262,847 | 903,008 |
| PROPERTY AND EQUIPMENT, NET | 216,173 | 348,620 | 31,502 | 50,623 | 100,028 | 44,817 | 543,994 | 169,109 | 385,018 | 222,659 | 2,112,543 |
| OTHER ASSETS | 27,087 | 51,969 | 6,025 | 10,428 | 23,226 | 36,465 | 62,416 | 11,970 | 23,239 | 26,706 | 279,531 |
| TOTAL ASSETS | \$ 642,053 | \$ 910,863 | \$ 133,812 | \$ 157,540 | \$ 377,389 | \$ 185,970 | \$ 1,001,840 | \$ 336,630 | \$ 560,975 | \$ 648,860 | \$ 4,955,932 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | | |
| CURRENT LIABILITIES | \$ 49,351 | \$ 127,779 | \$ 16,074 | \$ 18,972 | \$ 43,489 | \$ 26,432 | \$ 198,981 | \$ 45,474 | \$ 40,697 | \$ 52,476 | \$ 619,725 |
| LONG-TERM DEBT, NONCURRENT PORTION | 105,272 | 241,445 | 18,610 | 32,062 | 92,650 | 79,235 | 360,049 | 52,367 | 336,929 | 181,301 | 1,499,920 |
| OTHER LIABILITIES | 1,857 | 25,351 | 1,609 | 1,026 | 9,397 | 12,889 | 189,609 | 39,611 | 10,522 | 2,054 | 293,925 |
| NET ASSETS: | | | | | | | | | | | |
| Unrestricted | 471,362 | 509,814 | 96,636 | 102,242 | 230,630 | 64,641 | 229,670 | 188,162 | 160,768 | 404,114 | 2,458,039 |
| Restricted | 14,211 | 6,474 | 883 | 3,238 | 1,223 | 2,773 | 23,531 | 11,016 | 12,059 | 8,915 | 84,323 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 642,053 | \$ 910,863 | \$ 133,812 | \$ 157,540 | \$ 377,389 | \$ 185,970 | \$ 1,001,840 | \$ 336,630 | \$ 560,975 | \$ 648,860 | \$ 4,955,932 |

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS - INFORMATION

June 30, 2012
(In Thousands)

| ASSETS | Balance Forward | Mercy Health Partners, Muskegon | Mercy Health Services, North | Saint Joseph Mercy Health System, Ann Arbor | St. Joseph Mercy Oakland | St. Joseph Mercy Port Huron | Mount Carmel Health System, Columbus | Holy Cross Hospital, Silver Spring | Eliminations | Total Hospital Entities |
|---|---------------------|---------------------------------|------------------------------|---|--------------------------|-----------------------------|--------------------------------------|------------------------------------|--------------------|-------------------------|
| CURRENT ASSETS: | | | | | | | | | | |
| Cash, cash equivalents and investments | \$ 906,406 | \$ 98,494 | \$ 51,388 | \$ 287,246 | \$ 186,182 | \$ 11,709 | \$ 683,821 | \$ 219,889 | \$ (50,278) | \$ 2,394,857 |
| Assets limited or restricted as to use, current portion | 21,718 | 262 | 239 | 2,716 | 1,213 | - | 794 | - | - | 26,942 |
| Patient and other receivables, net | 641,123 | 65,654 | 12,333 | 200,816 | 51,329 | 9,966 | 164,759 | 59,400 | (3,076) | 1,202,304 |
| Other current assets | 91,603 | 12,597 | 3,137 | 19,159 | 9,907 | 2,459 | 21,247 | 6,569 | 127 | 166,805 |
| Total current assets | <u>1,660,850</u> | <u>177,007</u> | <u>67,097</u> | <u>509,937</u> | <u>248,631</u> | <u>24,134</u> | <u>870,621</u> | <u>285,858</u> | <u>(53,227)</u> | <u>3,790,908</u> |
| | | | | | | | | | | |
| ASSETS LIMITED OR RESTRICTED AS TO USE, NON-CURRENT PORTION: | | | | | | | | | | |
| Held by trustees | 32,412 | 4,901 | 1,502 | 3,972 | 1,341 | 563 | 11,897 | 49 | - | 56,637 |
| By Board | 797,053 | 13,255 | 12,259 | 103,780 | - | 11,805 | 321,568 | - | - | 1,259,720 |
| By donors | 73,543 | 5,081 | 2,243 | 31,220 | 4,821 | 956 | 7,149 | 3,427 | - | 128,440 |
| Total assets limited or restricted as to use, noncurrent portion | <u>903,008</u> | <u>23,237</u> | <u>16,004</u> | <u>138,972</u> | <u>6,162</u> | <u>13,324</u> | <u>340,614</u> | <u>3,476</u> | <u>-</u> | <u>1,444,797</u> |
| PROPERTY AND EQUIPMENT, NET | <u>2,112,543</u> | <u>90,478</u> | <u>49,583</u> | <u>667,523</u> | <u>195,847</u> | <u>32,216</u> | <u>479,248</u> | <u>147,802</u> | <u>-</u> | <u>3,775,240</u> |
| OTHER ASSETS | <u>279,531</u> | <u>30,986</u> | <u>3,843</u> | <u>164,185</u> | <u>24,733</u> | <u>8,507</u> | <u>119,164</u> | <u>29,205</u> | <u>-</u> | <u>660,154</u> |
| TOTAL ASSETS | <u>\$ 4,955,932</u> | <u>\$ 321,708</u> | <u>\$ 136,527</u> | <u>\$ 1,480,617</u> | <u>\$ 475,373</u> | <u>\$ 78,181</u> | <u>\$ 1,809,647</u> | <u>\$ 466,341</u> | <u>\$ (53,227)</u> | <u>\$ 9,671,099</u> |
| LIABILITIES AND NET ASSETS | | | | | | | | | | |
| CURRENT LIABILITIES | \$ 619,725 | \$ 61,621 | \$ 21,356 | \$ 163,885 | \$ 44,587 | \$ 9,281 | \$ 224,257 | \$ 68,736 | \$ (53,227) | \$ 1,160,221 |
| LONG-TERM DEBT, NONCURRENT PORTION | 1,499,920 | 132,493 | 46,628 | 497,354 | 131,931 | 31,244 | 447,892 | 125,574 | - | 2,913,036 |
| OTHER LIABILITIES | 293,925 | 8,769 | 1,603 | 17,227 | 6,194 | 735 | 15,956 | 651 | - | 345,060 |
| NET ASSETS: | | | | | | | | | | |
| Unrestricted | 2,458,039 | 113,482 | 64,458 | 769,862 | 286,627 | 35,965 | 1,113,599 | 267,948 | - | 5,109,980 |
| Restricted | 84,323 | 5,343 | 2,482 | 32,289 | 6,034 | 956 | 7,943 | 3,432 | - | 142,802 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 4,955,932</u> | <u>\$ 321,708</u> | <u>\$ 136,527</u> | <u>\$ 1,480,617</u> | <u>\$ 475,373</u> | <u>\$ 78,181</u> | <u>\$ 1,809,647</u> | <u>\$ 466,341</u> | <u>\$ (53,227)</u> | <u>\$ 9,671,099</u> |

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS - INFORMATION

June 30, 2012

(In Thousands)

| ASSETS | Trinity Continuing Care Services | Trinity Home Health Services | Trinity Health Consolidated Labs | Trinity Health International | Trinity Health Ware Lab LLC | Mercy Primary Care Center, Detroit | Venzke Insurance Company | THRE Services, LLC | Trinity Information Services | Home Office | Eliminations | Total Non- Hospital Entities |
|---|---|---------------------------------------|---|------------------------------------|--------------------------------------|---|--------------------------------|--------------------------|------------------------------------|----------------|--------------|---------------------------------------|
| CURRENT ASSETS: | | | | | | | | | | | | |
| Cash, cash equivalents and investments | \$ 51,388 | \$ 21,707 | \$ 2,341 | \$ 633 | \$ 273 | \$ 2,809 | \$ 67 | \$ - | \$ 72,928 | \$ 45,211 | \$ - | \$ 197,357 |
| Assets limited or restricted as to use, current portion | - | - | - | - | - | - | - | - | - | 478 | - | 478 |
| Patient and other receivables, net | 13,670 | 11,438 | 5,235 | - | 2 | 18 | 40,633 | - | 16,994 | 178,003 | (83,049) | 182,944 |
| Other current assets | 1,044 | 341 | 2,434 | 1 | 14 | - | 23,458 | - | 19,202 | 210,874 | (90) | 257,278 |
| Total current assets | 66,102 | 33,486 | 10,010 | 634 | 289 | 2,827 | 64,158 | - | 109,124 | 434,566 | (83,139) | 638,057 |
| ASSETS LIMITED OR RESTRICTED AS TO USE, | | | | | | | | | | | | |
| NON-CURRENT PORTION: | | | | | | | | | | | | |
| Held by trustees | - | - | - | - | - | - | 314,028 | - | 1,030 | 99,104 | - | 414,162 |
| By Board | - | - | - | - | - | - | - | - | - | 893,854 | - | 893,854 |
| By donors | 126 | 193 | - | - | - | 384 | - | - | - | 485 | - | 1,188 |
| Total assets limited or restricted as to use, noncurrent portion | 126 | 193 | - | - | - | 384 | 314,028 | - | 1,030 | 993,443 | - | 1,309,204 |
| PROPERTY AND EQUIPMENT, NET | 113,162 | 2,364 | 3,900 | - | 8,787 | 581 | - | - | 287,826 | 29,967 | - | 446,587 |
| OTHER ASSETS | 4,168 | 2,383 | - | - | - | - | - | - | - | 3,047,934 | (144,625) | 2,909,860 |
| TOTAL ASSETS | \$ 183,558 | \$ 38,426 | \$ 13,910 | \$ 634 | \$ 9,076 | \$ 3,792 | \$ 378,186 | \$ - | \$ 397,980 | \$ 4,505,910 | \$ (227,764) | \$ 5,303,708 |
| LIABILITIES AND NET ASSETS | | | | | | | | | | | | |
| CURRENT LIABILITIES | \$ 22,472 | \$ 9,226 | \$ 5,455 | \$ 375 | \$ 336 | \$ 552 | \$ 85,994 | \$ 200 | \$ 54,454 | \$ 1,263,277 | \$ (83,198) | \$ 1,359,143 |
| LONG-TERM DEBT, NONCURRENT PORTION | 105,173 | 585 | 2,493 | - | 7,250 | - | - | - | - | 2,165,725 | (104,731) | 2,176,495 |
| OTHER LIABILITIES | - | 6 | 324 | - | - | - | 292,072 | - | 339,395 | 1,555,331 | (39,835) | 2,147,293 |
| NET ASSETS: | | | | | | | | | | | | |
| Unrestricted | 55,787 | 28,416 | 5,638 | 259 | 1,490 | 2,856 | 120 | (200) | 4,131 | (478,910) | - | (380,413) |
| Restricted | 126 | 193 | - | - | - | 384 | - | - | - | 487 | - | 1,190 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 183,558 | \$ 38,426 | \$ 13,910 | \$ 634 | \$ 9,076 | \$ 3,792 | \$ 378,186 | \$ - | \$ 397,980 | \$ 4,505,910 | \$ (227,764) | \$ 5,303,708 |

TRINITY HEALTH

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS - INFORMATION**

June 30, 2012

(In Thousands)

| <u>STATEMENTS OF OPERATIONS</u> | Hospital Entities | Non- Hospital Entities | Eliminations | Total |
|---|----------------------|------------------------------|-------------------|---------------------|
| UNRESTRICTED REVENUE: | | | | |
| Net patient service revenue | \$ 7,638,861 | \$ 210,300 | \$ - | \$ 7,849,161 |
| Other | 938,430 | 963,695 | (850,376) | 1,051,749 |
| Total revenue | <u>8,577,291</u> | <u>1,173,995</u> | <u>(850,376)</u> | <u>8,900,910</u> |
| EXPENSES: | | | | |
| Labor costs | 4,014,666 | 533,611 | (83,559) | 4,464,718 |
| Medical claims and purchased services | 1,228,776 | 173,287 | (416,410) | 985,653 |
| Depreciation, amortization and interest | 548,555 | 195,402 | (176,426) | 567,531 |
| Provision for bad debts | 429,945 | 1,512 | - | 431,457 |
| Other | 2,076,050 | 274,898 | (169,406) | 2,181,542 |
| Total expenses | <u>8,297,992</u> | <u>1,178,710</u> | <u>(845,801)</u> | <u>8,630,901</u> |
| OPERATING INCOME (LOSS) | 279,299 | (4,715) | (4,575) | 270,009 |
| NONOPERATING ITEMS: | | | | |
| Investment loss and interest rate swaps | (40,925) | (96,674) | 3,972 | (133,627) |
| Loss from early extinguishment of debt | (3,239) | (10,219) | - | (13,458) |
| Other | (1,448) | 245,577 | - | 244,129 |
| Total | <u>(45,612)</u> | <u>138,684</u> | <u>3,972</u> | <u>97,044</u> |
| EXCESS OF REVENUE OVER EXPENSES | 233,687 | 133,969 | (603) | 367,053 |
| Less excess of revenue over expenses attributable to noncontrolling interest | <u>8,599</u> | <u>340</u> | <u>(627)</u> | <u>8,312</u> |
| EXCESS OF REVENUE OVER EXPENSES NET OF NONCONTROLLING INTEREST | <u>225,088</u> | <u>133,629</u> | <u>24</u> | <u>358,741</u> |
| <u>CHANGES IN NET ASSETS</u> | | | | |
| Increase (decrease) in unrestricted net assets | 448,713 | (827,533) | (624) | (379,444) |
| Increase (decrease) in restricted net assets | 34,156 | (71) | 57 | 34,142 |
| Increase (decrease) in net assets | <u>482,869</u> | <u>(827,604)</u> | <u>(567)</u> | <u>(345,302)</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>4,769,913</u> | <u>448,381</u> | <u>(3,982)</u> | <u>5,214,312</u> |
| NET ASSETS, END OF YEAR | <u>\$ 5,252,782</u> | <u>\$ (379,223)</u> | <u>\$ (4,549)</u> | <u>\$ 4,869,010</u> |

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - INFORMATION
 June 30, 2012
 (In Thousands)

| STATEMENTS OF OPERATIONS | Saint Agnes Medical Center, Fresno | Saint Alphonsus Health System, Oregon-Idaho | Mercy Medical Center, Clinton | Mercy Medical Center, Dubuque | Mercy Medical Center, Mason City | Mercy Medical Center, Sioux City | Loyola University Health System, Chicago | Mercy Hospital & Medical Center, Chicago | Saint Joseph Regional Medical Center, South Bend | Battle Creek Health System | Saint Mary's Health Care, Grand Rapids | Subtotal Hospital Entities |
|--|------------------------------------|---|-------------------------------|-------------------------------|----------------------------------|----------------------------------|--|--|--|----------------------------|--|----------------------------|
| UNRESTRICTED REVENUE: | | | | | | | | | | | | |
| Net patient service revenue | \$ 425,833 | \$ 685,999 | \$ 90,475 | \$ 118,167 | \$ 301,996 | \$ 203,047 | \$ 1,052,986 | \$ 62,411 | \$ 355,494 | \$ - | \$ 444,414 | \$ 3,740,822 |
| Other | 7,914 | 29,350 | 3,496 | 33,206 | 50,743 | 21,292 | 55,037 | 5,894 | 17,618 | - | 100,780 | 325,330 |
| Total revenue | 433,747 | 715,349 | 93,971 | 151,373 | 352,739 | 224,339 | 1,108,023 | 68,305 | 373,112 | - | 545,194 | 4,066,152 |
| EXPENSES: | | | | | | | | | | | | |
| Labor costs | 214,026 | 318,318 | 46,038 | 64,892 | 179,214 | 113,334 | 612,102 | 30,197 | 153,257 | - | 234,455 | 1,965,833 |
| Medical claims and purchased services | 54,972 | 109,135 | 13,242 | 22,170 | 47,515 | 29,818 | 59,037 | 8,479 | 53,528 | - | 81,712 | 479,608 |
| Depreciation, amortization and interest | 31,264 | 43,379 | 8,349 | 8,922 | 19,359 | 14,328 | 60,116 | 3,101 | 40,363 | - | 35,604 | 265,385 |
| Provision for bad debts | 26,837 | 46,407 | 4,756 | 4,760 | 11,489 | 18,167 | 54,295 | 4,333 | 20,035 | - | 20,445 | 211,524 |
| Other | 97,617 | 166,226 | 17,437 | 46,665 | 90,990 | 48,419 | 322,133 | 17,471 | 90,285 | - | 145,243 | 1,042,486 |
| Total expenses | 424,716 | 683,665 | 89,822 | 147,409 | 348,767 | 224,066 | 1,107,683 | 63,581 | 357,668 | - | 517,459 | 3,964,836 |
| OPERATING INCOME | 9,031 | 31,684 | 4,149 | 3,964 | 3,972 | 273 | 340 | 4,724 | 15,444 | - | 27,735 | 101,316 |
| NONOPERATING ITEMS: | | | | | | | | | | | | |
| Investment loss and interest rate swaps | (3,772) | (3,390) | (720) | (668) | (2,712) | (998) | (9,886) | (15) | (2,344) | - | (3,424) | (27,929) |
| Loss from early extinguishment of debt | - | - | - | - | - | - | (3,239) | - | - | - | - | (3,239) |
| Other | 55 | (747) | (16) | (125) | 68 | - | (230) | - | (152) | - | 450 | (697) |
| Total | (3,717) | (4,137) | (736) | (793) | (2,644) | (998) | (13,355) | (15) | (2,496) | - | (2,974) | (31,865) |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | 5,314 | 27,547 | 3,413 | 3,171 | 1,328 | (725) | (13,015) | 4,709 | 12,948 | - | 24,761 | 69,451 |
| plus excess of revenue over expenses attributable to noncontrolling interest | - | 189 | 27 | - | 4,583 | - | - | 169 | - | - | 670 | 5,638 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES NET OF NONCONTROLLING INTEREST | 5,314 | 27,736 | 3,386 | 3,171 | (3,255) | (725) | (13,015) | 4,540 | 12,948 | - | 24,091 | 63,813 |
| CHANGES IN NET ASSETS | | | | | | | | | | | | |
| Increase (decrease) in unrestricted net assets | 3,168 | 23,983 | 1,972 | 3,899 | (6,049) | (495) | 229,670 | 188,162 | 13,789 | (161,516) | 19,709 | 316,292 |
| Increase (decrease) in restricted net assets | (937) | 22 | 119 | (1,695) | (148) | (482) | 23,531 | 11,016 | (1,014) | (3,515) | 989 | 27,886 |
| Increase (decrease) in net assets | 2,231 | 24,005 | 2,091 | 2,204 | (6,197) | (977) | 253,201 | 199,178 | 12,775 | (165,031) | 20,698 | 344,178 |
| NET ASSETS, BEGINNING OF YEAR | 483,342 | 492,283 | 95,428 | 103,276 | 238,050 | 68,391 | - | - | 160,052 | 165,031 | 392,331 | 2,198,184 |
| NET ASSETS, END OF YEAR | \$ 485,573 | \$ 516,288 | \$ 97,519 | \$ 105,480 | \$ 231,853 | \$ 67,414 | \$ 253,201 | \$ 199,178 | \$ 172,827 | \$ - | \$ 413,029 | \$ 2,542,362 |

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - INFORMATION

June 30, 2012

(In Thousands)

STATEMENTS OF OPERATIONS

UNRESTRICTED REVENUE:

| | Balance Forward | Mercy Health Partners, Muskegon | Mercy Health Services, North | Saint Joseph Mercy System, Ann Arbor | St. Joseph Mercy Oakland | St. Joseph Mercy Port Huron | Mount Carmel Health System, Columbus | Holy Cross Hospital, Silver Spring | Eliminations | Total Hospital Entities |
|---|-----------------|---------------------------------|------------------------------|--------------------------------------|--------------------------|-----------------------------|--------------------------------------|------------------------------------|--------------|-------------------------|
| Net patient service revenue | \$ 3,740,822 | \$ 488,954 | \$ 137,192 | \$ 1,303,925 | \$ 389,198 | \$ 79,197 | \$ 1,101,662 | \$ 397,911 | \$ - | \$ 7,638,861 |
| Other | 325,330 | 47,918 | 2,722 | 100,730 | 23,659 | 8,582 | 415,657 | 15,980 | (2,148) | 938,430 |
| Total revenue | 4,066,152 | 536,872 | 139,914 | 1,404,655 | 412,857 | 87,779 | 1,517,319 | 413,891 | (2,148) | 8,577,291 |
| EXPENSES: | | | | | | | | | | |
| Labor costs | 1,965,833 | 266,421 | 73,912 | 696,459 | 193,345 | 40,646 | 575,591 | 203,041 | (582) | 4,014,666 |
| Medical claims and purchased services | 479,608 | 69,415 | 22,406 | 166,376 | 53,050 | 10,065 | 375,894 | 53,376 | (1,414) | 1,228,776 |
| Depreciation, amortization and interest | 265,385 | 28,391 | 7,270 | 95,076 | 29,463 | 6,257 | 90,512 | 26,201 | - | 548,555 |
| Provision for bad debts | 211,524 | 26,036 | 5,740 | 51,839 | 15,011 | 5,307 | 91,959 | 22,529 | - | 429,945 |
| Other | 1,042,486 | 129,564 | 31,029 | 327,574 | 110,131 | 23,577 | 329,755 | 82,086 | (152) | 2,076,050 |
| Total expenses | 3,964,836 | 519,827 | 140,357 | 1,337,324 | 401,000 | 85,852 | 1,463,711 | 387,233 | (2,148) | 8,297,992 |
| OPERATING INCOME (LOSS) | 101,316 | 17,045 | (443) | 67,331 | 11,857 | 1,927 | 53,608 | 26,658 | - | 279,299 |

NONOPERATING ITEMS:

| | | | | | | | | | | |
|---|----------|---------|-------|---------|---------|-------|---------|-------|---|----------|
| Investment loss and interest rate swaps | (27,929) | (1,100) | (886) | (5,128) | (1,846) | (364) | (3,092) | (580) | - | (40,925) |
| Loss from early extinguishment of debt | (3,239) | - | - | - | - | - | - | - | - | (3,239) |
| Other | (697) | (145) | - | (7) | - | 3 | (602) | - | - | (1,448) |
| Total | (31,865) | (1,245) | (886) | (5,135) | (1,846) | (361) | (3,694) | (580) | - | (45,612) |

EXCESS (DEFICIENCY) OF REVENUE OVER

| | | | | | | | | | | |
|---|--------|--------|---------|--------|--------|-------|--------|--------|---|---------|
| EXPENSES | 69,451 | 15,800 | (1,329) | 62,196 | 10,011 | 1,566 | 49,914 | 26,078 | - | 233,687 |
| Less excess (deficiency) of revenue over expenses attributable to noncontrolling interest | 5,638 | (69) | - | 1,368 | - | 66 | 1,596 | - | - | 8,599 |

EXCESS (DEFICIENCY) OF REVENUE OVER

| | | | | | | | | | | |
|---|--------|--------|---------|--------|--------|-------|--------|--------|---|---------|
| EXPENSES NET OF NONCONTROLLING INTEREST | 63,813 | 15,869 | (1,329) | 60,828 | 10,011 | 1,500 | 48,318 | 26,078 | - | 225,088 |
|---|--------|--------|---------|--------|--------|-------|--------|--------|---|---------|

CHANGES IN NET ASSETS

| | | | | | | | | | | |
|--|--------------|------------|-----------|------------|------------|-----------|--------------|------------|------|--------------|
| Increase (decrease) in unrestricted net assets | 316,292 | 16,255 | (2,434) | 52,218 | 6,947 | 1,245 | 36,364 | 21,626 | - | 448,713 |
| Increase (decrease) in restricted net assets | 27,886 | 201 | 862 | 2,012 | 1,159 | (145) | 1,597 | 584 | - | 34,156 |
| Increase (decrease) in net assets | 344,178 | 16,456 | (1,572) | 54,230 | 8,106 | 1,100 | 38,161 | 22,210 | - | 482,869 |
| NET ASSETS, BEGINNING OF YEAR | 2,198,184 | 102,369 | 68,512 | 747,921 | 284,555 | 35,821 | 1,083,381 | 249,170 | - | 4,769,913 |
| NET ASSETS, END OF YEAR | \$ 2,542,362 | \$ 118,825 | \$ 66,940 | \$ 802,151 | \$ 292,661 | \$ 36,921 | \$ 1,121,542 | \$ 271,380 | \$ - | \$ 5,252,782 |

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS - INFORMATION

June 30, 2012
(In Thousands)

| | Trinity Continuing Care Services | Trinity Home Health Services | Trinity Health Consolidated Labs | Trinity Health International | Trinity Health Wards Lab LLC | Mercy Primary Care Center, Detroit | Venzke Insurance Company | THRE Services, LLC | Trinity Information Services | Home Office | Eliminations | Total Non- Hospital Entities |
|--|---|---------------------------------------|---|------------------------------------|---------------------------------------|---|--------------------------------|--------------------------|------------------------------------|----------------|--------------|---------------------------------------|
| UNRESTRICTED REVENUE: | | | | | | | | | | | | |
| Net patient service revenue | \$ 126,291 | \$ 84,009 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 210,300 |
| Other | 35,730 | 1,526 | 45,340 | 1,012 | 1,029 | 238 | 60,273 | 206 | 367,988 | 520,542 | (70,189) | 963,695 |
| Total revenue | 162,021 | 85,535 | 45,340 | 1,012 | 1,029 | 238 | 60,273 | 206 | 367,988 | 520,542 | (70,189) | 1,173,995 |
| EXPENSES: | | | | | | | | | | | | |
| Labor costs | 87,287 | 62,528 | 10,265 | 606 | - | 1,136 | - | - | 144,717 | 232,681 | (5,609) | 533,611 |
| Medical claims and purchased services | 21,956 | 7,214 | 14,485 | 56 | 125 | 570 | 437 | 200 | 96,211 | 40,835 | (8,802) | 173,287 |
| Depreciation, amortization and interest | 14,627 | 1,006 | 1,400 | - | 746 | 41 | - | - | 78,499 | 105,153 | (6,070) | 195,402 |
| Provision for bad debts | 890 | 622 | - | - | - | - | - | - | - | - | - | 1,512 |
| Other | 32,713 | 10,806 | 19,258 | 329 | 244 | 531 | 59,836 | - | 42,413 | 158,271 | (49,503) | 274,898 |
| Total expenses | 157,473 | 82,176 | 45,408 | 991 | 1,115 | 2,278 | 60,273 | 200 | 361,840 | 536,940 | (69,984) | 1,178,710 |
| OPERATING INCOME (LOSS) | 4,548 | 3,359 | (68) | 21 | (86) | (2,040) | - | 6 | 6,148 | (16,398) | (205) | (4,715) |
| NONOPERATING ITEMS: | | | | | | | | | | | | |
| Investment (loss) income and interest rate swaps | (1,300) | (310) | (69) | - | 1 | (37) | - | - | (771) | (94,393) | 205 | (96,674) |
| Loss from early extinguishment of debt | - | - | - | - | - | - | - | - | - | (10,219) | - | (10,219) |
| Other | - | - | (2) | - | - | - | - | - | - | 245,579 | - | 245,577 |
| Total | (1,300) | (310) | (71) | - | 1 | (37) | - | - | (771) | 140,967 | 205 | 138,884 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | 3,248 | 3,049 | (139) | 21 | (85) | (2,077) | - | 6 | 5,377 | 124,569 | - | 133,969 |
| Less excess of revenue over expenses attributable to noncontrolling interest | - | 340 | - | - | - | - | - | - | - | - | - | 340 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES NET OF NONCONTROLLING INTEREST | 3,248 | 2,709 | (139) | 21 | (85) | (2,077) | - | 6 | 5,377 | 124,569 | - | 133,629 |
| CHANGES IN NET ASSETS | | | | | | | | | | | | |
| Increase (decrease) in unrestricted net assets | 2,021 | 1,763 | (147) | 21 | (85) | 1,689 | - | (200) | 5,378 | (837,973) | - | (827,533) |
| Decrease in restricted net assets | (15) | (51) | - | - | - | (2) | - | - | - | (3) | - | (71) |
| Increase (decrease) in net assets | 2,006 | 1,712 | (147) | 21 | (85) | 1,687 | - | (200) | 5,378 | (837,976) | - | (827,604) |
| NET ASSETS, BEGINNING OF YEAR | 53,907 | 26,897 | 5,785 | 238 | 1,575 | 1,553 | 120 | - | (1,247) | 359,553 | - | 448,381 |
| NET ASSETS, END OF YEAR | \$ 55,913 | \$ 28,609 | \$ 5,638 | \$ 259 | \$ 1,490 | \$ 3,240 | \$ 120 | \$ (200) | \$ 4,131 | \$ (478,423) | \$ - | \$ (379,223) |

TRINITY HEALTH

*Consolidated Financial Statements for
the Years Ended June 30, 2010 and 2009
and Independent Auditors' Report*

TRINITY HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trinity Health
Novi, Michigan

We have audited the accompanying consolidated balance sheets of Trinity Health and subsidiaries (the "Corporation") as of June 30, 2010 and 2009, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2010 and 2009, and the results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 22, 2010

TRINITY HEALTH

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2010 AND 2009

(In Thousands)

| ASSETS | 2010 | 2009 |
|--|--------------|--------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 552,418 | \$ 546,083 |
| Investments | 1,538,048 | 1,301,827 |
| Security lending collateral | 156,162 | 88,940 |
| Assets limited or restricted as to use, current portion | 9,437 | 17,454 |
| Patient accounts receivable, net of allowance for doubtful accounts of \$175.7 million and \$158.6 million in 2010 and 2009, respectively | 714,428 | 703,463 |
| Estimated receivables from third-party payors | 36,415 | 38,954 |
| Other receivables | 89,241 | 87,755 |
| Inventories | 110,625 | 100,347 |
| Prepaid expenses and other current assets | 107,426 | 93,324 |
| Total current assets | 3,314,200 | 2,978,147 |
| ASSETS LIMITED OR RESTRICTED AS TO USE, NON-CURRENT PORTION: | | |
| Held by trustees under bond indenture agreements | 45,741 | 45,485 |
| Self-insurance, benefit plans and other | 191,620 | 165,065 |
| By Board | 1,969,650 | 1,648,251 |
| By donors | 97,841 | 102,703 |
| Total assets limited or restricted as to use, non-current portion | 2,304,852 | 1,961,504 |
| PROPERTY AND EQUIPMENT, NET | 3,451,916 | 3,388,949 |
| INVESTMENTS IN UNCONSOLIDATED AFFILIATES | 92,308 | 95,863 |
| EXCESS OF COST OVER NET ASSETS ACQUIRED, net of accumulated amortization of \$26.1 million and \$23.5 million in 2010 and 2009, respectively | 54,480 | 57,997 |
| INTANGIBLE ASSETS, net of accumulated amortization of \$11.4 million and \$5.6 million in 2010 and 2009, respectively | 16,614 | 15,368 |
| OTHER ASSETS | 87,210 | 82,703 |
| TOTAL ASSETS | \$ 9,321,580 | \$ 8,580,531 |

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

| LIABILITIES AND NET ASSETS | 2010 | 2009 |
|---|---------------------|---------------------|
| CURRENT LIABILITIES: | | |
| Line of credit | \$ - | \$ 686 |
| Commercial paper | 169,956 | 99,981 |
| Short-term borrowings | 1,143,940 | 1,060,050 |
| Current portion of long-term debt | 30,952 | 30,843 |
| Accounts payable | 282,036 | 264,859 |
| Accrued expenses | 81,734 | 58,161 |
| Salaries, wages and related liabilities | 319,990 | 314,439 |
| Payable under security lending agreements | 156,162 | 88,940 |
| Estimated payables to third-party payors | 159,308 | 119,700 |
| Total current liabilities | 2,344,078 | 2,037,659 |
| LONG-TERM DEBT, NET OF CURRENT PORTION | 1,406,548 | 1,224,561 |
| SELF-INSURANCE RESERVES | 295,266 | 302,656 |
| ACCRUED PENSION AND RETIREE HEALTH COSTS | 672,889 | 731,875 |
| OTHER LONG-TERM LIABILITIES | 292,861 | 253,991 |
| Total liabilities | 5,011,642 | 4,550,742 |
| EXTERNAL FINANCIAL INTEREST | 87,885 | 81,530 |
| NET ASSETS: | | |
| Unrestricted | 4,119,660 | 3,832,806 |
| Temporarily restricted | 70,657 | 86,256 |
| Permanently restricted | 31,736 | 29,197 |
| Total net assets | 4,222,053 | 3,948,259 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 9,321,580 | \$ 8,580,531 |

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2010 AND 2009 (In Thousands)

| | 2010 | 2009 |
|---|------------------|------------------|
| UNRESTRICTED REVENUE: | | |
| Net patient service revenue | \$ 6,186,536 | \$ 5,953,806 |
| Capitation and premium revenue | 359,503 | 333,349 |
| Net assets released from restrictions | 20,631 | 14,222 |
| Other revenue | 442,008 | 444,639 |
| Total unrestricted revenue | <u>7,008,678</u> | <u>6,746,016</u> |
| EXPENSES: | | |
| Salaries and wages | 2,692,757 | 2,627,512 |
| Employee benefits | 679,534 | 604,153 |
| Contract labor | 53,892 | 67,896 |
| Total labor expenses | <u>3,426,183</u> | <u>3,299,561</u> |
| Supplies | 1,163,758 | 1,131,201 |
| Purchased services | 639,239 | 618,880 |
| Depreciation and amortization | 422,810 | 410,045 |
| Occupancy | 299,385 | 295,265 |
| Provision for bad debts | 314,998 | 280,942 |
| Medical claims and capitation purchased services | 191,531 | 177,594 |
| Interest | 73,233 | 83,662 |
| Other | 266,866 | 243,871 |
| Total expenses | <u>6,798,003</u> | <u>6,541,021</u> |
| OPERATING INCOME BEFORE OTHER ITEMS | 210,675 | 204,995 |
| Pension settlement | (48,986) | - |
| Reduction in insurance expense | - | 28,188 |
| Restructuring charges | - | (23,317) |
| OPERATING INCOME | <u>161,689</u> | <u>209,866</u> |
| NONOPERATING ITEMS: | | |
| Investment income (loss) - marketable securities | 277,645 | (361,843) |
| Equity earnings (losses), other investments | 59,088 | (278,161) |
| Change in market value and cash payments of interest rate swaps | (40,385) | (37,292) |
| Loss from early extinguishment of debt | (949) | (9,052) |
| External financial interest | (12,048) | (1,760) |
| Other, including income tax expense | (10,945) | (11,001) |
| Total nonoperating items | <u>272,406</u> | <u>(699,109)</u> |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES | 434,095 | (489,243) |

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

| | 2010 | 2009 |
|---|----------------------------|----------------------------|
| UNRESTRICTED NET ASSETS: | | |
| Excess (deficiency) of revenue over expenses | 434,095 | (489,243) |
| Change in market value of interest rate swaps | - | 1,054 |
| Net assets released from restrictions for capital acquisitions | 21,058 | 24,671 |
| Net change in retirement plan related items | (170,962) | (764,984) |
| Adjustment to apply retirement plan measurement date provisions | - | (22,226) |
| Other | 2,663 | 7,790 |
| Increase (decrease) in unrestricted net assets | <u>286,854</u> | <u>(1,242,938)</u> |
| TEMPORARILY RESTRICTED NET ASSETS: | | |
| Contributions | 21,351 | 24,134 |
| Net investment gain (loss) | 2,873 | (6,879) |
| Net assets released from restrictions | (41,689) | (38,893) |
| Other | 1,866 | (2,463) |
| Decrease in temporarily restricted net assets | <u>(15,599)</u> | <u>(24,101)</u> |
| PERMANENTLY RESTRICTED NET ASSETS: | | |
| Contributions for endowment funds | 360 | 601 |
| Net investment gain (loss) | 1,450 | (3,263) |
| Other | 729 | 2,537 |
| Increase (decrease) in permanently restricted net assets | <u>2,539</u> | <u>(125)</u> |
| INCREASE (DECREASE) IN NET ASSETS | 273,794 | (1,267,164) |
| NET ASSETS, BEGINNING OF YEAR | <u>3,948,259</u> | <u>5,215,423</u> |
| NET ASSETS, END OF YEAR | <u>\$ 4,222,053</u> | <u>\$ 3,948,259</u> |

TRINITY HEALTH

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2010 AND 2009

(In Thousands)

| | 2010 | 2009 |
|---|----------------|------------------|
| OPERATING ACTIVITIES: | | |
| Increase (decrease) in net assets | \$ 273,794 | \$ (1,267,164) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 422,810 | 410,045 |
| Provision for bad debts | 314,998 | 280,942 |
| Deferred retirement items arising during the year | 261,628 | 764,984 |
| Adjustment to apply retirement plan measurement date provisions | - | 22,226 |
| Change in net unrealized and realized (gains) losses on investments | (258,234) | 729,843 |
| Change in market values of interest rate swaps | 24,194 | 27,799 |
| Undistributed equity earnings from unconsolidated affiliates | (19,593) | (20,729) |
| Loss on disposals of property and equipment | 7,083 | 7,472 |
| Restricted contributions and investment income received | (7,537) | (5,613) |
| External financial interest in consolidated subsidiaries | 6,355 | (10,595) |
| Loss from extinguishment of debt | 949 | 9,052 |
| Gain on sale unconsolidated affiliates and subsidiaries | (10,130) | (9,407) |
| Reduction in insurance expense | - | (28,188) |
| Other adjustments | 15,518 | 20,706 |
| Changes in, excluding assets acquired: | | |
| Patient accounts receivable | (305,656) | (223,198) |
| Other assets | (8,865) | (28,136) |
| Accounts payable and accrued expenses | 35,334 | 19,143 |
| Estimated payables to third-party payors, net | 35,407 | 22,777 |
| Self-insurance reserves | (7,390) | 8,781 |
| Accrued pension and retiree health costs | (320,614) | (3,517) |
| Other liabilities | 1,806 | (347) |
| Total adjustments | <u>188,063</u> | <u>1,994,040</u> |
| Net cash provided by operating activities | 461,857 | 726,876 |

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

| | 2010 | 2009 |
|--|--------------------------|--------------------------|
| INVESTING ACTIVITIES: | | |
| Purchases of investments | (2,171,562) | (1,905,202) |
| Proceeds from sales of investments | 1,854,238 | 1,790,608 |
| Purchases of property and equipment | (445,692) | (610,958) |
| Acquisition of subsidiaries, net of \$46.2 million and \$1.7 million cash assumed in 2010 and 2009, respectively | (67,718) | (22,304) |
| Decrease in other investments in affiliates | 24,985 | 25,422 |
| Decrease in assets limited as to use | 10,275 | 10,053 |
| Proceeds from sale of unconsolidated affiliates and subsidiaries | 10,130 | 9,722 |
| Proceeds from disposal of property and equipment | 6,838 | 4,522 |
| Net cash used in investing activities | <u>(778,506)</u> | <u>(698,137)</u> |
| FINANCING ACTIVITIES: | | |
| Proceeds from issuance of debt | 347,495 | 1,510,515 |
| Repayments of debt | (91,457) | (1,261,931) |
| Net increase (decrease) in commercial paper and line of credit | 69,289 | (60,392) |
| Increase in financing costs and other | (9,880) | (10,835) |
| Proceeds from restricted contributions and restricted investment income | 7,537 | 5,613 |
| Net cash provided by financing activities | <u>322,984</u> | <u>182,970</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 6,335 | 211,709 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>546,083</u> | <u>334,374</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 552,418</u></u> | <u><u>\$ 546,083</u></u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for interest (net of amounts capitalized) | \$ 88,555 | \$ 89,955 |
| Capital lease obligations for buildings and equipment | 14,540 | 581 |
| Accruals for purchases of property and equipment and other long-term assets | 42,492 | 49,872 |
| Unsettled investment trades, purchases | 9,695 | 113,023 |
| Unsettled investment trades, sales | 25,343 | 149,569 |
| (Increase) decrease in security lending collateral | (67,222) | 193,333 |
| Increase (decrease) in payable under security lending agreements | 67,222 | (193,333) |

TRINITY HEALTH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

1. ORGANIZATION AND MISSION

Trinity Health, an Indiana not-for-profit corporation, and its subsidiaries are collectively referred to as the Corporation. The Corporation is sponsored by Catholic Health Ministries (“CHM”), a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in eight states. The mission statement for Trinity Health is as follows:

We serve together in Trinity Health, in the spirit of the Gospel, to heal body, mind and spirit, to improve the health of our communities and to steward the resources entrusted to us.

Community Benefit Ministry - Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments such as copays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States’ (“CHA”), *A Guide for Planning and Reporting Community Benefit*, 2008 Edition.

The following amounts below reflect the quantifiable costs of the Corporation’s community benefit ministry for the years ended June 30:

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | (In Thousands) | |
| Ministry for the poor and underserved: | | |
| Charity care at cost | \$ 131,387 | \$ 118,095 |
| Unpaid cost of Medicaid and other public programs | 167,326 | 128,648 |
| Programs for the poor and the underserved: | | |
| Community health services | 20,535 | 20,291 |
| Subsidized health services | 32,991 | 28,755 |
| Financial contributions | 7,512 | 5,254 |
| Community building activities | 1,730 | 1,593 |
| Community benefit operations | 1,830 | 1,924 |
| Total programs for the poor and underserved | <u>64,598</u> | <u>57,817</u> |
| Ministry for the poor and underserved | <u>363,311</u> | <u>304,560</u> |
| Ministry for the broader community: | | |
| Community health services | 10,192 | 8,603 |
| Health professions education | 54,607 | 50,246 |
| Subsidized health services | 13,814 | 18,211 |
| Research | 7,199 | 6,480 |
| Financial contributions | 3,075 | 3,708 |
| Community building activities | 1,436 | 3,189 |
| Community benefit operations | 2,364 | 1,374 |
| Ministry for the broader community | <u>92,687</u> | <u>91,811</u> |
| Community benefit ministry | <u>\$ 455,998</u> | <u>\$ 396,371</u> |

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, that is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2010 and 2009, the Corporation reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of \$123.1 million and \$111.9 million, respectively.

Ministry for the poor and underserved represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured and the indigent. This is done with the conviction that healthcare is a basic human right.

Ministry for the broader community represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

Charity care at cost represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies as further described in Note 4. The cost of charity care is calculated using a cost to charge ratio methodology.

Unpaid cost of Medicaid and other public programs represents the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

Community health services are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free immunization services, free or low cost prescription medications, and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

Health professions education includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians and students in allied health professions.

Subsidized health services are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

Research includes unreimbursed clinical and community health research and studies on health care delivery.

Financial contributions are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special system-wide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

Community building activities include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training, and build community coalitions.

Community benefit operations include costs associated with dedicated staff, community health needs and/or assets assessments, and other costs associated with community benefit strategy and operations.

PCL XL error

Subsystem: TEXT

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Operator: Text

Position: 6915

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns A2 rating to Catholic Health East's Series 2012B bonds (\$37.095 million); Outlook remains stable

Global Credit Research - 05 Dec 2012

System will have a total of \$735 million of A2-rated debt outstanding

New York, December 05, 2012 -- Moody's Rating

Issue: Health System Revenue Bonds (Catholic Health East Issue), Series 2012B; Rating: A2; Sale Amount: \$37,095,000; Expected Sale Date: 12-18-2012; Rating Description: Revenue: Other

Opinion

Moody's Investors Service has assigned an A2 rating to Catholic Health East's (CHE) Series 2012B fixed rate bonds (\$37.095 million) to be issued through Greene County Hospital Authority, GA. CHE will also be issuing Series 2012B variable rate bonds (\$75.0 million) to be secured by a letter of credit. These debt issuances were incorporated in our review earlier this year but the financings were postponed due to pending consolidation announcements. The outlook remains stable. At this time we are affirming the A2 rating assigned to CHE's outstanding bonds of \$735 million.

SUMMARY RATING RATIONALE

The A2 rating and stable outlook reflect CHE's large size and scale (\$4.3 billion in revenues operating in 11 states), improvement in FY 2011 financial performance that is continuing through September 30, 2012, and growth in absolute and relative liquidity metrics. CHE is moving forward on a number of strategies to create a more centralized system and away from its legacy holding company model, while addressing challenging markets. Management has exited the Miami, Atlanta (via a 49% interest in a joint venture with Emory) and Carbondale (PA) markets in an effort to improve system results and allocate resources to stronger markets. These attributes are offset by continued operating challenges in the Maine and Newark (NJ) markets; management has recently identified a potential buyer for the Newark operations and is seeking a similar strategy for Maine. The long-challenged Camden (NJ) market is showing recent improvement through the first nine months of FY 2012. The A2 rating does not reflect the recent announcement of a consolidation with Aa2-rated Trinity Health.

STRENGTHS

*Financial improvement continues through nine months ending September 30, 2012 with a 7.5% operating cash flow margin compared to 6.7% in FY 2011; improvement largely aided by meaningful use funds of \$11.4 million, rural floor net settlement of \$27.0 million and removal of Mercy (Maine) losses from operations due to board decision to divest; we expect Saint Michael's will be reclassified as a discontinued operation by year end which should remove a projected \$25.0 million in losses

*Maintenance of cash position from FY end 2011 to September 30, 2012 with \$1.7 billion which equates to 151 days cash on hand

*Successful execution of several milestone strategies including the sale of Mercy (Miami) to HCA, the creation of a joint operating agreement with Emory Healthcare for Saint Joseph's Health System (Atlanta), the decision to close inpatient services in Carbondale (PA), and the freezing of all of the defined benefit pension plans; management is now seeking a partner in Maine; removal of losses following the decisions to divest of Mercy (Maine) and Saint Michael's (Newark) viewed favorably

*Successful merger of St. Peter's Health Care Services (Albany, NY) with two other local systems which has created CHE's largest Regional Health Corporation, St. Peter's Health Partners, that totals over \$1 billion in revenues and is a key contributor to system cash flow

*Largely a fixed rate debt structure before interest rate swaps

CHALLENGES

*While showing steady improvement, CHE's operating margins remain below the multistate medians of 2.3% operating margin and 9.1% operating cash flow margin

*Portland, Maine and Newark, New Jersey facilities continue to post large operating losses in FY 2011 as they did in FY 2010; Camden market is showing recent improvement through September 30, 2012

*Most of CHE facilities operate in very competitive markets with some reporting material declines in inpatient admissions, due in part to the shift to lower-paying observation stays and in certain cases, very fluid and fragmented medical staffs; system same-store admissions declined 2.5% in FY 2011 from FY 2010; management estimates the shift to observations stays equates to \$30 million - \$40 million of lower revenue

Outlook

The stable outlook reflects the improvement in FY 2011 performance and the demonstrable steps that management is taking steps to improve CHE's financial performance while strengthening balance sheet indicators. Challenged markets are quickly being addressed by seeking long-term strategic solutions.

WHAT COULD MAKE THE RATING GO UP

Much improved and sustained financial performance resulting in better debt coverage measures; improvement in liquidity measures; ability to reverse losses in challenged markets

WHAT COULD MAKE THE RATING GO DOWN

Departure from current levels of performance coupled with liquidity declines; substantial increase in debt; inability to stabilize performance in challenged markets

METHODOLOGY

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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adviser.

Fitch Ratings

Fitch Rates Catholic Health East's (PA) \$112.1MM Revs 'A+'; Outlook Stable

Ratings Endorsement Policy
12 Dec 2012 5:05 PM (EST)

Fitch Ratings-Chicago-12 December 2012: Fitch Ratings has assigned 'A+' ratings to the following revenue bonds issued by or on behalf of Catholic Health East (CHE):

- \$37,095,000 Greene County (GA) Development Authority Health System revenue bonds series 2012;
- \$75,000,000 St Mary Hospital Authority Health System revenue bonds, series 2012.

In addition, Fitch affirms the 'A+' rating on approximately \$1 billion of bonds outstanding issued through various issuing authorities on behalf of CHE.

The Rating Outlook is Stable.

The Greene County (GA) bonds are expected to be issued as fixed rate bonds. Bond proceeds will be used to fund the construction of a replacement facility at St Mary's Good Samaritan Hospital in Greensboro, GA, fund capitalized interest and pay costs of issuance. The St Mary bonds are expected to be issued as variable rate demand bonds supported by a letter of credit issued by BNY Mellon Bank, N.A. Bond proceeds will be used to fund a certain costs related to CHE's CareLink electronic medical record and clinical care system. The Greene County bonds are expected to price the week of Dec. 17th and the St Mary bonds are expected to price the week of Jan. 7th through negotiated sale.

SECURITY:

The bonds are secured by a pledge of gross revenues of the obligated group.

KEY RATING DRIVERS:

GEOGRAPHICALLY DIVERSE SYSTEM: CHE is a large, geographically diverse integrated healthcare system operating 33 acute care hospitals across 11 states. Fitch views the system's size, scope of operations, and geographic dispersion as a primary credit strength that helps protect the organization from adverse economic events severely affecting any of its core markets.

STRATEGIC REPOSITIONING: CHE has entered into non-binding letters of intent (LOI) to divest Mercy Health System of Maine and St Michael's Medical Center in Newark, NJ and to merge with Trinity Health (revenue bonds rated 'AA') to form a unified system. Fitch views CHE's repositioning efforts positively as it should better position the organization strategically for healthcare reform as well as improve CHE's financial performance and profile going forward.

IMPROVING LIQUIDITY: CHE has posted year over year improvement in unrestricted liquidity in each of the last four years. At Sept 30, 2012, CHE's unrestricted cash and investments totaled \$1.73 billion which equates to 151.5 days cash on hand, 14.1 times (x) cushion ratio (based on pro forma maximum annual debt service [MADS]) and 118.3% cash to debt which are consistent with Fitch's 'A' category medians.

IMPROVING PROFITABILITY: Although CHE's operating profitability remains weak relative to Fitch's 'A' category medians, the corporation has posted year over year improvement in operating and operating EBITDA margin in each of the last three fiscal years. Through the nine months ended Sept. 30, 2012, operating and operating EBITDA margins were 1.4% and 7.1% (inclusive of bad debt expense).

HIGH MEDICAID EXPOSURE: CHE had a high percentage of Medicaid payors at 17.4% of gross revenues in 2011. Combined with a 48.2% Medicare payor base, CHE has a relatively high amount of governmental payors, which is a credit concern and exposes the organization to reimbursement cuts/reductions at the state and/or federal level.

WHAT COULD TRIGGER AN UPWARD MOVEMENT IN THE RATING OR OUTLOOK

MERGER WITH TRINITY HEALTH: On Oct. 17, 2012, CHE and Trinity Health signed a non-binding LOI to merge both systems with a goal of reaching a Definitive Agreement in spring 2013. Execution of a Definitive Agreement would likely result in a revision in Outlook to Positive from Stable.

CREDIT PROFILE

ORGANIZATIONAL OVERVIEW

CHE is headquartered in Newton Square, PA and is a large integrated Catholic health care system with 33 acute-care hospitals, 24 freestanding and hospital-based long-term care facilities, 11 assisted-living facilities, four continuing care retirement communities, seven behavioral health and rehabilitation facilities, and a number of home health, ambulatory, and other community based health services operating across 11 states. In fiscal 2011, on a fully consolidated basis, CHE had total operating revenue of \$4.3 billion.

RATING RATIONALE

The 'A+' rating is supported by CHE's geographic diversification, continued implementation of organizational restructuring, improved liquidity position, and light debt burden. Fitch believes that the geographic diversity of CHE's operations helps to insulate the organization from changes in any specific market or region. Management continues to execute on its strategic plan to better align operations in certain markets and reduce its presence in other markets, which has included divestitures of underperforming assets and finalizing a joint operating agreement between Saint Joseph's Health System and Emory Healthcare. On Oct. 17, 2012, CHE and Trinity Health (revenue bonds rated 'AA') announced signing a non-binding LOI to merge both systems with a goal of reaching a Definitive Agreement in spring 2013. On Dec. 4, 2012, CHE announced the execution of a non-binding LOI with Prime Health to sell 357-bed Saint Michael's Medical Center located in Newark, NJ. On Dec. 7th, CHE announced the signing of a non-binding LOI with Eastern Maine Healthcare System (EMHS) to integrate Mercy Health System of Maine into EMHS. Fitch views CHE's intended divestitures efforts positively as it should allow the system to focus on markets in which it has better presence and scale. Fitch views the potential combination with Trinity Health as a credit positive. According to the announcement, the consolidation would create a health system operating in 21 states with 82 hospitals, 89 continuing care facilities and home health and hospice programs that provide nearly 2.8 million visits annually and roughly \$13 billion in total operating revenues.

CHE's liquidity position has shown year over year improvement since 2008. The primary driver behind fiscal 2011's liquidity improvement was the sale of the equity interest of the system's Mercy Health Plan for approximately \$194 million. Along with better cash collections and stronger operations, CHE's liquidity ratios have improved and compare favorably to Fitch 'A' category medians. At Sept. 30, 2012, CHE's unrestricted cash and investments totaled \$1.73 billion which equates to 151.5 days cash on hand, 14.1x cushion ratio (based on pro forma MADS) and 118.3% cash to debt.

As provided by the underwriter, consolidated pro forma MADS is estimated at \$122 million which equates to 2.8% of 2011 total revenue which is in line as compared to the 'A' category median of 2.8%. Historical coverage of pro forma MADS by EBTIDA of 3.2x in fiscal 2011 and 4.2x through the third quarter of 2012 (3Q'12) is consistent with the 'A' category median of 4.1x. Historical coverage of pro forma MADS by operating EBITDA is light at 2.4x in 2011 and 2.6x through nine month ended Sept. 30th.

Fitch's primary credit concerns include CHE's light profitability for the rating level, high exposure to governmental payors and declining utilization trends. Since fiscal 2008, CHE has averaged breakeven profitability (0.3% operating margin), which compares unfavorably against Fitch's median of 2.6%. Negatively affected by poor performing facilities and a high mix of governmental payors (17.4% Medicaid), CHE has struggled to grow its income from operations. However, as management has successfully divested some of

its underperforming assets, income grew to \$48.3 million in 2011 (1.1% operating margin), which is the highest since fiscal 2007. Through nine months ended Sept. 30th, CHE has generated income from operations of \$49.3 million equating to 1.4% operating margin and a 7.1% operating EBITDA margin (inclusive of bad debt expense). The system has a budgeted a 1.6% operating margin for fiscal 2013.

On a consolidated basis, CHE's debt portfolio is 78% fixed-rate and 22% variable-rate. CHE has several outstanding swaps with a total mark-to-market valuation of negative \$2.7 million as of Sept. 30, 2012. Overall, Fitch views the organization's debt profile favorably highlighted by limited put exposure and a majority of traditional fixed-rate debt.

STABLE RATING OUTLOOK

The Stable Rating Outlook reflects Fitch's expectation that CHE will further sustain its operating improvement and maintain solid balance sheet metrics. An Outlook revision to Positive is likely should CHE and Trinity move from the non-binding LOI to a Definitive Agreement.

DISCLOSURE

CHE covenants to provide annual and quarterly disclosure to bondholders, which includes management discussion, utilization statistics, and full financial statements to the MSRB's EMMA system. Management was candid and timely in its responses to Fitch during the credit review process.

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Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 12, 2012);

--'Nonprofit Hospitals and Health Systems Rating Criteria' (July 23, 2012).

Applicable Criteria and Related Research:

Nonprofit Hospitals and Health Systems Rating Criteria

Revenue-Supported Rating Criteria

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Catholic Health East
Consolidated Financial Statements
December 31, 2011 and 2010

**Catholic Health East
Index
December 31, 2011 and 2010**

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Report of Independent Auditors

To the Board of Directors
Catholic Health East

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Catholic Health East and its subsidiaries (the "Company") at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated entities which statements reflect net assets of \$77,471,000 and \$64,964,000 at December 31, 2011 and 2010, respectively, and excess of revenues over expenses of \$12,508,000 and \$11,338,000 for the years then ended. In addition, we did not audit the financial statements of certain unconsolidated entities which are represented in the following consolidated financial statements for 2011 and 2010 as investments in unconsolidated organizations of \$1,275,608,000 and \$1,160,212,000 as December 31, 2011 and 2010, respectively, and equity in earnings of unconsolidated organizations of \$146,038,000 and \$167,882,000 for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statement, on January 1, 2010 the Company adopted new accounting standards which included guidance regarding the recognition and subsequent accounting for goodwill, and recorded a transitional impairment charge of \$32,625,000.

April 30, 2012

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**Catholic Health East
Consolidated Balance Sheets
Years Ended December 31, 2011 and 2010**

(in thousands of dollars)

| | 2011 | 2010 |
|--|--------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$751,251 | \$426,782 |
| Investments | 130,635 | 78,025 |
| Marketable securities whose use is limited | 12,209 | 35,342 |
| Patient accounts receivable, net of estimated uncollectibles of \$320,921 and \$329,031 for 2011 and 2010, respectively | 465,386 | 489,120 |
| Collateral received on securities pledged | 130,364 | 35,104 |
| Other accounts receivable | 119,132 | 137,811 |
| Prepaid expenses and inventories | 116,985 | 123,386 |
| Assets held for sale | 27 | 214,724 |
| Total current assets | <u>1,725,989</u> | <u>1,540,294</u> |
| Marketable securities and investments whose use is limited | | |
| Board-designated funds | 363,459 | 371,095 |
| Trustee-held funds | 174,154 | 211,623 |
| Donor-restricted funds | 126,342 | 72,467 |
| Investments | 429,986 | 408,382 |
| Total marketable securities and investments whose use is limited | <u>1,093,941</u> | <u>1,063,567</u> |
| Property and equipment, net | 2,070,526 | 1,723,102 |
| Equity investments in managed funds | 250,982 | 286,121 |
| Investments in unconsolidated organizations | 1,450,068 | 1,325,201 |
| Assets held for sale | 36,117 | 161,159 |
| Goodwill | 10,470 | 7,143 |
| Other assets | 219,077 | 129,476 |
| Total assets | <u>\$6,857,170</u> | <u>\$6,236,063</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Current portion of long-term debt and capital lease obligations | \$75,258 | \$58,306 |
| Portion of variable rate demand obligations classified as current | 17,332 | 29,518 |
| Accounts payable and accrued expenses | 647,928 | 625,432 |
| Collateral due broker on securities pledged | 130,364 | 35,104 |
| Estimated third party payor settlements, net | 123,353 | 79,783 |
| Other | 181,614 | 182,410 |
| Liabilities related to assets held for sale | 18,850 | 28,307 |
| Total current liabilities | <u>1,194,699</u> | <u>1,038,860</u> |
| Long-term debt, net | 1,534,848 | 1,669,177 |
| Other liabilities | 159,117 | 143,781 |
| Pension liabilities | 438,537 | 290,536 |
| Insurance liabilities, net of current portion | 295,981 | 303,718 |
| Deferred revenue from entrance fees | 92,085 | 45,679 |
| Total liabilities | <u>3,715,267</u> | <u>3,491,751</u> |
| Net assets | | |
| Unrestricted | 2,954,583 | 2,584,038 |
| Temporarily restricted | 140,614 | 132,304 |
| Permanently restricted | 46,706 | 27,970 |
| Total net assets | <u>3,141,903</u> | <u>2,744,312</u> |
| Total liabilities and net assets | <u>\$6,857,170</u> | <u>\$6,236,063</u> |

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

Catholic Health East
Consolidated Statements of Operations
Years Ended December 31, 2011 and 2010

(in thousands of dollars)

| | 2011 | 2010 |
|---|------------------|------------------|
| Unrestricted revenue, gains and other support | | |
| Net patient service revenue | \$4,018,757 | \$3,774,570 |
| Other operating revenue, gains and other support | <u>322,693</u> | <u>267,469</u> |
| Total unrestricted revenue, gains and other support | <u>4,341,450</u> | <u>4,042,039</u> |
| Expenses | | |
| Salaries, wages and benefits | 2,201,788 | 2,049,423 |
| Medical supplies | 579,299 | 585,859 |
| Purchased services, professional fees and other expenses | 968,582 | 843,273 |
| Depreciation and amortization | 183,319 | 170,354 |
| Interest | 61,311 | 56,301 |
| Insurance | 49,620 | 48,073 |
| Provision for bad debts | <u>249,218</u> | <u>251,643</u> |
| Total operating expenses | <u>4,293,137</u> | <u>4,004,926</u> |
| Operating income before losses from St. Joseph's Health System | 48,313 | 37,113 |
| Losses from Saint Joseph's Health System | <u>(31,249)</u> | <u>(20,679)</u> |
| Operating income (including losses from St. Joseph's Health System) | 17,064 | 16,434 |
| Non-operating gains (losses) | | |
| Investment returns, net | 9,118 | 87,900 |
| Equity in gains in earnings of unconsolidated organizations | 93,536 | 163,776 |
| Restructuring expenses and impairment losses | (5,588) | (17,364) |
| Gain on sale of assets | 100,707 | 334 |
| Unrestricted contribution income - St. Peter's Health Partners | 322,947 | - |
| Other non-operating gains | 2,626 | 671 |
| (Loss) gain on extinguishment of debt | (539) | 657 |
| Change in fair value of interest rate swaps | <u>(1,232)</u> | <u>(13,036)</u> |
| Total non-operating gains | <u>521,575</u> | <u>222,938</u> |
| Excess of revenue over expenses | <u>\$538,639</u> | <u>\$239,372</u> |

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

Catholic Health East
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2011 and 2010

(in thousands of dollars)

| | 2011 | 2010 |
|--|--------------------|--------------------|
| Unrestricted net assets | | |
| Excess of revenue over expenses | \$538,639 | \$239,372 |
| Change in unrealized (losses) gains on available-for-sale securities | (3,638) | 4,704 |
| Decrease in pension liability adjustment - consolidated organizations | (143,002) | (37,096) |
| Decrease in pension liability adjustment - unconsolidated organizations | (30,485) | (8,585) |
| Cumulative effect of change in accounting principle - goodwill | - | (32,625) |
| Net assets released from restriction for capital expenditures | 35,478 | 14,967 |
| Other changes | <u>12,080</u> | <u>2,321</u> |
| Increase in unrestricted net assets before discontinued operations | 409,072 | 183,058 |
| Loss from discontinued operations | <u>(38,527)</u> | <u>(48,046)</u> |
| Increase in unrestricted net assets | <u>370,545</u> | <u>135,012</u> |
| Temporarily restricted net assets | | |
| Contributions | 24,340 | 27,250 |
| Investment income | 683 | 3,632 |
| Change in unrealized (losses) gains on investments | (648) | 666 |
| Net assets released from restrictions | (42,717) | (28,176) |
| Temporarily restricted contribution income - St. Peter's Health Partners | 33,202 | - |
| Other changes | <u>(6,550)</u> | <u>1,968</u> |
| Increase in temporarily restricted net assets | <u>8,310</u> | <u>5,340</u> |
| Permanently restricted net assets | | |
| Contributions | 75 | 585 |
| Net realized and unrealized gains on investments | 147 | 1,300 |
| Permanently restricted contribution income - St. Peter's Health Partners | 18,670 | - |
| Other changes | <u>(156)</u> | <u>81</u> |
| Increase in permanently restricted net assets | <u>18,736</u> | <u>1,966</u> |
| Increase in net assets | 397,591 | 142,318 |
| Net assets | | |
| Beginning of year | <u>2,744,312</u> | <u>2,601,994</u> |
| End of year | <u>\$3,141,903</u> | <u>\$2,744,312</u> |

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

Catholic Health East
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

(in thousands of dollars)

| | 2011 | 2010 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Increase in net assets | \$397,591 | \$142,318 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities | | |
| Loss from discontinued operations | 38,527 | 48,046 |
| Cumulative effect of change in accounting principle - goodwill | - | 32,625 |
| Contribution income from contributed assets - St. Peter's Health Partners | (374,819) | - |
| Pension adjustment, including unconsolidated organizations | 173,487 | 45,681 |
| Loss (gain) on extinguishment of debt | 539 | (657) |
| Depreciation and amortization | 183,319 | 170,861 |
| Amortization of deferred entrance fees | (6,309) | (7,047) |
| Net realized gains on investments | (32,497) | (34,943) |
| Net unrealized losses (gains) on investments | 23,379 | (50,917) |
| Equity in earnings of unconsolidated organizations | (158,028) | (189,446) |
| Provision for bad debts | 249,218 | 252,090 |
| Decrease in market value of interest rate swaps | 1,232 | 11,836 |
| Restricted contributions and investment income received | (25,098) | (33,433) |
| Gain on sale of assets - primarily from sale of health plan equity interest | (100,707) | - |
| Cash distributions from health plan equity interests | 34,643 | 14,353 |
| Entrance fees received, net of refunds | 1,635 | 5,346 |
| (Increase) decrease in certain assets and liabilities | | |
| Accounts receivable | (224,608) | (248,617) |
| Other receivables | 36,805 | (11,925) |
| Prepaid expenses, inventories and other assets | (71,781) | 31,510 |
| Assets held for sale | (25,475) | (6,604) |
| Accounts payable, accrued expenses and other current liabilities | 14,104 | 57,441 |
| Third party payables | 27,476 | 14,057 |
| Insurance and other liabilities | 23,621 | (14,388) |
| Pension liability | (33,439) | (38,695) |
| Net cash (used in) provided by operating activities of discontinued operations | (38,527) | 1,223 |
| Net cash provided by operating activities | <u>114,288</u> | <u>190,715</u> |
| Cash flows from investing activities | | |
| Additions to property and equipment | (216,105) | (207,202) |
| Cash contributed to St. Joseph's / Emory Healthcare Joint Operating Agreement | (57,117) | - |
| Cash received from St. Peter's Health Partners transaction | 123,441 | - |
| Proceeds from sale of health plan equity interests | 194,000 | - |
| Proceeds from sale of assets - Mercy Miami and Mercy Medical | 144,000 | - |
| Physician practice acquisitions, net of cash | (10,438) | - |
| Posted collateral on interest rate swaps | (753) | - |
| (Increase) decrease in collateral received on securities pledged | (95,260) | 12,272 |
| Decrease in investments and marketable securities whose use is limited | 132,265 | 13,340 |
| Net cash provided by investing activities of discontinued operations | - | (1,363) |
| Net cash provided by (used in) investing activities | <u>214,033</u> | <u>(182,953)</u> |
| Cash flows from financing activities | | |
| Proceeds from restricted contributions and investment income received | 25,098 | 33,433 |
| Proceeds from issuance of long-term debt | 57,045 | 441,132 |
| Increase in variable rate demand obligations classified as current | (12,186) | (24,729) |
| Cost of issuance of long-term debt | - | (2,900) |
| Repayments of long-term debt | (169,069) | (415,281) |
| Increase (decrease) in payable under collateral received on securities pledged | 95,260 | (12,272) |
| Net cash used in financing activities of discontinued operations | - | (4,100) |
| Net cash (used in) provided by financing activities | <u>(3,852)</u> | <u>15,283</u> |
| Increase in cash and cash equivalents | 324,469 | 23,045 |
| Cash and cash equivalents | | |
| Beginning of year | <u>426,782</u> | <u>403,737</u> |
| End of year | <u>\$751,251</u> | <u>\$426,782</u> |
| Supplemental disclosures of cash flow information | | |
| Interest paid | \$64,066 | \$59,757 |
| Non-cash transaction | \$8,777 | \$4,640 |

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

1. Organization, Mission and Basis of Presentation

Catholic Health East ("CHE", the "System", or the "Company") was incorporated as a Pennsylvania nonprofit corporation on October 1, 1997. CHE is a catholic, multi-facility health system sponsored by nine religious congregations and Hope Ministries. Each sponsoring congregation appoints a representative to the Sponsors Council which maintains certain reserve powers, including the election of the CHE Board of Directors. CHE serves to carry out the health care ministries of the sponsoring congregations. The mission of CHE is to be a community of persons committed to being a transforming, healing presence within the communities it serves.

The consolidated financial statements of CHE include activities of its Regional Health Corporations ("RHCs") and related component corporations all of which are wholly or majority owned. These RHCs are located throughout eleven states and the healthcare activities provided by these RHCs include, but are not limited to, general acute care hospitals, long-term care facilities, skilled nursing facilities, behavioral health, residential facilities for the elderly, physician services, home health, outpatient surgery, and other services. A list of the name and location of each RHC is provided below.

| | |
|--|---|
| Mercy Health System of Maine Portland, Maine | Sisters of Providence Health System, Inc. Springfield, Massachusetts |
| Mercy Community Health, Inc. West Hartford, Connecticut | St. Peter's Health Partners Albany, New York |
| St. James Mercy Health System, Inc. Hornell, New York | Maxis Health System Carbondale, Pennsylvania |
| Saint Michael's Medical Center Newark, New Jersey | St. Francis Medical Center Trenton, New Jersey |
| St. Mary Medical Center Langhorne, Pennsylvania | Our Lady of Lourdes Health Care Services, Inc. Camden, New Jersey |
| Mercy Health System of Southeastern Pennsylvania Conshohocken, Pennsylvania | Pittsburgh Mercy Health System, Inc. Pittsburgh, Pennsylvania |
| St. Francis Hospital and Affiliates Wilmington, Delaware | Saint Joseph of the Pines, Inc. Southern Pines, North Carolina |
| St. Mary's Health Care System, Inc. Athens, Georgia | Saint Joseph's Health System, Inc. Atlanta, Georgia |
| Mercy Medical Corporation Daphne, Alabama | Mercy Hospital, Inc. Miami, Florida |
| Holy Cross Hospital, Inc. Fort Lauderdale, Florida | |

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Catholic Health East and certain affiliated nonprofit corporations are generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

CHE and its RHCs also participate in various joint ventures and partnerships, commonly referred to as joint operating agreements. These arrangements enable CHE to provide healthcare services to the broader community through involvement in larger healthcare organizations or systems.

The consolidated financial statements of CHE include the financial information of the RHCs and component corporations, the System's wholly owned captive insurance company, various philanthropic foundations of which the System maintains control, and various other organizations or corporations.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of all entities of CHE. All significant inter-company balances and transactions have been eliminated.

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions, estimates, and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements including, but not limited to, recognition of net patient service revenue, which includes contractual allowances and provisions for bad debt; estimates for healthcare professional and general liabilities; determination of fair values of certain financial instruments; and assumptions for measurement of pension liabilities. Management relies on historical experience and other assumptions believed to be reasonable relative to the circumstances in making judgments and estimates. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include liquid investments with a maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value.

Investments and Investment Income

Investments in marketable equities with readily determinable fair market values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Equity investments in managed funds, private partnerships, and other investments are accounted for under the equity method, which approximates fair value. Realized gains and losses on investments, unrealized gains and losses on trading securities, interest income (net of investment-related expenses), and dividends are included in investment returns, net, as part of non-operating gains and (losses) in the excess of revenue over expenses. Investment income restricted by donors or law is reported as an increase in temporarily or permanently restricted net assets.

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The System's investments and marketable securities whose use is limited are invested and managed through the CHE Consolidated Investment Program (the "CIP Program"), and some investments are locally managed by the RHCs. Included in these investments are investments in managed funds, private partnerships, and other investments. The income (loss) from these managed funds is included in investment returns, net, in the accompanying consolidated statement of operations and change in net assets.

The System classifies all unrestricted investments as trading securities.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with these securities and the level of uncertainty related to changes in their value, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the consolidated balance sheets and statements of operations and change in net assets.

Marketable Securities and Investments Whose Use Is Limited

Marketable securities and investments whose use is limited primarily include marketable securities and investments designated by governance for future capital improvements and other purposes, in accordance with agreements with outside parties, by trustees under bond indenture agreements, self-insurance arrangements, and by donor restrictions.

Derivative Financial Instruments

The System recognizes all derivative instruments in the balance sheets at fair value. The change in the fair value of derivatives is recognized as a component of excess of revenues over expenses in the consolidated statement of operations for the years ended December 31, 2011 and 2010.

Inventories

Inventory is valued at the lower of cost (first-in, first-out) or market, net of reserves for obsolescence.

Assets Held for Sale

CHE has classified certain long-lived assets as assets held for sale in the consolidated balance sheets when the assets have met applicable criteria for this classification. CHE has classified \$36,144,000 and \$375,883,000 as current and long-term assets held for sale at December 31, 2011 and 2010, respectively. The Company has also classified \$18,850,000 and \$28,307,000 at December 31, 2011 and 2010, respectively, as liabilities related to assets held for sale.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is expensed over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations

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about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Goodwill

CHE records as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. The Company's goodwill and other intangible assets with indefinite lives are not amortized; rather, they are tested for impairment at least annually. The Company's goodwill and other intangible assets with indefinite lives are not amortized; rather, they are tested for impairment, at least annually, through a process which first evaluates any triggering event associated with an impairment, and, second, an actual measurement of the impairment, if necessitated.

Long-Lived Assets

CHE evaluates the carrying value of its long-lived assets for impairment when impairment indicators are identified. In the event that the carrying value of a long-lived asset is not supported by the fair value, the System will recognize an impairment loss for the difference. Fair value is based on the exchange price that would be received for an asset or paid to transfer a liability. The System recognized impairment losses of \$4,571,000 and \$2,906,000 for the years ended December 31, 2011 and 2010, respectively.

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations represent CHE investments in joint operating agreements, joint ventures, or partnerships. The equity method is used to account for these investments.

Deferred Revenue from Advance Fees

Certain RHCs operate residential facilities for the elderly. Fees paid by residents upon entering into continuing care contracts, net of the portion that is refundable to the resident, are recorded as deferred revenue and amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

Deferred Debt Issuance Costs

Deferred debt issuance costs included in other assets at December 31, 2011 and 2010, totaling \$18,917,000 and \$21,758,000, respectively, are amortized using the straight-line method over the life of the related debt, which approximates the effective interest method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System 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.

Net Patient Service Revenue

Third-party payors (Medicare, Medicaid, and commercial insurance payors) provide payments to the hospitals at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounts from established charges, and per diem payments. Net patient service revenue is the estimated amount to be realized for services rendered, including estimated retroactive adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

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Notes to the Consolidated Financial Statements
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Allowance for Doubtful Accounts

The System records an allowance for doubtful accounts for estimated losses resulting from the unwillingness of patients or failure of payors to make payments for services. The allowance is determined by analyzing historical data and trends. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease.

Charity Care

CHE provides services to all patients regardless of ability to pay. In accordance with the System's policy, a patient is classified as a charity patient based on income eligibility criteria as established by the *Federal Poverty Guidelines*. Charges for services to patients who meet the System's guidelines for charity care are not reflected in the accompanying consolidated financial statements. The charges associated with these services for charity care provided by the System approximate \$446,139,000 and \$465,384,000 in 2011 and 2010, respectively. These amounts do not include the provision for bad debts totaling \$249,218,000 and \$251,643,000 in 2011 and 2010, respectively, which is reflected separately in the consolidated statements of operations. The charges and provisions for bad debts do not include amounts classified as discontinued operations.

Other Operating Revenue

Other revenue is derived from services other than the provision of health care services or coverage to patients or residents. This revenue consists primarily of federal and state grants, unrestricted contributions, rental income, income from health plan operations, support services, parking garages, gift shop income, cafeteria income, maintenance fee income, foundation investment income, and other miscellaneous income.

Non-Operating Gains (Losses)

Non-operating gains (losses) consist primarily of investment returns, which include investment income, dividends, net unrealized gains (losses) on trading securities, and realized gains and losses on trading securities; equity in earnings of unconsolidated organizations; restructuring expenses and impairment losses; losses on extinguishment of debt; contribution income for contributed assets; gains on the sale of assets; and the change in the fair value of interest rate swaps.

Excess of Revenue over Expenses

The statement of operations includes the excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses include unrealized gains and losses on available for sale investments of unconsolidated organizations; permanent transfers of assets to and from affiliates for other than goods and services, pension adjustments, the cumulative effect of change in accounting principle, discontinued operations, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Donor-Restricted Gifts

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. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net

Catholic Health East

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December 31, 2011 and 2010

assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

Subsequent Events

CHE evaluated the impact of subsequent events through April 30, 2012, representing the date at which the consolidated financial statements were issued. See Note 20 for a discussion of CHE's material subsequent events related to the December 31, 2011 consolidated financial statements.

Adoption of Accounting Pronouncements

Effective January 1, 2010, the Company adopted ASC 958-805, *Business Combinations for Not-for-Profit Entities*, which provides guidance on the accounting for mergers and acquisitions by not-for-profit organizations and includes the recognition and subsequent accounting for goodwill resulting from an acquisition. In accordance with the new accounting standard, the Company recognized \$322,947,000 of unrestricted contribution income in 2011 for the contributed net assets related to the St. Peter's Health Partners transaction described in Note 3. This unrestricted contribution income is included as a component of non-operating gains in the accompanying consolidated statement of operations.

In accordance with ASC 958-805, effective January 1, 2010, goodwill is no longer amortized, but is evaluated and reviewed for impairment at least annually or whenever events or circumstances indicate that the carrying value may not be recoverable. Upon adoption of this guidance, CHE recorded a transitional impairment adjustment of \$32,625,000 related to goodwill recorded from the acquisition of St. Michael's Medical Center in 2008. This adjustment is included as the cumulative effect of a change in accounting principle in the 2010 statement of changes in net assets.

In 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure* that requires health care entities to use cost as the measurement basis for charity care disclosures and defines cost as the direct and indirect costs of providing charity care. The Company adopted the guidance on January 1, 2011, and the accompanying notes to the consolidated financial statements reflect the amended disclosure requirements. The cost of caring for charity care patients is disclosed in Note 2. The cost of charity care provided to patients is disclosed in Note 5. This guidance amends disclosure requirements only; therefore, there was no impact to the Company's consolidated financial statements upon adoption.

In 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which prohibits the offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. The Company adopted the new guidance on January 1, 2011. The adoption of this guidance did not have a significant impact on the consolidated financial statements.

In 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, the Provision for Bad Debts, and Allowance for Doubtful Accounts*. This guidance requires the Company to modify the presentation of its consolidated statement of operations and changes in net assets by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Additionally, the guidance requires enhanced disclosure about the Company's policies for recognizing revenue and assessing bad debts, patient service revenue (net of contractual allowances and discounts), and qualitative and quantitative information about changes in the allowance for doubtful accounts. The Company adopted the guidance on January 1, 2012.

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Reclassifications

Certain amounts have been reclassified in the prior year's financial statements to conform to the classifications used in the current year.

3. Significant Events

St. Peter's Health Partners

On October 1, 2011, St. Peter's Health Care Services ("SPHCS"), Northeast Health ("NEH"), and Seton Health ("Seton") contributed their net assets to form St. Peter's Health Partners. In accordance with applicable accounting guidance on not-for-profit mergers and acquisitions, the Company recorded contribution income of \$374,819,000 reflecting the fair value of the contributed assets of NEH and Seton on the transaction date. Of this amount, \$322,947,000 represents unrestricted net assets and is included as a non-operating gain in the accompanying statement of operations and changes in net assets. Temporarily restricted net assets and permanently restricted net assets of \$33,201,000 and \$18,671,000, respectively, were recorded as restricted contribution income in the accompanying consolidated statement of changes in net assets.

The consolidated statement of operations reflects the activity of NEH and Seton from the date of the transaction (October 1, 2011) to December 31, 2011. No consideration was exchanged for the net assets contributed. The fair value of assets, liabilities, and net assets contributed by NEH and Seton at October 1, 2011 were as follows:

| <i>(in thousands of dollars)</i> | Total NEH & Seton |
|--|----------------------------------|
| Assets | |
| Cash and cash equivalents | \$123,441 |
| Assets limited as to use and investments | 147,858 |
| Patient accounts receivable, net | 48,331 |
| Property plant and equipment | 307,167 |
| Other assets | 63,960 |
| Total assets acquired | <u>\$690,757</u> |
| Liabilities | |
| Accounts payable and accrued expenses | \$44,927 |
| Estimated amounts due to third party payers | 16,094 |
| Long-term debt | 118,449 |
| Accrued pension and post retirement benefits | 38,438 |
| Other liabilities | 98,030 |
| Total liabilities assumed | <u>315,938</u> |
| Net Assets | |
| Unrestricted | 322,947 |
| Temporarily restricted | 33,201 |
| Permanently restricted | 18,671 |
| Total net assets | <u>374,819</u> |
| Total liabilities and net assets | <u>\$690,757</u> |

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

A summary of the financial results of NEH and Seton included in the consolidated statement of operations and changes in net assets from the period October 1, 2011 through December 31, 2011 is as follows:

| <i>(in thousands of dollars)</i> | Total NEH & Seton |
|---|----------------------------------|
| Total operating revenues | <u>\$135,025</u> |
| Total operating expenses | <u>131,417</u> |
| Operating income | 3,608 |
| Non operating gains | <u>4,681</u> |
| Excess of revenues over expenses | <u>8,289</u> |
| Net assets released from restriction used for capital purchases | 373 |
| Pension adjustment | (6,209) |
| Other changes | <u>4,291</u> |
| Increase in unrestricted net assets | <u><u>\$6,744</u></u> |

A summary of the financial results of the Company for the years ended December 31, 2011 and 2010, as if the transaction had occurred on January 1, 2010 is as follows (unaudited):

| <i>(in thousands of dollars)</i> | CHE 2011 | CHE 2010 |
|---|------------------------|-------------------------|
| Total operating revenues | <u>\$4,743,664</u> | <u>\$4,562,475</u> |
| Total operating expenses | <u>4,683,637</u> | <u>4,517,843</u> |
| Operating income, before losses from St. Joseph's Health System | 60,027 | 44,632 |
| Losses from Saint Joseph's Health System | <u>(31,249)</u> | <u>(20,679)</u> |
| Operating income (including losses from St. Joseph's Health System) | 28,778 | 23,953 |
| Non-operating gains | <u>190,363</u> | <u>237,624</u> |
| Excess of revenues over expenses | <u>219,141</u> | <u>261,577</u> |
| Changes in unrestricted net assets | <u>(120,636)</u> | <u>(56,461)</u> |
| Increase in unrestricted net assets before discontinued operations | 98,505 | 205,116 |
| Loss from discontinued operations | <u>(38,527)</u> | <u>(48,046)</u> |
| Increase in unrestricted net assets | <u><u>\$59,978</u></u> | <u><u>\$157,070</u></u> |

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St. Joseph's Health System

On December 31, 2011, the Company contributed certain assets and liabilities of St. Joseph's Health System to a joint operating company ("JOC") with Emory Healthcare in exchange for a 49% non-controlling ownership interest. The entities contributed to the JOC include St. Joseph's Hospital of Atlanta, Saint Joseph's Real Estate Corporation, Saint Joseph's Service Corporation, The Medical Group of Saint Joseph's, Saint Joseph's Translational Research Institute, and the International College of Robotic Surgery. The resulting equity investment of \$142,175,000 is included in investments in unconsolidated organizations in the accompanying consolidated balance sheet. The related operating results are classified separately within operating income.

Mercy Health System of Southeastern Pennsylvania

On November 30, 2011, Mercy SEPA Mercy Health System of Southeastern Pennsylvania sold its equity ownership interests in certain Medicaid managed care organizations to Independence Blue Cross and Blue Cross/Blue Shield of Michigan. As consideration for the sale, Mercy Health System received a lump sum cash payment of \$194.0 million and a \$43.0 million pledge to the Mercy Health System Foundation to be paid over a seven (7) year period, which is included in other assets in the accompanying consolidated balance sheet. Mercy Health System recognized a gain on sale of \$94.9 million related to this transaction.

Mercy Hospital, Miami

On May 1, 2011, the Company sold certain entities of Mercy Hospital, Miami to Hospital Corporation of America ("HCA"). The entities sold include Mercy Hospital, Sister Emmanuel Hospital for Continuing Care, Mercy Medical Development, and Mercy Physician Group. The results of these operations are reflected as discontinued operations in the accompanying statement of operations and changes in net assets. Proceeds from the sale were used primarily to satisfy long-term debt obligations of Mercy Hospital, Miami.

4. Net Patient Service Revenue

Net patient service revenue from the Medicare and Medicaid programs, exclusive of managed care, accounted for approximately 30.8% and 10.0%, respectively, of total net patient service revenues in 2011, and 31.0% and 9.4%, respectively of total net patient service revenue in 2010. Compliance with laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Management believes that adequate provision has been made for adjustments that may result from reviews by third-party payors. Estimated net settlements related to Medicare and Medicaid, collectively, of \$49,016,000 and \$19,626,000 in 2011 and 2010, respectively, are included as a component of current liabilities in the accompanying consolidated balance sheets. The amounts recorded for these estimated settlements approximate their fair value.

Net patient service revenue includes approximately \$1,948,000 and \$6,077,000 in 2011 and 2010, respectively, related to favorable changes in estimates for prior year cost report reopenings, appeals, and tentative and final cost reports, of which some are still subject to audit, additional reopening, and/or appeals.

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The following summarizes net patient service revenue for the years ended December 31:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|----------------------------------|--------------------|--------------------|
| Gross patient service revenue | \$14,750,742 | \$14,367,456 |
| Less: | | |
| Contractual allowances | (10,334,598) | (10,173,412) |
| Charity care | (446,139) | (465,384) |
| Other | 48,752 | 45,910 |
| Net patient service revenue | <u>\$4,018,757</u> | <u>\$3,774,570</u> |

5. Social Accountability Costs (Unaudited)

In keeping with the mission and purpose of CHE, to carry out the health care ministries of the sponsoring congregations by serving as a community of persons committed to being a transforming, healing presence within the communities it serves, and in particular the needs of the poor, the System strives to maximize the provision of services in its communities and in collaboration with other organizations. A portion of CHE's overall operating expense relates to costs incurred in providing and meeting certain community needs for which CHE is not directly compensated.

A standard reporting and accountability process is utilized throughout CHE to estimate the net cost of these services, referred to as Social Accountability Costs, which provides a basis of accountability and reporting to the communities served for purposes of disclosing the utilization of resources. Costs reported are net of contributions or grants that have been provided to CHE and designated for these purposes.

The information presented below has been calculated and is presented in accordance with the Catholic Health Association's, *A Guide for Planning and Reporting Community Benefits*, Copyright 2008. Social accountability costs for the years ended December 31 are as follows:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|-------------------------------------|------------------|------------------|
| Cost of care for those who are poor | \$59,389 | \$58,378 |
| Cost of community benefit programs | 74,085 | 75,705 |
| Other public programs | 9,786 | 12,186 |
| Unpaid cost of Medicaid programs | <u>79,619</u> | <u>82,557</u> |
| Social accountability costs | <u>\$222,879</u> | <u>\$228,826</u> |
| Percentage of operating expenses | <u>4.6%</u> | <u>4.8%</u> |
| Unpaid cost of Medicare programs | <u>\$197,923</u> | <u>\$181,675</u> |

The cost of care of the poor is based on the System's estimated net cost of providing services to those unable to pay. The cost of the community benefit programs reflects the costs to develop and provide programs that are developed and provided to meet special community needs that would not otherwise be available. Volunteer service reflects both internal and external services provided to support patient care activities and community programs. The difference between amounts reimbursed to the System under the Medicare and Medicaid programs and the estimated cost of providing care for these respective programs is reflected as an unpaid cost of the program.

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6. Marketable Securities and Investments Whose Use Is Limited and Equity Investments in Managed Funds

The composition of investments at December 31 is as follows:

(in thousands of dollars)

| | 2011 | 2010 |
|----------------------------------|--------------------|--------------------|
| Reported at fair value | | |
| Cash and cash equivalents | \$361,260 | \$337,459 |
| Marketable equity securities | 466,722 | 478,433 |
| Marketable debt securities | 408,803 | 361,042 |
| | <u>1,236,785</u> | <u>1,176,934</u> |
| Reported under the equity method | | |
| Managed funds | 250,982 | 286,121 |
| | <u>\$1,487,767</u> | <u>\$1,463,055</u> |

A portion of CHE's long-term investment assets are held in the CIP Program. The CIP Program is structured under a Program Participation Agreement (the "Agreement") between each participant RHC and CHE. All investments in the CIP Program are professionally managed under the administration of CHE.

Participants' investments held in the CIP Program are assigned a weighted value for the period of time the funds are invested in the CIP Program. Investment income from the CIP Program, including interest income, dividends, and realized gains and losses on sales of securities, and unrealized gains and losses are distributed to participants based on their weighted value of investment.

The underlying fair value of investments in the CIP Program, which are traded on national exchanges (except for managed funds), is based on the final reported sales price on the last business day of the year. The fair value of investments traded in over-the-counter markets is based on the average of the last recorded bid and asked prices.

CHE participates in a securities lending program wherein some investments are loaned on an overnight basis to various brokers. CHE receives lending fees and earns interest and dividends on the loaned securities. These securities are returnable on demand and are collateralized by cash deposits and U.S. Treasury Obligations. Collateral received is at 100% of the fair value of the securities on loan. CHE is indemnified against borrower default by the financial institution acting as lending agent. At December 31, 2011 and 2010, securities with a fair market value of \$130,634,000 and \$35,104,000, respectively, were loaned under securities lending agreements.

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Investment returns, net, is comprised of the following for the years ended December 31:

(in thousands of dollars)

| | 2011 | 2010 |
|---|------------------|-----------------|
| Unrestricted net assets | | |
| Investment returns, net | | |
| Interest and dividends | \$15,537 | \$13,637 |
| Net realized gains | 16,960 | 21,991 |
| Net unrealized (losses) gains on investments - trading securities | <u>(23,379)</u> | <u>52,272</u> |
| | <u>\$9,118</u> | <u>\$87,900</u> |
| | | |
| Net change in unrealized (losses) gains on available for sale securities (held by unconsolidated organizations) | <u>(\$3,638)</u> | <u>\$4,705</u> |
| | | |
| Temporarily restricted net assets | | |
| Other changes in temporarily restricted net assets | | |
| Investment income | | |
| Interest and dividends | \$631 | \$1,001 |
| Net realized gains on investments | 52 | 2,631 |
| | <u>\$683</u> | <u>\$3,632</u> |
| | | |
| Net unrealized (losses) gains on investments | <u>(\$648)</u> | <u>\$666</u> |
| | | |
| Permanently restricted net assets | | |
| Other changes in permanently restricted net assets | | |
| Net realized and unrealized gains on investments | <u>\$147</u> | <u>\$1,300</u> |

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The following managed fund investments are recorded under the equity method of accounting, which approximates the net asset value per share of the investments as of December 31, 2011:

| <i>(in thousands of dollars)</i> | <u>Recorded</u> <u>Value</u> | <u>Unfunded</u> <u>Commitments</u> | <u>Commitment</u> <u>Term</u> | <u>Redemption</u> <u>Terms</u> |
|----------------------------------|---------------------------------|---------------------------------------|----------------------------------|--|
| Fund of Hedge Funds | \$205,019 | \$0 | n/a | Quarterly, semiannually, or anniversary date |
| Real Estate | 18,544 | \$6,987 | 3-11 years | Redemption permitted upon expiration of commitment term |
| Private Equity | 27,419 | \$12,363 | 4-12 years | Redemption permitted upon expiration of commitment term |
| Total | <u>\$250,982</u> | | | |

7. Fair Value Measurements

The System adheres to applicable accounting guidance for fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America and requires certain disclosures about fair value measurements. Fair value is defined under the guidance as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

As a basis for considering assumptions, the guidance establishes a hierarchical framework for measuring fair value (the fair value hierarchy) as follows:

Level 1: Quoted prices in active markets for identical assets.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

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A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Financial instruments measured at fair value are based on one or more of the three valuation techniques noted in the fair value guidance. The three valuation techniques are as follows:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing models).

The System measures its interest rate swaps at fair market value on a recurring basis. The fair market value of the interest rate swaps is determined based on financial models that consider current and future market interest rates and adjustments for non-performance risk.

Financial instruments at fair value at December 31, 2011 and 2010 are as follows:
(In thousands of dollars)

| | 2011 | | | Total | Valuation Technique |
|---|------------------|------------------|----------------|--------------------|------------------------|
| | Level 1 | Level 2 | Level 3 | | |
| Consolidated investment program: | | | | | |
| Cash and cash equivalents | \$64,396 | \$64,031 | \$ - | \$128,427 | Market |
| Marketable equity securities | 301,042 | 3,519 | - | 304,561 | Market |
| Marketable debt securities | 45,992 | 112,311 | - | 158,303 | Market |
| Total consolidated investment program | <u>411,430</u> | <u>179,861</u> | <u>-</u> | <u>591,291</u> | |
| Locally invested: | | | | | |
| Cash and cash equivalents | 232,833 | - | - | 232,833 | Market |
| Marketable equity securities | 144,116 | 18,045 | - | 162,161 | Market |
| Marketable debt securities | 88,524 | 155,504 | 6,472 | 250,500 | Market |
| Total locally invested | <u>465,473</u> | <u>173,549</u> | <u>6,472</u> | <u>645,494</u> | |
| Total marketable securities and investments whose use is limited at fair value | <u>\$876,903</u> | <u>\$353,410</u> | <u>\$6,472</u> | <u>1,236,785</u> | |
| Managed funds | | | | <u>250,982</u> | |
| Total marketable securities and investments whose use is limited and managed funds | | | | <u>\$1,487,767</u> | |
| Derivative financial Instruments | | | | | |
| Interest rate swaps - liability | | <u>(\$6,459)</u> | | | Market |

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| | 2010 | | | Total | Valuation Technique |
|---|------------------|------------------|----------------|--------------------|------------------------|
| | Level 1 | Level 2 | Level 3 | | |
| Consolidated investment program: | | | | | |
| Cash and cash equivalents | \$46,964 | \$56,532 | \$ - | \$103,496 | Market |
| Marketable equity securities | 355,890 | 1,995 | 11 | 357,896 | Market |
| Marketable debt securities | 49,655 | 122,383 | - | 172,038 | Market |
| Total consolidated investment program | <u>452,509</u> | <u>180,910</u> | <u>11</u> | <u>633,430</u> | |
| Locally invested: | | | | | |
| Cash and cash equivalents | 233,963 | - | - | 233,963 | Market |
| Marketable equity securities | 102,691 | 17,840 | 6 | 120,537 | Market |
| Marketable debt securities | 64,087 | 119,553 | 5,364 | 189,004 | Market |
| Total locally invested | <u>400,741</u> | <u>137,393</u> | <u>5,370</u> | <u>543,504</u> | |
| Total marketable securities and investments whose use is limited at fair value | <u>\$853,250</u> | <u>\$318,303</u> | <u>\$5,381</u> | <u>1,176,934</u> | |
| Managed funds | | | | <u>286,121</u> | |
| Total marketable securities and investments whose use is limited and managed funds | | | | <u>\$1,463,055</u> | |
| Derivative financial instruments | | | | | |
| Interest rate swaps - liability | | <u>(\$302)</u> | | | Market |

A roll forward of those financial instruments that have been classified by the Company as Level 3 within the fair value hierarchy (defined above) is as follows:

(in thousands of dollars)

| | 2011 | | |
|------------------------|---------------------------------------|---------------------|----------------|
| | Consolidated Investment Program | Locally Invested | Total |
| Fair value January 1 | \$11 | \$5,370 | \$5,381 |
| Purchases | - | 5,365 | 5,365 |
| Realized gains | - | 431 | 431 |
| Unrealized losses | (3) | (597) | (600) |
| Transfers out | (8) | (2,621) | (2,629) |
| Sales | - | (1,476) | (1,476) |
| Fair value December 31 | <u>\$ -</u> | <u>\$6,472</u> | <u>\$6,472</u> |

(in thousands of dollars)

| | 2010 | | |
|------------------------|---------------------------------------|---------------------|----------------|
| | Consolidated Investment Program | Locally Invested | Total |
| Fair value January 1 | \$345 | \$5,057 | \$5,402 |
| Purchases | - | 2,436 | 2,436 |
| Realized gains | 9 | 204 | 213 |
| Unrealized gains | - | 12 | 12 |
| Transfers out | - | (2,116) | (2,116) |
| Change in fair value | - | 284 | 284 |
| Sales | (343) | (507) | (850) |
| Fair value December 31 | <u>\$11</u> | <u>\$5,370</u> | <u>\$5,381</u> |

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8. Property and Equipment

The following summarizes property and equipment at December 31:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|---|--------------------|--------------------|
| Land and improvements | \$133,407 | \$105,535 |
| Buildings and improvements | 2,312,372 | 1,918,998 |
| Equipment | <u>1,591,081</u> | <u>1,459,989</u> |
| | 4,036,860 | 3,484,522 |
| Less: Accumulated depreciation and amortization | <u>(2,103,743)</u> | <u>(1,972,386)</u> |
| | 1,933,117 | 1,512,136 |
| Construction in progress | <u>137,409</u> | <u>210,966</u> |
| | <u>\$2,070,526</u> | <u>\$1,723,102</u> |

At December 31, 2011 and 2010, approximately \$859.2 million and \$633.1 million of property and equipment, net, is pledged as collateral under various loan agreements. Interest cost, net of related interest income, totaling approximately \$3.2 million and \$6.0 million was capitalized to construction in progress during 2011 and 2010, respectively.

9. Investments in Unconsolidated Organizations

Catholic Health East has investments in unconsolidated organizations totaling \$1,450,068,000 and \$1,325,201,000 at December 31, 2011 and 2010, respectively. Several significant investments, which are accounted for under the equity method, comprise this balance including, but not limited to, the following:

BayCare Health System

CHE has a fifty percent interest in BayCare Health System Inc. and Affiliates ("BayCare"), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement ("JOA") among the not-for-profit, tax-exempt members of the Catholic Health East BayCare Participants, Morton Plant Mease Health Care, Inc. and South Florida Baptist Hospital, Inc. (collectively, the Members). BayCare consists of three community health alliances located in the Tampa Bay area of Florida including St. Joseph's-Baptist Healthcare Hospital, St. Anthony's Health Care, and Morton Plant Mease Health Care with an aggregate of approximately 2,900 acute care beds. CHE has the right to appoint nine of the twenty-one members of the Board of Directors of BayCare. At December 31, 2011 and 2010, CHE's recorded investment in BayCare totaled \$1,138,120,000 and \$1,071,455,000, excluding wholly owned subsidiaries and other beneficial interests.

Catholic Health System, Inc.

CHE has a one-third interest in Catholic Health System, Inc. and Subsidiaries ("CHS"). CHS, formed in 1998, is a not-for-profit integrated delivery healthcare system in Western New York jointly sponsored by the Sisters of Mercy, Ascension Health System, the Franciscan Sisters of St. Joseph, and the Diocese of Buffalo. CHE, Ascension Health System, and the Diocese of Buffalo are the corporate members of CHS. CHS operates several organizations, the most significant of which are four acute care hospitals located in Buffalo, New York, Mercy Hospital of Buffalo, Kenmore Mercy Hospital, Sisters of Charity Hospital, and St. Joseph Hospital. At December 31, 2011 and 2010, CHE's recorded investment in CHS totaled \$12,914,000 and \$24,523,000, respectively.

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Emory Healthcare/St. Joseph's Health System

On December 31, 2011, CHE completed a JOA agreement with Emory Healthcare as described in Note 3, and retains a forty-nine percent interest in Emory Healthcare/St. Joseph's Health System ("EH/SJHS"). EH/SJHS operates several organizations, including two acute care hospitals, St. Joseph's Hospital of Atlanta, and John's Creek Hospital. At December 31, 2011, CHE's recorded investment in EH/SJHS totaled \$142,175,000.

Condensed consolidated balance sheets of BayCare, including wholly owned foundations and other beneficial interests, CHS and EH/SJHS as of December 31 are as follows:

(in thousands of dollars)

| | Baycare | | CHS | | EH/SJHS | |
|-------------|-------------|-------------|-----------|-----------|-----------|------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Assets | \$4,014,123 | \$3,883,968 | \$682,748 | \$566,164 | \$639,369 | NA |
| Liabilities | \$1,597,252 | \$1,600,427 | \$639,128 | \$487,683 | \$313,233 | NA |
| Net assets | \$2,416,871 | \$2,283,541 | \$43,620 | \$78,481 | \$326,136 | NA |

The following amounts have been recognized in the accompanying consolidated statements of operations and changes in net assets related to the investments in BayCare and for the years ended December 31:

(in thousands of dollars)

| | Baycare | | CHS | |
|---|-----------------|------------------|-------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Equity in earnings of unconsolidated organizations | \$74,611 | \$149,748 | \$8,747 | \$6,532 |
| Net unrealized losses on investments | 19 | (7) | - | - |
| Other changes in unrestricted and restricted net assets | (7,965) | 2,973 | (20,356) | (6,379) |
| | <u>\$66,665</u> | <u>\$152,714</u> | <u>(\$11,609)</u> | <u>\$153</u> |

Additionally, certain RHCs have investments in unconsolidated organizations, the most significant of which is an investment in a Medicaid HMO joint venture at Mercy Health System of Southeastern Pennsylvania ("Mercy SEPA"). These investments total \$156,859,000 and \$229,223,000 in 2011 and 2010, respectively. CHE's proportionate share of the income of these investments was \$74,124,000 and \$32,911,000 for the years ended December 31, 2011 and 2010, respectively.

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10. Long-Term Debt

At December 31, long-term debt consisted of the following:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|---|--------------------|--------------------|
| Revenue bonds | | |
| Catholic Health East Health System Revenue Bonds | | |
| Various Fixed Rate Series issued from 1998 to 2011; coupon rates ranging from 2.25% to 7.375%; annual principal payments through 2040 | \$1,163,454 | \$1,357,914 |
| Various Variable Rate Series issued from 1997 to 2008; rates ranging from 0.02% to 0.70%; annual principal payments through 2036 | 167,514 | 171,183 |
| Various Variable Rate Series swapped to fixed rating ranging from 0.97% to 1.21%; annual principal payments through 2034 | 27,740 | 37,745 |
| Taxable Rate Series issued 1999 with rate of 7.62%; annual principal payments through 2017 | 4,415 | 5,070 |
| | <u>1,363,123</u> | <u>1,571,912</u> |
| Other issues under \$10,000 | 16,570 | 2,989 |
| Less amortization and unamortized (discount) premium | (275) | 1,011 |
| Mortgages payable | | |
| Dormitory Authority of the State of New York mortgage payable with a rate of 6.23%; semi-annual principal payments through 2024 | - | 6,447 |
| Century Health Capital, Inc. mortgage payable with rate of 5.47%; monthly principal payment through to 2015 | - | 6,851 |
| JP Morgan/Chase mortgage payable in monthly fixed principal installments of \$56; interest at Libor plus 150 basis points through May 2021 | 6,356 | - |
| Rensselaer County Industrial Development Agency and Albany County Industrial Development Agency, bearing interest at a fixed rate ranging from 4.36% - 5.375% | 10,680 | - |
| Various HUD insured mortgages (5.56% to 5.64%) payable through January 2027 | 11,986 | 12,577 |
| Other mortgages and notes payable under \$5,000, individually | 4,921 | 5,633 |
| Notes payable | | |
| North Ridge VA Center, LTD (5.04%), semi-annual principal payments through 2023 | 34,601 | 36,780 |
| Notes payable due at various dates through 2027; various rates | 15,996 | 1,300 |
| Revolving credit agreement, due in 2014 | 106,035 | 52,800 |
| Capital lease obligations payable in various monthly amounts | 57,445 | 58,701 |
| Total long-term debt and obligations under capital leases | 1,627,438 | 1,757,001 |
| Less: Current maturities of long term debt | (75,258) | (58,306) |
| Less: Portion of variable rate demand obligations classified as current | (17,332) | (29,518) |
| Total long-term debt | <u>\$1,534,848</u> | <u>\$1,669,177</u> |

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Aggregate maturities of long-term debt and capital lease obligations as of December 31, 2011 are shown below.

(in thousands of dollars)

| | |
|---|--------------------|
| 2012 | \$107,490 |
| 2013 | 79,597 |
| 2014 | 107,149 |
| 2015 | 77,709 |
| 2016 | 78,943 |
| Thereafter | 1,176,825 |
| Unamortized discount and imputed interest | <u>(275)</u> |
| | <u>\$1,627,438</u> |

The fair value of the System's long term debt is based on quoted market prices or estimates using discounted cash flow analyses, based on the participating facility's incremental borrowing rates for similar types of borrowing arrangements. The fair value of the System's long-term debt, based on quoted market prices, at December 31, 2011 and 2010 was \$1.54 billion and \$1.61 billion, respectively, compared to the carrying value of \$1.39 billion and \$1.59 billion, respectively. This excludes capital leases, notes payable, and mortgage notes.

On December 31, 2011, CHE transferred the outstanding debt of St. Joseph's Hospital, including the Series 2007A Revenue Bonds of \$9,900,000, the Series 2009 Revenue Bonds of \$68,970,000, and the Series 2010 Revenue Bonds of \$40,135,000 to the St. Joseph's/Emory Healthcare Joint Operating Agreement described in Note 3. Subsequent to the transfer date, the debt is guaranteed by Emory University and is no longer an obligation of the CHE Obligated Group.

On June 1, 2011, CHE repaid the outstanding debt of Mercy Hospital, Miami, including the Series 1998 Hospital Revenue Bonds of \$10,000,000, the Series 2002 Hospital Revenue Bonds of \$35,000,000, the Series 2003C Hospital Revenue Bonds of \$14,000,000, the Series 2008 Hospital Revenue Bonds of \$31,900,000, and the Series 2009 Hospital Revenue Bonds of \$29,300,000. The debt was repaid with proceeds from the sale of certain entities of Mercy Hospital, Miami to HCA as described in Note 3.

On February 3, 2011, CHE issued \$34,200,000 of Series 2011 Hospital Revenue Bonds through the City of Albany Capital Resource Corporation. The bonds were issued as fixed rate bonds with interest rates ranging from 3.0% to 6.25%. The proceeds of this issue were used for St. Peter's Hospital Master Facilities Plan building and equipment projects, to fund a debt service reserve fund, to pay capitalized interest, and to pay the costs of issuance.

In 2010, CHE issued a tender offer to bondholders of the Series 2007 bonds that were previously issued in New Jersey. Of the \$99,600,000 in outstanding bonds, offers totaling \$98,200,000 were accepted, or 98.5% of the total. In exchange for the \$98,200,000, CHE issued \$90,000,000 of fixed rate bonds and terminated \$10,400,000 of related interest rate swaps.

In 2010, CHE issued \$130,700,000 of Series 2010 Hospital Revenue Bonds through New Jersey Health Care Facilities Financing Authority. The bonds were issued as fixed rate bonds with interest rates ranging from 2.0% to 5.0%. The proceeds of this issue were used to refund and redeem certain of the outstanding Series 1998 and Series 2007 Revenue Bonds previously issued in New

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Jersey, and to pay the costs of issuance. As part of this transaction, the System recorded a gain on extinguishment totaling \$7,800,000.

In 2010, CHE issued \$287,600,000 of Series 2010 Hospital Revenue Bonds through financing authorities in Florida, Connecticut, Georgia, Massachusetts, North Carolina, and Pennsylvania. The bonds were issued as fixed rate bonds with interest rates ranging from 2.0% to 5.0%. The proceeds of this issue were used to advance refund and redeem and to pay the costs of issuance of certain outstanding Series 1998 and Series 1999 Revenue bonds issued in Massachusetts, Connecticut, Pennsylvania, New Jersey, North Carolina, Georgia, and Florida, and to finance \$50,000,000 in capital projects for St. Mary Medical Center in Pennsylvania. As part of this transaction, the System recorded a loss on extinguishment totaling \$6,900,000.

Certain CHE constituent corporations are members of the CHE Obligated Group. Under the Amended and Restated Master Trust Indenture dated January 1, 1998 and amended and restated as of September 30, 2007, Obligated Group members provide a revenue pledge and are joint and severally liable on all obligations outstanding under the Master Indenture. Additionally, the Obligated Group has agreed to comply with certain covenants including the repayment of principal and interest, notification regarding admission or withdrawal of members of the Obligated Group, to deliver financial statements and other related information by specified due dates, to maintain insurance, and to maintain a long-term debt service coverage of at least 1.10 to 1.00.

Pursuant to loan agreements between CHE and various RHCs, promissory notes have been executed by each RHC in amounts equal to the amount of proceeds necessary to defease previously existing debt and provide for capital projects.

In prior years, CHE advance refunded certain of its bonds which are no longer reflected in the consolidated financial statements since CHE has legally satisfied its obligation through defeasance. Funds are held in an irrevocable escrow with a trustee and are expected to be sufficient to satisfy the obligations.

The CHE revolving credit loan facility was refinanced in 2010. The credit facility is structured through a consortium with five banks and extends through June 9, 2014. The credit facility totals \$200,000,000 with an option to increase the credit facility to \$250,000,000. At December 31, 2011 and 2010, approximately \$43,697,000 and \$37,933,000, respectively, of the total credit facility was obligated for standby letters of credit. Additionally, approximately \$106,035,000 and \$52,800,000 at December 31, 2011 and 2010, respectively, had been borrowed against the total credit facility. Borrowings under this agreement may be repaid at any time and are payable upon termination of the agreement. These borrowings were used to finance various capital projects at several of the RHCs. Use of the credit facility for standby letters of credit is limited to \$100,000,000 of the total credit facility.

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Certain of the System's variable rate demand bonds are supported by irrevocable letters of credit with expiration dates in 2013 and 2014. CHE is the guarantor for these letters of credit. The letters of credit and dates of expiration are as follows:

| <u>RHC</u> | <u>Associated Bond Issue</u> | <u>Expiration</u> |
|-------------------------------|------------------------------|-------------------|
| Mercy Medical Corporation | Series 1997 | 11/1/2013 |
| Mercy Medical Corporation | Series 2000 | 1/31/2013 |
| St. Francis Medical Center | Series 2003 | 6/15/2013 |
| Mercy Health System of Maine | Series 2006 | 1/31/2013 |
| St. Joseph of the Pines, Inc. | Series 2008 | 4/23/2014 |

Blended Cost of Debt Program

CHE maintains a Blended Cost of Debt Program (the "Debt Program") to provide a uniform cost of debt for participating RHCs and to mitigate the interest rate risk of an RHC.

Under the Debt Program, all debt costs, excluding taxable debt, capitalized leases, and short-term borrowing, are blended. The calculation of the blended costs incorporates bond interest, both fixed and variable, debt-related fees, such as letters of credit, credit enhancement, remarketing, auction, as well as periodic rating agency, bond trustee, master trustee and issuing authority fees, net swap payments/receipts and put/guaranty receipts, along with other miscellaneous fees related to tax-exempt debt issued by CHE and its affiliates.

Participants in the Debt Program make periodic payments to CHE. Each participant's periodic payment is based on their respective percentage of total indebtedness included in the Debt Program. Principal payments are not blended. Participants make their scheduled principal payments to CHE in the month they are due.

11. Derivative Financial Instruments

CHE has entered into derivative transactions for the purpose of reducing interest rate volatility and to reduce interest expense. CHE has entered into fixed-to-floating interest rate swaps, basis swaps, and fixed-payor swaps.

At December 31, 2011 and 2010, fourteen *basis swap* transactions were outstanding in the CHE Debt Program with notional amounts totaling \$717,000,000 and maturity dates ranging from February 2023 to December 2028. In the basis swap transactions, CHE receives a floating taxable rate and pays a floating tax-exempt rate. CHE has elected not to designate these interest rate swap agreements as hedges for financial reporting purposes.

At December 31, 2011 and 2010, six and four *fixed-to-floating interest rate swap* agreements, respectively, were outstanding in the CHE Debt Program. The fixed-to-floating swaps had notional amounts totaling \$150,000,000 and \$95,000,000 at December 31, 2011 and 2010, respectively, and maturity dates ranging from May 2012 to December 2021. These fixed-to-floating interest rate swap agreements effectively convert a portion of the System's fixed rate debt to a floating rate basis and are not designated as hedges for financial reporting purposes.

At December 31, 2011 and 2010, four and five *fixed-payor interest rate swap* agreements, respectively, were outstanding in the CHE Debt Program. The fixed-payor swaps had notional amounts totaling \$27,700,000 and \$37,800,000 at December 31, 2011 and 2010, respectively, and maturity dates ranging from November 2032 to November 2034. Under these interest rate swap

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agreements CHE pays a fixed rate and receives a variable rate. Additionally, the cash flows from these interest rate swap agreements equal the rates on the bonds and therefore effectively convert the debt to a fixed rate. The notional amount of these interest rate swap agreements declines in relation to the annual principal payments on the hedged debt. CHE has elected not to designate these interest rate swap agreements as hedges for financial reporting purposes.

At December 31, 2011 and 2010, seven and two *total return swap* agreements, respectively, were outstanding in the CHE Debt Program. The total return swaps had notional amounts totaling \$104,300,000 and \$54,135,000 at December 31, 2011 and 2010, respectively, and maturity dates ranging from October 2012 to May 2014. Under these swap agreements, CHE receives a fixed rate on the amount corresponding to the par amount of the outstanding bonds, and pays the Securities Industry and Financial Markets Association ("SIFMA") index. CHE has elected not to designate these interest rate swap agreements as hedges for financial reporting purposes.

At December 31, 2011, three *fixed-to-floating interest rate swaps* were outstanding outside the CHE Debt Program with notional amounts totaling \$51,530,000 and maturity dates ranging from November 2013 to August 2032. These fixed-to-floating swaps were not outstanding as of December 31, 2010. In accordance with certain of these swap agreements a collateral account may be required as security for the swap.

The fair value of derivative instruments at December 31 is as follows:

(in thousands of dollars)

| | 2011 | | 2010 | |
|----------------------------|------------------------|------------|------------------------|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate contracts | | | | |
| Basis | Other liabilities | (\$7,295) | Other assets | \$2,872 |
| Fixed-to-floating | Other assets | \$2,619 | Other assets | \$1,559 |
| Fixed-payor | Other liabilities | (\$7,196) | Other liabilities | (\$4,627) |
| Total return | Other assets | \$10,526 | Other liabilities | \$ - |
| Fixed-to-floating, non CHE | Other liabilities | (\$5,113) | Other liabilities | (\$106) |

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The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2011 and 2010 are as follows:

(in thousands of dollars)

| | Location of Gain (Loss) Recognized in Statement of Operations | Amount of Gain (Loss) Recognized in Statement of Operations | |
|----------------------------|---|---|-------------------|
| | | 2011 | 2010 |
| Interest rate contracts | | | |
| Basis | Change in fair value of interest rate swaps | (\$9,984) | (\$24,894) |
| Fixed-to-floating | Change in fair value of interest rate swaps | 1,058 | 4,857 |
| Fixed-payor | Change in fair value of interest rate swaps | (2,777) | 6,815 |
| Total return | Change in fair value of interest rate swaps | 10,526 | - |
| Fixed-to-floating, non CHE | Change in fair value of interest rate swaps | (55) | 186 |
| Total | | <u>(\$1,232)</u> | <u>(\$13,036)</u> |

Certain of CHE's derivative instruments contain credit-risk-related provisions that require CHE and its counterparties to post collateral in varying amounts based on respective credit ratings. If CHE's debt were to fall below investment grade, the counterparties to the derivative instruments would require CHE to post collateral only if the aggregate position of all derivative instruments is negative. Based on CHE's current credit rating, the System was not required to post collateral as of December 31, 2011 or 2010. Locally held derivative instruments (non-CHE) required posted collateral at December 31, 2011 and 2010 in the amount of \$753,000 and \$0, respectively.

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System 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. Temporarily restricted net assets at December 31 are available for the following purposes:

(in thousands of dollars)

| | 2011 | 2010 |
|--|------------------|------------------|
| Temporarily restricted net assets | | |
| Education and research | \$5,397 | \$7,790 |
| Building and equipment | 27,406 | 48,025 |
| Patient care | 16,480 | 11,162 |
| Cancer Center/research | 6,110 | 1,976 |
| Other | 85,221 | 63,351 |
| | <u>\$140,614</u> | <u>\$132,304</u> |

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

Permanently restricted net assets at December 31 are restricted as follows:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|--|-----------------|-----------------|
| Permanently restricted net assets | | |
| Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income) | \$36,272 | \$18,554 |
| Endowments requiring income to be added to the original gift | 2,282 | 2,335 |
| Other | <u>8,152</u> | <u>7,081</u> |
| | <u>\$46,706</u> | <u>\$27,970</u> |

The System classifies the portions of donor-restricted endowment funds of perpetual duration as permanently restricted net assets. Permanently restricted net assets of the System are comprised of a) the original value of gifts donated to the System through a permanent endowment, b) the original value of subsequent gifts to the System through a permanent endowment, and c) accumulations to the permanent endowment in accordance with applicable donor gift instruments. Any portions of donor-restricted endowment funds that are not classified as permanently restricted are appropriated in accordance with donor intent.

The System considers the following factors in determining if donor-restricted endowment funds are accumulated or appropriated:

- 1) the duration and preservation of the fund
- 2) the purposes of the System's donor-restricted endowment funds
- 3) general economic conditions
- 4) effect of possible inflation or deflation
- 5) the expected total investment return and appreciation of investments
- 6) other resources of the System
- 7) investment policies of the System

The System's permanently restricted net assets consist of individual endowment accounts. Unless otherwise directed by the donor, gifts received for endowments are invested in accordance with the System's investment policy. Unless otherwise directed by the donor, the System annually appropriates a certain percentage of each endowment fund, which is then available for spending in accordance with the donor's intent. In order to preserve the real value of a donor's gift and to sustain funding consistent with donor intent, the annual appropriation rate is set to strike a reasonable balance between long-term objectives of preserving and growing each endowment fund for the future and providing stable, annual appropriations.

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The composition of endowment fund net assets, by type of fund, at December 31, 2011 and 2010 are as follows:

(in thousands of dollars)

| | 2011 | | |
|----------------------------------|-----------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Donor-restricted endowment funds | \$ - | \$82,087 | \$46,706 |
| Board-designated endowment funds | 17,635 | 809 | - |
| Total endowment funds | <u>\$17,635</u> | <u>\$82,896</u> | <u>\$46,706</u> |

| | 2010 | | |
|----------------------------------|-----------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Donor-restricted endowment funds | \$7 | \$66,248 | \$27,970 |
| Board-designated endowment funds | 17,510 | 1,560 | - |
| Total endowment funds | <u>\$17,517</u> | <u>\$67,808</u> | <u>\$27,970</u> |

Changes in the composition of endowment fund net assets as of December 31, 2011 and 2010 are as follows:

(in thousands of dollars)

| | 2011 | | |
|--|-----------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Endowment fund net assets, beginning of year | \$17,517 | \$67,808 | \$27,970 |
| Investment return: | | | |
| Realized investment income | 202 | 364 | 945 |
| Unrealized investment losses | (94) | (480) | (768) |
| Net appreciation | - | 341 | (30) |
| Total investment return | 108 | 225 | 147 |
| Other changes in endowment funds | 10 | 14,863 | 18,589 |
| Endowment fund net assets, end of year | <u>\$17,635</u> | <u>\$82,896</u> | <u>\$46,706</u> |

| | 2010 | | |
|--|-----------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Endowment fund net assets, beginning of year | \$16,914 | \$66,648 | \$26,004 |
| Investment return: | | | |
| Realized investment income | 175 | 236 | 817 |
| Unrealized investment income | 323 | 337 | 441 |
| Net appreciation | - | 642 | 43 |
| Total investment return | 498 | 1,215 | 1,301 |
| Other changes in endowment funds | 105 | (55) | 665 |
| Endowment fund net assets, end of year | <u>\$17,517</u> | <u>\$67,808</u> | <u>\$27,970</u> |

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

13. Insurance

Professional and general liability risk is insured through Stella Maris Insurance Company, Ltd. a wholly owned, captive insurance company, commercial insurance and reinsurance companies, and self-insured programs. Excess insurance over self-insured amounts and coverage provided by the captive has been purchased from the commercial insurance and reinsurance markets. The excess professional liability coverage is provided on a claims-made basis. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. CHE has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice losses have been discounted at a rate of 4.0% at December 31, 2011 and 2010, and in management's opinion provide an adequate reserve for loss contingencies.

CHE maintains a large deductible program for workers' compensation. Losses from asserted claims and from unasserted claims identified under CHE's incident reporting systems are accrued based on estimates that incorporate CHE's experience, relevant trends, and other factors. CHE has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses have been discounted at a rate of 4.0% at December 31, 2011 and 2010, and in management's opinion provide an adequate reserve for loss contingencies.

Total amounts accrued under these programs as current liabilities approximate \$19,533,000 and \$20,996,000 at December 31, 2011 and 2010, respectively. Total amounts accrued under these programs as long-term liabilities approximate \$295,981,000 and \$303,718,000 at December 31, 2011 and 2010, respectively.

Bank-administered trust and other accounts have been established for the purpose of segregating assets. These trusts are funded based on actuarial estimates and can only be used for payment of malpractice losses, related expenses, and administrative costs of the trusts. Assets of the trusts are included in marketable securities whose use is limited.

The total amount charged to expense under these self-insured programs was \$49,620,000 and \$48,073,000 in 2011 and 2010, respectively.

14. Pension Plans

The System maintains non-contributory defined benefit pension plans that vary from one RHC to another, collectively, "the Plan."

During 2010, CHE amended substantially all defined benefit pension plans to freeze service accruals. As a result of the service accrual freeze curtailment charges of \$1,166,000 and curtailment credits of \$2,978,000 were recognized in 2010 representing the immediate recognition of unamortized prior service costs and credits.

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The following table sets forth the change in benefit obligation and the change in fair value of plan assets based on the measurement date, and the amounts recognized in the consolidated financial statements at December 31:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|--|-------------------------|------------------------|
| Changes in benefit obligation: | | |
| Benefit obligation, beginning of year | \$1,031,184 | \$934,097 |
| Service cost | 13,788 | 11,724 |
| Interest cost | 58,001 | 48,447 |
| Actuarial loss | 121,302 | 95,862 |
| Benefits paid | (32,618) | (29,252) |
| Plan amendments | (28,278) | - |
| Plan mergers | 209,943 | - |
| Curtailment | - | (29,694) |
| Other | (11,288) | - |
| Benefit obligation, end of year | <u>\$1,362,034</u> | <u>\$1,031,184</u> |
| Accumulated benefit obligation, end of year | \$1,323,714 | \$988,730 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | 740,648 | 650,547 |
| Actual return on plan assets | 12,299 | 73,257 |
| Employer contributions | 49,515 | 48,040 |
| Benefits paid | (32,618) | (29,252) |
| Asset transfers | 153,653 | - |
| Other | - | (1,944) |
| Fair value of plan assets, end of year | <u>\$923,497</u> | <u>\$740,648</u> |
| Funded status | | |
| Fair value of plan assets | \$923,497 | \$740,648 |
| Projected benefit obligation | <u>(1,362,034)</u> | <u>(1,031,184)</u> |
| Funded status | <u>(438,537)</u> | <u>(290,536)</u> |
| Amount recognized, end of year | <u>(\$438,537)</u> | <u>(\$290,536)</u> |
| Amounts recognized in unrestricted net assets | | |
| Net actuarial gain | \$184,392 | \$45,694 |
| Amortization of actuarial loss | (9,039) | (7,171) |
| Prior service cost | (1,218) | (261) |
| Current year prior service cost | (44,790) | - |
| Curtailment charge | - | (1,166) |
| Plan mergers | 22,894 | - |
| Total | <u><u>\$152,239</u></u> | <u><u>\$37,096</u></u> |

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The following table sets for the components of net periodic benefit cost for the applicable plan(s) at December 31:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|---|-----------------|-----------------|
| Components of net periodic benefit cost: | | |
| Service cost | \$13,788 | \$11,891 |
| Interest cost | 58,001 | 48,447 |
| Expected return on plan assets | (61,061) | (51,463) |
| Amortization of prior service costs | 1,218 | 261 |
| Amortization of actuarial loss | 9,039 | 7,171 |
| Other adjustments | - | 1,296 |
| Net periodic benefit cost | <u>\$20,985</u> | <u>\$17,603</u> |

The net actuarial loss that will be amortized from unrestricted net assets in the net periodic benefit cost in 2012 is \$17,773,000.

The accumulated benefit obligation for the Plan was \$1,323,714,000 and \$988,730,000 at December 31, 2011 and 2010, respectively.

The assumptions used to determine the benefit obligation and periodic benefit cost at December 31 are as follows:

| | 2011 | 2010 |
|---|---------------|---------------|
| Assumptions used to determine the benefit obligation at December 31: | | |
| Weighted average discount rate | 4.15% - 5.00% | 5.60% - 6.10% |
| Weighted average rate of compensation increases | 3.75% - 4.25% | 4.25% |
| Weighted average expected long-term rate of return on plan assets | 7.5% - 8.50% | 8.00% |
| | | |
| Assumptions used to determine periodic benefit cost at December 31: | | |
| Weighted average discount rate | 4.90% - 5.55% | 6.05% - 6.20% |
| Weighted average rate of compensation increases | 3.75% - 4.25% | 4.25% |
| Weighted average expected long-term rate of return on plan assets | 7.5% - 8.50% | 8.00% - 8.50% |

Investment Policy and Asset Allocations – In developing the assumption for the expected rate of return on assets, CHE evaluates historical returns, the level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected rate of return for each asset class is then weighted based on the target asset allocation to develop the assumption for the expected long-term rate of return on assets. For plans with frozen service accruals, the investment policy was modified to allow for asset allocation changes over time as the plans become more fully funded in order to de-risk the plans. This strategy utilizes a "glide path" approach, consisting of a series of target asset allocations for various funded ratio levels, reduces exposure to return seeking assets (marketable equity securities and managed funds) and increases exposure to the liability-hedging assets (cash and marketable debt securities) over time. This strategy will be utilized going forward for the plans with frozen service accruals.

Catholic Health East
Notes to the Consolidated Financial Statements
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The weighted average asset allocation for the plan at December 31 and the target allocation for calendar year 2011, by asset category, are as follows:

| Asset category | Target Allocation 2012 | 2011 | Target Allocation 2011 | 2010 |
|--|------------------------------|---------------|------------------------------|---------------|
| | From-To | | From-To | |
| Cash & marketable debt securities | 18.8% - 40.0% | 22.5% | 18.8% - 40.0% | 21.7% |
| Marketable equity securities & managed funds | 60.0% - 81.2% | 77.5% | 60.0% - 81.2% | 78.3% |
| | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

The portfolio is diversified among a mix of assets including large and small cap, domestic and foreign equities, fixed income, managed funds, and cash. Asset mix is targeted to a specific allocation, either intermediate or long-term, that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan's long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Investment Subcommittee of the Stewardship Committee of the CHE Board oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance.

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The following table presents the Plan's financial instruments as of December 31, 2011 measured at fair value on a recurring basis using the fair value hierarchy defined in Note 7. The investments are not included in the marketable securities whose use is limited in the accompanying consolidated balance sheet. These investments are maintained separately in a pension investment program that is controlled by a trustee:

(in thousands of dollars)

| | <u>2011</u> | | | | |
|----------------------------------|------------------|------------------|------------------|------------------|--------------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> | <u>Valuation Technique</u> |
| Pension investment program: | | | | | |
| Cash and cash equivalents | \$63,919 | \$68,257 | \$ - | \$132,176 | Market |
| Marketable equity securities | 471,063 | 36,297 | - | 507,360 | Market |
| Marketable debt securities | 66,446 | 91,456 | - | 157,902 | Market |
| Managed funds | - | - | 126,059 | 126,059 | Market |
| Total pension investment program | <u>\$601,428</u> | <u>\$196,010</u> | <u>\$126,059</u> | <u>\$923,497</u> | |
| | <u>2010</u> | | | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> | <u>Valuation Technique</u> |
| Pension investment program: | | | | | |
| Cash and cash equivalents | \$34,473 | \$23,460 | \$ - | \$57,933 | Market |
| Marketable equity securities | 443,399 | 42,108 | 19 | 485,526 | Market |
| Marketable debt securities | 42,368 | 79,347 | - | 121,715 | Market |
| Managed funds | - | - | 75,474 | 75,474 | Market |
| Total pension investment program | <u>\$520,240</u> | <u>\$144,915</u> | <u>\$75,493</u> | <u>\$740,648</u> | |

The fair value of these investments is offset against the projected benefit obligation of the associated defined benefit plans and the resulting unfunded liability is recorded by the System.

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the Plan for the period from December 31, 2010 to December 31, 2011.

(in thousands of dollars)

| | <u>2011</u> | <u>2010</u> |
|------------------------|------------------|-----------------|
| Fair value January 1 | \$75,493 | \$63,624 |
| Purchases | - | 24,500 |
| Realized gains | 441 | 2,566 |
| Unrealized losses | (2,950) | - |
| Transfers in | 55,764 | 154 |
| Sales | (2,689) | (15,351) |
| Fair value December 31 | <u>\$126,059</u> | <u>\$75,493</u> |

Contributions -- Expected contributions to the defined benefit plans in 2012 are approximately \$66,219,000.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(in thousands of dollars)

| | |
|-----------|------------------|
| 2012 | \$56,057 |
| 2013 | 59,674 |
| 2014 | 63,858 |
| 2015 | 65,977 |
| 2016 | 71,747 |
| 2017-2020 | <u>413,513</u> |
| | <u>\$730,826</u> |

15. Concentration of Credit Risk

CHE grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 was as follows:

| | <u>2011</u> | <u>2010</u> |
|--------------------------|----------------|----------------|
| Managed care | 29.4 % | 32.6 % |
| Medicare | 24.8 % | 27.5 % |
| Medicaid | 10.5 % | 10.4 % |
| Self-pay | 11.2 % | 7.0 % |
| Other third-party payors | 13.7 % | 10.8 % |
| Commercial | 10.4 % | 11.7 % |
| | <u>100.0 %</u> | <u>100.0 %</u> |

Catholic Health East
Notes to the Consolidated Financial Statements
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In addition, CHE invests its cash and cash equivalents primarily with banks and financial institutions. These deposits may be in excess of federally insured limits. Management believes that the credit risk related to these deposits is minimal.

16. Commitments and Contingencies

The RHCs are defendants in various lawsuits relating primarily to rendering of health care services. In each instance, management of the respective RHCs is of the opinion that the liability, if any, resulting there from will be covered by insurance or will not have a material adverse impact on the consolidated financial statements of CHE. In addition, certain CHE entities have been contacted by governmental agencies regarding alleged violations of practices for certain services. Management of the respective RHCs has performed, with the advice and assistance of outside legal counsel, an evaluation of billing practices and compliance with related laws and regulations. In the opinion of management, after consultation with outside legal counsel, the ultimate outcome of these matters will not have a material adverse impact on the consolidated financial statements of CHE.

17. Leases

The RHCs lease office space and certain equipment under noncancelable operating leases. Rental expense was approximately \$85,939,000 and \$70,892,000 in 2011 and 2010, respectively.

Future minimum lease payments for all noncancelable leases as of December 31, 2011 are as follows:

(in thousands of dollars)

| | |
|------------|------------------|
| 2012 | \$55,314 |
| 2013 | 48,506 |
| 2014 | 39,425 |
| 2015 | 34,300 |
| 2016 | 30,675 |
| Thereafter | 66,871 |
| | <u>\$275,091</u> |

18. Functional Expenses

CHE provides general health care services to residents within their geographic location including acute care, skilled nursing, outpatient care, home healthcare, physician practices, and behavioral services. Expenses related to providing these services at December 31 are as follows:

(in thousands of dollars)

| | 2011 | 2010 |
|----------------------------|--------------------|--------------------|
| Health care services | \$3,471,454 | \$3,228,551 |
| General and administrative | 821,683 | 776,375 |
| | <u>\$4,293,137</u> | <u>\$4,004,926</u> |

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

19. Assets Held for Sale and Discontinued Operations

The Boards of Directors at certain of the Company's RHCs have approved management plans to divest or otherwise exit certain services lines and asset groups. Service lines and asset groups subject to such management plans are collectively referred to as the Disposal Group.

Details of the assets held for sale, the related liabilities, and discontinued operations of the Disposal Group at December 31 are provided below:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|---|-----------------|------------------|
| Assets Held for Sale and Related Liabilities | | |
| Other current assets | \$27 | \$214,724 |
| Property, plant, and equipment, net | 36,117 | 161,159 |
| Total assets | <u>\$36,144</u> | <u>\$375,883</u> |
| Current liabilities | <u>\$18,850</u> | <u>\$28,307</u> |
| Total liabilities | <u>\$18,850</u> | <u>\$28,307</u> |

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|---|-------------------|-------------------|
| Discontinued Operations | | |
| Unrestricted revenues, gains and other support | | |
| Net patient service revenue | \$127,616 | \$294,929 |
| Other operating revenue | 20,049 | 33,238 |
| Total Revenues | <u>147,665</u> | <u>328,167</u> |
| Expenses | | |
| Salaries, wages and benefits | 70,246 | 148,344 |
| Medical supplies | 24,746 | 66,445 |
| Purchased services, professional fees, and other expenses | 63,938 | 92,088 |
| Depreciation and amortization | 1,608 | 8,451 |
| Interest | 2,735 | 4,963 |
| Insurance | 4,563 | 6,887 |
| Provision for bad debts | 15,273 | 31,206 |
| Other | 3,083 | 17,829 |
| Total Expenses | <u>186,192</u> | <u>376,213</u> |
| Operating Loss | <u>(\$38,527)</u> | <u>(\$48,046)</u> |

The operations of the entities of St. Joseph's Health System which were contributed to a Joint Operating Company with Emory Healthcare as described in Note 3 are classified separately within operating income on the consolidated statement of operations. Those operations are detailed below:

| <i>(in thousands of dollars)</i> | 2011 | 2010 |
|--|-------------------|-------------------|
| St. Joseph's Health System | | |
| Operating Revenues | \$365,965 | \$388,925 |
| Operating Expenses | 397,214 | 409,604 |
| Losses from St. Joseph's Health System | <u>(\$31,249)</u> | <u>(\$20,679)</u> |

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2011 and 2010

20. Subsequent Events

On February 28, 2012, the Company closed Marian Community Hospital, which provided acute care and behavioral health services in the Carbondale, PA service area. The operations of Marian Community Hospital are classified as discontinued operations in the accompanying consolidated statement of operations and changes in net assets.

Catholic Health East
Consolidated Financial Statements
December 31, 2010 and 2009

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Report of Independent Auditors

To the Board of Directors
Catholic Health East

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of Catholic Health East and its subsidiaries (the Company) at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated entities which statements reflect net assets of \$64,964,000 and \$53,626,000 at December 31, 2010 and 2009, respectively, and excess of revenues over expenses of \$11,338,000 and \$26,821,000 for the years then ended. In addition, we did not audit the financial statements of certain unconsolidated entities which are represented in the following financial statements for 2010 and 2009 as investments in unconsolidated organizations of \$1,160,212,000 and \$994,958,000 as December 31, 2010 and 2009, respectively, and equity in earnings of unconsolidated organizations of \$167,882,000 and \$226,941,000 for the years then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2010 the Company adopted new accounting standards which included guidance regarding the recognition and subsequent accounting for goodwill, and recorded a transitional impairment charge of \$32,625,000.

PricewaterhouseCoopers LLP

May 5, 2011

Catholic Health East
Consolidated Statements of Operations
Years Ended December 31, 2010 and 2009

(in thousands of dollars)

| | 2010 | 2009 |
|--|--------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$426,782 | \$403,737 |
| Investments | 78,025 | 72,399 |
| Marketable securities whose use is limited | 35,342 | 32,356 |
| Patient accounts receivable, net of estimated uncollectibles of \$329,394 and \$326,314 for 2010 and 2009, respectively | 489,120 | 493,748 |
| Collateral received on securities pledged | 35,104 | 47,376 |
| Other accounts receivable | 137,811 | 127,766 |
| Prepaid expenses and inventories | 123,386 | 119,938 |
| Assets held for sale | 8,009 | 5,923 |
| Total current assets | <u>1,333,579</u> | <u>1,303,243</u> |
| Marketable securities and investments whose use is limited | | |
| Board-designated funds | 371,095 | 303,979 |
| Trustee-held funds | 211,623 | 214,852 |
| Donor-restricted funds | 72,467 | 63,703 |
| Investments | 408,382 | 396,453 |
| Total marketable securities and investments whose use is limited | <u>1,063,567</u> | <u>978,987</u> |
| Property and equipment, net | 1,720,195 | 1,683,406 |
| Equity investments in managed funds | 286,121 | 303,336 |
| Investments in unconsolidated organizations | 1,325,201 | 1,150,083 |
| Assets held for sale | 370,783 | 380,719 |
| Goodwill | 7,143 | 39,756 |
| Other assets | 129,476 | 165,196 |
| Total assets | <u>\$6,236,065</u> | <u>\$6,004,726</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Current portion of long-term debt | \$58,308 | \$52,834 |
| Portion of variable rate demand obligations classified as current | 29,518 | 54,247 |
| Accounts payable and accrued expenses | 625,432 | 548,786 |
| Collateral due broker on securities pledged | 35,104 | 47,376 |
| Estimated third party payor settlements, net | 79,783 | 65,086 |
| Other | 182,410 | 171,708 |
| Liabilities related to assets held for sale | 28,307 | 28,683 |
| Total current liabilities | <u>1,038,862</u> | <u>968,720</u> |
| Long-term debt, net | 1,669,177 | 1,651,727 |
| Other liabilities | 143,781 | 155,058 |
| Pension liabilities | 290,536 | 283,550 |
| Insurance liabilities, net of current portion | 303,718 | 296,297 |
| Deferred revenue from entrance fees | 45,679 | 47,380 |
| Total liabilities | <u>3,491,753</u> | <u>3,402,732</u> |
| Net assets | | |
| Unrestricted | 2,584,038 | 2,449,026 |
| Temporarily restricted | 132,304 | 126,964 |
| Permanently restricted | 27,970 | 26,004 |
| Total net assets | <u>2,744,312</u> | <u>2,601,994</u> |
| Total liabilities and net assets | <u>\$6,236,065</u> | <u>\$6,004,726</u> |

Catholic Health East
Consolidated Statements of Operations
Years Ended December 31, 2010 and 2009

(in thousands of dollars)

| | 2010 | 2009 |
|--|------------------|------------------|
| Unrestricted revenue, gains and other support | | |
| Net patient service revenue | \$3,788,967 | \$3,733,340 |
| Other operating revenue, gains and other support | <u>268,542</u> | <u>257,770</u> |
| Total unrestricted revenue, gains and other support | <u>4,057,509</u> | <u>3,991,110</u> |
| Expenses | | |
| Salaries, wages and benefits | 2,056,527 | 2,072,609 |
| Medical supplies | 587,938 | 572,870 |
| Purchased services, professional fees and other expenses | 851,360 | 811,462 |
| Depreciation and amortization | 170,861 | 178,150 |
| Interest | 56,877 | 58,358 |
| Insurance | 48,584 | 55,265 |
| Provision for bad debts | <u>252,090</u> | <u>233,791</u> |
| Total operating expenses | <u>4,024,237</u> | <u>3,982,505</u> |
| Operating income before losses from Saint Joseph's Health System | 33,272 | 8,605 |
| Losses from Saint Joseph's Health System | <u>(20,037)</u> | <u>(13,481)</u> |
| Operating income (loss) | 13,235 | (4,876) |
| Non-operating gains (losses) | | |
| Investment returns, net | 87,959 | 144,469 |
| Net cumulative unrealized losses transferred to trading securities | - | (59,289) |
| Equity in gains in earnings of unconsolidated organizations | 163,776 | 227,968 |
| Restructuring expenses and impairment losses | (17,364) | (15,790) |
| Other non-operating gains (losses) | 671 | (3,711) |
| Gain on extinguishment of debt | 657 | 42,674 |
| Change in fair value of interest rate swaps | <u>(13,036)</u> | <u>130,662</u> |
| Total non-operating gains | <u>222,663</u> | <u>466,983</u> |
| Excess of revenue over expenses | <u>\$235,898</u> | <u>\$462,107</u> |

Catholic Health East
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2010 and 2009

(in thousands of dollars)

| | 2010 | 2009 |
|--|--------------------|--------------------|
| Unrestricted net assets | | |
| Excess of revenue over expenses | \$235,898 | \$462,107 |
| Change in unrealized gains on available-for-sale securities | 4,704 | 23,824 |
| Net cumulative unrealized losses transferred to trading securities | - | 59,289 |
| (Increase) decrease in pension liability adjustment - consolidated organizations | (37,096) | 76,372 |
| (Increase) decrease in pension liability adjustment | (8,585) | 6,041 |
| Cumulative effect of change in accounting principle - goodwill | (32,625) | - |
| Other changes | 19,386 | 33,295 |
| | <u>181,682</u> | <u>660,928</u> |
| Increase in unrestricted net assets before discontinued operations | | |
| Loss from discontinued operations | <u>(46,670)</u> | <u>(29,557)</u> |
| Increase in unrestricted net assets | <u>135,012</u> | <u>631,371</u> |
| Temporarily restricted net assets | | |
| Contributions | 27,250 | 27,089 |
| Investment income | 3,632 | 2,047 |
| Change in unrealized gains on investments | 666 | 1,525 |
| Net assets released from restrictions | (28,176) | (25,220) |
| Other changes | 1,968 | (4,548) |
| | <u>5,340</u> | <u>893</u> |
| Increase in temporarily restricted net assets | | |
| Permanently restricted net assets | | |
| Contributions | 585 | 33 |
| Net realized and unrealized gains on investments | 1,300 | 1,897 |
| Other changes | 81 | (10,399) |
| | <u>1,966</u> | <u>(8,469)</u> |
| Increase (decrease) in permanently restricted net assets | | |
| Increase in net assets | 142,318 | 623,795 |
| Net assets | | |
| Beginning of year | <u>2,601,994</u> | <u>1,978,199</u> |
| End of year | <u>\$2,744,312</u> | <u>\$2,601,994</u> |

Catholic Health East
Consolidated Statement of Cash Flows
Years Ended December 31, 2010 and 2009

(in thousands of dollars)

| | 2010 | 2009 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Increase in net assets | \$142,318 | \$623,795 |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities | | |
| Loss from discontinued operations | 46,670 | 29,557 |
| Cumulative effect of change in accounting principle - goodwill | 32,625 | - |
| Pension adjustment, including unconsolidated organizations | 45,681 | (82,414) |
| Gain on extinguishment of debt | (657) | (42,674) |
| Depreciation and amortization | 170,861 | 205,483 |
| Amortization of deferred entrance fees | (7,047) | (6,165) |
| Net realized (gains) losses on investments | (34,943) | 15,610 |
| Net unrealized gains on investments | (50,917) | (168,470) |
| Equity in earnings of unconsolidated organizations | (189,446) | (282,585) |
| Provision for bad debts | 252,090 | 254,180 |
| Decrease (increase) in market value of interest rate swaps | 11,836 | (116,624) |
| Restricted contributions and investment income received | (33,433) | (32,431) |
| Return on investment in unconsolidated organizations | 14,353 | 10,553 |
| Entrance fees received, net of refunds | 5,346 | 3,779 |
| (Increase) decrease in certain assets and liabilities | | |
| Accounts receivable | (248,617) | (265,018) |
| Other receivables | (11,925) | 14,819 |
| Prepaid expenses, inventories and other assets | 31,510 | 3,914 |
| Assets held for sale | (6,604) | (9,221) |
| Accounts payable, accrued expenses and other current liabilities | 57,441 | (19,039) |
| Third party payables | 14,057 | (1,720) |
| Insurance and other liabilities | (14,388) | 47,636 |
| Pension liability | (38,695) | 3,404 |
| Net cash provided by (used in) operating activities of discontinued operations | 1,223 | (36,556) |
| Net cash provided by operating activities | <u>189,339</u> | <u>149,813</u> |
| Cash flows from investing activities | | |
| Additions to property and equipment | (205,826) | (202,539) |
| Return of posted collateral on interest rate swaps | - | 88,000 |
| Decrease (increase) in collateral received on securities pledged | 12,272 | (23,435) |
| Decrease in investments and marketable securities whose use is limited | 13,340 | 88,573 |
| Net cash (used in) provided by investing activities of discontinued operations | (1,363) | 19,696 |
| Net cash used in investing activities | <u>(181,577)</u> | <u>(29,705)</u> |
| Cash flows from financing activities | | |
| Proceeds from restricted contributions and investment income received | 33,433 | 32,431 |
| Proceeds from issuance of long-term debt | 441,132 | 169,081 |
| Decrease in variable rate demand obligations classified as current | (24,729) | (2,920) |
| Cost of issuance of long-term debt | (2,900) | (2,694) |
| Repayments of long-term debt | (415,281) | (213,029) |
| (Decrease) increase in payable under collateral received on securities pledged | (12,272) | 23,435 |
| Net cash used in financing activities of discontinued operations | (4,100) | (3,077) |
| Net cash provided by financing activities | <u>15,283</u> | <u>3,227</u> |
| Increase in cash and cash equivalents | 23,045 | 123,335 |
| Cash and cash equivalents | | |
| Beginning of year | 403,737 | 280,402 |
| End of year | <u>\$426,782</u> | <u>\$403,737</u> |
| Supplemental disclosures of cash flow information | | |
| Interest paid | \$59,757 | \$65,868 |
| Non-cash transaction | \$4,640 | \$18,564 |

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

1. Organization, Mission and Basis of Presentation

Catholic Health East (CHE, the System, or the Company) was incorporated as a Pennsylvania nonprofit corporation on October 1, 1997. CHE is a catholic, multi-facility health system sponsored by nine religious congregations and Hope Ministries. Each sponsoring congregation appoints a representative to the Sponsors Council which maintains certain reserve powers, including the election of the CHE Board of Directors. CHE serves to carry out the health care ministries of the sponsoring congregations. The mission of CHE is to be a community of persons committed to being a transforming, healing presence within the communities it serves.

The consolidated financial statements of CHE include activities of its Regional Health Corporations (RHCs) and related component corporations all of which are wholly or majority owned. These RHCs are located throughout eleven states and the healthcare activities provided by these RHCs include, but are not limited to, general acute care hospitals, long-term care facilities, skilled nursing facilities, behavioral health, residential facilities for the elderly, physician services, home health, outpatient surgery, and other services. A list of the name and location of each RHC is provided below.

Holy Cross Hospital, Inc.
 Fort Lauderdale, Florida

St. Francis Hospital and Affiliates
 Wilmington, Delaware

Mercy Health System of Southeastern Pennsylvania
 Conshohocken, Pennsylvania

Pittsburgh Mercy Health System, Inc.
 Pittsburgh, Pennsylvania

Saint Joseph's Health System, Inc.
 Atlanta, Georgia

Mercy Medical Corporation
 Daphne, Alabama

Our Lady of Lourdes Health Care Services, Inc.
 Camden, New Jersey

Sisters of Providence Health System, Inc.
 Springfield, Massachusetts

Mercy Community Health, Inc.
 West Hartford, Connecticut

Mercy Hospital, Inc.
 Miami, Florida

Mercy Health System of Maine
 Portland, Maine

St. Mary's Health Care System, Inc.
 Athens, Georgia

St. Francis Medical Center
 Trenton, New Jersey

Saint Joseph of the Pines, Inc.
 Southern Pines, North Carolina

St. Peter's Health Care Services
 Albany, New York

St. James Mercy Health Systems, Inc.
 Hornell, New York

St. Mary Medical Center
 Langhorne, Pennsylvania

Maxis Health System
 Carbondale, Pennsylvania

Saint Michael's Medical Center
 Newark, New Jersey

Catholic Health East
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Catholic Health East and certain affiliated nonprofit corporations are generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

CHE and its RHCs also participate in various joint ventures and partnerships, commonly referred to as joint operating agreements. These arrangements enable CHE to provide healthcare services to the broader community through involvement in larger healthcare organizations or systems.

The consolidated financial statements of CHE include the financial information of the RHCs and component corporations, the System's wholly owned captive insurance company, various philanthropic foundations of which the System maintains control, and various other organizations or corporations.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of all entities of CHE. All significant inter-company balances and transactions have been eliminated.

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions, estimates, and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Management considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of the financial statements including, but not limited to, recognition of net patient service revenue, which includes contractual allowances and provisions for bad debt; estimates for healthcare professional and general liabilities; determination of fair values of certain financial instruments; and assumptions for measurement of pension liabilities. Management relies on historical experience and other assumptions believed to be reasonable relative to the circumstances in making judgments and estimates. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in liquid debt instruments with a maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value.

Investments and Investment Income

Investments in marketable equities with readily determinable fair market values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Equity investments in managed funds, private partnerships, and other investments are accounted for under the equity method, which approximates fair value. Realized gains and losses on investments, unrealized gains and losses on trading securities, interest income (net of investment-related expenses), and dividends are included in investment returns, net, as part of non-operating gains and (losses) in the excess of revenue over expenses. Investment income restricted by donors or law is reported as an increase in temporarily or permanently restricted net assets.

Catholic Health East
Notes to the Consolidated Financial Statements
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The System's investments and marketable securities whose use is limited are invested and managed through the CHE Consolidated Investment Program (the CIP Program), and some investments are locally managed by the RHCs. Included in these investments are investments in managed funds, private partnerships, and other investments. The income (loss) from these managed funds is included in investment returns, net, in the accompanying consolidated statement of operations and change in net assets.

The System classifies all unrestricted investments as trading securities.

In 2009, CHE determined that the unrestricted investments in the locally-managed investment portfolios should be classified as trading as opposed to available-for-sale based on CHE's investment philosophies, strategies, and the nature and frequency of investment activity and in accordance with accounting guidance for classification of investments. This change in designation was made on January 1, 2009 and resulted in the recognition of \$59,289,000 of previously unrecognized unrealized losses on securities transferred to excess of revenues over expenses within non-operating gains (losses). Changes in unrealized gains and losses related to these investments are reflected as a component of investment returns, net in the statements of operations in the consolidated financial statements for the year ended December 31, 2010 and 2009.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with these securities and the level of uncertainty related to changes in their value, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reported in the consolidated balance sheets and statements of operations and change in net assets.

Marketable Securities and Investments Whose Use Is Limited

Marketable securities and investments whose use is limited primarily include marketable securities and investments designated by governance for future capital improvements and other purposes, in accordance with agreements with outside parties, by trustees under bond indenture agreements, self-insurance arrangements, and by donor restrictions.

Derivative Financial Instruments

The System recognizes all derivative instruments in the balance sheets at fair value. The change in the fair value of derivatives is recognized as a component of excess of revenues over expenses in the consolidated statement of operations for the years ended December 31, 2010 and 2009.

Inventories

Inventory is valued at the lower of cost (first-in, first-out) or market, net of reserves for obsolescence.

Assets Held for Sale

CHE has classified certain long-lived assets as assets held for sale in the consolidated balance sheet when the assets have met applicable criteria for this classification. CHE has classified \$378,792,000 and \$386,642,000 as current and long-term assets held for sale at December 31, 2010 and 2009, respectively. The Company has also classified \$28,307,000 and \$28,683,000 at December 31, 2010 and 2009, respectively, as liabilities related to assets held for sale.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is expensed over the estimated useful life of each class of depreciable asset and is computed using the straight-line

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or others assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Long-Lived Assets

CHE evaluates the carrying value of its long-lived assets for impairment when impairment indicators are identified. In the event that the carrying value of a long-lived asset is not supported by the fair value, the System will recognize an impairment loss for the difference. Fair value is based on the exchange price that would be received for an asset or paid to transfer a liability. The System recognized impairment losses of \$3,023,000 and \$5,969,000 for the years ended December 31, 2010 and 2009, respectively.

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations represent CHE investments in joint operating agreements, joint ventures, or partnerships. The equity method is used to account for these investments.

Deferred Revenue from Advance Fees

Certain RHCs operate residential facilities for the elderly. Fees paid by residents upon entering into continuing care contracts, net of the portion that is refundable to the resident, are recorded as deferred revenue and amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

Deferred Debt Issuance Costs

Deferred debt issuance costs included in other assets at December 31, 2010 and 2009, totaling \$21,758,000 and \$22,647,000, respectively are amortized using the straight-line method over the life of the related debt, which approximates the effective interest method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System 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.

Excess of Revenue over Expenses

The statement of operations includes the excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses include unrealized gains and losses on available for sale investments of unconsolidated organizations; permanent transfers of assets to and from affiliates for other than goods and services, pension adjustment, cumulative effect of change in accounting principle, discontinued operations, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

Non-Operating Gains (Losses)

Non-operating gains (losses) consist primarily of investment returns, which include investment income, dividends, net unrealized gains (losses) on trading securities, and realized gains and losses on trading securities; equity in earnings of unconsolidated organizations; restructuring expenses and impairment losses; losses on extinguishment of debt; and the change in the fair value of interest rate swaps.

Other Operating Revenue

Other revenue is derived from services other than the provision of health care services or coverage to patients or residents. This revenue consists primarily of federal and state grants, unrestricted contributions, rental income, income from health plan operations, support services, parking garages, gift shop income, cafeteria income, maintenance fee income, foundation investment income, and other miscellaneous income.

Net Patient Service Revenue

Third-party payors (Medicare, Medicaid, and commercial insurance payors) provide payments to the hospitals at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounts from established charges, and per diem payments. Net patient service revenue is the estimated amount to be realized for services rendered, including estimated retroactive adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Allowance for Doubtful Accounts

The System records an allowance for doubtful accounts for estimated losses resulting from the unwillingness of patients or failure of payors to make payments for services. The allowance is determined by analyzing historical data and trends. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease.

Charity Care

CHE provides services to all patients regardless of ability to pay. In accordance with the System's policy, a patient is classified as a charity patient based on income eligibility criteria as established by the *Federal Poverty Guidelines*. Charges for services to patients who meet the System's guidelines for charity care are not reflected in the accompanying consolidated financial statements. The charges associated with these services for charity care provided by the System approximate \$463,752,000 and \$434,390,000 in 2010 and 2009, respectively. These amounts do not include the provision of bad debts totaling \$252,090,000 and \$233,791,000 in 2010 and 2009, respectively, which is reflected separately in the consolidated statements of operations. The charges and provisions for bad debts do not include amounts classified as discontinued operations.

Donor-Restricted Gifts

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. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-

Catholic Health East
Notes to the Consolidated Financial Statements
December 31, 2010 and 2009

restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated financial statements.

Subsequent Events

CHE evaluated the impact of subsequent events through May 5, 2011, representing the date at which the consolidated financial statements were issued. See Note 21 for a discussion of CHE's material subsequent events related to the December 31, 2010 consolidated financial statements.

Adoption of Accounting Pronouncements

Effective January 1, 2010, the Company adopted new accounting standards issued by the Financial Accounting Standards Board (FASB) which provide guidance on the accounting for mergers and acquisitions by not-for-profit organizations, including the recognition and subsequent accounting for goodwill resulting from an acquisition. In accordance with the provisions of this guidance, beginning in 2010, goodwill is no longer amortized. Goodwill is evaluated and reviewed for impairment at least annually or whenever events or circumstances indicate that the carrying value may not be recoverable. Upon adoption of this guidance, CHE recorded a transitional impairment charge of \$32,625,000 related to goodwill recorded from the acquisition of St. Michael's Medical Center in 2008. The transitional impairment was determined by comparing the present value of the reporting unit's future cash flows to the carrying value of the goodwill. This charge is included as the cumulative effect of a change in accounting principle in the 2010 statement of changes in net assets.

Reclassifications

Certain amounts have been reclassified in the prior year's financial statements to conform to the classifications used in the current year.

3. Net Patient Service Revenue

Net patient service revenue from the Medicare and Medicaid programs, exclusive of managed care, accounted for approximately 30.9% and 9.4%, respectively, of total net patient service revenues in 2010, and 30.9% and 8.4%, respectively of total net patient service revenue in 2009. Compliance with laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Management believes that adequate provision has been made for adjustments that may result from reviews by third-party payors. Estimated net settlements related to Medicare and Medicaid, collectively, of \$19,626,000 and \$20,173,000 in 2010 and 2009, respectively, are included as a component of current liabilities in the accompanying consolidated balance sheets. The amounts recorded for these estimated settlements approximate their fair value.

Net patient service revenue includes approximately \$6,077,000 and \$18,613,000 in 2010 and 2009, respectively, related to favorable changes in estimates for prior year cost report reopenings, appeals, and tentative and final cost reports, of which some are still subject to audit, additional reopening, and/or appeals.

Catholic Health East
Notes to the Consolidated Financial Statements
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The following summarizes net patient service revenue for the years ended December 31:

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|----------------------------------|--------------------|--------------------|
| Gross patient service revenue | \$14,421,929 | \$14,245,185 |
| Less: | | |
| Contractual allowances | (10,214,482) | (10,127,824) |
| Charity care | (463,752) | (434,390) |
| Other | 45,272 | 50,369 |
| Net patient service revenue | <u>\$3,788,967</u> | <u>\$3,733,340</u> |

4. Social Accountability Costs (Unaudited)

In keeping with the mission and purpose of Catholic Health East, to carry out the health care ministries of the sponsoring congregations by serving as a community of persons committed to being a transforming, healing presence within the communities it serves, and in particular the needs of the poor, the System strives to maximize the provision of services in its communities and in collaboration with other organizations. A portion of CHE's overall operating expense relates to costs incurred in providing and meeting certain community needs for which CHE is not directly compensated.

A standard reporting and accountability process is utilized throughout CHE to estimate the net cost of these services, referred to as Social Accountability Costs, which provides a basis of accountability and reporting to the communities served for purposes of disclosing the utilization of resources. Costs reported are net of contributions or grants that have been provided to CHE and designated for these purposes.

The information presented below has been calculated and is presented in accordance with the Catholic Health Association's, *A Guide for Planning and Reporting Community Benefits*, Copyright 2008. Social accountability costs for the years ended December 31 are as follows:

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|-------------------------------------|------------------|------------------|
| Cost of care for those who are poor | \$58,495 | \$59,979 |
| Cost of community benefit programs | 76,178 | 72,964 |
| Other public programs | 12,079 | 10,449 |
| Unpaid cost of Medicaid programs | 83,948 | 89,395 |
| Social accountability costs | <u>\$230,700</u> | <u>\$232,787</u> |
| Percentage of operating expenses | <u>4.8%</u> | <u>4.9%</u> |
| Unpaid cost of Medicare programs | <u>\$181,675</u> | <u>\$214,065</u> |

The cost of care of the poor is based on the System's estimated net cost of providing services to those unable to pay. The cost of the community benefit programs reflects the costs to develop and provide programs that are developed and provided to meet special community needs that would not otherwise be available. Volunteer service reflects both internal and external services provided to support patient care activities and community programs. The difference between amounts reimbursed to the System under the Medicare and Medicaid programs and the estimated cost of providing care for these respective programs is reflected as an unpaid cost of the program.

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5. Marketable Securities and Investments Whose Use Is Limited and Equity Investments in Managed Funds

The composition of investments at December 31 is as follows:

(in thousands of dollars)

| | 2010 | 2009 |
|----------------------------------|--------------------|--------------------|
| Reported at fair value | | |
| Cash and cash equivalents | \$337,459 | \$399,767 |
| Marketable equity securities | 478,433 | 374,773 |
| Marketable debt securities | 361,042 | 309,202 |
| | <u>1,176,934</u> | <u>1,083,742</u> |
| Reported under the equity method | | |
| Managed funds | 286,121 | 303,336 |
| | <u>\$1,463,055</u> | <u>\$1,387,078</u> |

A portion of CHE's long-term investment assets are held in the CIP Program. The CIP Program is structured under a Program Participation Agreement (the Agreement) between each participant RHC and CHE. All investments in the CIP Program are professionally managed under the administration of CHE.

Participants' investments held in the CIP Program are assigned a weighted value for the period of time the funds are invested in the CIP Program. Investment income from the CIP Program, including interest income, dividends, and realized gains and losses on sales of securities, and unrealized gains and losses are distributed to participants based on their weighted value of investment.

The underlying fair value of investments in the CIP Program, which are traded on national exchanges (except for managed funds), is based on the final reported sales price on the last business day of the year. The fair value of investments traded in over-the-counter markets is based on the average of the last recorded bid and asked prices.

CHE participates in a securities lending program wherein some investments are loaned on an overnight basis to various brokers. CHE receives lending fees and earns interest and dividends on the loaned securities. These securities are returnable on demand and are collateralized by cash deposits and U.S. Treasury Obligations. Collateral received is at 100% of the fair value of the securities on loan. CHE is indemnified against borrower default by the financial institution acting as lending agent. At December 31, 2010 and 2009, securities with a fair market value of \$35,104,000 and \$47,376,000, respectively, were loaned under securities lending agreements.

Catholic Health East
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Investment returns, net, is comprised of the following for the years ended December 31:

(in thousands of dollars)

| | 2010 | 2009 |
|--|-----------------|------------------|
| Unrestricted net assets | | |
| Investment returns, net | | |
| Interest and dividends | \$13,637 | \$11,198 |
| Net realized gains (losses) | 21,991 | (12,434) |
| Net unrealized gains on investments - trading securities | 52,331 | 145,705 |
| | <u>\$87,959</u> | <u>\$144,469</u> |
| Net change in unrealized gains on available for sale securities (held by unconsolidated organizations) | <u>\$4,704</u> | <u>\$23,824</u> |
| Temporarily restricted net assets | | |
| Other changes in temporarily restricted net assets | | |
| Investment income | | |
| Interest and dividends | \$1,001 | \$726 |
| Net realized gains on investments | 2,631 | 1,321 |
| | <u>\$3,632</u> | <u>\$2,047</u> |
| Net unrealized gains on investments | <u>\$666</u> | <u>\$1,525</u> |
| Permanently restricted net assets | | |
| Other changes in permanently restricted net assets | | |
| Net realized and unrealized gains on investments | <u>\$1,300</u> | <u>\$1,897</u> |

The following managed fund investments are recorded under the equity method of accounting, which approximates the net asset value per share of the investments as of December 31, 2010:

| (in thousands of dollars) | <u>Recorded</u> <u>Value</u> | <u>Unfunded</u> <u>Commitments</u> | <u>Commitment</u> <u>Term</u> | <u>Redemption</u> <u>Terms</u> |
|---------------------------|---------------------------------|---------------------------------------|----------------------------------|--|
| Fund of Hedge Funds | \$253,719 | \$0 | n/a | Quarterly, semiannually, or anniversary date |
| Real Estate | 13,118 | \$6,235 | 4-9 years | Redemption permitted upon expiration of commitment term |
| Private Equity | 19,284 | \$18,632 | 5-13 years | Redemption permitted upon expiration of commitment term |
| Total | <u>\$286,121</u> | | | |

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6. Fair Value Measurements

The System adheres to applicable accounting guidance for fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America and requires certain disclosures about fair value measurements. Fair value is defined under the guidance as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

As a basis for considering assumptions, the guidance establishes a hierarchical framework for measuring fair value (the fair value hierarchy) as follows:

Level 1: Quoted prices in active markets for identical assets.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Financial instruments measured at fair value are based on one or more of the three valuation techniques noted in the fair value guidance. The three valuation techniques are as follows:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing models).

The System measures its interest rate swaps at fair market value on a recurring basis. The fair market value of the interest rate swaps is determined based on financial models that consider current and future market interest rates and adjustments for non-performance risk.

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Financial instruments at fair value at December 31, 2010 and 2009 are as follows:

(in thousands of dollars)

| | 2010 | | | | Valuation Technique |
|---|------------------|------------------|----------------|--------------------|------------------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| Consolidated investment program: | | | | | |
| Cash and cash equivalents | \$46,964 | \$56,532 | \$ - | \$103,496 | Market |
| Marketable equity securities | 355,890 | 1,995 | 11 | 357,896 | Market |
| Marketable debt securities | 49,655 | 122,383 | - | 172,038 | Market |
| Total consolidated investment program | <u>452,509</u> | <u>180,910</u> | <u>11</u> | <u>633,430</u> | |
| Locally invested: | | | | | |
| Cash and cash equivalents | 233,963 | - | - | 233,963 | Market |
| Marketable equity securities | 102,691 | 17,840 | 6 | 120,537 | Market |
| Marketable debt securities | 64,087 | 119,553 | 5,364 | 189,004 | Market |
| Total locally invested | <u>400,741</u> | <u>137,393</u> | <u>5,370</u> | <u>543,504</u> | |
| Total marketable securities and investments whose use is limited at fair value | <u>\$853,250</u> | <u>\$318,303</u> | <u>\$5,381</u> | <u>1,176,934</u> | |
| Managed funds | | | | 286,121 | |
| Total marketable securities and investments whose use is limited and managed funds | | | | <u>\$1,463,055</u> | |
| Derivative financial instruments | | | | | |
| Interest rate swaps - liability | | <u>(\$302)</u> | | | Market |

| | 2009 | | | | Valuation Technique |
|---|------------------|------------------|----------------|--------------------|------------------------|
| | Level 1 | Level 2 | Level 3 | Total | |
| Consolidated investment program: | | | | | |
| Cash and cash equivalents | \$115,518 | \$29,410 | \$ - | \$144,928 | Market |
| Marketable equity securities | 270,932 | 246 | - | 271,178 | Market |
| Marketable debt securities | 40,281 | 105,726 | 345 | 146,352 | Market |
| Total consolidated investment program | <u>426,731</u> | <u>135,382</u> | <u>345</u> | <u>562,458</u> | |
| Locally invested: | | | | | |
| Cash and cash equivalents | 253,492 | 1,347 | - | 254,839 | Market |
| Marketable equity securities | 86,996 | 16,593 | 6 | 103,595 | Market |
| Marketable debt securities | 81,246 | 76,553 | 5,051 | 162,850 | Market |
| Total locally invested | <u>421,734</u> | <u>94,493</u> | <u>5,057</u> | <u>521,284</u> | |
| Total marketable securities and investments whose use is limited at fair value | <u>\$848,465</u> | <u>\$229,875</u> | <u>\$5,402</u> | <u>1,083,742</u> | |
| Managed funds | | | | 303,336 | |
| Total marketable securities and investments whose use is limited and managed funds | | | | <u>\$1,387,078</u> | |
| Derivative financial instruments | | | | | |
| Interest rate swaps - asset | | <u>\$12,718</u> | | | Market |

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A roll forward of those financial instruments that have been classified by the Company as Level 3 within the fair value hierarchy (defined above) is as follows:

(in thousands of dollars)

| | 2010 | | |
|---|--|-----------------------------|----------------|
| | Consolidated Investment Program | Locally Invested | Total |
| Fair value January 1 | \$345 | \$5,057 | \$5,402 |
| Purchases | - | 2,436 | 2,436 |
| Realized and unrealized gains | 9 | 216 | 225 |
| Transfers out | (343) | (2,116) | (2,459) |
| Change in fair value | - | 284 | 284 |
| Sales | - | (507) | (507) |
| Fair value December 31 | <u>\$11</u> | <u>\$5,370</u> | <u>\$5,381</u> |
| Amount of unrealized losses related to Level 3 investments held at December 31, included in the statement of operations | <u>\$9</u> | <u>\$284</u> | <u>\$293</u> |

| | 2009 | | |
|---|--|-----------------------------|----------------|
| | Consolidated Investment Program | Locally Invested | Total |
| Fair value January 1 | \$201 | \$4,357 | \$4,558 |
| Purchases | 340 | 181 | 521 |
| Realized and unrealized gains | 236 | 48 | 284 |
| Transfers out | - | (69) | (69) |
| Change in fair value | - | 641 | 641 |
| Sales | (432) | (101) | (533) |
| Fair value December 31 | <u>\$345</u> | <u>\$5,057</u> | <u>\$5,402</u> |
| Amount of unrealized losses related to Level 3 investments held at December 31, included in the statement of operations | <u>\$236</u> | <u>\$49</u> | <u>\$285</u> |

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7. Property and Equipment

The following summarizes property and equipment at December 31:

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|---|---------------------------|---------------------------|
| Land and improvements | \$104,970 | \$105,591 |
| Buildings and improvements | 1,918,664 | 1,870,960 |
| Equipment | <u>1,458,132</u> | <u>1,394,842</u> |
| | 3,481,766 | 3,371,393 |
| Less: Accumulated depreciation and amortization | <u>(1,971,840)</u> | <u>(1,816,579)</u> |
| | 1,509,926 | 1,554,814 |
| Construction in progress | <u>210,269</u> | <u>128,592</u> |
| | <u><u>\$1,720,195</u></u> | <u><u>\$1,683,406</u></u> |

At December 31, 2010 and 2009, approximately \$633,142,000 and \$596,130,000 of property and equipment, net, is pledged as collateral under various loan agreements. Interest cost, net of related interest income, totaling approximately \$5,952,000 and \$6,837,000 was capitalized to construction in progress during 2010 and 2009, respectively.

8. Investments in Unconsolidated Organizations

Catholic Health East has investments in unconsolidated organizations totaling \$1,325,201,000 and \$1,150,083,000 at December 31, 2010 and 2009, respectively. Several significant investments, which are accounted for under the equity method, comprise this balance including, but not limited to, the following:

BayCare Health System

CHE has a fifty percent interest in BayCare Health System Inc. and Affiliates (BayCare), a Florida not-for-profit corporation exempt from state and federal income taxes. BayCare was formed in 1997 pursuant to a Joint Operating Agreement (JOA) among the not-for-profit, tax-exempt members of the Catholic Health East BayCare Participants, Morton Plant Mease Health Care, Inc. and South Florida Baptist Hospital, Inc. (collectively, the Members). BayCare consists of three community health alliances located in the Tampa Bay area of Florida including St. Joseph's-Baptist Healthcare Hospital, St. Anthony's Health Care, and Morton Plant Mease Health Care with an aggregate of approximately 2,900 acute care beds. CHE has the right to appoint nine of the twenty-one members of the Board of Directors of BayCare. At December 31, 2010 and 2009, CHE's recorded investment in BayCare totaled \$1,071,455,000 and \$918,741,000, excluding wholly owned subsidiaries and other beneficial interests.

Catholic Health System, Inc.

CHE has a one-third interest in Catholic Health System, Inc. and Subsidiaries (CHS). CHS, formed in 1998, is a not-for-profit integrated delivery healthcare system in Western New York jointly sponsored by the Sisters of Mercy, Ascension Health System, the Franciscan Sisters of St. Joseph, and the Diocese of Buffalo. CHE, Ascension Health System, and the Diocese of Buffalo are the corporate members of CHS. CHS operates several organizations, the most significant of which are four acute care hospitals located in Buffalo, New York, Mercy Hospital of Buffalo, Kenmore Mercy Hospital, Sisters of Charity Hospital, and St. Joseph Hospital. At December 31, 2010 and 2009, CHE's recorded investment in CHS totaled \$24,523,000 and \$24,370,000, respectively.

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Condensed consolidated balance sheets of BayCare, including wholly owned foundations and other beneficial interests, and CHS as of December 31 are as follows:

(in thousands of dollars)

| | Baycare | | CHS | |
|-------------|-------------|-------------|-----------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Assets | \$3,883,968 | \$3,633,116 | \$566,164 | \$521,160 |
| Liabilities | \$1,600,427 | \$1,655,002 | \$487,683 | \$443,140 |
| Net assets | \$2,283,541 | \$1,978,114 | \$78,481 | \$78,020 |

The following amounts have been recognized in the accompanying consolidated statements of operations and changes in net assets related to the investments in BayCare and CHS for the years ended December 31:

(in thousands of dollars)

| | Baycare | | CHS | |
|---|------------------|------------------|--------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Equity in earnings of unconsolidated organizations | \$149,748 | \$212,240 | \$6,532 | \$10,766 |
| Net unrealized losses on investments | (7) | (77) | - | - |
| Other changes in unrestricted and restricted net assets | (137) | 13,180 | (6,268) | (1,363) |
| | <u>\$149,604</u> | <u>\$225,343</u> | <u>\$264</u> | <u>\$9,403</u> |

Additionally, certain RHCs have investments in unconsolidated organizations, the most significant of which are investments in Medicaid HMO joint ventures at Mercy Health System of Southeastern Pennsylvania (Mercy SEPA). These investments total \$229,223,000 and \$206,972,000 in 2010 and 2009, respectively. CHE's proportionate share of the income of these investments was \$32,911,000 and \$28,739,000 for the years ended December 31, 2010 and 2009, respectively.

9. Derivative Financial Instruments

CHE has entered into derivative transactions for the purpose of reducing interest rate volatility and to reduce interest expense. CHE has entered into fixed-to-floating interest rate swaps, basis swaps, and fixed-payor swaps.

At December 31, 2010, fourteen basis swap transactions were outstanding in the CHE program with notional amounts totaling \$717 million and maturity dates ranging from February 2023 to December 2028. In the basis swap transactions, CHE receives a floating taxable rate and pays a floating tax-exempt rate. CHE has elected not to designate these interest rate swap agreements as hedges for financial reporting purposes.

At December 31, 2010, four fixed-to-floating interest rate swap agreements were outstanding in the CHE program with notional amounts totaling \$95 million and maturity dates ranging from May 2012 to December 2021. These fixed-to-floating interest rate swap agreements effectively convert a portion of the System's fixed rate debt to a floating rate basis and are not designated as hedges for financial reporting purposes.

At December 31, 2010, five fixed-payor interest rate swap agreements were outstanding in the CHE program with notional amounts totaling \$37.8 million and maturity dates ranging from November 2028 to November 2034. Under these interest rate swap agreements CHE pays a fixed

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rate and receives a variable rate. Additionally, the cash flows from these interest rate swap agreements equal the rates on the bonds and therefore effectively convert the debt to a fixed rate. The notional amount of these interest rate swaps agreements decline in relation to the annual principal payments on the hedged debt. CHE has elected not to designate these interest rate swap agreements as hedges for financial reporting purposes.

The fair value of derivative instruments at December 31 is as follows:

(in thousands of dollars)

| | 2010 | | 2009 | |
|-------------------------|------------------------|------------|------------------------|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Interest rate contracts | | | | |
| Basis | Other assets | \$2,872 | Other assets | \$27,583 |
| Fixed-to-floating | Other assets | \$1,559 | Other liabilities | (\$3,339) |
| Fixed-payor | Other liabilities | (\$4,627) | Other liabilities | (\$11,234) |
| Other | Other liabilities | (\$106) | Other liabilities | (\$292) |

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2010 and 2009 are as follows:

(in thousands of dollars)

| | Location of Gain (Loss) Recognized in Statement of Operations | Amount of Gain (Loss) Recognized in Statement of Operations | |
|-------------------------|---|---|-----------|
| | | 2010 | 2009 |
| Interest rate contracts | | | |
| Basis | Change in fair value of interest rate swaps | (\$24,894) | \$70,819 |
| Fixed-to-floating | Change in fair value of interest rate swaps | 4,857 | (6,503) |
| Fixed-payor | Change in fair value of interest rate swaps | 6,815 | 66,104 |
| Other | Change in fair value of interest rate swaps | 186 | 242 |
| Total | | (\$13,036) | \$130,662 |

Certain of CHE's derivative instruments contain credit-risk-related provisions that require CHE and its counterparties to post collateral in varying amounts based on respective credit ratings. If CHE's debt were to fall below investment grade, the counterparties to the derivative instruments would require CHE to post collateral only if the aggregate position of all derivative instruments is negative. Based on CHE's current credit rating, the System was not required to post collateral as of December 31, 2010 or 2009.

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10. Long-Term Debt

At December 31, long-term debt consisted of the following:

(in thousands of dollars)

| | 2010 | 2009 |
|--|--------------------|--------------------|
| Revenue bonds | | |
| Catholic Health East Health System Revenue Bonds | | |
| Various Fixed Rate Series issued from 1998 to 2008; coupon rates ranging from 2.50% to 7.50%; annual principal payments through 2037 | \$1,357,914 | \$1,259,179 |
| Various Variable Rate Series issued from 1997 to 2008; rates ranging from 0.13% to 4.0%; annual principal payments through 2036 | 171,183 | 176,984 |
| Various Variable Rate Series swapped to fixed rating ranging from 1.09% to 2.27%; annual principal payments through 2034 | 37,745 | 135,970 |
| Taxable Rate Series issued 1999 with rate of 7.62%; annual principal payments through 2017 | 5,070 | 5,680 |
| | <u>1,571,912</u> | <u>1,577,813</u> |
| Other issues under \$10 million | 2,989 | 2,849 |
| Less amortization and unamortized premium (discount) | 1,011 | (9,257) |
| Mortgages payable | | |
| Dormitory Authority of the State of New York mortgage payable with a rate of 6.23%; semi-annual principal payments through 2024 | 6,447 | 6,754 |
| Century Health Capital, Inc. mortgage payable with rate of 5.47%; monthly principal payment through to 2015 | 6,851 | 8,215 |
| Various HUD insured mortgages (5.56% to 5.64%) payable through January 2027 | 12,577 | 13,137 |
| Other mortgages and notes payable under \$5 million, individually | 5,633 | 6,075 |
| Notes payable | | |
| North Ridge VA Center, LTD (5.04%), semi-annual principal payments through 2023 | 36,780 | 38,853 |
| Notes payable due at various dates through 2027; various rates | 1,300 | 50 |
| Revolving credit agreement, due in 2014 | 52,800 | 54,190 |
| Capital lease obligations payable in various monthly amounts | 58,703 | 60,129 |
| Total long-term debt and obligations under capital leases | 1,757,003 | 1,758,808 |
| Less: Current maturities of long term debt | (58,308) | (52,834) |
| Less: Portion of variable rate demand obligations classified as current | (29,518) | (54,247) |
| Total long-term debt | <u>\$1,669,177</u> | <u>\$1,651,727</u> |

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Aggregate maturities of long-term debt and capital lease obligations as of December 31, 2010 are shown below.

(in thousands of dollars)

| | |
|---|--------------------|
| 2011 | \$87,826 |
| 2012 | 78,924 |
| 2013 | 80,018 |
| 2014 | 106,706 |
| 2015 | 79,057 |
| Thereafter | 1,323,446 |
| Unamortized premium and discount and imputed interest | 1,026 |
| | <u>\$1,757,003</u> |

The fair value of the System's long term debt is based on quoted market prices or estimates using discounted cash flow analyses, based on the participating facility's incremental borrowing rates for similar types of borrowing arrangements. The fair value of the System's long-term debt, based on quoted market prices, at December 31, 2010 and 2009 was \$1.61 billion and \$1.60 billion, respectively, compared to the carrying value of \$1.59 billion and \$1.58 billion, respectively. This excludes capital leases, notes payable, and mortgage notes.

In March 2010, CHE issued a tender offer to bondholders of the Series 2007 bonds that were previously issued in New Jersey. Of the \$99.6 million in outstanding bonds, offers totaling \$98.2 million were accepted, or 98.5% of the total. In exchange for the \$98.2 million, CHE issued \$90.0 million of fixed rate bonds and terminated \$10.4 million of related interest rate swaps.

In March 2010, CHE issued \$130.7 million of Series 2010 Hospital Revenue Bonds through New Jersey Health Care Facilities Financing Authority. The bonds were issued as fixed rate bonds with interest rates ranging from 2.0% to 5.0%. The proceeds of this issue were used to refund and redeem certain of the outstanding Series 1998 and Series 2007 Revenue Bonds previously issued in New Jersey, and to pay the costs of issuance. As part of this transaction, the System recorded a gain on extinguishment totaling \$7.8 million.

On April 7, 2010, CHE issued \$287.6 million of Series 2010 Hospital Revenue Bonds through financing authorities in Florida, Connecticut, Georgia, Massachusetts, North Carolina, and Pennsylvania. The bonds were issued as fixed rate bonds with interest rates ranging from 2.0% to 5.0%. The proceeds of this issue were used to advance refund and redeem and to pay the costs of issuance of certain outstanding Series 1998 and Series 1999 Revenue bonds issued in Massachusetts, Connecticut, Pennsylvania, New Jersey, North Carolina, Georgia, and Florida, and to finance \$50 million in capital projects for St. Mary Medical Center in Pennsylvania. As part of this transaction, the System recorded a loss on extinguishment totaling \$6.9 million.

In March, 2009, CHE issued a tender offer to bondholders of the Series 2007 bonds that were previously issued in Georgia, Massachusetts, and Pennsylvania. The bonds issued in New Jersey were not included in the tender offer. Of the \$231.6 million in outstanding bonds, offers totaling \$195.1 million were accepted, or 84.1% of the total. In exchange for the \$195.1 million, CHE issued \$157.0 million of fixed rate bonds and paid off/terminated \$34.0 million of related interest rate swaps. As part of this transaction, the System recorded a gain on extinguishment totaling \$42.7 million.

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On May 20, 2009, CHE and Mercy Hospital, Miami issued \$29.9 million of Series 2010 Hospital Revenue Bonds through the City of Miami, Florida Health Facilities Authority. The proceeds of this issue were used to repay amounts outstanding on the CHE line of credit. The bonds were issued as variable rate demand bonds, initially bearing interest in a weekly mode, and are secured by an irrevocable letter of credit issued by Bank of New York Mellon. The letter of credit was issued for an initial three-year term and expires on May 25, 2012.

Certain CHE constituent corporations are members of the CHE Obligated Group. Under the Amended and Restated Master Trust Indenture dated January 1, 1998 and amended and restated as of September 30, 2007, Obligated Group members provide a revenue pledge and are joint and severally liable on all obligations outstanding under the Master Indenture. Additionally, the Obligated Group has agreed to comply with certain covenants including the repayment of principal and interest, notification regarding admission or withdrawal of members of the Obligated Group, to deliver financial statements and other related information by specified due dates, to maintain insurance, and to maintain a long-term debt service coverage of at least 1.10 to 1.00.

Pursuant to loan agreements between CHE and various RHCs, promissory notes have been executed by each RHC in amounts equal to the amount of proceeds necessary to defease previously existing debt and provide for capital projects.

In prior years, CHE advance refunded certain of its bonds which are no longer reflected in the consolidated financial statements since CHE has legally satisfied its obligation through defeasance. Funds are held in an irrevocable escrow with a trustee and are expected to be sufficient to satisfy the obligations.

The CHE revolving credit loan facility was refinanced in 2010. The credit facility is structured through a consortium with five banks and extends through June 9, 2014. CHE has a revolving credit loan facility with five banks. The credit facility totals \$200,000,000 with an option to increase the credit facility to \$250,000,000. At December 31, 2010 and 2009, approximately \$37,933,000 and \$55,345,000, respectively, of the total credit facility was obligated for standby letters of credit. Additionally, approximately \$52,800,000 and \$54,190,000 at December 31, 2010 and 2009, respectively, had been borrowed against the total credit facility. Borrowings under this agreement may be repaid at any time and are payable upon termination of the agreement. These borrowings were used to finance various capital projects at several of the RHCs. Use of the credit facility for standby letters of credit is limited to \$100,000,000 of the total credit facility.

Certain of the System's variable rate demand bonds are supported by irrevocable letters of credit with expiration dates from 2011 to 2014. CHE is the guarantor for these letters of credit. Those letters of credit with expiration dates in 2011 are classified as current liabilities in the consolidated balance sheet. The letters of credit and dates of expiration are as follows:

| <u>RHC</u> | <u>Associated Bond Issue</u> | <u>Expiration</u> |
|-------------------------------|------------------------------|-------------------|
| Mercy Medical Corporation | Series 1997 | 11/1/2013 |
| Mercy Hospital, Inc., Miami | Series 1998 | 9/9/2011 |
| Mercy Medical Corporation | Series 2000 | 9/30/2012 |
| St. Francis Medical Center | Series 2003 | 6/15/2012 |
| Mercy Health System of Maine | Series 2006 | 9/30/2012 |
| St. Joseph of the Pines, Inc. | Series 2008 | 4/23/2014 |
| Mercy Hospital, Inc., Miami | Series 2008 | 5/14/2013 |
| Mercy Hospital, Inc., Miami | Series 2009 | 5/25/2012 |

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Blended Cost of Debt Program

CHE maintains a Blended Cost of Debt Program (the Debt Program) to provide a uniform cost of debt for participating RHCs and to mitigate the interest rate risk of an RHC.

Under the Debt Program, all debt costs, excluding taxable debt, capitalized leases, and short-term borrowing, are blended. The calculation of the blended costs incorporates bond interest, both fixed and variable, debt-related fees, such as letters of credit, credit enhancement, remarketing, auction, as well as periodic rating agency, bond trustee, master trustee and issuing authority fees, net swap payments/receipts and put/guaranty receipts, along with other miscellaneous fees related to tax-exempt debt issued by CHE and its affiliates.

Participants in the Debt Program make periodic payments to CHE. Each participant's periodic payment is based on their respective percentage of total indebtedness included in the Debt Program. Principal payments are not blended. Participants make their scheduled principal payments to CHE in the month they are due.

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System 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. Temporarily restricted net assets at December 31 are available for the following purposes:

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|--|------------------|------------------|
| Temporarily restricted net assets | | |
| Education and research | \$7,790 | \$9,439 |
| Building and equipment | 48,025 | 44,455 |
| Patient care | 11,162 | 13,658 |
| Cancer Center/research | 1,976 | 3,309 |
| Education and research grants | 7 | 73 |
| Other | 63,344 | 56,030 |
| | <u>\$132,304</u> | <u>\$126,964</u> |

Permanently restricted net assets at December 31 are restricted as follows:

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|--|-----------------|-----------------|
| Permanently restricted net assets | | |
| Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income) | \$18,554 | \$17,419 |
| Endowments requiring income to be added to the original gift | 2,335 | 2,193 |
| Other | 7,081 | 6,392 |
| | <u>\$27,970</u> | <u>\$26,004</u> |

The System classifies the portions of donor-restricted endowment funds of perpetual duration as permanently restricted net assets. Permanently restricted net assets of the System are comprised of a) the original value of gifts donated to the System through a permanent endowment, b) the

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original value of subsequent gifts to the System through a permanent endowment, and c) accumulations to the permanent endowment in accordance with applicable donor gift instruments. Any portions of donor-restricted endowment funds that are not classified as permanently restricted are appropriated in accordance with donor intent.

The System considers the following factors in determining if donor-restricted endowment funds are accumulated or appropriated:

- 1) the duration and preservation of the fund
- 2) the purposes of the System's donor-restricted endowment funds
- 3) general economic conditions
- 4) effect of possible inflation or deflation
- 5) the expected total investment return and appreciation of investments
- 6) other resources of the System
- 7) investment policies of the System

The System's permanently restricted net assets consist of individual endowment accounts. Unless otherwise directed by the donor, gifts received for endowments are invested in accordance with the System's investment policy. Unless otherwise directed by the donor, the System annually appropriates a certain percentage of each endowment fund, which is then available for spending in accordance with the donor's intent. In order to preserve the real value of a donor's gift and to sustain funding consistent with donor intent, the annual appropriation rate is set to strike a reasonable balance between long-term objectives of preserving and growing each endowment fund for the future and providing stable, annual appropriations.

The composition of endowment fund net assets, by type of fund, at December 31, 2010 and 2009 are as follows:

(in thousands of dollars)

| | 2010 | | |
|----------------------------------|-----------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Donor-restricted endowment funds | \$7 | \$88,420 | \$27,970 |
| Board-designated endowment funds | 17,510 | 1,560 | - |
| Total endowment funds | <u>\$17,517</u> | <u>\$89,980</u> | <u>\$27,970</u> |

| | 2009 | | |
|----------------------------------|-----------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Donor-restricted endowment funds | \$16 | \$82,831 | \$26,004 |
| Board-designated endowment funds | 16,898 | 3,795 | - |
| Total endowment funds | <u>\$16,914</u> | <u>\$86,626</u> | <u>\$26,004</u> |

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Changes in the composition of endowment fund net assets as of December 31, 2010 and 2009 are as follows:

(in thousands of dollars)

| | 2010 | | |
|--|-----------------|------------------------|------------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Endowment fund net assets, beginning of year | \$16,914 | \$86,626 | \$26,004 |
| Investment return: | | | |
| Realized investment income | 175 | 486 | 817 |
| Unrealized investment income | 323 | 337 | 441 |
| Net appreciation | - | 643 | 42 |
| Total investment return | 498 | 1,466 | 1,300 |
| Other changes in endowment funds | 105 | 1,888 | 666 |
| Endowment fund net assets, end of year | <u>\$17,517</u> | <u>\$89,980</u> | <u>\$27,970</u> |
| | | | |
| | 2009 | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted |
| Endowment fund net assets, beginning of year | \$16,162 | \$84,394 | \$34,476 |
| Investment return: | | | |
| Realized investment income (loss) | (42) | 427 | (277) |
| Unrealized investment income | 454 | 804 | 1,482 |
| Net appreciation | - | 336 | 120 |
| Total investment return | 412 | 1,567 | 1,325 |
| Other changes in endowment funds | 340 | 665 | (9,797) |
| Endowment fund net assets, end of year | <u>\$16,914</u> | <u>\$86,626</u> | <u>\$26,004</u> |

12. Insurance

Professional and general liability risk is insured through Stella Maris Insurance Company, Ltd. a wholly owned, captive insurance company, commercial insurance and reinsurance companies, and self-insured programs. Excess insurance over self-insured amounts and coverage provided by the captive has been purchased from the commercial insurance and reinsurance markets. The excess professional liability coverage is provided on a claims-made basis. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. CHE has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice losses have been discounted at a rate of 4.0% at December 31, 2010 and 2009, and in management's opinion provide an adequate reserve for loss contingencies.

CHE maintains a self-insurance program for workers' compensation claims. Losses from asserted claims and from unasserted claims identified under CHE's incident reporting systems are accrued based on estimates that incorporate CHE's experience, relevant trends, and other factors. CHE has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued workers' compensation losses have been discounted at a rate of 4.0% at December 31, 2010 and 2009, and in management's opinion provide an adequate reserve for loss contingencies.

Total amounts accrued under these programs as current liabilities approximate \$20,996,000 and \$22,436,000 at December 31, 2010 and 2009, respectively. Total amounts accrued under these

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programs as long-term liabilities approximate \$303,718,000 and \$296,297,000 at December 31, 2010 and 2009, respectively.

Bank-administered trust and other accounts have been established for the purpose of segregating assets. These trusts are funded based on actuarial estimates and can only be used for payment of malpractice losses, related expenses, and administrative costs of the trusts. Assets of the trusts are included in marketable securities whose use is limited.

The total amount charged to expense under these self-insured programs was \$48,584,000 and \$55,265,000 in 2010 and 2009, respectively.

13. Pension Plans

The System maintains non-contributory defined benefit pension plans that vary from one RHC to another, collectively, "the Plan."

During 2010, CHE amended substantially all defined benefit pension plans to freeze service accruals. As a result of the service accrual freeze curtailment charges of \$1,166,000 were recognized and curtailment credits of \$2,978,000 were recognized in 2010 representing the immediate recognition of unamortized prior service costs and credits. The plan freeze also resulted in a decrease to the projected benefit obligation of \$29,694,000 due to plan curtailment.

The following table sets forth the change in benefit obligation and the change in fair value of plan assets based on the measurement date, and the amounts recognized in the consolidated financial statements at December 31:

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|--|--------------------|--------------------|
| Changes in benefit obligation: | | |
| Benefit obligation, beginning of year | \$934,097 | \$864,372 |
| Service cost | 11,724 | 28,740 |
| Interest cost | 48,447 | 52,729 |
| Actuarial loss | 95,862 | 29,250 |
| Benefits paid | (29,252) | (27,321) |
| Plan amendments | - | (4,131) |
| Curtailment | (29,694) | (9,542) |
| Benefit obligation, end of year | <u>\$1,031,184</u> | <u>\$934,097</u> |
| Accumulated benefit obligation, end of year | \$988,730 | \$874,301 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | 650,547 | 501,811 |
| Actual return on plan assets | 73,257 | 101,099 |
| Employer contributions | 48,040 | 76,475 |
| Benefits paid | (29,252) | (27,321) |
| Other | (1,944) | (1,517) |
| Fair value of plan assets, end of year | <u>\$740,648</u> | <u>\$650,547</u> |
| Funded status | | |
| Fair value of plan assets | \$740,648 | \$650,547 |
| Projected benefit obligation | (1,031,184) | (934,097) |
| Funded status | <u>(290,536)</u> | <u>(283,550)</u> |
| Amount recognized, end of year | <u>(\$290,536)</u> | <u>(\$283,550)</u> |

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| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|--|-----------------|-------------------|
| Amounts recognized in unrestricted net assets | | |
| Net actuarial loss (gain) | \$45,694 | (\$37,410) |
| Amortization of actuarial loss | (7,171) | (34,133) |
| Prior service cost | (261) | (131) |
| Current year prior service cost | - | (568) |
| Curtailement Charge | (1,166) | (4,131) |
| Total | <u>\$37,096</u> | <u>(\$76,373)</u> |

The following table sets for the components of net periodic benefit cost for the applicable plan(s) at December 31:

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|---|-----------------|-----------------|
| Components of net periodic benefit cost: | | |
| Service cost | \$11,891 | \$28,815 |
| Interest cost | 48,447 | 52,729 |
| Expected return on plan assets | (51,463) | (41,943) |
| Amortization of prior service costs | 261 | 568 |
| Amortization of actuarial loss | 7,171 | 34,133 |
| Other adjustments | 1,296 | 972 |
| Net periodic benefit cost | <u>\$17,603</u> | <u>\$75,274</u> |

Significant decreases in the net periodic benefit cost for the plans in 2010 resulted from the service cost freeze. Additionally, the change in the amortization period for actuarial losses from expected service period of plan participants to expected life of plan participants resulted in significant reductions of net periodic benefit cost.

The net actuarial loss that will be amortized from unrestricted net assets in the net periodic benefit cost in 2011 is \$11,513,000.

The accumulated benefit obligation for the Plan was \$988,730,000 and \$874,301,000 at December 31, 2010 and 2009, respectively.

The assumptions used to determine the benefit obligation and periodic benefit cost at December 31 are as follows:

| | | |
|---|---------------|---------------|
| | 2010 | 2009 |
| Assumptions used to determine the benefit obligation at December 31: | | |
| Weighted average discount rate | 5.60% - 6.10% | 5.95% - 6.15% |
| Weighted average rate of compensation increases | 4.25% | 4.25% |
| Weighted average expected long-term rate of return on plan assets | 8.00% | 8.00% - 8.50% |
| | 2010 | 2009 |
| Assumptions used to determine periodic benefit cost at December 31: | | |
| Weighted average discount rate | 6.05% - 6.20% | 5.85% - 6.35% |
| Weighted average rate of compensation increases | 4.25% | 4.25% |
| Weighted average expected long-term rate of return on plan assets | 8.00% - 8.50% | 8.50% |

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Investment Policy and Asset Allocations – In developing the assumption for the expected rate of return on assets, CHE evaluates historical returns, the level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected rate of return for each asset class is then weighted based on the target asset allocation to develop the assumption for the expected long-term rate of return on assets. For plans with frozen service accruals, the investment policy was modified to allow for asset allocation changes over time as the plans become more fully funded in order to de-risk the plans. This strategy utilizes a “glide path” approach, consisting of a series of target asset allocations for various funded ratio levels, reduces exposure to return seeking assets (marketable equity securities and managed funds) and increases exposure to the liability-hedging assets (cash and marketable debt securities) over time. This strategy will be utilized going forward for the plans with frozen service accruals.

The weighted average asset allocation for the plan at December 31 and the target allocation for calendar year 2010, by asset category, are as follows:

| Asset category | Target Allocation 2010 | 2010 | Target Allocation 2009 | 2009 |
|--|------------------------------|----------------|------------------------------|---------------|
| | From-To | | From-To | |
| Cash & marketable debt securities | 20.0-50.0% | 21.7 % | 40.0-18.7% | 27.3% |
| Marketable equity securities & managed funds | 50.0-80.0% | 78.3 % | 60.0-81.3% | 72.7% |
| | <u>100.0%</u> | <u>100.0 %</u> | <u>100.0%</u> | <u>100.0%</u> |

The portfolio is diversified among a mix of assets including large and small cap, domestic and foreign equities, fixed income, managed funds, and cash. Asset mix is targeted to a specific allocation, either intermediate or long-term, that is established by evaluating expected return, standard deviation, and correlation of various assets against the plan’s long-term objectives. Asset performance is monitored quarterly and rebalanced if asset classes exceed explicit ranges. The investment policy governs permitted types of investments, and outlines specific benchmarks and performance percentiles. The Investment Subcommittee of the Stewardship Committee of the CHE Board oversees the pension investment program and monitors investment performance. Risk is closely monitored through the evaluation of portfolio holdings and tracking the beta and standard deviation of the portfolio performance.

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The following table presents the Plan's financial instruments as of December 31, 2010 measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6. The investments are not included in the marketable securities whose use is limited in the accompanying consolidated balance sheet. These investments are maintained separately in a pension investment program that is controlled by a trustee:

(in thousands of dollars)

| | <u>2010</u> | | | | <u>Valuation Technique</u> |
|----------------------------------|------------------|------------------|-----------------|------------------|--------------------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> | |
| Pension investment program: | | | | | |
| Cash and cash equivalents | \$34,473 | \$23,460 | \$ - | \$57,933 | Market |
| Marketable equity securities | 443,399 | 42,108 | 19 | 485,526 | Market |
| Marketable debt securities | 42,368 | 79,347 | - | 121,715 | Market |
| Managed funds | - | - | 75,474 | 75,474 | Market |
| Total pension investment program | <u>\$520,240</u> | <u>\$144,915</u> | <u>\$75,493</u> | <u>\$740,648</u> | |
| <u>2009</u> | | | | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> | <u>Valuation Technique</u> |
| Pension investment program: | | | | | |
| Cash and cash equivalents | \$91,645 | \$18,636 | \$ - | \$110,281 | Market |
| Marketable equity securities | 306,483 | 33,381 | - | 339,864 | Market |
| Marketable debt securities | 56,744 | 80,034 | 136 | 136,914 | Market |
| Managed funds | - | - | 63,488 | 63,488 | Market |
| Total pension investment program | <u>\$454,872</u> | <u>\$132,051</u> | <u>\$63,624</u> | <u>\$650,547</u> | |

The fair value of these investments is offset against the projected benefit obligation of the associated defined benefit plans and the resulting unfunded liability is recorded by the System.

The table below sets forth a summary of changes in the fair value of the Level 3 assets for the Plan for the period from December 31, 2009 to December 31, 2010.

(in thousands of dollars)

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|-----------------|-----------------|
| Fair value January 1 | \$63,624 | \$58,162 |
| Purchases | 24,500 | 135 |
| Realized and unrealized gains | 2,566 | 5,465 |
| Transfers Out | 154 | - |
| Sales | (15,351) | (138) |
| Fair value December 31 | <u>\$75,493</u> | <u>\$63,624</u> |

Contributions – Expected contributions to the defined benefit plans in 2011 are approximately \$44,217,000.

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Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(in thousands of dollars)

| | |
|-----------|-------------------------|
| 2011 | \$39,115 |
| 2012 | 43,707 |
| 2013 | 46,630 |
| 2014 | 49,532 |
| 2015 | 52,576 |
| 2016-2019 | <u>325,639</u> |
| | <u><u>\$557,199</u></u> |

14. Concentration of Credit Risk

CHE grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 was as follows:

| | 2010 | 2009 |
|--------------------------|----------------|----------------|
| Managed care | 32.6 % | 34.0 % |
| Medicare | 27.5 % | 26.6 % |
| Medicaid | 10.4 % | 9.2 % |
| Self-pay | 7.0 % | 9.5 % |
| Other third-party payors | 10.8 % | 11.3 % |
| Commercial | 11.7 % | 9.4 % |
| | <u>100.0 %</u> | <u>100.0 %</u> |

In addition, CHE invests its cash and cash equivalents primarily with banks and financial institutions. These deposits may be in excess of federally insured limits. Management believes that the credit risk related to these deposits is minimal.

15. Commitments and Contingencies

The RHCs are defendants in various lawsuits relating primarily to rendering of health care services. In each instance, management of the respective RHCs is of the opinion that the liability, if any, resulting there from will be covered by insurance or will not have a material adverse impact on the consolidated financial statements of CHE. In addition, certain CHE entities have been contacted by governmental agencies regarding alleged violations of practices for certain services. Management of the respective RHCs has performed, with the advice and assistance of outside legal counsel, an evaluation of billing practices and compliance with related laws and regulations. In the opinion of management, after consultation with outside legal counsel, the ultimate outcome of these matters will not have a material adverse impact on the consolidated financial statements of CHE.

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16. Leases

The RHCs lease office space and certain equipment under noncancelable operating leases. Rental expense was approximately \$70,712,000 and \$67,327,000 in 2010 and 2009, respectively.

Future minimum lease payments for all noncancelable leases as of December 31, 2010 are as follows:

(in thousands of dollars)

| | |
|------------|------------------|
| 2011 | \$63,288 |
| 2012 | 54,245 |
| 2013 | 47,040 |
| 2014 | 37,185 |
| 2015 | 28,732 |
| Thereafter | <u>87,952</u> |
| | <u>\$318,442</u> |

17. Functional Expenses

CHE provides general health care services to residents within their geographic location including acute care, skilled nursing, outpatient care, home healthcare, physician practices, and behavioral services. Expenses related to providing these services at December 31 are as follows:

(in thousands of dollars)

| | 2010 | 2009 |
|----------------------------|--------------------|--------------------|
| Health care services | \$3,244,701 | \$3,180,744 |
| General and administrative | <u>779,536</u> | <u>801,761</u> |
| | <u>\$4,024,237</u> | <u>\$3,982,505</u> |

18. Restructuring Expenses and Impairment Losses

During 2010 several RHCs approved restructuring plans designed to reduce ongoing operating costs. The plans primarily involve the reduction of workforce and the elimination of unprofitable business lines. Total restructuring costs associated with carrying out the above plans were \$14,341,000 and \$9,821,000 in 2010 and 2009, respectively.

Total impairment losses were \$3,023,000 and \$5,969,000 in 2010 and 2009, respectively.

19. Significant Events

In 2010, St. James Mercy Health System in Hornell, New York, signed a non-binding Letter of Intent with another local healthcare organization to initiate formal discussions regarding an affiliation of the two organizations. Discussion among the entities is ongoing with the intent to finalize the affiliation in 2011.

In 2010, St. Peter's Health Care Services in Albany, New York, signed an affiliation agreement with two local healthcare organizations. The affiliation is projected to close in 2011 subject to certain regulatory and governmental approvals.

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20. Assets Held for Sale and Discontinued Operations

In June 2010, the Board of Trustees of Mercy Hospital, Miami approved a non-binding Letter of Intent (LOI) with the Hospital Corporation of America (HCA) for the sale of certain Mercy Hospital entities to HCA. The entities to be sold under the LOI include Mercy Hospital, Sister Emmanuel Hospital for Continuing Care, Mercy Medical Development, and Mercy Physician Group. In February 2011, HCA and Mercy Hospital, Miami signed a definitive agreement for the sale of these entities. The assets to be sold to HCA are classified as assets held for sale in the accompanying consolidated balance sheet as of December 31, 2010 and 2009. The related operating results are classified in the accompanying statement of operations and changes in net assets as discontinued operations. The transaction was completed on May 1, 2011.

In October 2010, the Board of Directors of St. Joseph's Health System approved a plan to divest certain assets and operations through sale. Subsequently in 2011, the Board voted to consider a joint operating company with another local healthcare organization. The entities subject to this divestiture plan are St. Joseph Hospital of Atlanta, St. Joseph's Real Estate Corporation, St. Joseph's Service Corporation, The Medical Group of St. Joseph's, St. Joseph's Translational Research Institute, and the International College of Robotic Surgery. The assets are being actively marketed with a transaction expected in 2011, and are classified as assets held for sale in the consolidated balance sheets at December 31, 2010 and 2009. The related operating results are classified separately within operating income.

During 2009, Mercy Medical Corporation approved a plan to sell certain facilities and campuses of the RHC and exit the associated service lines. These facilities and campuses include the Mercy Mobile skilled nursing facility, the McAuley Place assisted living facility, and the Daphne Main campus, which contains facilities for skilled nursing and rehabilitation services. Mercy Medical completed the sale of Mercy Mobile and McAuley place in March, 2010. The Daphne Main facilities and campus are being actively marketed with sale expected in 2011, and are classified as assets held for sale in the accompanying consolidated balance sheet as of December 31, 2010 and 2009. The related operating results are classified in the accompanying statement of operations as discontinued operations.

Collectively these entities are referred to as the Disposal Group.

Details of the assets held for sale, the related liabilities, and discontinued operations of the Disposal Group at December 31 are provided below:

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|---|------------------|------------------|
| Assets Held for Sale and Related Liabilities | | |
| Other current assets | \$8,009 | \$5,923 |
| Property, plant, and equipment, net | 370,783 | 380,719 |
| Total assets | <u>\$378,792</u> | <u>\$386,642</u> |
| Current liabilities | \$25,498 | \$25,420 |
| Other long-term liabilities | 2,809 | 3,263 |
| Total liabilities | <u>\$28,307</u> | <u>\$28,683</u> |

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| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|---|-------------------|-------------------|
| Discontinued Operations | | |
| Unrestricted revenues, gains and other support | | |
| Net patient service revenue | \$265,970 | \$283,144 |
| Other operating revenue | 31,792 | 28,921 |
| Total Revenues | <u>297,762</u> | <u>312,065</u> |
| Expenses | | |
| Salaries, wages and benefits | 132,762 | 147,572 |
| Medical supplies | 63,772 | 67,111 |
| Purchased services, professional fees, and other expenses | 82,677 | 77,371 |
| Depreciation and amortization | 7,680 | 15,871 |
| Interest | 4,395 | 4,386 |
| Insurance | 6,322 | 7,978 |
| Provision for bad debts | 28,995 | 19,615 |
| Other | 17,829 | 1,718 |
| Total Expenses | <u>344,432</u> | <u>341,622</u> |
| Operating Loss | <u>(\$46,670)</u> | <u>(\$29,557)</u> |

| <i>(in thousands of dollars)</i> | 2010 | 2009 |
|--|-------------------|-------------------|
| St. Joseph's Health System | | |
| Operating Revenues | \$404,506 | \$378,445 |
| Operating Expenses | 424,543 | 391,926 |
| Losses from St. Joseph's Health System | <u>(\$20,037)</u> | <u>(\$13,481)</u> |

21. Subsequent Events

In February 2011, St. Peter's Hospital issued \$34.2 million of tax-exempt Revenue Bonds, Series 2011 (the Series 2011 Bonds) through the City of Albany Capital Resource Corporation. The proceeds of the Series 2011 Bonds will be used to finance capital projects and equipment, to fund a debt service reserve fund, and to pay capitalized interest and debt issuance costs on the Series 2011 Bonds.

Explanatory Note 2
Outstanding Permits

There are no outstanding permits for the LUHS Illinois Licensed Facilities.

Mercy Hospital currently has one pending certificate of need project; specifically, Project No. 08-043. Project No. 08-043 involves the modernization of Mercy Hospital's obstetrics/gynecology department, intensive care department, cardiac catheterization unit, gastrointestinal laboratories, and administrative and support spaces. Project No. 08-043 also involves the installation of a hospital-wide sprinkler system. On November 5, 2012, the Illinois Health Facilities & Services Review Board approved a permit renewal for Project No. 08-043 until January 31, 2014.

Project No. 08-043 satisfies the elements of Section 1130.520(f)(1) because Project No. 08-043: (1) does not involve the establishment of a new facility or a category of service; (2) will not be impacted by the Transaction contemplated by this Certificate of Exemption and will continue to proceed in the scope and manner set forth in the permit letter issued by the Illinois Health Facilities & Services Review Board for Project No. 08-043; and (3) has been obligated and is being carried out in a diligent manner.

Explanatory Note 11
Anticipated Acquisition Price

There is no acquisition price associated with this Transaction.

Explanatory Note 12
Fair Market Value

The fair market value of LUHS is approximately \$175,000,000, which is based on the historical book value of LUHS, including the LUHS Illinois Licensed Facilities. The fair market value of Mercy System, including Mercy Hospital, is approximately \$26,000,000, which is based on a multiple of the projected adjusted cash flows of Mercy System less debt obligation commitments.

Explanatory Notes
Section 1130.520

1130.520(b)(1)
No Change in Services or Beds

Because this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on the Trinity Illinois Licensed Facilities. Trinity will continue to be the sole corporate member of LUHS and Mercy System following the Transaction. Thus, the Trinity Illinois Licensed Facilities will continue, as of the effective date of the Transaction, to (i) maintain their own existing licenses, provider numbers and accreditations; and (ii) furnish the services they are currently furnishing.

1130.520(b)(2)
Transaction Documents

On January 11, 2013, CHE Trinity, Trinity, CHE and various other affiliates and subsidiaries executed a Consolidation Agreement regarding the Transaction. A copy of the Consolidation Agreement is attached at Attachment 5.

1130.520(b)(3)
Qualified to Provide Healthcare in Illinois

Because this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on the Trinity Illinois Licensed Facilities. Trinity will continue to be the sole corporate member of LUHS and Mercy System following the Transaction.

CHE Trinity and Trinity have the qualifications, background and character to adequately provide a proper standard of healthcare service to the communities served by the Trinity Illinois Licensed Facilities. Trinity has not had any adverse actions taken against any facility owned or operated by Trinity in Illinois during the three (3) years prior to the filing of this COE Application. Because CHE Trinity is a recently incorporated corporation, CHE Trinity has not had any adverse actions taken against any facility owned or operated by CHE Trinity in Illinois during the three (3) years prior to the filing of this COE Application. See the attached affidavits from Mr. Larry Warren (“Mr. Warren”), the Interim President and CEO of Trinity, and Mr. Dan Hale (“Mr. Hale”), the Chairman of the Board of CHE Trinity, attesting to the foregoing statements. See Attachment 7.

1130.520(b)(4)
Sufficient Funding

There is no purchase price associated with the Transaction. Trinity will continue to be the sole corporate member of LUHS and Mercy System following the Transaction. Trinity has received a “AA” bond rating from Standard & Poors (April 10, 2012 rating), a “AA” bond rating from

Fitch Ratings (April 23, 2012 rating) and a “Aa2” bond rating from Moody’s Investor’s Services (April 13, 2012 rating), copies of which are attached at Attachment 6. Thus, Trinity and CHE Trinity have sufficient funding to consummate the Transaction set forth in this COE Application and to operate the Trinity Illinois Licensed Facilities for the next three years (and long thereafter).

1130.520(b)(5)

Ownership

Because this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on the Trinity Illinois Licensed Facilities. Trinity will continue to be the sole corporate member of LUHS and Mercy System following the Transaction. Thus, Trinity will maintain ownership and control of the Trinity Illinois Licensed Facilities for at least 36 months following the closing of the Transaction set forth in this COE Application.

1130.520(b)(6)

Pending CON Projects

There are no outstanding permits for the LUHS Illinois Licensed Facilities.

As set forth in Explanatory Note 2, Mercy Hospital currently has one pending certificate of need project; specifically, Project No. 08-043. Project No. 08-043 satisfies the elements of Section 1130.520(f)(1) because Project No. 08-043: (1) does not involve the establishment of a new facility or a category of service; (2) will not be impacted by the Transaction contemplated by this Certificate of Exemption and will continue to proceed in the scope and manner set forth in the permit letter issued by the Illinois Health Facilities & Services Review Board for Project No. 08-043; and (3) has been obligated and is being carried out in a diligent manner.

1130.520(b)(7)

Charity Care

Because this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on the Trinity Illinois Licensed Facilities. Trinity will continue to be the sole corporate member of LUHS and Mercy System following the Transaction.

As set forth in the attached affidavits from Mr. Warren and Mr. Hale, neither Trinity nor CHE Trinity will adopt more restrictive charity care policies at any of the Trinity Illinois Licensed Facilities following the Transaction. Mr. Warren’s and Mr. Hale’s charity care affidavits are attached at Attachment 8.

The charity care policies currently in place at LUMC, Gottlieb and Mercy Hospital are attached at Attachment 8.

1130.520(b)(8)
Project Completion

The Transaction is set to close on or about May 1, 2013, subject to regulatory approvals.

1130.520(d)(1)
Community Benefits

Because this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on the Trinity Illinois Licensed Facilities. That said, under the terms of the Transaction, Trinity and CHE will consolidate under CHE Trinity and will establish a structure to address the rapidly changing health care environment that requires more focus on population health and the delivery of more coordinated and integrated care and health and wellness services. The Transaction will create a health system that serves people in 21 states from coast to coast with 82 hospitals, 89 continuing care facilities and home health and hospice programs that provide nearly 2.8 million visits annually.

1130.520(d)(2)
Cost Savings

Because this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on the Trinity Illinois Licensed Facilities.

1130.520(d)(3)
Quality Control

Because this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on the Trinity Illinois Licensed Facilities. Trinity take great pride in the quality of services that each of their many facilities has traditionally provided. Trinity (and CHE Trinity) are committed to the on-going training and development of its employees and staff and will continue to invest in state-of-the art facilities and equipment.

1130.520(d)(4)
Organizational Structure Following the Transaction

Under the proposed Transaction, CHE Trinity will become the sole corporate member of Trinity. And Trinity will continue to be the sole corporate member of LUHS and Mercy System following the Transaction. Organizational charts for LUHS and Mercy System prior to and following the Transaction are attached at Attachment 4.

1130.520(d)(5)
Selection of Board

Because this Transaction is merely the consolidation of the two parent entities (i.e., Trinity and CHE) there will be no direct impact on the Trinity Illinois Licensed Facilities. The reserved powers and reserved authority of Trinity related to their respective subsidiaries (i.e., LUHS and Mercy System) will not change as a result of the Transaction. Thus, following the Transaction, the Trinity Illinois Licensed Facilities will continue to be governed by their current boards of directors.

1130.520(d)(6)
1110.240 Compliance

See Explanatory Notes for Section 1110.240 set forth below.

1130.520(d)(7)
No Change in Services or Beds

Trinity will continue to be the sole corporate member of LUHS and Mercy System following the Transaction. Thus, the Trinity Illinois Licensed Facilities will continue, as of the effective date of the Transaction, to (i) maintain their own existing licenses, provider numbers and accreditations; and (ii) furnish the services they are currently furnishing. Thus, there are no plans to discontinue any beds or substantially reduce any services at the Trinity Illinois Licensed Facilities, following the closing of the Transaction. In short, CHE Trinity, Trinity and LUHS will act in a manner consistent with the regulatory requirements of Sections 1130.520 and 1110.240.

April 4, 2013

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1130.520(b)(3), No Adverse Actions Certification

Dear Ms. Avery and Constantino:

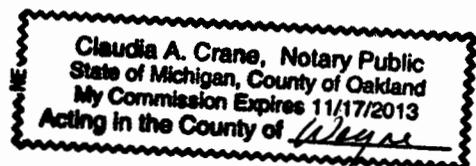
I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1130.520(b)(3), that there have been no adverse actions taken against any facility owned or operated by Trinity Health Corporation in Illinois during the three (3) years prior to the filing of this Certificate of Exemption.

Sincerely,


Larry Warren
Interim President & CEO
Trinity Health Corporation

SUBSCRIBED AND SWORN
to before me this 10 day
of April, 2013.


Notary Public



0316



April 4, 2013

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1130.520(b)(3), No Adverse Actions Certification

Dear Ms. Avery and Constantino:

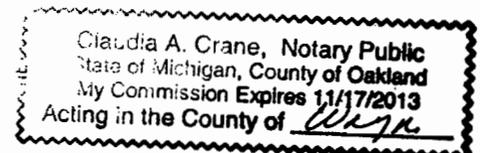
I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1130.520(b)(3), that there have been no adverse actions taken against any facility owned or operated by CHE Trinity Inc. in Illinois during the three (3) years prior to the filing of this Certificate of Exemption.

Sincerely,

Daniel Hale
Chairman, CHE Trinity Inc.

SUBSCRIBED AND SWORN
to before me this 10 day
of April, 2013.

Notary Public



April 4, 2013

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1130.520(b)(7), Charity Care Certification

Dear Ms. Avery and Mr. Constantino:

I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1130.520(b)(7), that Trinity Health Corporation ("Trinity"):

(1) shall not cause Loyola University Health System ("LUHS") to adopt more restrictive charity care policies at Foster G. McGaw Hospital-Loyola University Medical Center, Gottlieb Memorial Hospital, or the other LUHS healthcare facilities, affiliates and subsidiaries, following the proposed transaction between CHE Trinity Inc., Trinity, and Catholic Health East, and for no less than two years thereafter; and

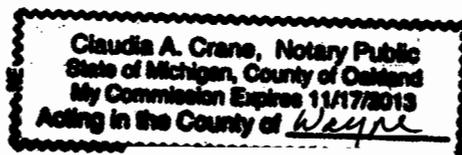
(2) shall not cause Mercy Health System of Chicago ("Mercy System") to adopt more restrictive charity care policies at Mercy System or the other Mercy System healthcare facilities, subsidiaries and affiliates, including Mercy Hospital & Medical Center, following the proposed transaction between CHE Trinity Inc., Trinity, and Catholic Health East, and for no less than two years thereafter.

Sincerely,



Larry Warren
Interim President & CEO
Trinity Health Corporation

SUBSCRIBED AND SWORN to before
me this 10 day of April, 2013.


Notary Public



April 4, 2013

Ms. Courtney R. Avery
 Administrator
 Illinois Health Facilities Planning Board
 525 West Jefferson Street, Second Floor
 Springfield, Illinois 62761-0001

Mr. Michael Constantino
 Supervisor, Project Review Section
 Illinois Health Facilities Planning Board
 525 West Jefferson Street, Second Floor
 Springfield, Illinois 62761-0001

Re: Criterion 1130.520(b)(7), Charity Care Certification

Dear Ms. Avery and Mr. Constantino:

I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1130.520(b)(7), that CHE Trinity Inc.:

(1) shall not cause Loyola University Health System ("LUHS") to adopt more restrictive charity care policies at Foster G. McGaw Hospital-Loyola University Medical Center, Gottlieb Memorial Hospital, or the other LUHS healthcare facilities, affiliates and subsidiaries, following the proposed transaction between CHE Trinity Inc., Trinity Health Corporation, and Catholic Health East, and for no less than two years thereafter; and

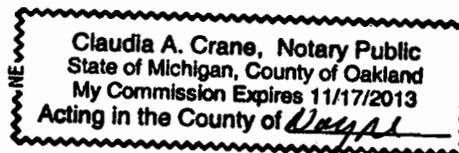
(2) shall not cause Mercy Health System of Chicago ("Mercy System") to adopt more restrictive charity care policies at Mercy System or the other Mercy System healthcare facilities, subsidiaries and affiliates, including Mercy Hospital & Medical Center, following the proposed transaction between CHE Trinity Inc., Trinity Health Corporation, and Catholic Health East, and for no less than two years thereafter.

Sincerely,

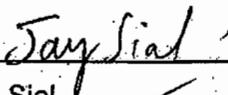
Daniel Hale
 Chairman, CHE Trinity Inc.

SUBSCRIBED AND SWORN to before
 me this 10 day of April, 2013.

Notary Public





| | |
|--|---|
| Subject: SELF-PAY PATIENTS – Payment Policy | |
| Date Implemented: July 1994 | Date Revised: December 2005 March 2013 |
| Medical Center Administration Approval: | |
|  |  |
| Jay Sial Senior Vice President and Chief Financial Officer Loyola University Health System | Richard Kudla Vice President, Patient Financial Services Loyola University Medical Center |

I. PURPOSE

Loyola University Medical Center is dedicated to providing high-quality care to the community it serves. Patients who cannot afford to pay may qualify for charity care. Patients without health insurance will be offered a substantial discount from charges. LUMC does this in furtherance of its health care mission and in recognition of its responsibility to be a thoughtful steward of its charitable assets.

The purpose of this policy is to define the payment policies for patient care services provided to patients who do not have insurance coverage or who do not have coverage for a particular service.

II. POLICY

Patients without insurance coverage will be extended a discount from usual and customary services. This discount is fifty-five percent (55%) for Medical Center charges and forty (40%) for physician charges.

This policy does not apply to self-pay account balances that are office visit co-payments, deductibles or co-insurance nor does it apply to elective, "packaged" services such as cosmetic surgery, Bariatric surgery or any other packaged prices, procedures. Package prices are already discounted.

III. PROCEDURE

Scheduling New Patients

New patients seeking non-emergent services who report that they do not have coverage should be scheduled by staff in the Healthcare Access Call Center (HACC) to ensure consistent instructions about payment responsibilities, specifically the responsibility to pay LUMC's standard fees less than a 55% Medical Center and 40% physician discount at the time of service.

If the patient indicates an inability to pay the discounted fee, he/she will be asked to consult with an LUMC financial counselor to assess eligibility for a payment plan, government sponsored programs or charity care. Please refer to the Charity Care and Financial Assistance Policy. The patient's appointment will be scheduled once satisfactory financial arrangements are made. Cook County residents without insurance may be referred to the Cook County Bureau of Healthcare services for placement into the CountyCare Medicaid Program.

For all non-emergency situations, patients who do not agree to pay the discounted charges or speak to a financial counselor will not be scheduled.

Initial Visit and Subsequent Ancillary and Physician Services

Patients arriving for their scheduled visit will be reminded of the self-pay policy and the requirement for payment for all services provided before the visit. If the patient indicates an inability to pay, he/she will be given the opportunity to consult with an LUMC financial counselor to assess eligibility for a payment plan, government sponsored program or charity care. The patient will be seen once the financial counselor determines the patient's financial obligation can be met or he/she qualifies for a government sponsored program or charity care.

Patients requesting emergency medical treatment should be directed to the nearest emergency department before consultation with any financial counselor. If necessary, an ambulance should be called to assist the patient.

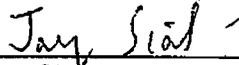


Subject: FINANCIAL ASSISTANCE

Date Implemented: Date: 1/1/10

Updated: 7/1/12

Medical Center Administration Approval:



Jay Sia
Senior Vice President and CFO
Loyola University Health System



Richard Kudia
Vice President, Patient Financial Services

I. PURPOSE

The purpose of this policy is to ensure financial assistance to patients who are indigent or are experiencing temporary financial hardship. This policy reflects Loyola University Medical Center's tradition as a Catholic, Jesuit institution, our responsibility as a not-for-profit health care organization and our commitment to serving the health care needs of our patients and improving access to quality care. For those patients that do not have the financial resources to pay for their health care services, Loyola University Medical Center will provide financial assistance to those who meet eligibility criteria under this policy.

II. POLICY

Loyola University Medical Center (LUMC) provides care to all patients in need of medically necessary services. Trauma and emergency care services will be provided to all patients, regardless of the patient's ability to pay. Such care will continue until the patient's condition has been stabilized prior to any determination of payment arrangements. Medically necessary services are those services typically covered by Medicare. Elective services, such as cosmetic surgery, are not included in the Charity Program. An approval for financial assistance is limited to medically necessary health care services rendered during a single inpatient admission or outpatient encounter. Services that are not provided or billed by LUMC (medication, durable medical equipment, private duty nursing, ambulance transport, etc.) are not covered by this policy.

As provided in section III, LUMC will make affirmative efforts to assist patients apply for public and private programs. LUMC may deny financial assistance to those individuals who do not cooperate in applying for programs that may pay for their healthcare services. LUMC may exclude services that are covered by an insurance program at another provider or facility but are not covered at LUMC after efforts are made to educate the subject patient(s) and provided that EMTALA obligations are satisfied.

Information provided to LUMC by the patient and/or family should include earned income, including monthly gross wages, salary and self-employment income; unearned income including

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: FIN-002**

alimony, child support, retirement benefits, dividends, interest and income from any other source; number of dependents in household; number of dependents in household based on the Federal tax return; and other information to determine the patient's financial status, including assets and liabilities. Supporting documentation such as payroll stubs, tax returns, credit history may be requested to support information reported and shall be maintained with the completed assessment. Approval for financial assistance may be determined based on available information as not all patients are able to provide complete financial and/or social information. Examples of presumptive cases include deceased patients with no known estate, homeless or unemployed patients, and members of religious organizations who have taken a vow of poverty and have no resources individually or through the religious order.

Patients who earn up to 200% of Federal Poverty Guideline (FPG) will receive care at no cost. Patients that earn up to 300% of the FPG will receive a 75% discount and patients that earn up to 400% of the FPG will receive a 60% discount.

III. PROCESS

Financial counseling regarding hospital bills is available to patients. Patient billing inquiries and requests for counseling shall be promptly responded to. LUMC charges for services are available to the public for review in an understandable format.

A financial counselor will meet with the uninsured patient or family to review all available private and/or governmental programs for which the patient may be eligible. The financial counselor will help the patient and family with the application process for programs for which they may qualify and that may assist them in obtaining and paying for healthcare services. It is the expectation that the patient and family will fully comply with all the requirements for the appropriate agency to determine eligibility. If there is no eligibility category for the patient, the financial counselor will review the LUHS self pay policy with the patient. If the patient indicates an inability to pay for the estimated medical bills, then an application for charity assistance will be given to the patient.

Once a completed application is returned, a determination letter will be sent to the patient within 30 days.

LUMC will use best efforts to determine a patient's eligibility for financial assistance prior to or at the time of admission or service. However, determination for financial assistance can be made during any state of the patient's stay after stabilization or collection cycle. Determination for financial assistance will be made after all efforts to qualify the patient for government financial assistance or other programs have been exhausted and may be determined during any stage of the patient's stay after stabilization or collection cycle. LUMC will communicate to the patient in a timely fashion LUMC's process, what avenues of financial assistance are being pursued and expected timeline for determination. LUMC shall not attempt collection efforts while such determination is being made.

When patients qualify for charity care or financial assistance, they will receive the applicable discount for a period of six months. This will be so indicated on the registration system by the appropriate assigned plan code for each level of discount.

The following documentation is required for evaluation for charity care or financial assistance review and approval:

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: FIN-002**

1. A copy of the previous year W2, 1040, and any other applicable tax forms that were filed.
2. Copies for the last 3 most recent paycheck stubs from the employer.
3. If patient is paid cash a letter from employer stating amount paid weekly
4. Copies of Social Security check if they are receiving one.
5. Copy of last statement for checking and/or saving account.

If patient does not provide appropriate documentation, a credit check will be run on the patient. Based on the information provided by Trans Union Services, a charity determination will be made.

IV. RESIDENCY REQUIREMENTS

1. Loyola University Medical Center will provide financial assistance support to patients who qualify for this program and who are Illinois residents.
2. Loyola University Medical Center will provide medically necessary care and treatment to all patients who present with an urgent, emergent or life –threatening condition regardless of residency. However, Loyola University Medical Center may not provide financial assistance support for patients who require such care and treatment but are not Illinois residents.

V. EXCLUSIONS

Certain complex medical procedures, which have extensive post-operative follow-up regimens and require high cost post-operative drugs for a period of time up to several years including, but not limited to, implantable devices, biological items, solid organ transplants, bone marrow transplants and certain cardiac procedures, are not covered under this policy. In these cases, one of the many factors in the successful, long-term outcome of the procedure is the ability of the patient or family to demonstrate the financial resources to pay for both the procedure and any other costs associated with the lengthy post operative care. Please see "Solid Organ Transplant Financial Processing Procedure", "Bone Marrow Transplant Financial Processing Procedure" and "Cardiac Surgery Financial Processing Procedure" for the financial coordination of these special medical cases.

Prior to scheduling a complex medical procedure which includes an extensive post-operative regimen we recommend that you schedule an appointment with a financial counselor and a clinician prior to any services. At that time, payment arrangement for high cost item(s) may be discussed and any and all other sources of payment (grants, charity from the manufacturer, fundraising, family help) for the item must be researched before LUHS will consider including the device, drugs and/or high cost biological item(s) under the financial assistance award.

VI. ILLINOIS UNINSURED PATIENT DISCOUNT ACT

LUMC complies with the Illinois Uninsured Patient Discount Act by providing a discount on standard charges to all uninsured patients based on an annually adjusted formula as stated in the Act.

VII. ACCOUNTING AND REPORTING FOR FINANCIAL ASSISTANCE

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: FIN-002**

In accordance with Generally Accepted Accounting Principles, financial assistance provided by LUMC is recorded in the financial statements at full charges in the category of "Charity Care." For the purposes of Community Benefit Ministry reporting, charity care is reported at estimated cost associated with the provision of "Charity Care" services." Financial Assistance must be systematically accounted for so that this component of community benefits for LUMC is accurately recorded. The following guidelines are provided for the financial statement recording for financial assistance:

1. Financial assistance provided to patients under the provisions of "Financial Assistance to Insured and Uninsured Patients" and under the provisions of "Special Provision of Uninsured Patients" will be recorded under "Charity Care Allowance."
2. Write-of of charges for patients who have not qualified for financial assistance under this policy and who are unwilling to pay will be recorded as "Bad Debt."
3. Prompt pay discounts will be recorded under "Operational Adjustments – Administrative."

Under the following circumstances, it can be assumed that the patient qualifies for charity care and associated services recorded as such:

1. Non-covered medically necessary services provided to patients qualifying for state, or county assistance programs
2. Patient Bankruptcies.
3. Accounts initially written-off to bad debt and subsequently returned from collection agencies where the patient was determined to have met the financial support criteria based on information obtained by the collection agency.

VIII. RESPONSIBILITY

Any questions or concerns regarding the policy should be directed to the Vice President of Patient Financial Services at 708-216-0469.

Loyola University Medical Center

DEPARTMENT: Patient Financial Services

PROCEDURE: Commercial/Managed Care Follow Up

B.2.1

PURPOSE: To provide consistent and effective follow up for the timely resolution of Commercial and managed Care accounts.

PROCEDURE:

Collectors are expected to adhere to the following timetables for the timely resolution of their accounts. For purposes of this document, actions is being defined as an activity or task that is expected to generate or resolve the account which includes but is not limited to phone calls, medical records requests, resubmission or mailing of claim and requests to other departments for assistance (via email, phone call, assignment to work queues, discussions in person and or adding to denial logs) in order to resolve the account.

If the balance on the account is over \$10,000

- A. 1st action is expected to be done within 5 days of appearing in their WQ.
(Approximate aging is 35 days from discharge date)
- B. 2nd action is expected to be done within 5 days of when the ticker was due but NOT exceed twenty-one (21) days from the date of the previous last action. (Approximate aging could be up to 56 days from discharge date)
- C. 3rd action is expected to be done within 5 days of when the ticker was due but not exceed twenty-one (21) days from the date of the previous last action (Approximate aging could be up to 77 days from discharge date)
- D. 4th action is expected to be done within 5 days of when the ticker was due but not exceed twenty-one (21) days from the date of the previous action (Approximate aging could be up to 98 days from discharge date)
- E. 5th action is expected to be done within 5 days of when the tickler was due but not to exceed twenty- one (21) days from the date of the previous action (action (Approximate aging could be up to 119 days from discharge date). After the insurance has all the information necessary to process the claim, they are to be advised that payment must be received in 20 days or the account will be referred to a legal agency for further collection
- F. At 120 days from discharge **and** completion of 4 actions to resolve the account, send an email to your manager. Include in the subject header: "Acct Number – Escalation Needed". In the body of your email outline the Bill date, date and description of each action and payer name

If the balance on the account is over \$5,000 and less than \$10,000

- A. 1st action is expected to be done within 7 days of appearing in their WQ. (Approximate aging is 37 days from discharge date)
- B. 2nd action is expected to be done within 7 days of when the ticker was due but NOT exceed thirty (30) days from the date of the previous last action. (Approximate aging could be up to 67 days from discharge date)
- C. 3rd action is expected to be done within 7 days of when the ticker was due but not exceed thirty (30) days from the date of the previous last action (Approximate aging could be up to 97 days from discharge date)
- D. 4th action is expected to be done within 7 days of when the ticker was due but not exceed thirty (30) days from the date of the previous action (Approximate aging could be up to 127 days from discharge date)
- E. 5th action is expected to be done within 7 days of when the tickler was due but not to exceed thirty (30) days from the date of the previous action (action (Approximate aging could be up to 157 days from discharge date). After the insurance has all the information necessary to process the claim, they are to be advised that payment must be received in 20 days or the account will be referred to a legal agency for further collection.
- F. At 158 days from discharge and completion of 4 actions to resolve the account, send an email to your manager. Include in the subject header: "Acct Number – Escalation Needed". In the body of your email outline the Bill date, date and description of each action and payer name

If the balance on the account is less than \$5,000

- A. 1st action is expected to be done within 10 days of appearing in their WQ. (Approximate aging is 40 days from discharge date)
- B. 2nd action is expected to be done within 10 days of when the ticker was due but NOT exceed forty-five (45) days from the date of the previous last action. (Approximate aging could be up to 85 days from discharge date)
- C. 3rd action is expected to be done within 10 days of when the ticker was due but not exceed forty-five (45) days from the date of the previous last action (Approximate aging could be up to 130 days from discharge date)
- D. 4th action is expected to be done within 10 days of when the ticker was due but not exceed forty-five (45) days from the date of the previous action (Approximate aging could be up to 175 days from discharge date). After the insurance has all the information necessary to process the claim, they are to be advised that payment must be received in 20 days or the account will be referred to a legal agency for further collection.

- E. At 176 days from discharge and completion of 4 actions to resolve the account, send an email to your manager. Include in the subject header: "Acct Number – Escalation Needed". In the body of your email outline the Bill date, date and description of each action and payer name

After the insurance has all the information necessary to process the claim, they are to be advised that payment must be received in 20 days or the account will be referred to a legal agency for further collection.

Loyola University Medical Center

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| DEPARTMENT: Patient Financial Services –Self Pay Unit |
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| PROCEDURE: Self Pay Collections |
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| B.2.4 |
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PURPOSE: To outline the self pay collection process with coordinating letter series.

A. Self Pay After Insurance

- a. After primary insurance payment or denial is received and balance is patient liability, money is transferred from the insurance bucket to the patient bucket and the appropriate letter is sent to the patient from the letter series.

If secondary insurance exists on the claim, it will be billed after primary payment or denial is received. Money is transferred from the insurance bucket to the patient bucket and the appropriate letter is sent to the patient from the letter series.

- b. Thirty (30) days after the initial hospital statement is sent and payment in full was not received or payment arrangements were not made, account will be transferred to the self-pay follow up vendor, National Patient Account Services (NPAS).
- c. NPAS will follow up with statements and phone calls to the patient based on their collectability logic.
- d. Accounts unpaid will remain with NPAS for 90 days.
- e. If still unpaid after 120 days from first statement, account will transfer to collection agency.
- f. Once in collection agency, account is considered "bad debt".

B. Self Pay No Insurance

- a. Approximately five (5) days after services, a billing statement that includes a summary of charges is sent to the patient requesting payment in full or to contact our office to discuss payment arrangements.
- b. Thirty (30) days after the statement is sent and payment in full was not received or payment arrangements were not made, account will transfer to NPAS.
- c. Follow-up is C-F as noted above.

LOYOLA UNIVERSITY MEDICAL CENTER

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|-------------|---|---------|
| DEPARTMENT: | Patient Financial Services | |
| Procedure: | Loyola University Medical Center Collection Processes | B.2.3.1 |

Purpose: To ensure that all patient accounts follow a set collection process and patients have opportunity to resolve accounts prior to outside agency placement. Collection practices follow federal and states regulations and must comply with contracted payer agreements.

Process: Hospital accounts are held for six days after service or discharge. This is done to ensure all charges are captured prior to billing. A diagnosis must be entered before a bill can be produced. Accounts not billed within 14 days of discharge or service date, are reviewed by management to ensure necessary data is entered to produce bill.

Insurance Accounts

Insurance carriers are billed on a UB04 claim form. The majority of claims are submitted electronically in an 837 format.

Call is made to the insurance companies for any account with balances over \$10,000.

At 75 days bills under \$10,000, with no payment activity goes to the agency for follow up with insurance. The accounts remain on the active receivable until 135 days. They are then classified as bad debt.

Bills over require approval by the Chief Financial Officer for bad debt placement with agency.

- \$10,000 - \$24,999 – requires Director & Manager approval
- \$25,000 - \$49,999 – requires VP of Revenue Cycle, Director & Manager approval
- \$50,000 - \$99,999 – requires Senior VP, Chief Financial Officer, Treasurer VP of Revenue Cycle, Director & Manager approval
- Over \$100,000 – requires President and Chief Executive Officer Senior VP, Chief Financial Officer, Treasurer VP of Revenue Cycle, Director & Manager approval

Self Pay Accounts

All self-pay accounts are reviewed for possible Medicaid coverage. We complete a Medicaid application for all inpatients that may qualify for Medicaid coverage.

Self-pay accounts are given a 48% discount upon billing.

Patient receives summary bill and three statements over 120-day period.

Patients that make a partial payment are contacted for payment arrangements. Patients with balances over \$2,000 are contacted for payments. The calls are handled professionally asking patients when payment can be expected. Patients are offered the financial assistance application if they state they are not able to pay the bill. All forms of accepted payment are listed on Hospital billing statement. The statement also lists the option of applying for financial assistance.

Patients can make payment arrangements up to 24 months with a minimum payment of \$50.00 per month.

Accounts with balances of \$24.99 and under are written off if not paid within 120 days.

Medicare Accounts

Medicare patients receive a summary bill when bill is submitted to Medicare.

Medicare accounts are worked until payment or denial is received. There is no automatic placement of Medicare accounts.

No patient payment is requested for Medicare covered services. Patient may only be billed for co-pay, deductible, services statutorily not covered by Medicare, or denied services where the ABN has been provided prior to service.

After Medicare payment account is handled as self-pay after insurance.

Medicaid

Patient is sent no statements, except if spend down is due. Medicaid is billed directly. Medicaid accounts are not placed with agency.

If patient has spend down balance, it is billed after Medicaid payment.

The patient goes through self-pay billing cycle for any balance due

Secondary Insurance (Includes Commercial and Medicare)

After primary payment, patient is sent statement indicating that secondary has been billed. The primary payment is shown and also the amount that is billed to the secondary insurance. All secondary billing to insurance carriers must include a copy of the primary payment.

At 90 days, accounts other than Medicare primary, are placed with agency as Outsource if payment has not been received. Medicare primary accounts receive one additional statement to be compliant with Medicare bad debt regulations.

Loyola University Medical Center

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|--------------------|-----------------------------------|--------------|
| DEPARTMENT: | Patient Financial Services | |
| PROCEDURE: | MANG APPLICATIONS | C.1.5 |

PURPOSE:

To delineate the steps necessary for screening and where appropriate, the completion and processing of a Medical Assistance – No Grant (MANG) for consideration of eligibility for medical benefits through the Illinois Department of Human Services.

PROCEDURE:

1. Screening for Eligibility

As of the date of this document, there is a limited population of patients who may be eligible for medical benefits through the Illinois Department of Human Services (DHS). In cases where the patient represents an inability to pay for service and/or has insufficient insurance coverage to address their hospital bill, the Great Lakes Medicaid (GLM) Financial Counselor should screen for the following opportunities through DHS:

- A. Disability – Patient has an illness or injury that will cause the patient to be disabled greater than 12 months.
- B. Dependent Children – the patient is a child or there are children under the age of nineteen that reside in the patient's home.
- C. Patient age-patient who are legal U.S> citizens and are 65 years of age or older.

2. Completion of MANG Application

If a patient appears to meet one of the above stated eligibility standards, the GLM Financial Counselor will take the steps to complete a MANG application with the patient, guarantor, or next of kin, if patient is unable to complete the process without assistance (see MANG Application, attachment "A"). The application must be signed by the applicant or authorized representative and a copy of the application is to be submitted to the appropriate DHS office for application processing within five days of the signed application. The application will be sent as certified mail. Once the application is completed, the account plan should be changed to MANG Pending. The benefit status check of the Auth/Cert function of EPIC should be flagged as "MANG Pending" and will remain in work queue numbered 4985 and described as LUHS Financial Counselor WQ. All actions are to be documented in the EPIC billing system.

3. Follow up on Pending MANG

Once a month, the Patient Access Director will reconcile the in-house MANG WQ to the MANG report from Great Lakes Medicaid.

4. Response from Great Lakes Medicaid

The Patient Access Director will wait for the weekly update from representatives of Great Lakes Medicaid Inc as to the final outcome of the application process. The plan code will be changed to Medicaid and a claim will be initiated for billing immediately on cases with approval for the entire stay. For cases whereby the approval is for a selected period of the inpatient stay, the Patient Access Representative will document the EPIC system on the approved dates and forward the case to the Medicaid Manager WQ. The Medicaid Manager will ensure 1) that the plan code is

updated to Medicaid, 2) that the MANG Pending Plan code is terminated for the coverage, and 3) that the claim is billed properly in an effort to avoid rejection/denial. The benefit status field in the Auth/Cert function of EPIC will be changed to Complete, and the cases will be removed from the MANG WQ. For cases that are denied, GLM will indicate if the account should be written off to charity or referred out to collection agency.

5. MANG application cases aged over 240 days

GLM will code each pending MANG account with a 1, 2 or 3. Code 1 will most likely be approved. Code 2 will be accounts that may be approved. Code 3 are usually accounts in appeal that are not likely to be approved. Pending accounts with a Code 3 designation and greater than 240 days old will be written off to charity. Cases that are approved after a MANG Charity is applied will be debit adjusted back to total charges and then the case will be initiated for billing.

| | | |
|--|-----------------|------------|
| GOTTLIEB MEMORIAL HOSPITAL POLICY AND PROCEDURE | Policy Number: | |
| | Effective Date: | 01/01/2011 |
| SUBJECT: CHARITY CARE AND FINANCIAL ASSISTANCE | | |

I. PURPOSE

The purpose of this policy is to ensure healthcare services and consistency in providing financial assistance to patients who are indigent or are experiencing temporary financial hardship. This policy is based upon Gottlieb’s commitment to provide health care services to all patients based on medical necessity. It reflects our commitment to our community as well as our responsibility as a not-for-profit health care organization.

II. DEFINITIONS/APPLICATIONS

Gottlieb Memorial Hospital (GMH) provides medical care to all patients in need of medically necessary services. Medically necessary services are those services typically covered by Medicare. Elective services, such as cosmetic surgery, are not included in the Charity Program. Patients who earn up to 200% of Federal Poverty Guideline (FPG) will receive care at no cost. Patients who earn up to 300% of the FPG will received a 80% discount and patients that earn up to 400% of the FPG will receive a 75% discount. Patients that earn up to 600% of FPG will receive a discount based on cost, to be reviewed on an annual basis.

III. POLICY

In advising patients, a financial counselor will explain GMH’s payment policy and discuss a payment plan for the services. Patients who are not able to comply with the request for payment will then be evaluated for possible Medicaid eligibility. The financial counselor will initiate the Medicaid application or direct the patient to the Public Aid Office whenever it appears the patient would qualify. A copy of the Medicaid denial may be requested prior to extending charity or financial assistance. A patient when requesting charity care must provide the following documentation within 14 days of the request.

When patients qualify for charity care or financial assistance, they will receive the applicable discount for that calendar year. This will be indicated on the registration system by the appropriate assigned plan code of each level of discount.

The following documentation is required for evaluation for charity care or financial assistance review and approval:

1. A copy of most current tax year W-2, 1040, and any other applicable tax forms that were filed.
2. Copies of the last three (3) most recent employer paycheck stubs.
3. If patient is paid in cash, a letter from the employer stating amount paid weekly.
4. Copies of Social Security check is applicable.
5. Copy of last three (3) checking and/or saving account statements.

If patient does not provide documentation, a credit check will be run on patient. Based on the information provided by Trans Union Services, a charity determination will be made.

IV. RESPONSIBILITY

Any questions or concerns regarding the policy should be directed to the Director of Patient Financial Services at 708-681-3200.

Approved Ellyn Chin Vice President Finance

Mercy Hospital and Medical Center
Chicago, Illinois

ADMINISTRATIVE POLICY NUMBER J-5

Subject: Charity Care / Uncompensated Care Policy and Procedure / Uninsured Patient Discounts

Original Issue Date: November 23, 2005

Revision Date: 06/07, 01/08, 04/09, 12/09, 11/11, 02/12, 01/13

Initiated by: Rita Carlson
Director, Revenue Cycle

Approved by: Thomas Garvey
Chief Financial Officer

I. PURPOSE

The purpose of this policy is to outline the procedures for the administration of Charity Care. A program established under state law that requires hospitals to provide medical care for free or at a reduced cost if the recipient of the care is not able to pay fully for the services rendered. Also, to administer the Hospital Uninsured Patient Discount Act, Public Act 95-0965.

II. POLICY STATEMENT

Faithful in its service to the financially and medically indigent, Mercy Hospital and Medical Center (MHMC) provides financial assistance to patients who are unable to pay their financial obligations associated with services they receive from MHMC. The review and determination to provide financial assistance supports the MHMC's strategic goals and mission. The dignity of the individual remains paramount throughout the entire process.

Mercy Hospital and Medical Center (MHMC) honors its obligation to provide medically necessary care to its patients. The Hospital recognizes that, based on current Illinois and Federal Laws, MHMC has an obligation to provide emergency and/or trauma services to the best of its ability before determining the source of payment for such services, and to provide medically necessary care to uninsured and financially or medically indigent patients as set forth in this Policy.

The Hospital may also support, sponsor or co-sponsor certain other charitable health-related programs in the surrounding community.

III. DEFINITIONS

For the purposes of this Policy, the following definitions apply:

- **"Patients"** shall mean those persons who receive care at MHMC and the person who is financially responsible for the care of the person.

- **“Uninsured Patients”** are defined as all persons who are uninsured or do not otherwise qualify for any governmental or private program that provides coverage for any of the services rendered.
- **“Financially Indigent”** means an uninsured person who is accepted for care with no obligation (charity care) or with a discounted obligation to pay for services rendered based on the Hospital Eligibility Criteria.
- **“Medically Indigent”** means an uninsured patient who does not qualify as Financially Indigent under this policy because the patient’s income exceeds 600% of FPL but whose medical or hospital bills exceed a specified percentage of the person’s income, and who is unable to pay the remaining bill.
- **“Charity care”** – financial assistance provided to uninsured or financially indigent patients who have demonstrated inability to pay for emergency or non-elective services provided to them.
- **“Financial Assistance”** – program designed for patients whose income is in excess of 600% of the FPL, but remain uninsured, underinsured, and financially or medically indigent.
- **“Bad debt”** – services provided by the Hospital to a patient for which viable payment was reasonably anticipated and credit was extended, but for which payment is deemed uncollectible due to the patient’s unwillingness to pay.
- **“Medically Necessary Service(s)”** – any inpatient or outpatient hospital service that is covered by and considered to be medically necessary under Title XVIII of the federal Social Security Act. Medically necessary services do not include any of the following:
 - (a) Non-medical services such as social, educational, and vocational services.
 - (b) Cosmetic Surgery
- **“Non-emergent”** – Services for which the patient’s condition permits adequate time to schedule a service. Although these conditions do not require immediate hospital treatment, their condition(s) are medically necessary so that patients may return to daily functional status and level of activity.
- **“Elective”** – any inpatient or outpatient hospital service that is **not** covered by and **not** considered to be medically necessary under Title XVIII of the federal Social Security Act.

IV. PRINCIPLES

1. Charity Care - Minimum Standards

- a) Patients with income at or below 200% of the Federal Poverty Level (“FPL”), adjusted for family size, will be eligible for 100% charity care write off of the charges for medically necessary services that have been provided to them.
- b) Patients with eligible assets and incomes above 200% but not exceeding 600% of the FPL, adjusted for family size, will receive a discount on medically necessary services provided to them, based upon a sliding scale established by hospital policy. See attached Financial Assistance Eligibility Guidelines.

2. Financial Assistance – Patients who are uninsured or underinsured

- a) Patients with income greater than 600% of the FPL, adjusted for family size, may be considered for a discount based on a substantive assessment of their ability to pay.
- b) The assessment of a patient’s ability to pay will consider, but not be limited to, income, medical bill obligations, mortgage payments, utility payments, number of family members, eligible assets, and disability considerations. The assessment should include determination based on eligible assets and eligible income.
- c) Program will consist of a monthly payment obligation based upon Patient’s ability to pay a discount up to the typical managed care rate that exceeds the Medicare DRG rate or Fee Schedule.

3. Uninsured Patients with the ability to pay

- a) The Hospital sets standard charges for its services; however, Medicare and Medicaid pay significantly less than standard charges and managed care and other contracted care entities may pay less than standard charges. Therefore, under this Policy, low-income, uninsured, financially or medically indigent patients may be considered for a discount.
- b) Program will consist of a monthly payment obligation based upon Patient's ability to pay a discount. Up the typical managed care rate that exceeds the Medicare DRG rate or Fee Schedule.
- c) The highest paying managed care payor must account for at least 3% of MHMC's population as measured by gross patient revenues.

4. Non-covered Services:

- a) Patients with "elective" services are not eligible for charity care or financial assistance.

5. Determination of Eligibility:

- a) The determination of a patient's eligibility for Charity Services under this Policy shall be made in a non-discriminatory manner.
- b) All Uninsured Patients (claims in financial class 'S') should be included in the Financial Assessment review.
- c) The Hospital shall request general financial information from a patient as soon as possible upon the patient's presenting for services. This request will occur after medical screening and/or stabilizing treatment in the case of emergency services.
- d) Financial Assistance may be available to patients incurring medically necessary procedures, services, and admissions. Patients scheduled for elective, non-medically necessary procedures are expected to pay according to the Hospitals Payment Policy and shall not be screened for charity or financial assistance.
- e) Patients having insurance may also be eligible for Charity Care or Financial Assistance for the portion of their bill that is not covered by insurance, including deductibles, and coinsurance. Charity Care or Financial Assistance amounts will be determined per existing sliding scale.
- f) Initial determination of Charity Care or Financial Assistance should be made as close as possible to the time of admission of the provision of services. Once a patient is determined to be eligible for Charity Care or Financial Assistance, the patient must provide MHMC with all required supporting documentation within thirty (30) days from the date of the request. A final determination will then be made.
- g) **Criteria for eligibility for Charity Services or Financial Assistance:**
 - Family size and other related pertinent factors including financial obligations, family living expenses and assets must be evaluated. The number of family members in the patient's household must be verified. An adult patient's household will include the patient, the patient's spouse and any dependents of the patient or the patient's spouse. A minor (person under the age of 18 and not emancipated) patient's household will include the patient, the patient's mother, dependents of the patient's mother, the patient's father, and dependents of the patient's father.
 - Employment status, including but not limited to future earning capacity and allowing for the likelihood of a financial capacity sufficient to meet his or her financial obligations in an acceptable time period.
 - Future and current ability to pay which may include
 - Prior year's income tax return (Hospital preferred income verification document)
 - W-2 or Form 1099.

- After 2nd quarter of the year, the above tax documents should be supported by pay stubs or employer statement documenting earned wages for the three (3) pay periods prior to the application for assistance.
 - Wage and Earnings Statement
 - Pay Check Remittance
 - Social Security
 - Workers Compensation or Unemployment Determination Letters
 - Qualification within the preceding six (6) months for governmental assistance program (including food stamps, Medicaid, General Assistance, and Aid to Families with Dependent Children (AFDC))
 - Telephone verification by the patient's employer of the patient's income.
 - Bank statements, which indicate payroll deposits.
 - Personal Balance Sheet/Income Statement/Review of eligible assets.
 - Amount and frequency of medical bills in relation to the above factors.
 - Catastrophic medical costs that may make the patient medically indigent, even if the patient does not initially meet the criteria established under this Policy.
 - Other factors deemed appropriate by MCHC from time to time.
 - Exhibit I-A details discounts to be given at various income levels, adjusted for family size.
- h) **Homeless and incarcerated patients** may be deemed to have no income for purposes of the Hospital's calculation of income. Documentation of income is not required for these patients. Income verification is still required for any other family members as described in this policy. Incarcerated patients with medical expenses covered by the governmental entity incarcerating them (i.e. State, County, or City) are not eligible for Charity or Financial Assistance.
- i) **Automatic Classification as Financially Indigent:** The following is a listing of types of accounts where Financial Assistance is considered to be automatic and documentation of Income or a Financial Assistance Application is not needed:
- Medicaid, Medicaid HMO, and other State Funded Programs (Crime Victim Act) accounts - Exhausted Days/Benefits.
 - Medicaid primary spenddown accounts with unlimited spenddown amounts.
 - With Medicaid as secondary – where primary plan left patient with responsibility and Medicaid denies claim as secondary.
 - Patients that qualify for General Assistance Category 07.
- j) **Assets:** The following are to be considered exempt and shall not be considered in determining whether the uninsured patient qualifies for an uninsured discount:
- Primary Residence
 - Cash on hand - \$2,400 for the patient, \$3,000 for a patient plus one dependent, \$50 for each additional dependent
 - Personal effects and household goods that have a total value less than \$4,000.00
 - Wedding and/or engagement ring(s)
 - Items required due to medical or physical condition
 - One automobile with fair market value of \$2,400 or less
 - All Pension or Retirement Plans.
- k) If and when Hospital personnel cannot clearly determine eligibility, the Hospital will use best judgment and submit a memorandum listing reasons for judgment along with Financial Assistance documentation. A manager or director will then review the memorandum and documentation for approval.

6. Application and Review Process

- a) Patients' qualifications for charity care or financial assistance will be determined through an application and screening process, which may include the completion of a Financial Assistance Application.
- b) Patients are to be first screened for other payor sources and then shall exhaust all available community resources, including community aid, Medicaid and Medicare, welfare and other community resources prior to consideration for charity care or financial assistance. Patients failing to cooperate with such screening may result in a denial to be considered a candidate for charity care or financial assistance.
- c) Financial Counselors, Customer Service Representatives, or Registrars will be responsible for the screening process. Community Guidance Center will be responsible for completing Financial Assistance Applications for mental health patients and forwarding completed applications to Financial Counselors for approval.
- d) MANG and Financial Assistance Applications will be taken for all uninsured inpatients that have not yet applied for Medicaid. MANG and Financial Assistance Applications may also be taken on outpatients on case-by-case basis. However, these patients will be assessed for Charity or Financial Assistance only if they are declined for Medicaid. Patients are required to cooperate with the Medicaid application process.
- e) If an outpatient has a MANG pending inpatient account, the outpatient service will be flagged and then reviewed by PFS.
- f) During the Financial Assistance Applications process, the patient may be treated as self-pay in accordance with Hospital policies.
- g) Failure to comply with the payment arrangement terms of any remaining balances after the financial assistance adjustment is applied may result in the claim being referred to an outside collection agency. The discount will still be applicable.
- h) Accounts already placed at an outside collection agency may be considered for Charity or Financial Assistance. Patient must provide required information for agency to complete Charity or Financial Assistance Application. Once approved, the account will be recalled from the agency.
- i) Upon review of the patient's financial and employment situation as completed in the Charity Care / Financial Assistance Application, MHMC will determine if the patient qualifies for Charity Care, Financial assistance or other discounts and the level of discount to be given.
- j) If applicable, the patient may be notified of the decision.
- k) If approved for Charity, provided Patient's insurance or financial status remains unchanged, the Financial Assistance Application may be used to determine Charity or Financial Assistance for subsequent services received in the six (6) months following the original approval date.

7. Appeals Process

- a) Once the Hospital has classified a patient's services as Charity Services that determination will be final unless the Hospital finds the determination is based on erroneous or falsified information.
- b) If after a patient is granted Charity or Financial Assistance and the Hospital find material provision(s) of the Assistance Application to be untrue, the Charity or Financial Assistance may be withdrawn.
- c) If an application for Charity Care is denied, and the patient's income is at or below 600% of the FPL, the patient will have 30 days to appeal.
- d) If the appeal is denied, the patient must be notified in writing of the decision and the reason for it.

8. Publication / Communication of Financial Assistance Policies

- a) Communications to the public regarding financial assistance should be written in consumer-friendly terminology and in a language that the patient can understand.

- b) Include information in hospital bills/statements about the availability of financial aid and how to obtain further information and apply for financial aid.
- c) Information on financial assistance policies should be posted in key public areas in the hospital with instructions on how to apply or obtain further information.
- d) Patients should be educated about their responsibilities, the potential financial obligation they may incur, their obligations for completing eligibility documentation, and the hospital's bill collections policies.
- e) The Hospital shall communicate the availability of Charity Services to patients upon request or by providing patients who present for services with general written or oral information regarding the availability of financial assistance.
- f) The Hospital shall communicate to patients the availability of general financial assistance, including community aid, Medicaid, Medicare, welfare and other community resources of which Mercy Hospital and Medical Center is aware, and shall assist patients in completing applications for such assistance.
- g) The Hospital shall ensure that its third party payors who furnish services or make collections will be aware of this Policy and will refer patients that may be eligible for Charity Services back to the Hospital.

9. Prohibitions and Reservation of Rights

- a) The Hospital shall not routinely waive Medicare deductibles or coinsurance.
- b) The Hospital shall not advertise the waiver of Medicare cost sharing amounts relating to any services.
- c) The Hospital shall waive Medicare deductible and coinsurance amounts if the Hospital determines, in good faith, that the patient meets the eligibility criteria under this Policy and applicable law. The Hospital may waive Medicare deductible and coinsurance amounts if the Hospital has made reasonable efforts and those collection efforts fail, in which case the Hospital may claim such amounts from Medicare as bad debts (and receive a percentage of the bad debt as reimbursement from Medicare).
- d) It is the policy of Mercy Hospital and Medical Center to reserve the right to limit or deny financial assistance at the sole discretion of our hospital.
- e) Nothing in this Policy shall preclude the Hospital from pursuing reimbursement from third party payors, third party liability settlements or tortfeasors or other legally responsible third parties.
- f) Payments made by self-pay patients prior to the determination of eligibility for Charity Services will not be refunded or considered against outstanding balances.

10. Accountability and Interpretation

- a) The Controller and Director of PFS shall periodically review the levels of activity in the Charity Services account (running comparison periods, budgeted expectations and actual, monthly, year-to-date and prior year).
- b) The Controller and Director of PFS shall report monthly to the CFO any unusual fluctuations and other significant/material matters relating to Charity Services.
- c) In the event of any conflict between this Policy and any other Mercy Hospital and Medical Center Policy, including without limitation, the Collection Policy, returns of this Policy shall apply.

11. Uninsured Patient Discount:

- a) **A financial counselor will interview uninsured patients and the uninsured patient work sheet (Exhibit VIII) must be completed at that time.**
- b) **If the patient has not received services, it will be necessary to estimate the patient total charges. Enter the estimated total in the first line that states total charges.**

- c) **If the patient has received services enter the total charges on the worksheet from the patients' Star account that indicates the balance due.**
- d) **Multiply the total charges by 56%, which is based on our Medicare Cost to charge ratio.**
- e) **The Balance due is what the patient must pay as outlined by the Uninsured Patient Discount Act (Public Act 95-0965).**
- f) **The maximum Mercy Hospital and Medical Center can collect is 25% of the guarantors annual income**
- g) **Enter the annual income on the work sheet and multiply by 25%. The amount calculated is the maximum that may be collected from the patient, even if the bill is referred to a collection agency.**
- h) **The total collection factor should be divided by 12 months. This is what we should request as the patient's monthly payment.**

Note your findings to the account in Star.

IV. PROCEDURE

The following procedures will be conducted in a professional and compassionate manner:

1. Departments affected: Admitting / Registration / Scheduling, Various Clinics, Community Guidance Center, Patient Financial Services (PFS), Pastoral Care and Social Work.
2. The financial assessment should include all outstanding self-pay accounts (include self pay after insurance). In addition, any patient with a self-pay balance that requests financial assistance is offered a Financial Assistance Application (FAA).
3. The FAA must be completed and signed by the patient, guarantor and/or designated family member within fourteen (14) days from the date of discharge. Extensions are authorized on a case-by-case basis.
4. Family income, including, but not limited to, wages and salaries, welfare payments, dividends and interest must be documented not to exceed \$4,000.
5. All working persons in the household must provide one of the following information:
 - a) A copy of the previous year's W2, 1040 and any other applicable tax forms that were filed.
 - b) Copies of the last two- (2) most recent paycheck stubs from the employer. (Occasionally the patient will state that he/she or spouse is paid cash. In this instance, we would need a letter from the employer on letterhead stating hours worked per week, how often paid, and how much paid.)
6. All unemployed persons in the household must provide the following:
 - a) A copy of the previous year's W2, 1040 and any other applicable tax forms that were filed.
 - b) Copies of the last two (2) pay stubs.
 - c) Confirmation of Support Letter
7. Applicants, whose current financial position is not adequately reflected by prior income reports, must submit statements and/or appropriate documentation of their current/future financial position or a written satisfactory explanation of the reason the patient is unable to provide the requested documentation.

8. Applications received without sufficient and/or appropriate income documentation will be pended for fourteen (30) days, after which the application will be denied.
9. If a patient refuses to complete the application or provide any of the necessary documentation, the charity process cannot be completed and charity may be denied. The patient is then responsible for payment of the entire debt.
10. When information is received from the patient, the Representative completes the FAA using the Federal Poverty Guidelines and collects required supporting documents. The most current verification of income is used to calculate the household's annual gross income. A calculated tape is attached to the FAA.
11. The annual gross income is compared to the income tax returns as well as the amount reported on the FAA. Any major variances are further reviewed.
12. The Representative will make a determination on the percentage discount the guarantor is eligible for and is responsible for obtaining an approval from the appropriate level established.
13. Hospital Charity Care, to be updated annually, is based on the Federal Poverty Income Guidelines (Exhibit I) with a sliding scale adjustment as follows:
 - Up to 100% over Poverty Standard receive 100% discount
 - 101% to 200% over Poverty Standard receive 80% discount
 - 201% to 300% over Poverty Standard receive 70% discount
 - 301% to 400% over Poverty Standard receive 60% discount
 - 401% to 500% over Poverty Standard receive 40% discount
 - 501% to 600% over Poverty Standard receive 20% discount
 - To include catastrophic
14. Approved levels for charity care are based on dollar amount of charity care being requested as follows:

| | |
|---|----------------------|
| • Manager, Admitting and Emergency Room | up to \$ 9,999 |
| • Director, Revenue Cycle | \$10,000 to \$25,000 |
| • Chief Financial Officer | \$25,000 to \$50,000 |
| • Chief Executive Officer | over \$50,000 |
15. A Financial Assistance Eligibility Determination Form is completed and attached to the front of the FAA. It allows for the documentation of the administrative review and approval process utilized by the Hospital to grant financial assistance. The Director of PFS must approve any change in the Eligibility Determination Form.
16. The FAA and any additional paperwork is placed in the following order:
 - Financial Assistance Eligibility Determination Form(s)
 - FAA
 - Verification of income
 - Last four paycheck stubs
 - Unemployment letter
 - Letter from family or friends verifying they are paying for the patients living expenses.
 - The charity care guidelines

17. Once the Eligibility Determination Form has been approved from the appropriate level established. The FAA is given back to the Hospital Representative to complete an adjustment write off form.
18. Decisions are reported to the applicant utilizing the applicable form letter (Exhibit III and IV). Decisions are made within 15 working days of receipt of necessary information.
19. Patients approved for only a partial deduction must still comply with Hospital payment terms for the remaining balance. Payment arrangements can be made with a Financial Counselor.
20. The charity application and all supporting documentation will be maintained in PFS for audit purposes for a minimum of five (5) years or in accordance to the record retainment policy of the Hospital.

EXHIBIT I

**FINANCIAL ASSISTANCE ELIGIBILITY GUIDELINES
Based on Federal Poverty Guidelines Effective January 24, 2013**

| | | | | | | |
|------------------------------|------|-----|-----|-----|-----|-----|
| Patient Discount to be given | 100% | 80% | 70% | 60% | 40% | 20% |
|------------------------------|------|-----|-----|-----|-----|-----|

| | | Income Guidelines for MHMC Discounts | | | | | |
|-------------------------------|--------------------------|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 2013 Poverty Income Guideline | Number In Household | Up to 100% over FPL | 101-200% over FPL | 201-300% over FPL | 301-400% over FPL | 401-500% over FPL | 501-600% over FPL |
| \$11,490.00 | 1 | 22,980 | 29,548 | 39,397 | 49,246 | 59,095 | 68,945 |
| \$15,510.00 | 2 | 31,020 | 39,886 | 53,181 | 66,476 | 79,771 | 93,066 |
| \$19,530.00 | 3 | 39,060 | 50,223 | 66,964 | 83,706 | 100,447 | 117,188 |
| \$23,350.00 | 4 | 47,100 | 60,561 | 80,748 | 100,935 | 121,122 | 141,309 |
| \$27,570.00 | 5 | 55,140 | 70,899 | 94,532 | 118,165 | 141,798 | 165,431 |
| \$31,590.00 | 6 | 63,180 | 81,237 | 108,316 | 135,395 | 162,474 | 189,553 |
| \$35,610.00 | 7 | 71,220 | 91,575 | 122,100 | 152,624 | 183,149 | 213,674 |
| \$39,630.00 | 8 | 79,260 | 101,913 | 135,883 | 169,854 | 203,825 | 237,796 |
| \$4,020.00 | * Each add'l member, add | 8,040 | 12,060 | 16,080 | 20,100 | 24,120 | 28,140 |

* For each additional member to compute discount.

- Up to 100% over Poverty Standard receive 100% discount
- 101% to 200% over Poverty Standard receive 80% discount
- 201% to 300% over Poverty Standard receive 70% discount
- 301% to 400% over Poverty Standard receive 60% discount
- 401% to 500% over Poverty Standard receive 40% discount
- 501% to 600% over Poverty Standard receive 20% discount

Catastrophic Eligibility as Medically Indigent

Only applicable if patients income exceeds 600% of Federal Poverty Guidelines

| Balance Due | Discount |
|--|----------|
| Balance Due is equal to or greater than 90% patients annual income | 80% |
| Balance Due is equal to or greater than 70% patients annual income | 60% |
| Balance Due is equal to or greater than 50% patients annual income | 40% |
| Balance Due is equal to or greater than 40% patients annual income | 30% |

EXHIBIT II



FINANCIAL ASSISTANCE APPLICATION INSTRUCTIONS

Dear Patient:

Mercy Hospital and Medical Center is proud of its not-for-profit mission to provide quality care to all who need it, regardless of their ability to pay.

If you do not have health insurance and worry that you may not be able to pay in full for our care, we may be able to help. Mercy Hospital and Medical Center provides financial assistance to patients based on their income, assets, and needs. In addition, we may be able to assist you with obtaining Medicaid or work with you to arrange a manageable payment plan.

To determine if a person qualifies for financial assistance, we need to obtain certain financial information. Your cooperation will allow us to give all due considerations to your request for financial assistance. Please provide the information requested and return it back to the hospital within 14 days from the date of your discharge from the hospital:

Documents Requested for Determination of Eligibility for Financial Assistance

(Please provide documents from each category as applicable)

Completed Financial Assistance Application

Photo ID/Proof of Identification (one document required)

- Current Driver's License or State ID
- Current Student or Employee ID Card
- Current Passport

Proof of Income (for each household member, provide all documentation that exist and/or apply)

- Four (1) paycheck stub. This includes verification from any paying source including unemployment benefits, Social Security, school loans or any other paying source.
- Your most recent income tax returns including copies of your W-2 forms.
- If paid in cash, a signed letter from your employer indicating terms of employment including wages/salary, dates of employment, current employment status, the availability of health care benefits, etc.
- If self employed, business records including income, expenses, liabilities and assets
- Proof of other income (for example, interest income, pension, rental income)

Disclosure of Assets (for each household member, provide all documents that apply)

- ❑ Current statement from Checking and Savings Account(s), Certificate(s) of Deposit, Money Market Fund, Trust Fund or Brokerage Statement

Confirmation of Support Letter

- ❑ In the event income verification is not available and someone is providing you with room and board, we will need that person to complete and sign a letter to that effect which is also included. Applications without verification are considered incomplete and WILL NOT BE PROCESSED.

Failure to provide the information on the Financial Assistance Application could disqualify you from any consideration of Financial Assistance.

Notification of Determination:

We will notify you of your eligibility following receipt and review of all necessary information. There is no guarantee that if approved the same consideration will be given on future accounts.

Physician Services:

The physicians providing services at this hospital are not employees of Mercy Hospital and Medical Center. You will receive separate bills from your private physician and from other physicians whose services you required (pathologist, radiologist, surgeon, etc.) The Financial Assistance Application does not apply to any amounts due by you for physician services. For questions regarding their bills, or to make payment arrangements for physician services, please contact the individual physician's office.

Additional Assistance:

If you have any questions, please call:

Financial Counselor

Telephone Number

Thank you,

Financial Counselor

Date

EXHIBIT III



Financial Assistance Application

| | |
|-------------------|--|
| PATIENT NAME: | Mercy Hospital and Medical Center |
| PATIENT #: | 2525 S Michigan Ave. Chicago, IL 60616-2477 312-567-2135 or 2438 |
| MEDICAL RECORD #: | FAX: 312-567-7904 |

| | | | | |
|-----------------------------|------------|-----|---------------------------|----------------------|
| I. RESPONSIBLE PARTY | | | | |
| LAST NAME | FIRST NAME | MI | MARITAL STATUS | SOCIAL SECURITY # |
| STREET ADDRESS | | | | |
| CITY | STATE | ZIP | HOW LONG AT THIS ADDRESS? | HOME PHONE |
| EMPLOYER'S NAME AND ADDRESS | | | BUSINESS PHONE | LENGTH OF EMPLOYMENT |
| POSITION/TITLE | | | MONTHLY INCOME | PAY PERIOD |
| | | | \$ | |

| | | |
|-----------------------------|----------------|----------------------|
| II. SPOUSE | | |
| NAME | | SOCIAL SECURITY # |
| EMPLOYER'S NAME AND ADDRESS | BUSINESS PHONE | LENGTH OF EMPLOYMENT |
| POSITION/TITLE | MONTHLY INCOME | PAY PERIOD |
| | | \$ |

| | | | |
|--|---------------|---------------------|--------------|
| III. HOUSEHOLD INFORMATION (ALL PERSONS IN HOUSEHOLD) | | | |
| NAME | DATE OF BIRTH | SOCIAL SECURITY NO. | RELATIONSHIP |
| | | | |
| | | | |
| | | | |
| | | | |
| TOTAL PERSONS IN HOUSEHOLD: | | | |

| IV. MONTHLY INCOME | | | |
|---|----|--------------------------|----|
| DIVIDENDS, INTEREST | \$ | PENSIONS | \$ |
| PUBLIC ASSISTANCE/FOOD STAMPS | \$ | INVESTMENT/RENTAL INCOME | \$ |
| SOCIAL SECURITY | \$ | GRANTS | \$ |
| UNEMPLOYMENT/WORKER'S COMPENSATION | \$ | Other | \$ |
| CHILD SUPPORT/ALIMONY | \$ | | |
| TOTAL MONTHLY MISCELLANEOUS INCOME: \$ | | | |

| V. MONTHLY EXPENSES | | | |
|---|----|-----------------------|----|
| RENT/MORTGAGE | \$ | FOOD | \$ |
| HOMEOWNER'S INSURANCE | \$ | CLOTHING | \$ |
| PROPERTY TAX | \$ | CAR PAYMENTS | \$ |
| ELECTRIC | \$ | CAR INSURANCE | \$ |
| WATER | \$ | GASOLINE | \$ |
| TELEPHONE / CELLULAR PHONE | \$ | ALIMONY/CHILD SUPPORT | \$ |
| LOANS | \$ | CREDIT CARDS | \$ |
| MEDICAL INSURANCE | \$ | MEDICATIONS | \$ |
| LIFE INSURANCE | \$ | OTHER(Specify) | \$ |
| TOTAL MONTHLY MISCELLANEOUS EXPENSES: \$ | | | |

| VI. MONTHLY NET INCOME | | | |
|---|----------|-----------|--|
| RESPONSIBLE PARTY'S MONTHLY INCOME | | \$ | |
| SPOUSE'S MONTHLY INCOME (If Applicable) | + | \$ | |
| TOTAL MONTHLY MISCELLANEOUS INCOME | + | \$ | |
| TOTAL MONTHLY MISCELLANEOUS EXPENSES | - | \$ | |
| TOTAL MONTHLY NET INCOME | = | \$ | |

| VII. ASSETS | | REAL ESTATE/VEHICLES/RECREATION (Equity Value) | |
|-------------------------|----|---|----|
| CHECKING ACCOUNT(S) | \$ | REAL ESTATE PROPERTY | \$ |
| SAVINGS ACCOUNT(S) | \$ | MOTORHOME(S) | \$ |
| INVESTMENTS/IRA's | \$ | BOAT/TRAILER(S) | \$ |
| CD's | \$ | AUTOMOBILE(S) | \$ |
| TOTAL ASSETS: \$ | | | |

If unable to provide requested documents, please explain below

Comments:

I declare that the answers I have given are true and accurate.

I understand that I may be asked to prove any statements and my eligibility statements will be subject to verification by contact with my employer, and bank credit verification. I also authorize and instruct any person or consumer-reporting agency to furnish Mercy Hospital & Medical Center any information that it may have or obtain in response to such financial inquiries.

I understand that Mercy Hospital & Medical Center is required by law to keep any information I provide confidential.

I further agree, that in consideration for receiving health care services as a result of any accident or injury, to reimburse the hospital from the proceeds of litigation or settlement resulting from such an act.

Signature of Responsible Party

Date

EXHIBIT IV



CONFIRMATION OF SUPPORT LETTER

Applicant (Print Name)

The person named above has advised us that you either contribute substantially to their support or you are the sole means of their support. Please complete this form and return it in the enclosed envelope by: _____.

Thank you.

The type of support I/we provide is: (please complete all that apply)

_____ Room and Board, since (date) _____

_____ Allowance of \$ _____

_____ every week _____, every 2 weeks _____, every month

_____ Other (please explain)

I/We, (print)

_____ have been the sole/substantial support for the person named above and, to the best of my/our knowledge, declare that this person has no other primary means of support.

Signature 1

Signature 2

Relationship to Applicant

Relationship to Applicant

Address, City, State, Zipcode

Address, City, State, Zipcode

Telephone

Telephone

Witness

Witness

Date

Date

EXHIBIT V

**FINANCIAL ASSISTANCE ELIGIBILITY DETERMINATION
OFFICE USE ONLY**

Patient Name: _____

Medical Record Number: _____

Total Yearly Income: \$ _____ Total Charges: \$ _____

Balance Due: \$ _____ Number in Household: _____ Financial Class: _____

1. Is Total Yearly Income equal to or less than 100% of the Federal Poverty Guidelines? (See Financial Assistance Eligibility Guidelines - Schedule A) Circle One

- YES Approved for 100% financial assistance as Financially Indigent.
- NO Does not qualify for assistance as Financially Indigent. Continue to Step 2.

2. Is this balance due greater than 10% of Total Yearly Income? Circle One

- YES Continue to Step 3.
- NO Patient does not qualify for Financial Assistance.

3. Is Total Yearly Income equal to or less than 600% of the Federal Poverty Guidelines? See Financial Assistance Eligibility Guidelines - Schedule B. Circle One

- YES Total Yearly Income is greater than _____% and less than _____% of the Federal Poverty Guidelines. Patient qualifies for _____% discount as Medically Indigent pursuant to Financial Assistance Eligibility Guidelines - Schedule B.
- NO: Continue to Step 4.

4. Is this balance due greater than 25% of Total Yearly Income? Circle One

- YES Balance due is _____% of the total yearly income. Eligible for _____% discount as Medically Indigent pursuant to Financial Assistance Eligibility Guidelines - Schedule C. Continue to Step 5.
- NO: Patient does not qualify for Financial Assistance.

5. \$ _____ Multiply by _____% = \$ _____ \$ _____
(Balance Before Discount) (% Discount) (Discount Amount) Balance After Discount)

Approved By:

| | | |
|---------------------------------------|------------------------|------|
| Financial Counselor and/or Collector | | Date |
| Manager, Admitting and Emergency Room | (Up to \$9,999) | Date |
| Director, Revenue Cycle | (\$10,000 to \$24,999) | Date |
| Chief Financial Officer | (\$25,000 to \$49,999) | Date |
| Chief Executive Officer | (\$50,000 and over) | Date |

Income Verification

| | | | |
|---|--|----|--------------------------------|
| 1 | IRS Form, W-2, Wage and Earnings Statement | 6 | Bank Statements |
| 2 | Pay Check Remittance | 7 | Written Attestation of Patient |
| 3 | Tax Returns | 8 | Verbal Attestation of Patient |
| 4 | Social Security, Worker's Comp or Unemployment Comp Letter | 9 | Patient deceased, no estate |
| 5 | Telephone Verification by Employer | 10 | Government Program |
| | | 11 | Other |

EXHIBIT VI



Mercy Hospital and Medical Center

2525 S Michigan Ave.
Chicago, IL 60616-2477
(312) 567-2000

Date:

Responsible Party

Address

City, State, Zipcode

Re: Patient Name: _____

Account Number: _____

Date of Service: _____

Dear _____:

Thank you for choosing Mercy Hospital and Medical Center. We appreciate you taking the time to complete and return the Financial Assistance Application. Mercy Hospital and Medical Center uses this information to determine your eligibility for a reduced fee under the Mercy Hospital and Medical Center Financial Assistance program.

In reviewing your Financial Assistance Application, we are happy to inform you that you have been approved for a _____ % Discount. Your new balance has been reduced to \$_____. The determination was based upon our financial assistance policy and procedure guidelines which may have included a review of your income, assets, household size and Federal Poverty Guidelines.

If you have a remaining balance, please call your Patient Representative within ten (10) days to make a payment in full or suitable payment arrangements.

If you should have any questions, please call Patient Financial Services, Monday through Friday, between 8:00 am and 4:30 pm. Please note this program will not include any elective non emergent services.

Sincerely,

Patient Representative

Phone: _____

EXHIBIT VII



Mercy Hospital and Medical Center
2525 S Michigan Ave.
Chicago, IL 60616-2477
(312) 567-2000

Date:

Responsible Party

Address

City, State, Zip Code

Re: Patient Name: _____
Account Number: _____
Date of Service: _____

Dear _____:

Thank you for choosing Mercy Hospital and Medical Center. We appreciate you taking the time to complete and return the Financial Assistance Application. Mercy Hospital and Medical Center uses this information to determine your eligibility for a reduced fee under the Mercy Hospital and Medical Center Financial Assistance program.

In reviewing your Financial Assistance Application, we are sorry to inform you that your income exceeds the Financial Assistance guidelines and, therefore, your application for financial assistance has been denied. Your balance, according to our records, is \$ _____. The determination was based upon our hospital financial assistance policy and procedure guidelines which included a review of your income, assets, household size and Federal Poverty Guidelines.

Please contact your Patient Representative to set up suitable payment arrangements on the balance of \$ _____.

If you should have any questions, please call Patient Financial Services, Monday through Friday, between 8:00 am and 4:30 pm.

Sincerely,

Patient Representative
Telephone: _____

EXHIBIT VIII

UNINSURED PATIENT WORKSHEET

PATIENT NAME: _____

DATE OF SERVICE: _____

TOTAL CHARGES: \$ _____

TYPE OF SERVICE: _____

UNINSURED PATIENT DISCOUNT (135%)

TOTAL CHARGES -----

\$ _____

DISCOUNT (x 56%)

X 56 %

BALANCE DUE FROM PATIENT

\$ _____

MAXIMUM COLLECTABLE

* ANNUAL INCOME-----

\$ _____

x25%

TOTAL COLLECTIBLE -----

DIVIDE BY 12 MONTHS -----

\$ _____

Total Due

*CAN DEDUCT PAYMENTS MADE FOR CHILD SUPPORT

Uninsured patient is a patient with no health insurance

COMPLETED BY: _____ DATE: _____

Explanatory Notes
Section 1110.240

1110.240(b)
Impact Statement

As support for this Criterion, please see the above Explanatory Notes for Sections 1130.520(b)(1), 1130.520(d)(1), 1130.520(d)(2), 1130.520(d)(7), and the Narrative set forth in Attachment 3.

1110.240(c)
Access

As set forth in the attached affidavits from Mr. Warren and Mr. Hale, neither CHE Trinity nor Trinity will adopt more restrictive admission policies or take measures to reduce access to care at the Trinity Illinois Licensed Facilities following the Transaction. Mr. Warren's and Mr. Hale's access affidavits are attached at Attachment 9.

The admission policies for LUMC, Gottlieb and Mercy Hospital are attached at Attachment 9.

1110.240(d)
Other Health Care Providers

The proposed Transaction set forth in this COE Application will only benefit the communities currently served by the Trinity Illinois Licensed Facilities. The proposed Transaction will not negatively impact any other healthcare provider in the service areas currently served by the Trinity Illinois Licensed Facilities.

TRINITY  HEALTH
Livonia, Michigan

April 4, 2013

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1110.240(c), Admission Policy & Access to Care Certification

Dear Ms. Avery and Mr. Constantino:

I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1110.240(c), that Trinity Health Corporation ("Trinity"):

1. shall not cause Loyola University Health System ("LUHS") to adopt more restrictive admission policies or take measures to reduce access to care at Foster G. McGaw Hospital-Loyola University Medical Center, Gottlieb Memorial Hospital, or the other LUHS healthcare facilities, affiliates and subsidiaries, following the proposed transaction between CHE Trinity Inc., Trinity, and Catholic Health East; and

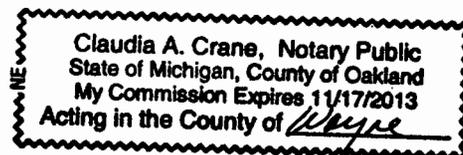
2. shall not cause Mercy Health System of Chicago ("Mercy System") to adopt more restrictive admission policies or take measures to reduce access to care at Mercy System or the other Mercy System healthcare facilities, subsidiaries and affiliates, including Mercy Hospital & Medical Center, following the proposed transaction between CHE Trinity Inc., Trinity, and Catholic Health East.

Sincerely,



Larry Warren
Interim President & CEO
Trinity Health Corporation

SUBSCRIBED AND SWORN to before
me this 10 day of April, 2013.


Notary Public



April 4, 2013

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities Planning Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1110.240(c), Admission Policy & Access to Care Certification

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I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1110.240(c), that CHE Trinity Inc.:

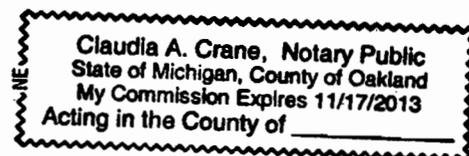
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2. shall not cause Mercy Health System of Chicago ("Mercy System") to adopt more restrictive admission policies or take measures to reduce access to care at Mercy System or the other Mercy System healthcare facilities, subsidiaries and affiliates, including Mercy Hospital & Medical Center, following the proposed transaction between CHE Trinity Inc., Trinity Health Corporation, and Catholic Health East.

Sincerely,

Daniel Hale
Chairman, CHE Trinity Inc.

SUBSCRIBED AND SWORN to before
me this 10 day of April, 2013.

Notary Public





**LOYOLA
MEDICINE**

We also treat the human spirit.®

Date Initiated: July, 1980
Date Revised: December, 2008

**LOYOLA UNIVERSITY
HEALTH SYSTEM**

PATIENT CARE POLICY AND PROCEDURE

| | |
|---|--------------------|
| SUBJECT: PATIENT ADMISSION / REASSESSMENT / PLAN OF CARE | #13.0001.02 |
|---|--------------------|

Paula Hindle, RN, MS, MBA
Vice President, Patient Care Services
Chief Nurse Executive/Health Care Services

POLICY: Individual, goal-directed nursing care is to be provided to patients through the use of the Nursing Process.

The patient admission assessment and plan of care are documentation of the Nursing Process (assessment, diagnosis, planning, intervention and evaluation) for each patient from admission through discharge. The plan of care is permanently integrated within the patient record.

The RN will make appropriate referrals to other healthcare professionals based on the needs of the patient (e.g. Social Work, Pastoral Care).

The multidisciplinary discharge note or physician progress note, critical pathway and discharge rounds are used to communicate the tasks needed to be completed to coordinate a timely and well-planned multidisciplinary discharge.

The Nursing Process and multidisciplinary treatment plan will be the basis for the Nursing Plan of Care.

PROCEDURE:

- A. The RN will complete the patient admission database within 24 hours of admission with information available at time of admission.
- B. The initial assessment includes a nutritional and skin integrity assessment. EPIC link for RN to RD referral, if needed, within 24 hour time order.

PAGE 1 OF 2 PAGES

- C. The RN will document problems, interventions, evaluations, and reassessments at a minimum of once a day and when the patient condition warrants reassessment. The RN will utilize the Problem-Intervention-Evaluation (PIE)/Subjective-Objective-Assessment Plan (SOAP) method of documentation in the progress notes.
- D. An initial discharge assessment will be done to identify the need for a social work consult.
- E. Patients must be reassessed if any change of their condition. This reassessment is documented in the flowsheet and/or progress note.

NOTE: Assessment/Reassessment of pain and physical status is located on the patient care flowsheet.

Assessment/Reassessment of education is located in the Patient Education Record or Progress Notes.

Assessment/Reassessment of physical/psychosocial status is located in the Progress Notes.

- F. Upon patient transfer, the transferring RN/Receiving RN will complete the transfer note on the flowsheet.



Subject: Patient Rights and Responsibilities

Date Implemented: April 1998

Date Revised: July 2010

Medical Center Administration Approval:

Paul K. Whelton, M.B., M.D., M.Sc.
President and Chief Executive Officer

William Cannon, M.D.
Chief of Staff

I. PURPOSE

To recognize and respect the rights of each patient and to establish the foundation for providing care, treatment, and services in a way that demonstrates respects and fosters dignity, autonomy, positive self-regard, civil rights, and involvement of patients.

II. DEFINITIONS/APPLICATIONS

A. Definitions

1. The term "rights" as used in the following statement refers to:

- a. State and federal legal rights (such as care without discrimination and signing out AMA, etc.)
- b. Moral and ethical considerations (such as concern for personal dignity, privacy, and respect for human relationships.)
- c. The Joint Commission's standards.

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: QAPS-001**

B. Applications

1. This policy applies to patients of Loyola University Medical Center. Patient means an individual who received treatment from LUMC. For the purposes of this policy, patient representative may have the rights of the patient, including: 1) the parent or legal guardian, if the patient is a minor, unless the minor is married, pregnant, or emancipated; 2) the legal guardian, person holding the patient's durable power of attorney, health-care surrogate, or next of kin (refer to Patient Care Consent Policy 13.0003.29) if the patient is deceased or incapacitated; 3) the patient's appointed guardian or conservator if the patient has been legally declared mentally incompetent; 4) the guardianship Administrator at either the Department of Children and Family Services or the County Public Guardian's Office if the patient is a ward of the state.
2. This policy applies to the Workforce including employees of Loyola University Health System ("LUHS"), Loyola University Medical Center ("LUMC"), Faculty Clinical Operations ("FCO") and Loyola University of Chicago ("LUC") working on the Maywood Campus and at the ambulatory care sites and also includes the following: students, members of the Medical Staff, volunteers, and agency or temporary staff receiving or performing services on behalf of the Loyola entities.

III. POLICY

- A. The following patient rights and responsibilities will be included in the Information Guide for Patients & Families and posted in several visible public areas at LUMC. Upon admission to the hospital, a statement of patient rights and responsibilities will be given to each patient admitted, and reviewed as needed.
- B. The patient or patient's representative (as allowed under state and federal law) has the following rights:
 - To be given access to treatments and facilities regardless of race, color, religion or national origin or ancestry, sex, sexual orientation, age, marital status, veteran status, physical or mental handicap/disability, or any other classification protected by applicable law.
 - To accommodation of any special needs or disabilities including provision of interpreter services or assistive devices.
 - To be respected as an individual deserving competent, private and compassionate care. The patient is entitled to know the names of his or her health care team members as well as their level of training and their role in the patient's care.
 - To be listened to with full attention and focus on the needs of the patient.
 - To have his or her cultural, psychosocial, spiritual and personal values, beliefs and preferences respected.
 - To receive pastoral care and/or spiritual services as desired.
 - To receive care and treatment consistent with sound nursing, medical, and rehabilitation practices in a safe setting free of abuse or harassment of any kind. Patients' requests for preferences will be considered in patient care assignments as feasible. When intimate care is provided, consideration for providing two caregivers should be considered.

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: QAPS-001**

- To access protective and advocacy services.
- To be free from seclusion and restraints of any form that are not medically necessary or are used as a means of coercion, discipline, convenience, or retaliation by staff. (See Policy #13.0018.06, Restraints Use.)
- To be informed of his or her health status, condition and proposed treatment, to be involved in care planning and treatment, and to make informed decisions regarding his or her care.
- To be informed about the outcomes of care, treatment, and services, including unanticipated outcomes.
- To participate in the development and implementation of his or her plan of care.
- To pain management.
- To request or refuse treatment to the extent permitted by law. The patient does not have the right to demand services deemed medically unnecessary or inappropriate.
- To request a consultation or second opinion from another physician as well as to change physicians, hospitals or outpatient centers.
- To have a family member or representative and the patient's physician notified of admission.
- To participate in research studies after receiving an explanation of the nature and possible consequences of the research before it is conducted and after giving informed consent. To refuse to participate in research studies without such refusal affecting care.
- To consent to, or refuse to consent to, being filmed or recorded without such a decision affecting the health care received.
- To request and participate in an ethics consultation.
- To know the approximate cost of hospital or outpatient services or whether a service is covered by Medicare or other insurer, before admission or treatment, and to examine and receive a reasonable explanation of the patient's total bill for services rendered by his or her physician or health care provider, including the itemized charges for specific services received.
- To have his or her end-of-life wishes honored by their caregivers. (See Policy OPER-002, Advance Directives).
- To personal privacy and to the confidentiality of his or her medical records and information (to the extent provided by law).
- To inspect, copy and to request amendments to the patient's medical information and to

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: QAPS-001**

have access to his or her medical record in the presence of a physician while hospitalized. After discharge, the patient may request a copy of his or her medical record.

- To request restrictions or limitations on the medical information LUMC uses or discloses about the patient.
 - To receive confidential communications (i.e., that LUMC only contact the patient in a certain manner or at a certain location) from LUMC.
 - To an accounting of disclosures required by the Health Insurance Portability and Accountability Act's Privacy Rule.
 - To discuss any dissatisfaction with the care received, or any concerns about patient care and safety. We are committed to your satisfaction with care and services you receive at Loyola. Please discuss dissatisfaction or concerns about the quality or safety of patient care with your nurse, physician, Patient Relations at (708) 216-5140, or by calling (708) 327-SAFE, the Loyola Hotline. You may also report your concerns directly to the Illinois Department of Public Health at 525 W. Jefferson St., Springfield, IL, 62761-0001, Fax (217) 782-0382 or call (800) 262-4343. TTY – (Hearing Impaired use only) (800) 547-0466 or to the Joint Commission for the Accreditation of Healthcare Organizations at (800) 994-6610.
 - To complain if the patient believes his or her privacy rights have been violated. For privacy related complaints, the patient shall be referred to the Patient Relations staff as described in the Patient Complaints & Grievances Policy. The patient may also contact the Secretary of the Department of Health and Human Services, 200 Independence Avenue, S.W., Washington, D.C. 20201 Telephone: 202-619-0257, Toll Free: 1-877-696-6775, <http://www.hhs.gov/ContactUs.html>.
 - To receive a written statement at time of admission of all the above rights if you are admitted to LUMC or as soon thereafter as the condition of the patient permits.
 - To receive a copy of Loyola's Notice of Privacy Practices upon the patient's first visit to LUMC after April 14, 2003.
- C. The responsibilities of the patient/patient's representative include:
- To provide an accurate and complete medical history upon admission.
 - To abide by LUMC policies as found in the Patient Information Guide.
 - To follow the treatment plan and inform the medical team of any changes in condition.
 - To be responsible for the outcomes if the care, treatment, and service plan is not followed.
 - To ask questions if information is not understood.
 - To treat other patients and LUMC staff with concern and respect.

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE POLICY NUMBER: QAPS-001**

- To provide timely payment for services provided.
- To tell us if you have Durable Power of Attorney for Healthcare or Legal Guardianship of the patient.

IV. RESPONSIBLE PARTY

Any questions or concerns regarding the above rights and responsibilities should be directed to the Director of Patient Relations at (708) 216-5140.



LOYOLA
UNIVERSITY
HEALTH SYSTEM

Loyola University Chicago

LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE PICY NUMBER: A-22

Subject:

ADMITTING AND REGISTRATION

Date Implemented: May, 2000

Last Revised: October, 2002

Medical Center Administration Approval:

B.S.N.
Director, Admitting and Registration

John Lee, M.D.

Jan Lukas, RN,
Chairman, Department of Pathology

Rae Hibner
Director, Risk Management

John Sullivan
Executive Vice President
Loyola University Medical Center

I PURPOSE

To enumerate the steps to be followed for those occasions when patients are admitted with "Doe" names or when it is obvious that names are incorrectly spelled. This also should be followed when clinical staff ask that patients be given "Alias" names for security purposes.

Objective:

To revise names of patients in the registration system, (therefore, all downstream systems) so the patient can be identified by his/her legal name by all disciplines involved without interfering with the care of the patient.

Procedure:

Nursing:

1. As family present themselves on the Nursing unit and are able to identify a "Doe" patient, family/patient states a name is incorrectly spelled, or clinical staff requests patient's name to be changed to an "Alias", Nursing should initiate this procedure by sending the patient's family to Admitting where the name can be updated/ revised.

A determination would have been made by Nursing at this point that the patient is stable and will not be in need of a blood transfusion within the next few hours.

2. Upon receiving an updated facesheet, blue card, bed ticket and armband from Admitting, nursing Will be responsible, if applicable, for redrawing a Type and Crossmatch on the patient, and Rebanding the patient with a new bloodband and armband to demonstrate the name change.

**LOYOLA UNIVERSITY MEDICAL CENTER
ADMINISTRATIVE PICY NUMBER: A-22**

Admitting:

1. As family present themselves to Admitting stating they would like to update the name of a family member admitted (either revising spelling or updating a "Doe" name), the Service Representative should call the charge nurse of the nursing unit to confirm the name can be updated without interfering with the care of the patient.
2. If approved by nursing, the Service Representative should immediately update the name in SMS, to that of the legal name. Service Rep should then toggle to LUCI to validate name change occurred correctly. If it did not, she/he should call MIS at 6-3270 or after hours have the MIS on call person paged by dialing the Help Desk at 62160 and pressing "O" for operations.
3. A new facesheet, armband and blue card must be printed on the patient and tubed immediately to the nursing unit caring for the patient. This process should take less than 15 minutes from the time of family presentation.
4. The Service Representative should then notify the following departments of the name change:
 - A. Blood Bank at 6-3951
 - B. Medical Records at 6-3862. This number does have voice mail if no one is available.
 - C. If needed, MIS: 6-3270: See #2 above.

Blood Bank:

1. Upon receipt of a new Type and Crossmatch on a patient whose name has been revised, Blood Bank will use the new specimen to re-crossmatch any blood allocated to the patient.
2. Following the repeat crossmatch, all units of blood will be relabeled so that the patient name, medical record number and armband number on the unit tags and patient armband will be identical.

ADMINISTRATION/HOUSEWIDE

POLICY AND PROCEDURE

PATIENT'S RIGHTS AND RESPONSIBILITIES

POLICY: Gottlieb Memorial Hospital respects the rights of the patient, recognizes that each patient is an individual with unique health care needs, and because of the importance of respecting each patient's personal dignity, provides considerate, respectful care focused upon the patient's individual needs.

Gottlieb affirms the patient's right to make decisions regarding his/her medical care, including the decision to discontinue treatment, to the extent permitted by law.

Gottlieb will assist the patient in the exercise of his/her rights and inform the patient of any responsibilities incumbent upon him/her in the exercise of those rights.

PURPOSE: To define the Rights and Responsibilities for all patients regardless of age or parents or guardians of patients in the hospital.

SCOPE: Applies to all patients and parents or guardians of patients admitted to the hospital.

LEVEL OF RESPONSIBILITY:

Hospital leadership is responsible for ensuring that staff (employees and physicians) respects the rights of patients, parents and guardians, and informs patients, parents and guardians of their responsibilities.

PROCEDURE:

Reference Policies and Procedures:
Category #3.00, Ethics, Rights & Responsibilities

I. PATIENT RIGHTS

A. The Adult, Pediatric, Neonatal Patient/Parent/Guardian is entitled to:

1. Considerate and respectful continuity of care.
2. Have a family member or representative of their choice or own physician be notified promptly of their admission to the hospital.

I. PATIENT RIGHTS: (Cont.)

3. Appropriate equipment, furniture, therapeutic environment that is safe for the patient's age and development.
4. Impartial access to medically indicated treatment regardless of race, creed, sex, national origin, or sources of payment of care.
5. Be called by proper name or nickname as desired.
6. Have an advance directive (such as a Living Will or Durable Power of Attorney for Health Care) concerning treatment or designating a surrogate decision maker with the expectation that the hospital will honor that directive to the extent permitted by law.
7. Know by name the physician responsible for the coordination of patient care and the identities of others involved in providing care.
8. Obtain information from physicians and other direct caregivers in understandable terms concerning diagnosis, treatment, prognosis and plans for discharge and follow-up care.
9. Be informed regarding participating in decisions regarding your plan of care and current health status, except in emergency situations where lifesaving measures are required. In giving their consent before the start of any procedure or treatment, they are entitled to know the potential benefits and any related risks and the likelihood of success. The same information is provided regarding any significant treatment alternatives.
10. Participate in the development and implementation of their care and refuse treatment to the extent permitted by law and be informed of the medical consequences of such action.
11. Appropriate assessment and management of pain.
12. Review their medical records within a reasonable time frame and have information explained or interpreted by a primary health care provider, except as restricted by law.
13. Consideration of security and patient privacy in case discussion, consultation, examination and treatment, as well as freedom in any setting from potential abuse and/or harassment. A request may be made to transfer to another room if another patient or visitor(s) in that room are unreasonably disturbing to them.

I. PATIENT RIGHTS: (Cont.)

14. Expect that all communications, records and other information pertaining to their care be treated as confidential by the hospital, except in cases such as suspected abuse or public health hazards which are required by law to be reported.
15. Consent to being photographed, only as appropriate, to protect patient confidentiality. No patient record may be photographed in any manner unless for purposes of patient care or insurance claims.
16. Expect the hospital to respond to their requests for service, within its capacity, and to provide evaluation, service or referral by the urgency of patient care needs.
17. Obtain information as to any relationship between the hospital and other health care and educational institutions which may influence patient care.
18. Consent or refuse to participate in any treatment that is considered experimental in nature, and to have those studies fully explained prior to consent.
19. Participate in decisions regarding ethical issues surrounding their care including issues of conflict resolution, withholding resuscitation, foregoing or withdrawal of life-sustaining treatment and participation in investigational studies or clinical trials.
20. Expect that the hospital will support the right of each patient to personal dignity. Have spiritual, psychosocial, cultural beliefs and personal values and preferences respected that do not harm others or interfere with medical treatment. This includes the right to pastoral/other spiritual services.
21. Know if their request for services cannot be reasonably provided by the hospital. If they request to be transferred to another facility, they have the right to know about the need for and alternatives to such a transfer. Every attempt to honor their request will be made if their medical condition allows and the facility agrees to receive and treat them.
22. Obtain information about hospital policies that relate to their care. Express a concern or complaint regarding their care or concerns regarding patient safety to the attending physician, nurse assigned to delivery of patient care or the nursing supervisor. The right to a timely response to the concern or complaint and a resolution is provided when possible. Expression of a concern or complaint will not compromise patient care or future access to care.

I. PATIENT RIGHTS, (Cont.)

23. Access protective services, if necessary.
24. Freedom from restraints of any kind used in the provision of acute medical and surgical care and/or management of behavior unless clinically required.
25. Examine and receive an explanation of their hospital bill, regardless of the source of payment.
26. Be cared for by hospital personnel who are educated about patient rights and their role in supporting those rights.
27. Expect that all hospital personnel will clean their hands before any direct patient contact.

II. PATIENT RESPONSIBILITIES:

B. The Adult, Pediatric, Neonatal Patient/Parent/Guardian has the following responsibilities to:

1. Ask questions about specific problems and request information when the illness or treatment is not understood.
2. Provide accurate and complete information about their health history to physicians and other caregivers, including present complaints, past illnesses, hospitalizations, medications and reporting perceived risks in their care.
3. Notify the physician and nursing staff of child's name or nickname to which he/she best responds.
4. Provide the hospital with a copy of the written advance directive if one is available. If the directive is missing, inform hospital staff regarding the substance of directive.
5. Follow the treatment plan recommended by physicians and other caregivers, or if treatment is refused, they are responsible for their actions and the medical consequences.
6. Consider the rights of all hospital personnel and other patients and ensure that their visitors are considerate in the control of noise, limiting numbers of visitors and abstinence from smoking.

II. PATIENT RESPONSIBILITIES: (Cont.)

7. Respect hospital property and the property of other patients. The hospital is not responsible for any damage or loss of personal property. Patients or visitors who bring their own medical devices of any kind into the hospital are totally responsible for the use and maintenance of the equipment. Hospital personnel have no responsibility whatsoever for evaluation or maintenance of the equipment or for any non-emergency medical care related to the use of it.
8. Follow the hospital's policy regarding cellular phone use. Cellular phones are allowed in areas of the hospital with the exception of Intensive Care, Emergency Department and within the patient's room, unless otherwise approved by the nurse.
9. Follow all instructions related to infection prevention including proper handwashing and isolation precautions (if indicated).
10. Let the staff know if you have a cough. Cover your mouth and nose with tissue when you sneeze or cough. After sneezing or coughing, clean your hands with soap and water or alcohol hand gel. To protect others from getting your germs, you may be asked to wear a mask if you are coughing or sneezing.
11. Follow all hospital policies affecting patient care and conduct.
12. Meet financial commitments.
13. Provide necessary information to ensure processing of hospital bills and make payment arrangements when necessary.
14. Follow insurance coverage requirements for pre-certification of hospital services.

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Mercy Hospital and Medical Center
Chicago, Illinois

ADMINISTRATIVE POLICY NUMBER B-5

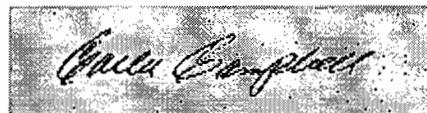
Subject: ADMISSION OF A PATIENT

Original Issue Date: January 17, 1992

Revision Date: 12/12

Initiated by: Rita Carlson
Director, Patient Access

Approved by: Carla Campbell
Vice President/CNO



I. THE POLICY STATEMENT

The purpose of this policy is to establish guidelines for processing admissions to Mercy Hospital and Medical Center.

II. DEFINITION

The admission of a patient into the hospital requires the collaborative efforts of many departments. The Admitting Department plays a key role in this collaboration in that they serve as the facilitator for bed placement, verify insurance eligibility and monitor the activities related to a patient's admission.

III. PROCEDURE

A. The creation of a reservation is the first step in the admission process.

1. This entails collecting basic demographic information from the physician/designee about the patient which will facilitate the successful placement of the patient to the hospital.
2. Depending upon the type of service to be provided, reservations are accepted in the Admitting department, Surgical Services department or Critical Care units.

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|---------------|--------------|--------------|--------------|---------------|---------------|
| Review Dates: | <u>12/03</u> | <u>03/07</u> | <u>02/10</u> | <u> </u> | <u> </u> |
| Initials: | <u>RJ</u> | <u>RJ/LK</u> | <u>RC</u> | <u> </u> | <u> </u> |

3. In addition to providing demographic/ insurance data and clinical information about the patient; physicians are asked to classify the patient's reservation type and admission category.

B. Reservations Types

1. Routine - indicate a reservation made for a specific date in the future.
2. Urgent - indicates a reservation for which the Attending Physician has determined that admission must occur within 48 hours.
3. Emergency – indicates a reservation for which the Attending Physician has determined that admission must occur immediately, and with the highest priority.

C. Admission Categories

1. SDS - indicates that the patient will have Same Day Surgery (SDS) on an outpatient basis. Patients are admitted to and discharged from the Outpatient Surgical Center all in the same day.
2. Extended Recovery - indicates that the patient is in an outpatient status in a bed.
3. Observation - affords physicians an opportunity to evaluate the condition of an outpatient after the recovery time period post-procedure or for those patients who require additional monitoring to determine if they require inpatient admission.
4. A.M. Admission - indicates that the patient is to be admitted to the hospital as an inpatient on the same day as their surgery or scheduled procedure.
5. Inpatient - used for patients requiring acute inpatient care for either medical / surgical / gynecological / mental health issues.

- D. Reservations for admission are communicated to key hospital departments on a daily basis. This information prompts preparatory activities in Admitting, Admission Testing, Pre-Certification, Surgical Scheduling and Case Management.

E. Pre-Admission

1. To the extent that reservations are received in a timely manner, patients are contacted in advance of their admission by the Pre-Admissions Office or Admitting for the purpose of being pre-admitted.

2. This process entails collecting or confirming previously collected demographic and financial information about the patient, guarantor, and payor source (s).
3. Pre-admission affords the hospital and patient/guarantor with:
 - a. An opportunity to comply with any pre-certification/pre-authorization requirements, thereby ensuring that maximum insurance benefits are payable.
 - b. An occasion to determine insurance coverage, estimate co-payment responsibilities, and arrange for a deposit when indicated.
 - c. An expedited intake process on the date of admission.

F. Admission Testing

1. Collaboratively staffed and operated by Patient Care Services and Admitting, the Admission Testing office has been designed to provide patients with convenient and centralized pre-admission testing services.
2. Generally, these services include, but are not limited to:
 - a. Proactively collaborating with Patient Care Services units in the expeditious determination of bed placement for patients.
 - b. Ensuring that all necessary paperwork is prepared, packaged, and available for signature on the unit where the patient is to be received, e.g., Admission face sheet, Consent for hospital treatment, Insurance Assignments and arm band.
 - c. Coordination with the Pre-Certification and Financial Counseling departments in collecting of payments from patients upon admission.
 - d. Entry of the patient into the hospital's computer system, thereby enabling all on-line ordering, charging, and reporting systems.

G. Pediatrics

1. Patients up to the age of 18 years may be admitted to Pediatrics.
2. Patients who are 12 years or younger who are admitted to 6 PED for a surgical procedure must have a Pediatrician listed as a Consultant.

Trinity Health Corporation/CHE Trinity Inc.
Loyola University Medical Center
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