Quarterly Report Concerning Catholic Health Initiatives and the CHI Reporting Group

AS OF MARCH 31, 2013 AND FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012

This Quarterly Report should be reviewed in conjunction with the information contained in the Annual Report dated October 23, 2012 (the *"Annual Report"*) and the information under the caption *"BONDHOLDERS' RISKS"* in the Offering Memorandum dated October 25, 2012 (the *"Offering Memorandum"*) relating to the Catholic Health Initiatives Taxable Bonds, Series 2012 (the *"Industry Risks"*), each of which is incorporated in its entirety. The Annual Report and the Offering Memorandum can be accessed through the Digital Assurance Certification LLC (*"DAC"*) website at www.dacbond.com.

Certain of the discussions included in this Quarterly Report may include forward-looking statements. Such statements are generally identifiable by the terminology used such as *"believes," "anticipates," "intends," "scheduled," "plans," "expects," "estimates," "budget"* or other similar words. Such forward-looking statements are primarily included in *PART I, PART II, PART III* and *PART IV*. These statements reflect the current views of CHI management with respect to future events based on certain assumptions, and are subject to risks and uncertainties. The Corporation undertakes no obligation to publicly update or review any forward-looking statement as a result of new information or future events.

This information contained herein has been obtained from Catholic Health Initiatives and Bethesda Hospital, Inc.

This document is dated as of June 20, 2013.

CHI Reporting Group

As of and for the nine months ended March 31, 2013

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This document is dated as of June 20, 2013.

Introduction

This Quarterly Report includes the combined financial statements and analysis for Catholic Health Initiatives, a Colorado nonprofit corporation (the *"Corporation"*), its affiliates and subsidiaries, and Bethesda Hospital, Inc. (*"Bethesda"*), as the current members of the CHI Reporting Group (the *"CHI Reporting Group"*). References to *"CHI"* in this document are to the Corporation and all of the affiliates and subsidiaries consolidated with it pursuant to generally accepted accounting principles (*"GAAP"*). References to the *"Corporation"* are references only to the parent corporation, and should not be read to include any of the Corporation's affiliates and subsidiaries.

CHI is a faith-based system operating in 18 states and includes 86 acute care hospitals (24 of which are critical access hospitals); two community health-services organizations; two accredited nursing colleges; home health agencies; and several other sites including long-term care, assisted living and residential facilities. CHI is the nation's third-largest Catholic health care system. CHI is currently comprised of 30 market-based organizations (*"MBOs"*) including Centura Health (Colorado), TriHealth, Inc. (Ohio), Mercy (Iowa) and Premier Health Partners (Ohio), that are operated under the terms of joint operating agreements (*"JOAs"*), and multiple joint ventures. The MBOs are direct providers of care within a defined market and may be integrated networks, local health systems and/or stand-alone hospitals or other health facilities and service providers. The Corporation and certain members of the CHI Reporting Group have also entered into JOAs with unaffiliated health systems or hospital corporations to assist CHI in developing regionally-based health care delivery systems or networks in certain markets. The parties to the JOAs create joint operating companies that operate the health care facilities within the relevant system or network, including those owned by members of the CHI Reporting Group (collectively, *"JOCs"*). The members of the JOCs retain their individual corporate identities and title to their own property.

Part I

Financial Ratios & Summary of Selected Financial Data

The Corporation's reporting obligation under the Capital Obligation Document is limited to the CHI Reporting Group, which must include the Corporation, the Participants and any Designated Affiliates whose total revenues exceed 5% of the total revenues of the CHI Reporting Group. The Corporation may also choose to include any other Designated Affiliates in the financial statements of the CHI Reporting Group. As of the date of this report, Bethesda is the only Designated Affiliate. Prior to November 1, 2012, certain entities of Alegent Creighton Health, based in Omaha, Nebraska, were also Designated Affiliates. As described in the Annual Report, on November 1, 2012, the Corporation became the sole member of Alegent Creighton Health and, as a result, Alegent Creighton Health and its subsidiaries are now included in the consolidated financial statements of CHI.

The selected financial data of the CHI Reporting Group that follows has been prepared by CHI management and is derived from:

- CHI's unaudited financial statements as of March 31, 2013 and June 30, 2012 and for the nine months ended March 31, 2013 and 2012;

- The unaudited financial statements of Bethesda as of March 31, 2013 and June 30, 2012 and for the nine months ended March 31, 2013 and 2012 prepared by the management of Bethesda;
- The unaudited financial statements of Alegent Creighton Health as of June 30, 2012 and for the four months ended October 31, 2012 and for the nine months ended March 31, 2012.

The CHI Reporting Group financial information should be read in conjunction with the unaudited financial statements, related notes, and other financial information of CHI and Bethesda included in Appendices A and B, respectively.

The financial statements for Bethesda include financial results from certain of its affiliates and subsidiaries that are not Designated Affiliates and that are not included in the CHI Reporting Group results; these entities represent less than 1% of the total combined revenues, excess of revenues over expenses and net assets of the CHI Reporting Group for the nine months ended March 31, 2013.

The results of operations of the services and/or facilities owned by CHI and operated pursuant to JOAs are included in the consolidated financial statements of CHI. Income-share arrangements with the JOAs are included in the respective operating or nonoperating revenue sections of the statements of operations consistent with CHI's revenue recognition policies. CHI's 70% interest in Centura Health (Colorado), 50% interests in TriHealth, Inc. (Ohio) and Mercy (Iowa) JOCs are included in investments in unconsolidated organizations.

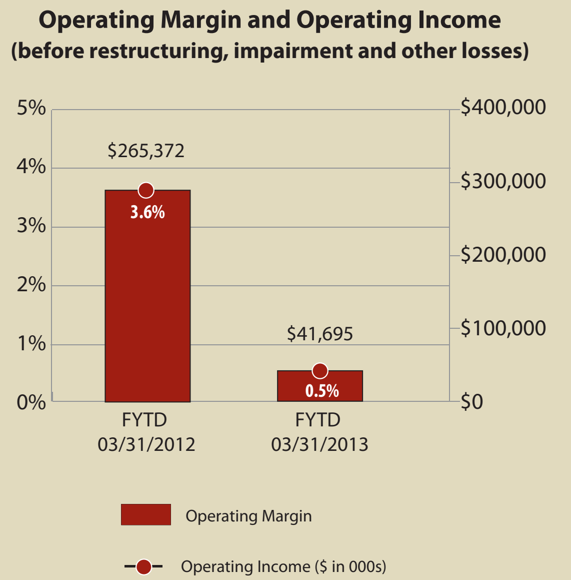
Certain joint venture agreements are not consolidated subsidiaries of the Corporation or members of the CHI Reporting Group. The results of those operations are reflected in the consolidated financial statements of CHI under the line item *"Changes in equity of unconsolidated organizations."*

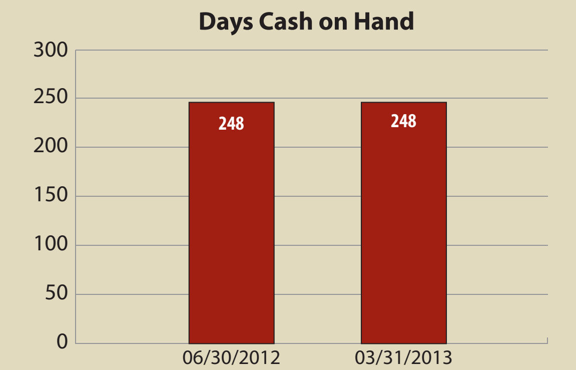
A. FINANCIAL RATIOS

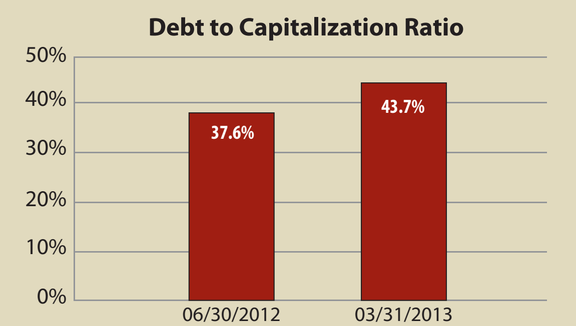
The financial ratios presented below reflect the unaudited combined results of the CHI Reporting Group for the nine months ended March 31, 2012 and 2013 and as of June 30, 2012 and March 31, 2013, as applicable.

Unaudited[1]	Nine Months Ended March 31, 2012	2013
Operating Performance:		
Operating Margin Before Restructuring, Impairment and Other Losses[2]	3.6%	0.5%
Operating Margin[3]	3.3%	0.0%
Excess Margin[4]	3.2%	6.3%
Operating EBIDA Margin Before Restructuring, Impairment and Other Losses[5]	10.3%	7.1%
Operating EBIDA Margin[6]	10.0%	6.6%

Unaudited[1]	As of June 30, 2012	As of March 31, 2013
Liquidity:		
Days Cash on Hand[7]	248	248
Financial Position/Leverage Ratios:		
Debt to Capitalization[8]	37.6%	43.7%







(1) Derived from the unaudited combined CHI Reporting Group financial information. As of July 1, 2012, CHI has adopted ASU 2011-7, and as a result, bad debts associated with patient services revenues were reclassified from an operating expense to a deduction from net patient services revenues.

(2) Income from operations before restructuring, impairment and other losses/Total operating revenues.

(3) (Loss) income from operations/Total operating revenues.

(4) Excess of revenues over expenses/(Total operating revenues + Total non-operating gains (losses)).

(5) (Income from operations before restructuring, impairment and other losses + Depreciation and amortization + Interest)/Total operating revenues.

(6) ((Loss) income from operations + Depreciation and amortization + Interest)/Total operating revenues.

(7) (Cash and equivalents + Investments and assets limited as to use: Internally designated)/((Total operating expenses before restructuring, impairment and other losses – Depreciation and amortization)/actual number of days in a period).

(8) (Commercial paper and current portion of debt + Variable-rate debt with self liquidity + Long-term debt)/(Commercial paper and current portion of debt + Variable-rate debt with self-liquidity + Long-term debt + Unrestricted net assets). Included within Long-term debt are unamortized original issue premiums of $61.2 million and unamortized original issue discounts of $(11.6) million.

B. SELECTED FINANCIAL DATA

The following table presents unaudited condensed combined statements of operations of the CHI Reporting Group for the nine months ended March 31, 2013 and 2012.

Unaudited (000s)	Statements of Operations[1] Nine Months Ended March 31, 2013	2012
Revenues:		
Net patient services revenues before provision for doubtful accounts	$8,405,782	$7,582,945
Provision for doubtful accounts	(639,571)	(598,372)
Net patient services revenues	7,766,211	6,984,573
Investment income used for operations	72,946	25,821
Other	447,942	397,040
Total operating revenues	8,287,099	7,407,434
Expenses:		
Salaries, wages and employee benefits	4,197,572	3,657,736
Supplies	1,430,581	1,266,020
Depreciation and amortization	431,520	398,530
Interest	118,451	97,159
Other	2,067,280	1,722,617
Total operating expenses before restructuring, impairment and other losses	8,245,404	7,142,062
Income from operations before restructuring, impairment and other losses	41,695	265,372
Restructuring, impairment and other losses	44,123	17,933
(Loss) income from operations	(2,428)	247,439
Nonoperating gains (losses):		
Investment income, net	564,414	105,493
Loss on defeasance of bonds	(17,998)	(1,156)
Realized and unrealized gains (losses) on interest rate swaps	10,707	(101,796)
Other nonoperating gains (losses)	3,267	(11,725)
Total nonoperating gains (losses)	560,390	(9,184)
Excess of revenues over expenses	557,962	238,255
Excess of revenues over expenses attributable to noncontrolling interests	7,336	9,119
Excess of revenues over expenses attributable to CHI Reporting Group	$550,626	$229,136

(1) As of July 1, 2012, CHI adopted ASU 2011-7, and as a result, bad debts associated with net patient services revenues were reclassified from an operating expense to a deduction from net patient services revenues and the audited financials have been restated to reflect this change.

The following table provides unaudited condensed combined balance sheets for the CHI Reporting Group as of March 31, 2013, and June 30, 2012.

Unaudited (000s)	Balance Sheets March 31, 2013	June 30, 2012
Assets		
Current assets:		
Cash and equivalents	$494,017	$488,794
Patient accounts receivable, net	1,652,898	1,448,978
Assets held for sale	260,566	485,074
Other current assets	646,651	431,198
Total current assets	3,054,132	2,854,044
Investments and assets limited as to use:		
Internally designated	6,580,609	5,716,644
Held by trustees, held for insurance purposes, and restricted by donors	981,851	942,089
Total investments and assets limited as to use	7,562,460	6,658,733
Property and equipment, net	6,465,414	6,037,645
Other assets	874,568	712,927
Total assets	$17,956,574	$16,263,349
Liabilities and net assets		
Current liabilities:		
Commercial paper and current portion of debt	$621,974	$644,649
Variable-rate debt with self-liquidity	321,455	321,455
Liabilities held for sale	88,154	105,446
Other current liabilities	1,543,472	1,477,008
Total current liabilities	2,575,055	2,548,558
Long-term debt	5,179,300	3,789,573
Pension liability	1,002,234	998,628
Other liabilities	1,066,780	815,488
Total liabilities	9,823,369	8,152,247
Net assets		
Net assets attributable to CHI Reporting Group	7,702,931	7,709,424
Net assets attributable to noncontrolling interests	195,056	180,863
Unrestricted	7,897,987	7,890,287
Temporarily restricted	165,987	150,735
Permanently restricted	69,231	70,080
Total net assets	8,133,205	8,111,102
Total liabilities and net assets	$17,956,574	$16,263,349

Part II

Management's Discussion & Analysis

This discussion and analysis includes information regarding both CHI and the CHI Reporting Group for the nine months ended March 31, 2013 and 2012 and as of March 31, 2013 and June 30, 2012. To better inform the reader, financial, operational or other references are provided for CHI alone when information is not available for the CHI Reporting Group as a whole.

A. SIGNIFICANT DEVELOPMENTS

I. STRATEGIC ACQUISITIONS, AFFILIATIONS AND DIVESTITURES

CHI actively engages in ongoing monitoring and evaluation of potential facility expansion, mergers, acquisitions, divestitures and affiliation opportunities consistent with its strategic goals. CHI's strategic capabilities and growth initiatives are focused, in part, on creating, maintaining and/or strengthening its clinically integrated networks in key existing markets, including the transactions described below. If consummated, these transactions, as well as others that CHI may consider from time to time, will result in changes in the composition of the CHI Reporting Group.

a. COMPLETED STRATEGIC ACQUISITIONS AND AFFILIATIONS

St. Luke's Health System (Texas). Effective June 1, 2013, CHI assumed control of St. Luke's Episcopal Health System (the "*St. Luke's System*"), headquartered in Houston, Texas, from the Episcopal Diocese of Texas. CHI became the sole member of the St. Luke's Episcopal Health System Corporation ("*SLHS*"), and the name of the System was changed to become St. Luke's Health System.

SLHS directly or indirectly owns or controls St. Luke's Hospital in the Texas Medical Center ("*SLMC*"), founded in 1954 by the Episcopal Diocese of Texas; St. Luke's The Woodlands Hospital; St. Luke's Sugar Land Hospital; St. Luke's Lakeside Hospital; St. Luke's Patients Medical Center; and St. Luke's Hospital at The Vintage. SLMC is affiliated with several nursing schools as well as the Baylor College of Medicine, Texas Heart® Institute, Kelsey-Seybold Clinic, Texas Children's Hospital and MD Anderson Cancer Center. As of and for the fiscal year ended December 31, 2012, SLHS reported approximately $2.4 billion of total assets, $1.2 billion in total unrestricted revenues, $845 million in outstanding long-term debt and $274 million of other long-term obligations (the "*SLHS' Debt*").

As part of the transfer, CHI has agreed to contribute $1 billion in cash and to issue a $260 million promissory note, payable over seven years, to the Episcopal Health Foundation, a newly created foundation controlled by the Episcopal Diocese of Texas. The Episcopal Health Foundation will focus on the promotion of human health, advances in medical science, improvements in community health services, and other healthcare-related activities within the 57 Texas counties that comprise the Episcopal Diocese of Texas. In addition to the contribution, CHI has made various post-closing commitments, including, subject to certain conditions, the expenditure of an additional $1 billion for future investments in the SLHS' properties over a 7-year period.

CHI did not assume the liability for or otherwise guarantee the SLHS' Debt as part of the transaction. CHI is evaluating the refinancing of all or a portion of the SLHS' Debt. Any refinancing would be dependent on market conditions, management considerations and other factors. There can be no assurance that the SLHS' Debt will be refinanced in connection with the transaction.

Highline Medical Center (Washington). Effective April 1, 2013, Franciscan Health System ("*FHS*") became the sole corporate member of Highline Medical Center in Burien, Washington ("*Highline*"). Highline owns and operates a 154-bed acute care hospital, a 115-bed specialty center and more than 20 clinics in the State of Washington. According to information supplied by Highline to FHS, as of and for the three months ended March 31, 2013, Highline reported approximately $214 million of total assets, $42 million of total net assets and $47 million in total operating revenue. The Washington Health Care

Facilities Authority has previously issued certain bonds (the "*Series 2008 Highline Bonds*") for the benefit of Highline, approximately $117.2 of which are presently outstanding. CHI did not assume the liability for or otherwise guarantee the Series 2008 Highline Bonds as part of the transaction. CHI is evaluating the refinancing of all or a portion of the Series 2008 Highline Bonds. Any refinancing would be dependent on market conditions, management considerations and other factors. There can be no assurance that CHI will refinance the Series 2008 Highline Bonds.

Soundpath Health (Washington). Through an affiliate of the Corporation, effective March 1, 2013, the affiliate purchased a majority interest in the common voting stock of Soundpath Health, Inc. ("*Soundpath*") for approximately $12 million and purchased non-voting preferred stock for approximately $12 million. Soundpath, a physician-owned health care plan headquartered in Federal Way, Washington with over 6,500 providers in its network, offers Medicare Advantage plans to over 17,000 members in nine counties in the state of Washington. Under the agreement, Physicians of Southwest Washington, L.L.C and Northwest Physicians Network, L.L.C., the two Soundpath shareholders prior to March 1, 2013, sold a majority interest in Soundpath to the affiliate of the Corporation.

In a related but separate transaction, the affiliate of the Corporation also purchased and acquired from Soundpath substantially all of its insurance administrative assets and capabilities for a purchase price of approximately $400,000. Effective as of the closing of this separate but related transaction, the affiliate manages and operates Soundpath.

University Medical Center (Kentucky). On March 1, 2013, KentuckyOne Health and University Medical Center ("*UMC*") and the University of Louisville (the "*University*") completed their joint operating agreement (the "*Kentucky JOA*") transaction which was previously announced on November 13, 2012. The Kentucky JOA has a term of 20 years, whereby KentuckyOne Health will oversee most of the day to day operations of UMC. UMC will retain ownership of its assets and will operate the Center for Women and Infants, which is specifically excluded from the Kentucky JOA. KentuckyOne Health, UMC and the University have also entered into an academic affiliation agreement with a term of 20 years. UMC, a 404-licensed bed facility and the primary adult teaching hospital for the University's school of medicine, reported approximately $328 million of total assets, $172 million of total net assets and $469 million in total operating revenues as of and for the fiscal year ended December 31, 2012. The new collaboration also includes the James Graham Brown Cancer Center, which is a division of UMC that offers advanced cancer treatment. Operations under the Kentucky JOA includes the operations of KentuckyOne Health and UMC; the annual operating income and losses from the combined operations will be allocated ninety percent (90%) to KentuckyOne Health and ten percent (10%) to UMC. KentuckyOne Health has agreed to provide capital investments in UMC of approximately $117 million over the first five years of the Kentucky JOA. On June 3, 2013, CHI loaned $39 million to UMC, the proceeds of which were used to retire certain outstanding long term debt of UMC on June 3, 2013.

b. POTENTIAL STRATEGIC ACQUISITIONS AND AFFILIATIONS

Harrison Medical Center (Washington). In October 2012, FHS and Harrison Medical Center ("*Harrison*") signed a non-binding letter of intent to explore a possible affiliation. According to information supplied by Harrison to FHS, as of and for the nine months ended January 31, 2013, Harrison reported approximately $441 million of total assets, $232 million of total net assets and $271 million in total operating revenue. Harrison owns and operates 297 licensed beds (260 available beds) within two acute care facilities. The facilities are located in Bremerton, Washington and in unincorporated Silverdale, Washington. Harrison also owns and operates two urgent care/primary care clinics as well as specialty clinics. FHS and Harrison are working toward completion of a transaction by July 1, 2013. Any definitive agreement with Harrison would need to be approved by the governing bodies of the parties and the Board of Stewardship Trustees, and any agreement also requires the approval by the Washington State Department of Health and other regulatory agencies as well as approval of Church authorities. The Washington Health Care Facilities Authority has previously issued certain bonds (the

"*Harrison Bonds*") for the benefit of Harrison, approximately $117.8 of which are presently outstanding. CHI will not assume the liability for or otherwise guarantee the Harrison Bonds as part of the transaction. If the transaction is consummated, CHI will evaluate the refinancing of all or a portion of the Harrison Bonds; however, any refinancing would be dependent on market conditions, management considerations and other factors. There can be no assurance that CHI would refinance the Harrison Bonds if the transaction is consummated.

St. Vincent Health System (Arkansas). In August 2012, St. Vincent Health System ("*St. Vincent*") entered into a nonbinding letter of intent with The University of Arkansas for Medical Sciences ("*UAMS*") to explore opportunities for an affiliation to deliver collaborative and or integrated services. The parties intend that any affiliation pursued would preserve UAMS' public identity and St. Vincent's Catholic identity.

Suspension of Discussions with PeaceHealth. In August 2012, the Corporation and PeaceHealth signed a non-binding letter of intent to create a new regional health care system. On April 3, 2013, the parties announced that they had agreed to suspend their discussions.

c. COMPLETED DIVESTITURES

St. Joseph Medical Center (Maryland). Effective as of December 1, 2012, the Corporation sold the assets of St. Joseph Medical Center in Towson, Maryland to the University of Maryland Medical System ("*UMMS*"). Total operating revenues of St. Joseph Medical Center for the fiscal year ended June 30, 2012 were $327.8 million. CHI reported the deficiency of revenue over expenses (net loss) in discontinued operations in the statement of changes in net assets in the 2012 financial statements. This is discussed in greater detail in Part II, Section J.I, "*Significant and/or non-recurring transactions*."

Saint Mary's Healthcare Center (South Dakota). Effective as of January 1, 2013, the Corporation resigned as the sole member of Saint Mary's Healthcare Center, Pierre, South Dakota and Avera Health was appointed as the new sole member.

d. POTENTIAL DIVESTITURES

Saint Clare's Health System (New Jersey). The Corporation has entered into an agreement with Prime Healthcare Services – Saint Clare's, LLC to sell the assets of Saint Clare's Health System. CHI reported a deficiency of revenue over expenses (net loss) of $21 million as discontinued operations in the statement of changes in net assets for the nine months ended March 31, 2013. As a result of the ongoing divestiture plans, the operations of Saint Clare's Health System will continue to be reflected in CHI's financial statements as discontinued operations in the statement of changes in net assets. The transaction is expected to be completed this fall, subject to customary closing conditions, including required regulatory approvals. The parties can give no assurance that the transaction will occur as proposed in the agreement.

B. STRATEGIC INITIATIVES

CHI is undertaking several strategic initiatives, which are described in more detail in the Annual Report and the Citigroup 14th Annual Non-Profit Health Care Investor Conference dated May 14, 2013, which can be accessed through the DAC website at www.dacbond.com and the CHI website at www.catholichealth.net.

C. INDUSTRY RISKS

For a description of industry risks, see "*BONDHOLDERS' RISKS*" in the forepart of the Offering Memorandum dated October 25, 2012 relating to the Taxable Bonds. The Offering Memorandum can be accessed through the DAC website at www.dacbond.com.

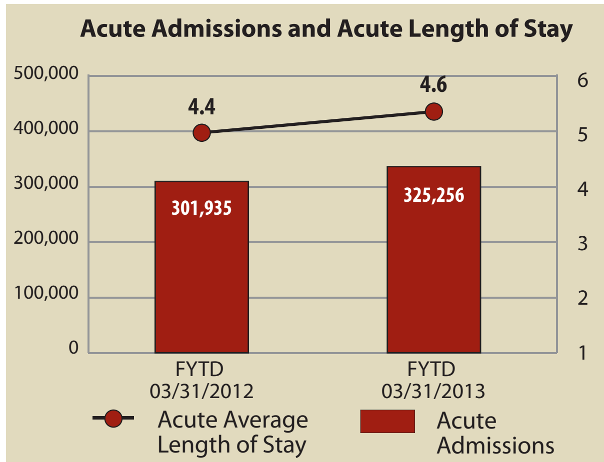
Budget Control Act. On August 2, 2011, President Obama signed the Budget Control Act of 2011 (the "*Budget Control Act*"). The Budget Control Act limits the federal government's discretionary spending caps at levels necessary to reduce expenditures by $917 billion from the current federal budget baseline between federal fiscal years 2012 and 2021. Medicare, Social Security, Medicaid and other entitlement programs will not be affected by the limit on discretionary spending caps. In addition, with passage of the Budget Control Act, the federal debt ceiling limit was automatically raised by $400 billion, with the option of the President to request a further increase of $500 billion, subject to a congressional motion of disapproval. Due to the sequestration required by the Budget Control Act, cuts to the Medicare program of 2% of total program costs began on April 1, 2013. With no long-term resolution in place for federal deficit reduction, hospital and physician reimbursement are likely to continue to be targets for reductions with respect to any interim or long-term federal deficit reduction efforts.

D. PATIENT VOLUME

The tables below provide selected aggregate utilization statistics for the general acute care hospitals and long-term care facilities within the CHI Reporting Group for the nine months ended March 31, 2012 and 2013.

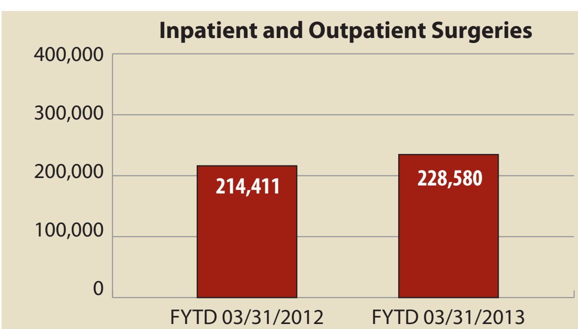
	Nine Months Ended March 31,	
	2012	2013
Acute Admissions	301,935	325,256
Acute Inpatient Days	1,322,576	1,507,226
Acute Average Length of Stay (Days)	4.4	4.6
Long-term Care Days(1)	273,880	305,355

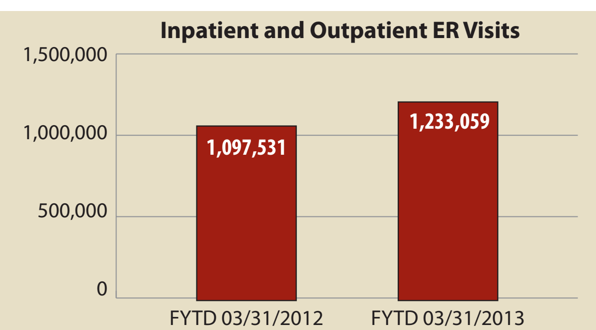
(1) Includes days in skilled nursing units and nursing homes.



The tables below provide selected aggregate utilization statistics for the general acute care hospitals and long-term care facilities within CHI (includes Alegent Creighton Health from November 1, 2012 through March 31, 2013, and does not include Bethesda) for the nine months ended March 31, 2012 and 2013.

	Nine Months Ended March 31,	
	2012	2013
Acute Average Length of Stays (Days)	4.5	4.7
Medicare Case Mix Index	1.6	1.7
Inpatient Surgeries	79,413	84,775
Outpatient Surgeries	134,998	143,805
Inpatient ER Visits	135,198	150,007
Outpatient ER Visits	962,333	1,083,052
Outpatient Non-ER Visits	2,982,955	3,268,174





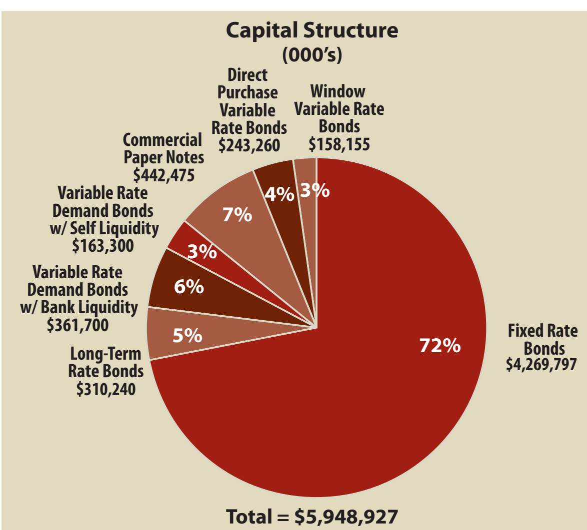
E. INDEBTEDNESS

The obligations of the Corporation to pay debt service on its commercial paper notes and revenue bonds described below are secured by Obligations issued under the Capital Obligation Document. Obligations also secure the Corporation's obligation to provide funds for the purchase of VRDBs, Window VRDBs, Direct Purchase Bonds and Long-Term Rate Bonds (each as hereinafter defined) that are tendered for purchase or subject to mandatory tender for purchase and not remarketed.

The sources of liquidity are described below in Section G. The obligations of the Corporation to repay advances made under the various external liquidity facilities described below are also secured by Obligations issued under the Capital Obligation Document.

I. INDEBTEDNESS OUTSTANDING AT MARCH 31, 2013

At March 31, 2013, the Corporation's outstanding indebtedness secured by Obligations issued under the Capital Obligation Document totaled $6 billion, of which $4.5 billion (75%) is related to fixed rate debt (including for these purposes Fixed Rate Bonds and Long-Term Rate Bonds (each as hereinafter defined) that is subject to mandatory tender on dates occurring after March 31, 2014), and $1.5 billion (25%) is related to variable-rate debt (including for these purposes Long-Term Rate Bonds that are subject to mandatory tender on dates occurring on or prior to March 31, 2014, Commercial Paper Notes, VRDBs, Window VRDBs and Direct Purchase Bonds (each as hereinafter defined)).



The previous chart illustrates the CHI Reporting Group's capital structure at March 31, 2013.

Fixed Rate Bonds: At March 31, 2013, the Corporation had outstanding approximately $4.3 billion (including $61.2 million of unamortized original issue premiums and $(11.6) million of unamortized original issue discounts) of Fixed Rate Bonds issued by the Corporation or governmental issuers for the benefit of the CHI Reporting Group.

Commercial Paper Notes: The Corporation has in place a commercial paper program that permits the issuance of up to $881 million in aggregate principal amount of Commercial Paper Notes. At March 31, 2013, the Corporation had outstanding approximately $442.5 million of Commercial Paper Notes. J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC are dealers for the Commercial Paper Notes. The Corporation has directed the dealers to tranche the maturities so that no greater than approximately one-third of the outstanding balance matures in any one month, and no more than $100 million matures per dealer within any five business-day period. The Corporation has, from time to time, directed its dealers to deviate from this structuring, and anticipates that it may do so again in the future.

Variable-Rate Demand Bonds ("*VRDBs*"): At March 31, 2013, the Corporation had outstanding approximately $525 million of VRDBs issued by governmental issuers for the benefit of the CHI Reporting Group. VRDBs bear interest at variable rates (currently determined weekly) and are subject to optional tender for purchase by their holders. At March 31, 2013, $361.7 million of VRDBs were supported by dedicated liquidity facilities provided by commercial banks, and the remaining $163.3 million of VRDBs were supported by self liquidity.

Window Variable-Rate Bonds ("*Window VRDBs*"): At March 31, 2013, the Corporation had outstanding approximately $158.2 million of Window VRDBs issued by governmental issuers for the benefit of the CHI Reporting Group. Window VRDBs bear interest at *"window variable interest rates"* that are set weekly based on the sum of the SIFMA Swap Index plus a window variable interest rate spread determined by a remarketing agent. The initial window variable interest rate spread was set at 10 basis points.

Window VRDBs are not supported by any external dedicated liquidity facility. Holders of Window VRDBs have a right to optionally tender their bonds for purchase. If the tendered Window VRDBs are not successfully remarketed within the 30 day period that follows the date that notice of such optional tender is received by the remarketing agent (the *"Remarketing Window"*), then all Window VRDBs of the same series are required to be purchased on the day that is 210 days after notice of such optional tender is received by the remarketing agent (the *"Window Mandatory Tender Date"*). The period from the end of the Remarketing Window until the Window Mandatory Tender Date (initially, 180 days) is referred to as the *"Funding Window"*. During the Funding Window, CHI management expects that it would analyze the then current market conditions and availability and relative cost of refinancing or restructuring alternatives for those Window VRDBs that are required to be purchased on the Window Mandatory Tender Date (including, without limitation, conversion to another interest mode, refinancing or repayment).

Direct Purchase Variable-Rate Bonds (*"Direct Purchase Bonds"*): At March 31, 2013, the Corporation had outstanding approximately $243.3 million of Direct Purchase Bonds issued by governmental issuers for the benefit of the CHI Reporting Group and privately placed directly with holders. Direct Purchase Bonds bear interest at variable rates determined monthly based upon a percentage of the LIBOR rate plus a spread based upon the credit rating of CHI, and are subject to mandatory tender on the dates and in the amounts described below.

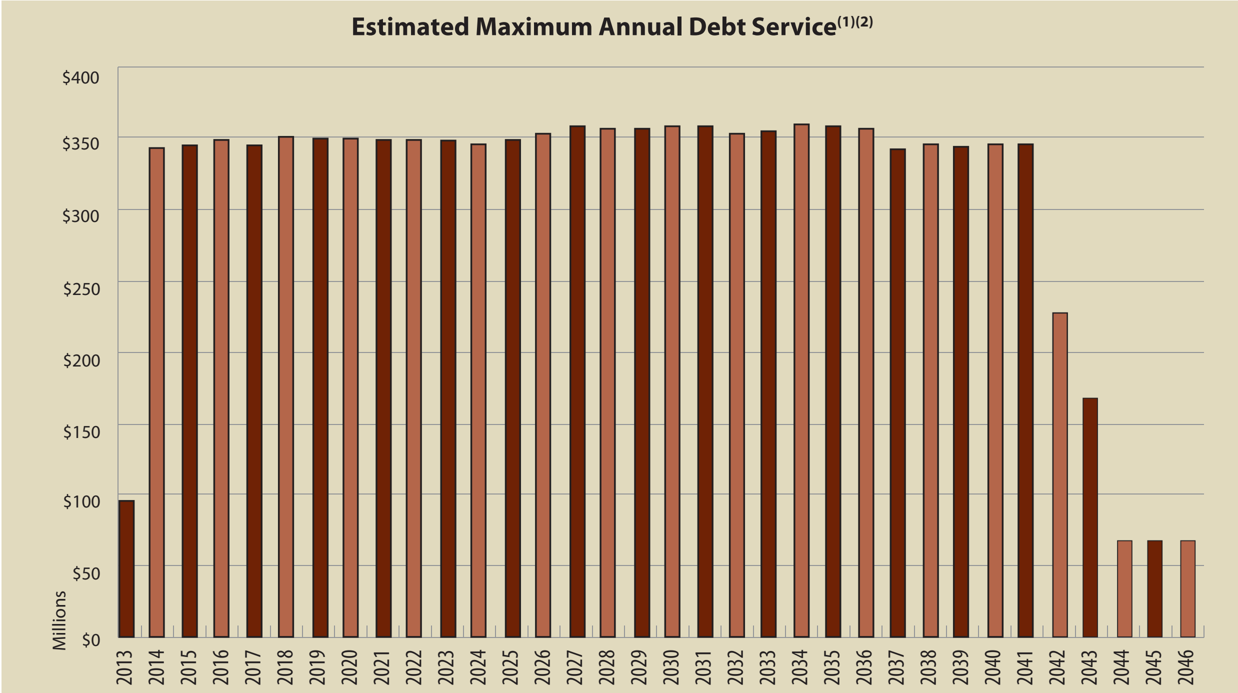
Series	Principal Amount	Scheduled Mandatory Tender Date
Washington 2008A	$120.3 million	July 29, 2013
Colorado 2011C	$123.0 million	November 10, 2018

In the event either series of Direct Purchase Bonds is not remarketed (either to the existing holder or to a new holder) or refinanced on a scheduled mandatory tender date, as long as no event of default has occurred, CHI is permitted by the terms of its agreements with such holders to repay those bonds over a three year period of time.

Long-Term Rate Bonds: At March 31, 2013, the Corporation had outstanding approximately $310.2 million of Long-Term Rate Bonds (described below) issued by governmental issuers for the benefit of the CHI Reporting Group. Each series of Long-Term Rate Bonds bears interest at a fixed rate for a specified period, and is subject to mandatory tender at the end of that period, on the date and in the principal amount described below. Long-Term Rate Bonds are not subject to optional tender for purchase.

Series	Principal Amount	Mandatory Tender Date
Colorado 2008D-2	$19.345 million	November 12, 2013
Colorado 2009B-2	$33.755 million	November 12, 2013
Ohio 2008D-2	$25.000 million	November 12, 2013
Ohio 2009B	$27.140 million	November 12, 2013
Colorado 2009B-3	$40.000 million	November 11, 2014
Kentucky 2009B	$60.000 million	November 11, 2014
Colorado 2008C-2	$27.500 million	November 12, 2015
Colorado 2008C-4	$27.500 million	November 12, 2015
Colorado 2008D-3	$50.000 million	November 12, 2015

The chart below shows the CHI Reporting Group's estimated maximum annual debt service as of March 31, 2013.



(1) Excludes taxable commercial paper.

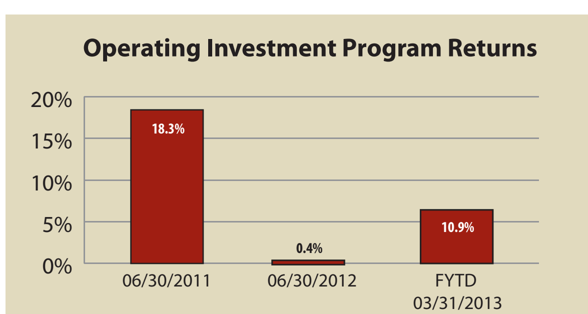
(2) The calculation of the total maximum annual debt service requirements on Long-Term Indebtedness assumes that (A) VRDBs with related Swap Agreements bear interest through their respective maturity dates at their respective swap rates, (B) Other VRDBs, Window VRDBs and Direct Purchase Bonds bear interest through their respective maturity dates at a 3.50% average annual interest rate and (C) Long-Term Rate Bonds bear interest through their respective maturity dates at their respective interest rates established for their current long-term interest periods. The calculation also assumes the Taxable 2012 Bonds bear interest at 5.35%, and amortize on a level debt service basis over a 30-year period.

F. INVESTMENTS

The CHI Operating Investment Program (the *"Program"*) is an investment pool administered by the treasury services function of the Corporation. The Program is structured as a limited partnership with the Corporation as the managing general partner. The Corporation contracts with investment advisers to manage the investments within the Program. The Corporation requires all Participants, other than foundations, to invest in the Program. Bethesda does not participate in the Program.

The Program consists of equity, fixed income and alternative investments (e.g., private capital, hedge funds and real estate interests). The asset allocation is established by the Investment Committee of the Board of Stewardship Trustees. At March 31, 2013, the allocation was 37% fixed income, 41% equities, 21% alternative investments and 1% cash and equivalents. The fixed income securities are invested primarily in U.S. Treasuries and agency securities and high quality mortgage backed securities (including GNMA, FNMA and FHLMC). The 41% allocation to equities is comprised of 22% domestic equities and 19% international equities. At March 31, 2013, the domestic equity segment was invested in large, mid and small cap publicly traded securities.

At June 30, 2012 and March 31, 2013, the CHI Reporting Group had internally designated investments of $5.7 billion and $6.6 billion, respectively, the majority of which are invested in the Program. The Program's investment return for the fiscal years ended June 30, 2011, June 30, 2012 and for the nine months ended March 31, 2013 is set forth in the chart below.



G. LIQUIDITY AND CAPITAL RESOURCES

I. LIQUIDITY AND OTHER FINANCIAL ARRANGEMENTS

Liquidity Facilities. As described in the chart below, the Corporation maintains several external liquidity facilities, including dedicated liquidity facilities and general liquidity facilities. External dedicated liquidity facilities are provided by commercial banks and dedicated to certain VRDBs. Each dedicated liquidity facility is subject to extension of its expiration date at the sole discretion of the provider of such liquidity facility. The Corporation's general liquidity facilities are used exclusively to support its obligations to fund tenders of VRDBs, Window VRDBs and Long-Term Rate Bonds and to pay the maturing principal of the Commercial Paper Notes in the event remarketing proceeds are unavailable for such purpose.

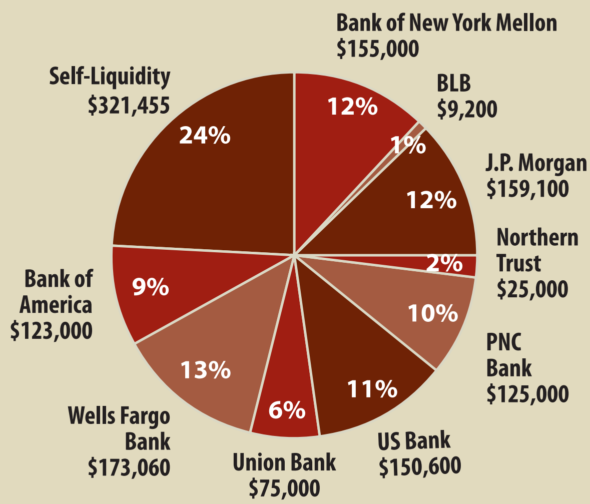
Credit Agreements by Bank as of March 31, 2013 (000's)

Dedicated Self-Liquidity Lines

Bank	Par (000's)	Expiration
PNC Bank[1]	$125,000	08/25/2013
Union Bank of CA	75,000	12/03/2013
Northern Trust	25,000	03/30/2014
J.P. Morgan	50,000	05/19/2014
Bank of New York Mellon	60,000	12/15/2014
Bank of New York Mellon	55,000	12/15/2015
Total	$390,000	

SBPA/Direct Purchase

Bank	Par (000's)	Expiration
Wells Fargo Bank[1]	$120,260	07/29/2013
J.P. Morgan	54,200	11/17/2013
J.P. Morgan	54,900	08/19/2014
U.S. Bank	33,700	11/01/2014
U.S. Bank	50,000	11/10/2014
U.S. Bank	66,900	10/30/2015
Wells Fargo Bank	52,800	10/30/2015
BLB	9,200	11/30/2015
Bank of New York Mellon	40,000	12/15/2015
Bank of America	123,000	11/10/2018
Total	$604,960	



(1) Renewal in process.

Master Repurchase Agreement. The Corporation has a Master Repurchase Agreement with The Bank of New York Mellon (*"BNY Mellon"*). Subject to the approval of BNY Mellon, the Corporation may enter into repurchase agreements with counterparties for securities with a market value of up to $300 million. The ability to enter into a repurchase transaction is dependent upon a variety of conditions, including the availability of high quality, fixed income securities acceptable to the counterparty. Minimum collateral requirements apply, depending upon the type of securities posted and a LIBOR-based loan rate is paid to the counterparty.

II. CASH AND EQUIVALENTS AND INTERNALLY DESIGNATED INVESTMENTS

At June 30, 2012 and at March 31, 2013, the CHI Reporting Group had cash and equivalents and internally designated investments (including net unrealized gains and losses) as described in the table below.

Unaudited (000s)	June 30, 2012	March 31, 2013
Cash and Equivalents	$488,794	$494,017
Internally Designated Investments	5,716,644	6,580,609
Total	$6,205, 438	$7,074,626

CHI holds highly liquid investments to enhance its ability to satisfy liquidity needs. Asset allocations are reviewed on a monthly basis and compared to investment allocation targets included within CHI's investment policy. The following table presents a CHI summary liquidity report as of March 31, 2013:

Liquidity Report[1] **(000s)**	**Unaudited March 31, 2012**
ASSETS	
Daily Liquidity	
Money Market Funds (SEC 2a-7 compliant and Aaa-rated by Moody's)	$ 321,815
Checking and deposit accounts at P-1 rated bank	51,751
US Treasuries and Aaa-rated agency securities with less than 3 year maturity	385,123
US Treasuries and Aaa-rated agency securities with greater than 3 year maturity	117,582
Dedicated Lines	
Standby Bond Purchase Agreements (certain VRDBs)	361,700
Self Liquidity Lines (VRDBs, Windows VRDBs, CP & Long-Term Rate Bonds)	390,000
Subtotal Daily Liquidity (Cash, Securities & Dedicated lines)	1,627,971
Weekly Liquidity	
Fixed Income: Other investment grade publicly-traded holdings	2,100,331
Equities: Exchange-traded equity (ownership of shares of stock)	2,413,568
Subtotal Weekly Liquidity	4,513,899
Total Daily & Weekly Liquidity	6,141,870
Longer Term Liquidity	
Funds, vehicles, investments that allow withdrawals with one month notice or longer	442,620
Total Longer Term Liquidity	442,620
Other Sources of Liquidity	
Undrawn portion of $881 million Commercial Paper Notes	438,525
Total Other Sources of Liquidity	438,525
Total Sources of Liquidity	$7,023,015
DEBT SUBJECT TO TENDER WITHIN TWELVE MONTHS	
Bonds Subject to Periodic Tender	
VRDBs with Standby Bond Purchase Agreements	$ 361,700
VRDBs with Self Liquidity	163,300
Windows VRDBs	158,155
Subtotal Bonds Subject to Periodic Tender	683,155
Bonds Subject to Mandatory Tender within Twelve Months	
Long-Term Rate Bonds	105,240
Commercial Paper Notes [2]	442,475
Total Debt Subject To Tender Within Twelve Months	$1,230,870

(1) Includes CHI only; does not include Bethesda. Net assets available for liquidity would be greater if Bethesda assets available under certain circumstances were included in this information.

(2) As noted above, the Corporation has directed broker-dealers to tranche the maturities so that no greater than approximately one-third of the outstanding balance matures within one month and no more than $100 million matures within any five day period. The Corporation has, from time to time, directed its dealers to deviate from this structuring and anticipates that it may do so again in the future.

H. SWAP AGREEMENTS

The Corporation utilizes various interest rate swaps to manage the risk of increased interest rates payable on certain VRDBs and operating lease payments. The Corporation is currently party to seven floating-to-fixed-payor Swap Agreements with aggregate notional amounts totaling $921.3 million and $931.8 million at March 31, 2013 and June 30, 2012, respectively. Generally, it is the Corporation's policy that all counterparties have an AA rating or better at the time of execution. These floating-to-fixed-payor Swap Agreements have the general effect of converting the Corporation's variable rate debt to fixed rate, although there may be differences between the variable rate payments received by the Corporation under the Swap Agreements and its variable rate payments on the related debt. The seven Swap Agreements have varying termination dates ranging from May 2025 to December 2036. The Swap Agreements require the Corporation to provide collateral if the Corporation's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on the Corporation's long-term unenhanced indebtedness. At March 31, 2013 and June 30, 2012, the fair values of the Swap Agreements were obligations of $204.1 million and $238.5 million, respectively. The fair value was reported net of cash collateral balances of $102 million and $140.7 million at March 31, 2013 and June 30, 2012, respectively, and is recorded in other liabilities. The change in the fair value of these agreements was a net gain of $34.4 million and a loss of $78.1 million for the nine months ended March 31, 2013 and 2012, respectively. The Corporation's payment obligations under the Swap Agreements are secured by Obligations issued under the Capital Obligation Document.

I. BOND RATINGS

The credit ratings of the Corporation's fixed-rate unenhanced debt are: Standard & Poor's Rating Service – AA- (stable outlook); Moody's Investor's Service, Inc. – Aa3 (stable outlook); and Fitch Ratings – AA- (stable outlook).

J. COMBINED RESULTS OF OPERATIONS

I. SIGNIFICANT AND/OR NON-RECURRING TRANSACTIONS

University of Louisville Hospital. Effective March 1, 2013, KentuckyOne Health entered into a joint operating agreement with University Medical Center, Inc., assuming control of the University of Louisville Hospital, exclusive of the Center for Women and Infants, in Louisville, Kentucky. All of the operations of University of Louisville Hospital are consolidated into the CHI financial statements.

Alegent Creighton Health. As discussed in Part I, *"Financial Ratios & Summary of Selected Financial Data",* the Corporation became the sole member of Alegent Creighton Health as of November 1, 2012, and the results of operations of Alegent Creighton Health and its subsidiaries (including Immanuel Medical Center) were included in the consolidated financial statements of the Corporation under GAAP. Subject to a final valuation, CHI's total assets have increased approximately $1.3 billion due to the addition of Alegent Creighton Health assets.

In connection with the termination of Immanuel's contractual rights and responsibilities under the JOA, the Corporation paid $553.7 million of the proceeds of Taxable Bonds to Immanuel. The Alegent Financing Agreement described in Part V, Section B of the Annual Report was not terminated as part of this transaction; however, the Corporation anticipates that the Alegent Financing Agreement will be modified or terminated by the end of the fiscal year ending June 30, 2013.

Towson, Maryland. Effective December 1, 2012, CHI sold all of its facilities in the Towson, Maryland market to UMMS for a sales price of $220 million. Of the total sales proceeds, $45.7 million was placed in escrow and may be returned to UMMS, depending upon a determination by the State of Maryland of its Medicare waiver. Resolution is expected within the year. CHI used the majority of the remaining sale proceeds to defease $113.5 million of Baltimore County, Maryland Revenue Bonds, Series 2006A, which resulted in a loss on defeasance of $18 million and to redeem $6.4 million of Maryland Health and Higher Educational Facility Authority, Variable Rate Demand Revenue Bonds, Series 1997B. The operations associated with these facilities have been reported as discontinued operations in the consolidated statements of operations and changes in net assets.

II. AS OF MARCH 31, 2013 AND FOR THE NINE MONTHS ENDED MARCH 31, 2013 AND 2012

a. EXECUTIVE SUMMARY

Overall financial performance during the nine months ended March 31, 2013 increased over the corresponding period of the prior fiscal year as a result of strong investment performance, which was offset by unfavorable operating performance. Results of income from operations were primarily impacted by volume shortfalls in many of the markets. The CHI Reporting Group continues its efforts to improve operating performance through revenue cycle, supply chain, and productivity enhancements as well as furthering the efforts of key strategic priorities including clinical and operational excellence, OneCare and growth initiatives throughout the markets. Costs for these initiatives are putting short-term pressure on operating performance.

b. SUMMARY OF RESULTS OF OPERATIONS – CHI REPORTING GROUP

The combined financial performance of the CHI Reporting Group for the nine months ended March 31, 2013 as measured by income from operations before restructuring, impairment and other losses declined when compared to the operating results achieved in the corresponding period of the prior fiscal year. Income from operations before restructuring, impairment and other losses was $41.7 million (0.5% operating margin before restructuring, impairment and other losses) for the nine months ended March 31, 2013 compared to $265.4 million (3.6% operating margin before restructuring, impairment and other losses) for the corresponding period of the prior fiscal year.

Net patient services revenues for the nine months ended March 31, 2013 increased 11.2% over the corresponding period of the prior fiscal year while operating expenses before restructuring, impairment and other losses, increased 15.4% over the corresponding period of the prior fiscal year. Inpatient, outpatient and physician services volume indicators, including physician visits, inpatient and outpatient visits and inpatient and outpatient surgeries, for the CHI Reporting Group increased from the corresponding prior fiscal year contributed favorably to the growth in net patient services revenues growth. These increases were largely related to acquisitions and expansion of services, as well as the impact of rate increases. Additionally, there has been short term pressure on operating expenses before restructuring, impairment and other losses due to several growth initiatives underway throughout the markets.

Total nonoperating gains were $560.4 million for the nine months ended March 31, 2013 compared to losses of $9.2 million for the corresponding period of the prior fiscal year. Investment income was $564.4 million for the nine months ended March 31, 2013 compared to income of $105.5 million for the corresponding period of the prior fiscal year. Losses on defeasance of bonds were $18 million for the nine months ended March 31, 2013 compared to losses of $1.1 million for the corresponding period of the prior fiscal year. Additionally, realized and unrealized gains (losses) on the swap agreements were gains of $10.7 million for the nine months ended March 31, 2013 compared to losses of $101.8 million for the corresponding period of the prior fiscal year. Excess of revenues over expenses for the nine months ended March 31, 2013 was $558 million compared to $238.3 million for the corresponding period of the prior fiscal year.

For the nine months ended March 31, 2013 total operating revenues for Bethesda represented approximately 4.2% of the CHI Reporting Group.

c. SUMMARY OF OPERATIONS – CHI

The consolidated operating results for CHI for the nine months ended March 31, 2013 reflected modest growth over the corresponding period of the prior fiscal year, although the operating margin before restructuring, impairment and other losses declined to 0.3% for nine months ended March 31, 2013 from

3.4% in the corresponding period of the prior fiscal year, largely the result of the impact of key strategic investments made during the nine months ended March 31, 2013, most notably the OneCare strategy, which offset operating revenue growth in net patient services revenues.

Total net patient services revenues increased 14.6% ($917.8 million) for the nine months ended March 31, 2013 compared to the corresponding period of the prior fiscal year. The acquisition of JHSMH on January 1, 2012, acquiring the remaining sponsorship interest in Alegent Creighton Health on November 1, 2012, and outpatient and physician volume growth across the markets were the primary factors contributing to this increase. The acute case-mix index was 1.51 for the nine months ended March 31, 2013 as well as the corresponding period of the prior fiscal year. Contractual allowances as a percentage of gross revenues increased to 63.7% for the nine months ended March 31, 2013 compared to 62.5% for the corresponding period of the prior fiscal year. Charity care as a percentage of gross revenues decreased to 3.4% for the nine months ended March 31, 2013 compared to 3.6% for the corresponding period of the prior fiscal year.

Provision for doubtful accounts increased 8.4% ($45.4 million) as a direct result of the increases in net patient services revenues discussed above for the nine months ended March 31, 2013 compared to the corresponding period of the prior fiscal year. As a percentage of net patient services revenues, provision for doubtful accounts was 8.2% for the nine months ended March 31, 2013 compared to 8.6% for the corresponding period of the prior fiscal year.

Charity care as a percentage of net patient services revenues was 11% for the nine months ended March 31, 2013 compared to 11.5% for the corresponding period of the prior fiscal year. Provision for doubtful accounts and charity care, combined as a percentage of net patient services revenues were 19.2% for the nine months ended March 31, 2013 compared to 20.1% for the corresponding period of the prior fiscal year.

Total operating expenses before restructuring, impairment and other losses increased 19% ($1.3 billion) for the nine months ended March 31, 2013 compared to the corresponding period of the prior fiscal year. Much of the expense increase was the result of the JHSMH acquisition, acquiring the remaining sponsorship interest in Alegent Creighton Health, physician acquisitions, expansion of services in several markets and the cost of the key strategic initiatives undertaken by CHI, including OneCare implementations.

Labor costs (salaries and benefits) accounted for the most significant component of total operating expenses before restructuring, impairment and other losses, representing 51.3% for the nine months ended March 31, 2013 compared to 51.5% for the corresponding period of the prior fiscal year. As a percentage of net patient services revenues, total labor costs were 54.8% for the nine months ended March 31, 2013 compared to 53% for the corresponding period of the prior fiscal year. Total labor costs increased 18.5% ($616.6 million) for the nine months ended March 31, 2013 compared to the corresponding period of the prior fiscal year in large part due to increases in FTEs from the JHSMH acquisitions, increases in FTEs from acquiring the remaining sponsorship interest in Alegent Creighton Health, increases in employed providers at several markets due to acquisition strategies, and increases in FTEs at the national office in support of key strategic priorities, including CHI's OneCare initiative.

Supplies expense increased 15.7% for the nine months ended March 31, 2013 compared to the corresponding period of the prior fiscal year, which exceeded the growth in net patient services revenues by 1.1%. As a percentage of net patient services revenues, supplies expense increased to 18.5% for the nine months ended March 31, 2013 compared to 18.3% for the corresponding period of the prior fiscal year. CHI has had several process improvement initiatives in place for the last few years that have resulted in improved supply utilization as well as pricing and contracting improvements across the organization.

d. SUMMARY OF OPERATIONS – BETHESDA

The consolidated financial performance of Bethesda Hospital, Inc. and Subsidiaries includes all entities required to be consolidated per GAAP for this entity, some of which are not included in the CHI Reporting Group financial statements. The consolidated operating results for Bethesda Hospital, Inc. and Subsidiaries for the nine months ended March 31, 2013 declined from the results achieved in the corresponding period of the prior fiscal year. The operating margin was 3% for the nine months ended March 31, 2013 compared to 4.9% for the corresponding period of the prior fiscal year. Total net patient services revenues increased 3.9% for the nine months ended March 31, 2013 compared to the corresponding period of the prior fiscal year, while total operating expenses increased 5.7%.

e. SUMMARY OF BALANCE SHEET – CHI REPORTING GROUP

Total combined assets increased 10.4% ($1.7 billion) to $18 billion at March 31, 2013 from June 30, 2012. Total investments and assets limited as to use increased 13.6% ($903.7 million) to $7.6 billion at March 31, 2013 from June 30, 2012. The proceeds from the $1.5 billion taxable debt issuance in October 2012 as well as strong investment performance for the nine months ended March 31, 2013 were the primary factors contributing to the increase. Total assets for Bethesda represented approximately 4.2% of the total CHI Reporting Group at March 31, 2013.

Days of total cash were 248 days at both March 31, 2013 and June 30, 2012. The primary factors contributing to fluctuations in days of cash were increases resulting from the proceeds of the October 2012 taxable debt issuance, cash generated from operations and investment gains. Offsetting the increases were uses of cash for capital additions, including acquisitions during the nine months ended March 31, 2013.

Net patient accounts receivable increased by 14.1% ($203.9 million) from June 30, 2012 to March 31, 2013. Days in accounts receivable increased to 58.3 days at March 31, 2013 compared to 55.9 days at June 30, 2012, primarily due to acquisitions.

The current ratio increased to 1.2 at March 31, 2013 from 1.1 at June 30, 2012. The current ratio is impacted by $622 million of Commercial Paper Notes and current portion of debt as well as $321.5 million of variable-rate debt with self liquidity classified as current. The debt-to-capitalization ratio increased to 43.7% at March 31, 2013 from 37.6% at June 30, 2012, primarily driven by the October 2012 taxable debt issuance.

Total net assets increased by 0.3% ($22.1 million) to $8.1 billion at March 31, 2013 from June 30, 2012, primarily the result of the $553.7 million cash payment made by the Corporation to Immanuel to terminate Immanuel's contractual rights and responsibilities under the JOA with respect to its remaining interest in Alegent Creighton Health. The overall decrease was offset by the $558 million increase from excess of revenues over expenses for the nine months ended March 31, 2013.

K. CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with GAAP requires that management make assumptions, estimates and judgments affecting the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. CHI management 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 patient service revenues, which includes contractual allowances, provisions for doubtful accounts and charity care reserves, and cost report settlements; impairment of long-lived assets; accounting for expenses in connection with restructuring activities; valuations of investments; and reserves for losses and expenses related to health care professional and general liability risks. In making such judgments and estimates, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances. A description of CHI's critical accounting policies can be found in the notes to the unaudited financial statements in the Appendix A. Actual results could differ materially from the estimates.of CHI's critical accounting policies can be found in the notes to the unaudited financial statements in the Appendix A. Actual results could differ materially from the estimates.

Part III

Legal Proceedings

A. PENDING LITIGATION/REGULATORY MATTERS

The members of the CHI Reporting Group, like all major health care systems, periodically may be subject to investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practices for certain services. Violation of such laws could result in substantial monetary fines, civil and/or criminal penalties and exclusion from participation in Medicare, Medicaid or similar programs. CHI management believes that adequate reserves have been established for the current investigations and any claims resulting from any related litigation, including, without limitation, those described in greater detail below, and that the outcome of those current investigations and claims will not have a material effect on the financial position of results of operations of the CHI Reporting Group.

Part VII of the Annual Report, which is incorporated herein by reference, described the status of certain litigation/regulatory matters as of October 23, 2012. The information below provides certain updates to the descriptions of those matters included in that Part VII, as well as certain additional information regarding certain litigation/regulatory matters.

St. Joseph Medical Center, Towson, Maryland. As described in the Annual Report, St. Joseph Medical Center, headquartered in Towson, Maryland ("*St. Joseph – Towson*"), which until December 1, 2012 owned and operated the acute care hospital facility located in Towson, Maryland and known as St. Joseph Medical Center, conducted an internal audit to review payments relating to certain inpatient admissions of two days or less for beneficiaries of federal health care programs. As a result of that review, in June 2010 St. Joseph – Towson disclosed to the Office of Inspector General (the "*OIG*") of the U.S. Department of Health and Human Services and the U.S. Attorney's Office for the District of Maryland potential overpayments made by the federal government to St. Joseph – Towson. On February 7, 2013, St. Joseph – Towson entered into a Settlement Agreement with the U.S. Department of Justice, the OIG, the Office of Personnel Management, the Tricare Management Activity, and the State of Maryland to resolve civil claims concerning the admission of patients for one or two days stays who allegedly could have been treated on an outpatient basis. The release covered the time period of October 1, 2007 through and including October 31, 2009. Under the terms of the settlement, St. Joseph – Towson paid a total of $4.9 million. This settlement did not result in an additional corporate integrity agreement with OIG or any changes to its existing corporate integrity agreement described in the Annual Report. St. Joseph – Towson settled this matter in order to avoid the uncertainty of litigation and without any admission of liability.

Memorial Health Care System. In 2010, the U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of Tennessee (Collectively "*DOJ*") notified Memorial Health Care System ("*MHCS*") that it had launched a civil investigation of whether numerous space leases between MHCS and physicians violated the Stark law and the civil False Claims Act. This investigation was prompted by a sealed qui tam lawsuit that was filed in January 2009. After reviewing a broad array of leases and financial information, the DOJ declined to intervene in the civil qui tam action. The qui tam included claims of retaliatory discharge. MHCS reached a settlement with the relator on the employment issues without any admission of wrongdoing in order to avoid the uncertainty of litigation. The relator has chosen not to proceed with any other aspects of the qui tam action.

St. Joseph London. As described in the Annual Report, St. Joseph Health System (now part of KentuckyOne Health) had self-reported to the U.S. Attorney's Office for the Eastern District of Kentucky issues involving certain cardiac stent procedures performed at St. Joseph London by Dr. Sandesh Rajaram Patil, a non-employed interventional cardiologist. In response, the U.S. Attorney's Office is conducting an investigation related to the medical necessity of cardiac interventional procedures performed at St. Joseph London and the financial relationship between St. Joseph Health System and the physician and other members of his former medical group. On June 4, 2013 Dr. Patil pled guilty to one-count charging him with making false statements relating to health care matters in violation of 18 U.S.C. Sec. 1035. KentuckyOne Health is cooperating in this investigation and is currently providing documents and information to the U.S. Attorney's Office pursuant to subpoena and a Civil Investigative Demand.

Pension Plan Litigation. On May 10, 2013, the Corporation and two employees were named as defendants in a lawsuit challenging the "church plan" status of certain of CHI's defined benefit plans. *Medina, et al. v. Catholic Health Initiatives, et. al.*, Civil No 13-1249 (District of Colorado). The complaint alleges that the CHI's defined benefit plans (i) do not meet the definition of a Church Plan under the Employee Retirement Income Security Act ("*ERISA*"); (ii) were underfunded; (iii) violated various provisions of ERISA applicable to covered defined benefit plans; or, alternatively, (iv) if CHI's defined benefit plans qualify for Church Plan status, the Church Plan exemption is an unconstitutional accommodation under the Establishment Clause of the First Amendment. While no assurance can be given that the outcome of this litigation will be favorable for CHI, at this time, CHI management does not believe that this matter, if decided adversely to CHI, would have a material adverse impact on the financial position or results of operations of the Credit Group taken as a whole.

Appendix A

The Information in this Appendix Relates Only to Catholic Health Initiatives

CATHOLIC HEALTH INITIATIVES

Consolidated Interim Financial Statements (Unaudited)
As of March 31, 2013 and for the Nine Months Ended
March 31, 2013 and 2012

Catholic Health Initiatives
Consolidated Interim Financial Statements (Unaudited)

Contents

Consolidated Interim Financial Statements

Catholic Health Initiatives
Consolidated Balance Sheets
(In Thousands)

	March 31, 2013 *(Unaudited)*	June 30, 2012
Assets		
Current assets:		
Cash and equivalents	**$ 490,270**	$ 403,972
Net patient accounts receivable, less allowances of $789,395 at March and $687,631 at June, respectively	**1,612,037**	1,353,928
Other accounts receivable	**193,210**	115,884
Current portion of investments and assets limited as to use	**9,098**	1,901
Inventories	**218,933**	185,571
Assets held for sale	**260,566**	485,074
Prepaid and other	**158,359**	87,125
Total current assets	**2,942,473**	2,633,455
Investments and assets limited as to use:		
Internally designated for capital and other funds	**5,760,559**	4,588,520
Mission and Ministry Fund	**121,727**	110,918
Capital Resource Pool	**401,969**	320,218
Held by trustees	**11,875**	228
Held for insurance purposes	**759,996**	745,127
Restricted by donors	**183,974**	162,776
Total investments and assets limited as to use	**7,240,100**	5,927,787
Property and equipment, net	**6,229,536**	5,346,535
Deferred financing costs	**38,087**	28,717
Investments in unconsolidated organizations	**370,551**	307,918
Intangible assets and goodwill, net	**222,333**	162,880
Notes receivable and other	**346,111**	605,094
Total assets	**$ 17,389,191**	$ 15,012,386

Continued on following page

Catholic Health Initiatives
Consolidated Balance Sheets (continued)
(In Thousands)

	March 31, 2013 *(Unaudited)*	June 30, 2012
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 518,349**	$ 418,596
Third-party liabilities	**72,452**	76,660
Accounts payable and accrued expenses	**846,724**	717,085
Liabilities held for sale	**88,154**	105,446
Variable-rate debt with self liquidity	**321,455**	321,455
Commercial paper and current portion of debt	**621,974**	643,083
Total current liabilities	**2,469,108**	2,282,325
Pension liability	**944,110**	892,821
Self-insured reserves and claims	**549,097**	513,584
Other liabilities	**477,514**	236,762
Long-term debt	**5,154,625**	3,778,709
Total liabilities	**9,594,454**	7,704,201
Net assets:		
Net assets attributable to CHI	**7,375,697**	6,922,468
Net assets attributable to noncontrolling interests	**195,056**	180,863
Unrestricted	**7,570,753**	7,103,331
Temporarily restricted	**154,753**	136,821
Permanently restricted	**69,231**	68,033
Total net assets	**7,794,737**	7,308,185
Total liabilities and net assets	**$ 17,389,191**	$ 15,012,386

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Operations

(In Thousands)

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012
	(Unaudited)	
Revenues:		
Net patient services revenues before provision for doubtful accounts	**$ 7,778,086**	$ 6,814,845
Provision for doubtful accounts	**(587,445)**	(542,049)
Net patient services revenues	**7,190,641**	6,272,796
Nonpatient:		
Donations	**22,504**	19,610
Changes in equity of unconsolidated organizations	**15,719**	25,108
Investment income used for operations	**72,946**	25,821
Other	**408,333**	343,504
Total nonpatient revenues	**519,502**	414,043
Total operating revenues	**7,710,143**	6,686,839
Expenses:		
Salaries and wages	**3,217,305**	2,762,819
Employee benefits	**726,519**	564,378
Purchased services, medical professional fees, consulting and legal	**890,529**	670,989
Supplies	**1,330,748**	1,149,839
Utilities	**110,029**	88,652
Rentals, leases, maintenance and insurance	**457,353**	397,021
Depreciation and amortization	**400,408**	351,224
Interest	**117,828**	97,103
Other	**433,801**	374,856
Total operating expenses before restructuring, impairment and other losses	**7,684,520**	6,456,881
Income from operations before restructuring, impairment and other losses	**25,623**	229,958
Restructuring, impairment and other losses	**44,123**	17,933
(Loss) income from operations	**(18,500)**	212,025
Nonoperating gains (losses):		
Investment income, net	**518,012**	97,890
Loss on defeasance of bonds	**(17,998)**	(1,156)
Realized and unrealized gains (losses) on interest rate swaps	**10,707**	(101,796)
Other nonoperating gains (losses)	**3,593**	(13,247)
Total nonoperating gains (losses)	**514,314**	(18,309)
Excess of revenues over expenses	**495,814**	193,716
Excess of revenues over expenses attributable to noncontrolling interest	**7,336**	9,119
Excess of revenues over expenses attributable to CHI	**$ 488,478**	$ 184,597

Catholic Health Initiatives
Consolidated Statements of Cash Flows
(In Thousands)

	Nine Months Ended March 31, 2013	2012
	(Unaudited)	
Operating activities		
Increase in net assets	**$ 486,552**	$ 347,103
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**400,408**	351,224
Provision for bad debts	**587,445**	542,049
Changes in equity of unconsolidated organizations	**(15,719)**	(25,108)
Net (gains) losses on sales of facilities and investments in unconsolidated organizations	**(7,798)**	(447)
Noncash operating expenses related to restructuring, impairment and other losses	**4,199**	–
Loss on defeasance of bonds	**17,998**	1,156
(Increase) decrease in fair value of interest rate swaps	**(34,235)**	78,140
Increase in unfunded pension liability	**2,789**	5,851
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(688,820)**	(848,526)
Other current assets	**(45,352)**	(13,544)
Current liabilities	**(261,121)**	(105,076)
Other changes	**103,152**	59,458
Net cash provided by (used in) operating activities, before net change in investments and assets limited as to use	**549,498**	194,136
Net (increase) decrease in investments and assets limited as to use	**(800,861)**	103,323
Net cash (used in) provided by operating activities	**(251,363)**	297,459
Investing activities		
Purchases of property, equipment and other capital assets	**(729,598)**	(534,188)
Purchase of Nebraska Heart, net of cash acquired	**–**	(130,982)
Purchase of JHSMHS, net of cash acquired	**–**	(28,540)
Purchase of Alegent Creighton Health, net of cash acquired	**(504,256)**	–
Net cash on acquisition of UMC	**58,681**	–
Net cash proceeds from asset sales	**215,559**	21,831
Distributions from investments in unconsolidated organizations	**27,585**	32,036
Notes receivable from unconsolidated affiliates, net	**9,413**	18,761
Other changes	**15,450**	21,535
Net cash used in investing activities	**(907,166)**	(599,654)
Financing activities		
Proceeds from issuance of debt	**1,611,369**	826,742
Costs associated with issuance of debt	**(12,170)**	(6,253)
Repayment of debt	**(354,372)**	(553,833)
Net cash provided by financing activities	**1,244,827**	266,656
Increase (decrease) in cash and equivalents	**86,298**	(35,539)
Cash and equivalents at beginning of year	**403,972**	449,674
Cash and equivalents at end of year	**$ 490,270**	$ 414,135

See accompanying notes.

Catholic Health Initiatives

Consolidated Statements of Changes in Net Assets

(In Thousands)

	Unrestricted Net Assets					
	Attributable to CHI	Attributable to Noncontrolling Interests	Total	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Balances, June 30, 2011	$ 7,448,161	$ 8,967	$ 7,457,128	$ 122,795	$ 62,426	$ 7,642,349
Excess of revenues over expenses	94,818	537	95,355	–	–	95,355
Net loss from discontinued operations	(45,064)	–	(45,064)	–	–	(45,064)
Increase in pension liability	(2,583)	(878)	(3,461)	–	–	(3,461)
Temporarily and permanently restricted contributions	–	–	–	8,790	83	8,873
Net assets released from restriction for capital	2,795	–	2,795	(2,795)	–	–
Net assets released from restriction for operations	–	–	–	(6,689)	–	(6,689)
Investment income	232	–	232	(3,986)	(247)	(4,001)
KentuckyOne Health noncontrolling interest	–	181,551	181,551	–	–	181,551
Other changes in net assets	(575,891)	(9,314)	(585,205)	18,706	5,771	(560,728)
Net (decrease) increase in net assets	(525,693)	171,896	(353,797)	14,026	5,607	(334,164)
Balances, June 30, 2012	**6,922,468**	**180,863**	**7,103,331**	**136,821**	**68,033**	**7,308,185**
Excess of revenues over expenses	**488,478**	**7,336**	**495,814**	**–**	**–**	**495,814**
Net loss from discontinued operations	**(45,104)**	**–**	**(45,104)**	**–**	**–**	**(45,104)**
Increase in pension liability	**19,118**	**(27)**	**19,091**	**–**	**–**	**19,091**
Temporarily and permanently restricted contributions	**–**	**–**	**–**	**38,096**	**(1,889)**	**36,207**
Net assets released from restriction for capital	**8,430**	**–**	**8,430**	**(8,430)**	**–**	**–**
Net assets released from restriction for operations	**–**	**–**	**–**	**(20,035)**	**–**	**(20,035)**
Investment income	**1,547**	**–**	**1,547**	**5,294**	**1,023**	**7,864**
Other changes in net assets	**(19,240)**	**6,884**	**(12,356)**	**3,007**	**2,064**	**(7,285)**
Net increase in net assets	**453,229**	**14,193**	**467,422**	**17,932**	**1,198**	**486,552**
Balances, March 31, 2013 *(unaudited)*	**$ 7,375,697**	**$ 195,056**	**$ 7,570,753**	**$ 154,753**	**$ 69,231**	**$ 7,794,737**

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Catholic Health Initiatives (CHI), established in 1996, is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI sponsors market-based organizations (MBOs) and other facilities in 17 states, including 79 acute-care hospitals, of which 23 are designated as critical access hospitals by the Medicare program, two community health service organizations (CHSOs), two accredited nursing colleges, home health agencies, and approximately 30 other sites including long-term care, assisted living and residential facilities. CHI also has an offshore captive insurance company, First Initiatives Insurance, Limited (FIIL).

The mission of CHI is to nurture the healing ministry of the Church, bringing it new life, energy and viability in the 21st century. CHI is committed to fidelity to the Gospel, with emphasis on human dignity and social justice in the creation of healthier communities. CHI is sponsored by a lay-religious partnership, calling on other Catholic sponsors and systems to unite to ensure the future of Catholic health care.

Basis of Presentation

The consolidated interim financial statements of CHI as of March 31, 2013, and for the nine months ended March 31, 2013 and 2012, reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state our financial position, results of operations and cash flows for the periods presented. The consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim reporting, and accordingly, do not include all of the disclosures that are required in annual financial statements. As such, these consolidated interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended June 30, 2012. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates.

Operating results for the nine months ended March 31, 2013 and 2012 are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets and liabilities can vary during each quarter of the year.

Certain reclassifications were made to the prior fiscal year financial statement presentation to conform to the current fiscal year presentation.

1. Summary of Significant Accounting Policies (continued)

Principles of Consolidation

CHI consolidates all direct affiliates in which it has sole corporate membership or ownership (Direct Affiliates) and all entities in which it has greater than 50% equity interest with commensurate control. All significant intercompany accounts and transactions are eliminated in consolidation.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and equivalents, patient accounts receivable, investments and assets limited as to use, notes receivable, accounts payable and long-term debt. The carrying amounts reported in the consolidated balance sheets for these items approximate fair value.

Cash and Equivalents

Cash and equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase. In addition, cash and equivalents include deposits in short-term funds held by professional managers. The funds generally invest in high-quality, short-term debt securities, including U.S. government securities, securities issued by domestic and foreign banks, such as certificates of deposit and bankers' acceptances, repurchase agreements, asset-backed securities, high-grade commercial paper and corporate short-term obligations.

Net Patient Accounts Receivable, Net Patient Revenues and Provision for Doubtful Accounts

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections, taking into consideration historical business and economic conditions, trends in health care coverage and other collection indicators. Management routinely assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, CHI follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by each facility.

1. Summary of Significant Accounting Policies (continued)

Net Patient Accounts Receivable, Net Patient Revenues and Provision for Doubtful Accounts (continued)

CHI records net patient services revenues in the period in which services are performed. CHI has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement and negotiated discounts from established rates and per diem payments.

Net patient services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations, and excluding estimated amounts considered uncollectible. The differences between the estimated and actual adjustments are recorded as part of net patient services revenues in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews and investigations.

Investments and Assets Limited as to Use

Investments and assets limited as to use include assets set aside by CHI for future long-term purposes, including capital improvements and self-insurance. In addition, assets limited as to use include amounts held by trustees under bond indenture agreements, amounts contributed by donors with stipulated restrictions and amounts held for Mission and Ministry programs.

CHI has designated its investment portfolio as trading. Accordingly, unrealized gains and losses on marketable securities are included within excess of revenues over expenses. In addition, cash flows from the purchases and sales of marketable securities are reported as a component of operating activities in the accompanying consolidated statements of cash flows.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in limited partnerships and limited liability companies are recorded using the equity method of accounting (which approximates fair value as determined by the net asset values of the related unitized interests) with the related changes in value in earnings reported as investment income in the accompanying consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

Inventories

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

Assets and Liabilities Held for Sale

A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon discounted cash flows and incremental direct costs to transact a sale.

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair value at the date of receipt or impairment. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment. Interest cost incurred during the period of construction of major capital projects is capitalized as a component of the cost of acquiring those assets. Capitalized interest of $19.0 million and $8.2 million was recorded during the nine months ended March 31, 2013 and 2012, respectively.

Costs incurred in the development and installation of internal-use software are typically expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Amounts capitalized are amortized over the useful life of the developed asset following project completion.

Investments in Unconsolidated Organizations

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

1. Summary of Significant Accounting Policies (continued)

Intangible Assets and Goodwill

Intangible assets are amortized over the estimated useful life of each class of amortizable asset using the straight-line method. Amortization expense of $4.1 million and $3.8 million was recorded for the nine months ended March 31, 2013 and 2012, respectively.

Goodwill is not amortized but is subject to annual impairment tests as well as more frequent reviews whenever circumstances indicate a possible impairment may exist. Impairment testing of goodwill is done at the MBO level by comparing the fair value of the MBO's net assets against the carrying value of the MBO's net assets, including goodwill. The fair value of net assets is calculated based on quantitative analysis of discounted cash flows. The fair value of goodwill is determined by assigning fair values to assets and liabilities and calculating any remaining fair value as the implied fair value of goodwill.

Notes Receivable and Other Assets

Other assets consist primarily of notes receivable, pledges receivable, deferred compensation assets, deposits and other long-term assets. Notes receivable from related entities at March 31, 2013 include balances from Bethesda Hospital, Inc. (Bethesda), the non-CHI joint operating agreement (JOA) partner in the Cincinnati, Ohio JOA. As of June 30, 2012, the notes receivable also included balances from Alegent Health Immanuel Medical Center (Immanuel), which was not a consolidated subsidiary of CHI until November 1, 2012, when CHI became the sole sponsor of Alegent Creighton Health and Affiliates (Alegent), including Immanuel. Subsequent to November 1, 2012, the Immanuel notes receivable balance was recorded as an intercompany note and eliminated in consolidation. All of the notes bear interest at rates commensurate with the CHI blended interest cost and require monthly debt service payments.

A summary of notes receivable and other assets is as follows (in thousands):

	March 31, 2013	June 30, 2012
Notes receivable from related entities:		
Total notes receivable from related entities	**$ 191,398**	$ 465,400
Reinsurance recoverable on unpaid losses and loss adjustment expense	**43,024**	42,703
Deferred compensation assets	**21,552**	18,809
Other long-term assets	**90,137**	78,182
Total notes receivable and other	**$ 346,111**	$ 605,094

1. Summary of Significant Accounting Policies (continued)

Notes Receivable and Other Assets (continued)

Bethesda is a Designated Affiliate in the CHI credit group under the Capital Obligation Document (COD). As conditions of joining the CHI credit group, the Designated Affiliates have agreed to certain covenants related to corporate existence, insurance coverage, exempt use of bond-financed facilities, maintenance of certain financial ratios and compliance with limitations on the incurrence of additional debt. Based upon management's review of the creditworthiness of the Designated Affiliates and their compliance with the covenants and limitations, no allowances for uncollectible notes receivable were recorded at March 31, 2013 and June 30, 2012.

Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, including endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment, to provide charity care and to provide other health and educational programs and services.

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as donation revenues. Other gifts are reported as either temporarily or permanently restricted 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 donations revenue when restricted for operations or as unrestricted net assets when restricted for property and equipment.

Performance Indicator

The performance indicator is the excess of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the pension liability funded status, net assets released from restrictions for property acquisitions, cumulative effect of changes in accounting principles, discontinued operations, and contributions of property and equipment, and other changes not required to be included within the performance indicator under generally accepted accounting principles.

1. Summary of Significant Accounting Policies (continued)

Operating and Nonoperating Activities

CHI's primary mission is to meet the health care needs in its market areas through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, physician services, long-term care and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Earnings from certain investments held by FIIL are also classified within operating activities as such earnings help support FIIL operations. Other activities that result in gains or losses peripheral to CHI's primary mission are considered to be nonoperating. Nonoperating activities include: all other investment earnings; gains/losses from bond refinancing; net interest cost and changes in fair value of interest rate swaps; and the nonoperating component of JOA income share adjustments.

Charity Care

As an integral part of its mission, CHI accepts and treats all patients without regard to the ability to pay. Services to patients are classified as charity care in accordance with standards established across all MBOs. Charity care represents services rendered for which partial or no payment is expected, and includes the cost of providing services to persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. The cost of charity care is determined on the basis of an MBO's total cost as a percentage of total charges, applied to the charges incurred by patients qualifying for charity care under CHI's policy. Net patient services revenue is presented net of charity care in the accompanying consolidated statements of operations.

Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 to certain hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology in ways that demonstrate improved quality and effectiveness of care. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. An initial Medicaid incentive payment is available to providers that adopt, implement or upgrade certified EHR technology. However, in order to receive additional Medicaid incentive payments in subsequent years, providers must demonstrate continued meaningful use of EHR technology.

1. Summary of Significant Accounting Policies (continued)

Meaningful Use of Certified Electronic Health Record Technology Incentive Payments (continued)

CHI accounts for meaningful use incentive payments under the gain contingency model. Medicare EHR incentive payments are recognized as revenues when eligible providers demonstrate meaningful use of certified EHR technology and the cost report information for the full cost report year that will determine the full calculation of the incentive payment is available. Medicaid EHR incentive payments are recognized as revenues when an eligible provider demonstrates meaningful use of certified EHR technology. CHI recognized $13.7 million and $10.2 million of Medicare meaningful use revenues in its consolidated statements of operations for the nine months ended March 31, 2013 and 2012, respectively, and $6.4 million and $11.1 million of Medicaid meaningful use revenues for the nine months ended March 31, 2013 and 2012, respectively.

Other Nonpatient Revenues

Other nonpatient revenues include gains and losses on the sales of assets, the operating portion of revenue-sharing income or expense associated with Direct Affiliates that are part of JOAs, cafeteria sales, rental income, retail pharmacy and durable medical equipment sales, auxiliary and gift shop revenues, and revenues from other miscellaneous sources.

Derivative and Hedging Instruments

CHI uses derivative financial instruments (interest rate swaps) in managing its capital costs. These interest rate swaps are recognized at fair value on the consolidated balance sheets. CHI has not designated its interest rate swaps related to CHI's long-term debt as hedges. The net interest cost and change in the fair value of such interest rate swaps is recognized as a component of nonoperating gains (losses) in the accompanying consolidated statements of operations. It is CHI's policy to net the value of collateral on deposit with counterparties against the fair value of its interest rate swaps in other liabilities on the consolidated balance sheets.

Functional Expenses

CHI provides inpatient, outpatient, ambulatory, long-term care and community-based services to individuals within the various geographic areas supported by its facilities. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services and other functions that are supported centrally for all of CHI. Support services expenses as a percent of total operating expenses were approximately 5.5% and 4.9% for the nine months ended March 31, 2013 and 2012, respectively.

1. Summary of Significant Accounting Policies (continued)

Restructuring, Impairment and Other Losses

CHI periodically evaluates property, equipment, goodwill and certain other intangible assets to determine whether assets may have been impaired. Management determined that there were certain property and equipment impairments for the nine months ended March 31, 2013, to the extent that the fair values (estimated based upon discounted cash flows) of those assets were less than the underlying carrying values.

Included in continuing operations for the nine months ended March 31, 2013 and 2012, are total charges of $44.1 million and $17.9 million, respectively, relating to asset impairments and changes in business operations, including reorganization and severance costs. Discontinued operations for the nine months ended March 31, 2013 included $3.4 million of changes in business operations and a loss of $27.7 million on the sale of the Pierre MBO – see *Note 2 – Acquisitions and Divestitures*. Discontinued operations for the nine months ended March 31, 2012 included $8.2 million of charges related to changes in business operations. All discontinued operations activities are reflected as a component of the consolidated statements of changes in net assets.

Income Taxes

CHI is a tax-exempt Colorado corporation and has been granted an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHI owns certain taxable subsidiaries and engages in certain activities that are unrelated to its exempt purpose and therefore subject to income tax. Management reviews its tax positions annually and has determined that there are no material uncertain tax positions that require recognition in the accompanying consolidated financial statements.

Use of Estimates

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

1. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Standards

Effective on July 1, 2012, CHI adopted the provisions of Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Entities*. ASU 2011-07 requires health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient services revenues from an operating expense to a deduction from patient services revenues (net of contractual allowances and discounts). All periods presented have been reclassified to conform with the provisions of ASU 2011-07.

2. Acquisitions and Divestitures

Acquisitions

University Medical Center and University of Louisville Hospital – Effective March 1, 2013, KentuckyOne Health, University Medical Center (UMC) and University of Louisville entered into a partnership, structured as a joint operating agreement between UMC and KentuckyOne Health, whereby KentuckyOne Health will oversee most of the day-to-day operations of University of Louisville Hospital and the James Graham Brown Cancer Center (University Hospital). As part of the agreement, KentuckyOne Health has committed to provide various financial support to the University of Louisville over the next 3 to 5 years. Assets acquired and consideration paid is subject to final valuation. The operations of University Hospital are consolidated into the CHI financial statements, and for the month of March, 2013, contributed $39.7 million in operating revenues and $1.9 million of excess of revenues over expenses. Had CHI been a party to this agreement at July 2011, operating revenues would have increased $351.3 million and excess of revenues over expenses $6.6 million for the nine months ended March 31, 2012 on a pro forma basis.

Alegent Creighton Health and Affiliates – Effective November 1, 2012, CHI became the sole corporate sponsor of Alegent, based in Omaha NE, acquiring the remaining sponsorship previously held by Immanuel since 1996, in exchange for a gross cash payment of $553.7 million. In addition to the operations of Bergan Mercy Health System and Affiliates previously owned and consolidated by CHI, the Alegent operations now also include the operations of Immanuel and the operations of Creighton University Medical Center. Subject to a final valuation, CHI's total assets have increased approximately $1.3 billion due to the addition of Alegent assets. For the nine months ended March 31, 2013, Alegent (excluding the Bergan Mercy component) contributed $364.0 million in operating revenues and $4.6 million of excess of revenues over expenses. Had CHI owned all of Alegent at July 2, 2011, for the nine months ended March 31, 2012, operating revenues would have increased $592.0 million and excess of revenues over expenses $26.6 million on a pro forma basis for the incremental Alegent ownership.

2. Acquisitions and Divestitures (continued)

Acquisitions (continued)

KentuckyOne Health – Effective on January 1, 2012, CHI acquired an additional 58% interest in Jewish Hospital St. Mary's HealthCare, Inc. System (JHSMH), which resulted in JHSMH being fully consolidated into CHI's results of operations. For the nine months ended March 31, 2013, JHSMH contributed $681.1 million of operating revenues and $38.5 million of deficit of revenues over expenses to the CHI consolidated results of operations. Had CHI owned JHSMH at July 1, 2011, for the nine months ended March 31, 2012, JHSMH would have contributed $627.0 million of operating revenues and $8.8 million of deficit of revenues over expenses on a pro forma basis.

Nebraska Heart Hospital and Nebraska Heart Institute – Effective on August 1, 2011, CHI acquired Nebraska Heart Hospital and Nebraska Heart Institute for a cash purchase price of $131.1 million. The acquisition allowed CHI to expand cardiac, thoracic and vascular care across the state of Nebraska.

Discontinued Operations and Divestitures

CHI has committed to a plan to sell the Denville, New Jersey MBO, and has sold the MBO's in Towson, Maryland, and Pierre, South Dakota. In accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations* and *ASC 360-10, Assets Held for Sale,* the operations associated with these MBO's have been reported as discontinued operations and are included in the consolidated statements of changes in net assets. Assets held for sale consist primarily of net patient accounts receivable, net property and other long-term assets. Liabilities held for sale consisted of accounts payable and accrued compensation and benefits.

Towson, Maryland – Effective December 1, 2012 CHI sold all of its facilities in the Towson, Maryland market to an unrelated third party for a sales price of $220 million. Of the total sales proceeds, $45.7 million was placed in escrow subject to a determination by the State of Maryland of the hospital reimbursement structure for that state. Resolution is expected within the year. The operations associated with these facilities have been reported as discontinued operations in the consolidated statements of operations and changes in net assets. For the nine months ended March 31, 2013 and 2012, CHI recorded a deficit of revenues over expenses of $15.3 million and $20.8 million, respectively, for operations of the Towson market only.

2. Acquisitions and Divestitures (continued)

Discontinued Operations and Divestitures (continued)

Pierre, South Dakota – Effective January 1, 2013 CHI sold all of its facilities in the Pierre, South Dakota, market to an unrelated third party for a net sales price of $50 million and a loss on sale of $27.7 million. The operations associated with these facilities have been reported as discontinued operations in the consolidated statements of operations and changes in net assets. For the nine months ended March 31, 2013 and 2012, CHI recorded a deficit of revenues over expenses of $23.2 million and an excess of revenues over expenses of $4.4 million, respectively, for operations of the Pierre market only.

Denville, New Jersey – CHI entered into an asset purchase agreement on May 3, 2013, to sell its facilities in the Denville, New Jersey market – see *Note 10 – Subsequent Events* for additional information. For the nine months ended March 31, 2013 and 2012, CHI recorded a deficit of revenues over expenses of $21.0 million and $27.2 million respectively, for operations of the Denville market only.

3. Net Patient Services Revenues

Net patient services revenues are derived from services provided to patients who are either directly responsible for payment or are covered by various insurance or managed care programs. CHI receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs and from patients themselves. A summary of payment arrangements with major third-party payors follows:

> Medicare – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic and other factors. Certain CHI facilities have been designated as critical access hospitals and, accordingly, are reimbursed their cost of providing services to Medicare beneficiaries. Professional services rendered by physicians are paid based on the Medicare allowable fee schedule.

> Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules or discounts from established charges.

3. Net Patient Services Revenues (continued)

Other – CHI has also entered into payment agreements with certain managed care and commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to CHI under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

CHI's Medicare, Medicaid and other payor utilization percentages, based upon net patient services revenues before provision for doubtful accounts, are summarized as follows:

	Nine Months Ended March 31,	
	2013	2012
Medicare	**32%**	30%
Medicaid	**8**	7
Managed care	**40**	40
Self-pay	**8**	9
Commercial and other	**12**	14
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated settlements related to Medicare and Medicaid of $64.3 million and $56.6 million at March 31, 2013 and June 30, 2012, respectively, are included in third-party liabilities. Net patient services revenues from continuing operations increased by $30.5 million and $16.5 million for the nine months ended March 31, 2013 and 2012, respectively, due to favorable changes in estimates related to prior-year settlements. As of March 31, 2012, CHI also accrued for the appeal of two cost report settlements from the Centers for Medicare and Medicaid Services (CMS) related to the calculation used by CMS for the rural floor wage index and for the disallowance of insurance premiums paid to FIIL. The settlement amounts were included in prior year net patient services revenues from continuing operations, and totaled $76.7 million for the rural floor wage index and $19.8 million for the insurance premiums. The appeals spanned years from 1997 through 2011.

4. Investments and Assets Limited as to Use

CHI's investments and assets limited as to use are reported in the accompanying consolidated balance sheets as presented in the following table (in thousands):

	March 31, 2013	June 30, 2012
Cash and equivalents	**$ 213,487**	$ 153,460
CHI Investment Program	**5,694,658**	4,821,534
Marketable equity securities	**362,602**	315,064
Marketable fixed-income securities	**889,266**	477,440
Hedge funds and other investments	**89,185**	162,190
	7,249,198	5,929,688
Less current portion	**(9,098)**	(1,901)
	$ 7,240,100	$ 5,927,787

Net unrealized gains at March 31, 2013 and June 30, 2012, were $484.3 million and $144.0 million, respectively.

CHI attempts to reduce its market risk by diversifying its investment portfolio using cash equivalents, marketable equity securities, fixed-income securities and alternative investments. Most of the U.S. Treasury, money market funds and corporate debt obligations as well as exchange-traded marketable securities held by CHI and the CHI Investment Program (the Program) have an actively traded market. However, CHI also invests in commercial paper, mortgage-backed or other asset-backed securities, alternative investments (such as hedge funds, private equity investments, real estate funds, funds of funds, etc.), collateralized debt obligations, municipal securities and other investments that have potential complexities in valuation based upon the current conditions in the credit markets. For some of these instruments, evidence supporting the determination of fair value may not come from trading in active primary or secondary markets. Because these investments may not be readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had an active market for such investments existed. Such differences could be material. However, management reviews the CHI investment portfolio on a regular basis and seeks guidance from its professional portfolio managers related to U.S. and global market conditions to determine the fair value of its investments. CHI believes the carrying amount of these financial instruments in the consolidated financial statements is a reasonable estimate of fair value. Additionally, CHI assesses the risk of impairment related to securities held in its investment portfolio on a regular basis and noted no impairment during the nine month period ended March 31, 2013, and during the year ended June 30, 2012.

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

Substantially all CHI long-term investments are held in the Program. The Program is structured under a Limited Partnership Agreement with CHI as managing general partner and numerous limited partners, most sponsored by CHI. The partnership provides a vehicle whereby virtually all entities associated with CHI, as well as certain other unrelated entities, can optimize investment returns while managing investment risk. Entities participating in the Program that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions but within 180 days of notification. The Limited Partnership Agreement permits a majority vote of the noncontrolled limited partners to terminate the partnership. Accordingly, CHI recognizes only the portion of Program assets attributable to CHI and its sponsored affiliates. Program assets attributable to CHI and its direct affiliates represented 91% and 86% of total Program assets at March 31, 2013 and June 30, 2012, respectively. The increase is attributable to Program assets acquired with the Alegent acquisition.

The Program asset allocations were as follows:

	March 31, 2013	June 30, 2012
Marketable equity securities	**41%**	44%
Marketable fixed-income securities	**37**	35
Alternative investments	**21**	19
Cash and equivalents	**1**	2
	100%	100%

The CHI Investment Committee (the Investment Committee) of the Board of Stewardship Trustees is responsible for determining asset allocations among fixed-income, equity and alternative investments. At least annually, the Investment Committee reviews targeted allocations and, if necessary, makes adjustments to targeted asset allocations. Given the diversity of the underlying securities in which the Program invests, management does not believe there is a significant concentration of credit risk.

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

Investment income is comprised of the following (in thousands):

	Nine Months Ended March 31, 2013	2012
Dividend and interest income	**$ 98,663**	$ 85,012
Net realized gains	**154,412**	41,969
Net unrealized gains (losses)	**337,883**	(3,270)
Total investment income from continuing operations	**$ 590,958**	$ 123,711
Included in other nonpatient revenue	**$ 72,946**	$ 25,821
Included in nonoperating gains	**518,012**	97,890
Total investment income from continuing operations	**$ 590,958**	$ 123,711
Total investment income from discontinued operations	**8,448**	1,567
Total investment income	**$ 599,406**	$ 125,278

Direct expenses of the Program were less than 0.4% of total assets during the prior fiscal year and are estimated to remain below this level in the current fiscal year. Fees paid to the alternative investment managers are not included in the total expense calculation as they are not a direct expense of the Program.

5. Fair Value of Assets and Liabilities

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. Financial Accounting Standards Board ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

5. Fair Value of Assets and Liabilities (continued)

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

> Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets.
>
> Level 2 – Valuation is based upon quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial asset or liability.
>
> Level 3 – Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

Certain of CHI's alternative investments are made through limited liability companies (LLCs) and limited liability partnerships (LLPs). These LLCs and LLPs provide CHI with a proportionate share of the investment gains (losses). CHI accounts for its ownership in the LLCs and LLPs under the equity method. CHI also accounts for its ownership in the Partnership under the equity method. As such, these investments are excluded from the scope of ASC 820.

Financial assets and liabilities measured at fair value on a recurring basis were determined using the following inputs at March 31, 2013 and June 30, 2012 (in thousands):

	March 31, 2013 Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of March 31	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 213,487	$ 170,758	$ 42,729	$ –
Marketable equity securities	362,602	362,602	–	–
Marketable fixed-income securities	889,266	133,825	755,441	–
Other investments	2,027	–	–	2,027
Deferred compensation assets:				
Cash and short-term investments	11,802	11,802	–	–
	$ 1,479,184	$ 678,987	$ 798,170	$ 2,027
Liabilities				
Interest rate swaps	$ 204,123	$ –	$ 204,123	$ –
Deferred compensation liability	11,802	11,802	–	–
	$ 215,925	$ 11,802	$ 204,123	$ –

5. Fair Value of Assets and Liabilities (continued)

	June 30, 2012 Fair Value Measurements at Reporting Date Using			
		(Level 1)	(Level 2)	(Level 3)
	Fair Value as of June 30	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs
Assets				
Assets limited as to use:				
Cash and short-term investments	$ 153,460	$ 106,490	$ 46,970	$ –
Marketable equity securities	315,064	315,064	–	–
Marketable fixed-income securities	477,440	900	476,540	–
Other investments	1,953	–	–	1,953
Deferred compensation assets:				
Cash and short-term investments	10,852	10,852	–	–
	$ 958,769	$ 433,306	$ 523,510	$ 1,953
Liabilities				
Interest rate swaps	$ 238,549	$ –	$ 238,549	$ –
Deferred compensation liability	10,852	10,852	–	–
	$ 249,401	$ 10,852	$ 238,549	$ –

The fair values of the securities included in Level 1 were determined through quoted market prices. Level 1 securities include money market funds, mutual funds and marketable debt and equity securities. The fair values of Level 2 securities were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads; estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available. Level 2 investments include corporate fixed–income securities, government bonds, mortgage and asset-backed securities, and interest rate swaps. The fair values of Level 3 securities are determined primarily through information obtained from the relevant counterparties for such investments. Information on which these securities' fair values are based is generally not readily available in the market.

6. Debt Obligations

The following is a summary of debt obligations (in thousands):

	Interest Rates at March 31, 2013	Balances at March 31, 2013	Balances at June 30, 2012
Variable-rate Bonds:			
Series 1997B, maturing through 2022	0.19%	**$ 9,200**	$ 18,900
Series 2000B, maturing 2028	0.12%	**24,000**	27,300
Series 2002B, maturing 2032	0.12%	**97,800**	103,300
Series 2004B, maturing through 2044	0.12–0.13%	**180,700**	180,700
Series 2004C, maturing through 2044	0.11-0.13%	**163,300**	163,300
Series 2008A, maturing 2036	0.14%	**120,260**	120,260
Series 2008C, maturing 2041	0.12%	**50,000**	50,000
Series 2011B, maturing 2046	0.12%	**158,155**	158,155
Series 2011C, maturing 2046	0.14%	**123,000**	125,000
Fixed-rate Bonds:			
Series 2002A, maturing 2017	5.50%	**3,400**	4,140
Series 2004A, maturing through 2034	4.75–5.00%	**146,605**	146,605
Series 2006A, maturing 2041	4.00–5.00%	**270,635**	384,135
Series 2006C, maturing through 2041	3.85–5.10%	**250,000**	250,000
Series 2008C, maturing through 2041	4.00–5.00%	**105,000**	105,000
Series 2008D, maturing through 2038	5.00–6.38%	**471,450**	473,950
Series 2009A, maturing 2039	3.50–5.50%	**753,620**	772,110
Series 2009B, maturing through 2039	4.00–5.00%	**252,360**	260,995
Series 2011A, maturing 2041	2.00–5.25%	**506,090**	526,090
Series 2012A, maturing 2035	3.00–5.00%	**271,260**	271,260
Series 2012 Taxable, maturing 2042	1.60–4.35%	**1,500,000**	–
Commercial Paper		**442,475**	475,625
Unamortized debt premium		**61,232**	58,832
Unamortized debt discount		**(11,616)**	(9,801)
Total CHI debt issued under the COD		**5,948,926**	4,665,856
Capital leases and other debt		**149,128**	77,391
		6,098,054	4,743,247
Less: Amounts classified as current			
Variable-rate debt with self-liquidity		**(321,455)**	(321,455)
Commercial paper and current portion of debt		**(621,974)**	(643,083)
Long-term debt		**$ 5,154,625**	$ 3,778,709

6. Debt Obligations (continued)

CHI issues the majority of its debt under the COD and is the sole obligor. Bondholder security resides both in the unsecured promise by CHI to pay its obligations and in its control of its Direct and Designated Affiliates. Covenants include a minimum CHI debt service coverage ratio and certain limitations on secured debt. The Direct Affiliates of CHI, defined as Participants under the COD, have agreed to certain covenants related to corporate existence, maintenance of insurance and exempt use of bond-financed facilities.

In October 2012, CHI issued $1.5 billion of par value long-term, fixed-rate, taxable bonds. Proceeds were used to finance a wide array of strategic initiatives, including virtual technologies, physician integration and partnerships, and alliances in key areas across the country.

As part of the December 2012 divesture of CHI's facilities in Towson, Maryland, $113.5 million of Series 2006A bonds were legally defeased, resulting in a loss on defeasance of $18.0 million.

CHI has two types of external liquidity facilities: those that are dedicated to specific series of variable-rate demand bonds (VRDBs) and those that are not dedicated to a particular series of VRDBs but may be used to support CHI's obligations to fund tenders of VRDBs and pay the maturing principal of commercial paper. Liquidity facilities that are dedicated to specific series of bonds were $605.0 million and $625.5 million at March 31, 2013 and June 30, 2012, respectively, of which $7.9 million and $9.4 million is classified as current debt at March 31, 2013 and June 30, 2012, respectively. The remaining $597.1 million and $616.1 million at March 31, 2013 and June 30, 2012, respectively, are reported as long term debt due to the repayment terms on any associated drawings extending beyond the subsequent fiscal year under the terms of the specific agreements.

Liquidity facilities not dedicated for specific series of VRDBs but used to support CHI's obligations to fund tenders and to pay maturing principal of commercial paper were $390.0 million and $435.0 million at March 31, 2013 and June 30, 2012, respectively. Commercial paper balances of $442.5 million and $475.6 million at March 31, 2013 and June 30, 2012, respectively, were classified as current due to maturities of less than one year. VRDBs and Windows variable-rate bonds (Windows) balances of $321.5 million at both March 31, 2013 and June 31, 2012 were classified as current due to the holder's ability to put such VRDBs and Windows back to CHI without liquidity facilities dedicated to these bonds.

At March 31, 2013, CHI had a $45.0 million credit facility with Wells Fargo Bank. Letters of credit totaling $41.7 million have been issued for the benefit of third parties, principally in support of the self-insurance programs administered by FIIL. At March 31, 2013 and June 30, 2012, no amounts were outstanding under this credit facility.

6. Debt Obligations (continued)

CHI is a party to seven floating-to-fixed interest rate swap agreements with notional amounts totaling $921.3 million at March 31, 2013. Generally, it is CHI policy that all counterparties have an AA rating or better. The swap agreements require CHI to provide collateral if CHI's liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based upon the rating on the corporation's long-term indebtedness. These fixed-payor swap agreements convert CHI's variable-rate debt to fixed-rate. The seven swaps have varying maturity dates ranging from May 2025 to December 2036. The fair value of the swaps is estimated based on the present value sum of anticipated future net cash settlements until the swaps' maturities. At March 31, 2013 and June 30, 2012, the fair value of the swap liability was $204.1 million and $238.5 million, respectively. Cash collateral balances of $102.1 million and $140.7 million at March 31, 2013 and June 30, 2012, respectively, are netted against the fair value of the swaps, and the net amount is reflected in other liabilities. The change in the fair value of these agreements was a gain of $34.4 million and a loss of $78.1 million for the nine months ended March 31, 2013 and 2012, respectively.

7. Retirement Plans

CHI and its direct affiliates maintain noncontributory, defined benefit retirement plans (Plans) covering substantially all employees. Benefits in the Plans are based on compensation, retirement age and years of service. Vesting occurs over a five-year period. Substantially all of the Plans are qualified as church plans and are exempt from certain provisions of both the Employee Retirement Income Security Act and Pension Benefit Guaranty Corporation premiums and coverage. Funding requirements are determined through consultation with independent actuaries.

CHI recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of its Plans in the consolidated balance sheets, with a corresponding adjustment to net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of net assets.

Estimated amounts for the components of net periodic pension expense are summarized in the table below. Amounts will be adjusted at year-end to reflect actual results, based on the final annual actuarial reports (in thousands):

7. Retirement Plans (continued)

	Nine Months Ended March 31, 2013	2012
Components of net periodic pension expense:		
Service cost	**$ 157,233**	$ 122,769
Interest cost	**109,772**	112,307
Expected return on the Plans' assets	**(154,394)**	(144,782)
Amortization of prior service benefit	**140**	140
Actuarial losses	**69,345**	28,783
Settlement charge	**345**	-
	$ 182,441	$ 119,217

8. Concentrations of Credit Risk

CHI grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. CHI's exposure to credit risk on patient accounts receivable is limited by the geographical diversity of its MBOs. The mix of receivables from patients and third-party payors approximated the following:

	March 31, 2013	June 30, 2012
Medicare	**27%**	26%
Medicaid	**11**	11
Managed care	**29**	32
Self-pay	**8**	6
Commercial and other	**25**	25
	100%	100%

CHI maintains long-term investments with various financial institutions and investment management firms through its investment program, and its policy is designed to limit exposure to any one institution or investment. Management does not believe there are significant concentrations of credit risk at March 31, 2013 and June 30, 2012.

9. Commitments and Contingencies

Litigation

During the normal course of business, CHI may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of CHI.

9. Commitments and Contingencies (continued)

Health Care Regulatory Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes CHI is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Certain CHI entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. In the opinion of management after consultation with legal counsel, the ultimate outcome of these matters will not have a material adverse effect on CHI's consolidated financial position.

10. Subsequent Events

St. Clare's Health System – In May 2013, CHI signed an asset purchase agreement with Prime Healthcare Services for the sale of St. Claire's Health System in Denville, NJ. The transaction is expected to close by late summer or early fall, subject to approvals from federal, state and Church authorities.

St. Luke's Health System – Effective on June 1, 2013. CHI became the sole sponsor of St. Luke's Health System in Houston, Texas, in exchange for $1.26 billion of consideration.

Appendix B

The Information in this Appendix Relates Only to Bethesda Hospital, Inc. and Subsidiaries

Consolidated Interim Financial Statements and Supplementary Information (Unaudited)

Bethesda Hospital, Inc. and Subsidiaries
As of March 31, 2013 and for the Nine Months Ended
March 31, 2013 and 2012

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Interim Financial Statements

(Unaudited)

March 31, 2013

Contents

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Balance Sheets

	(Unaudited) March 31, 2013	June 30, 2012
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,511**	$ 9,792
Net patient accounts receivable, less allowance of $30,248 at March 31, 2013 and $21,869 at June 30, 2012	**46,703**	37,299
Other accounts receivable	**3,652**	2,064
Current portion of assets limited as to use	**24,862**	19,168
Inventories	**2,060**	1,969
Prepaid and other current assets	**540**	2,215
Current portion of due from related organizations, net	**36,053**	710
Total current assets	**117,381**	73,217
Assets limited as to use and investments:		
Assets limited as to use:		
Internally designated for capital and other funds	**293,550**	317,562
Restricted by donors	**3,210**	3,155
Trustee-held funds under professional liability funding arrangement	**22,796**	20,637
Investments	**12,953**	23,797
Total assets limited as to use and investments	**332,509**	365,151
Property and equipment, net	**265,468**	265,955
Investments in unconsolidated organizations	**28,102**	6,201
Goodwill and identifiable intangible assets	**22,071**	19,353
Due from related organizations	**24,320**	29,977
Pension asset	**5,222**	
Other long-term assets	**5,814**	5,814
Total assets	**$ 800,887**	$ 765,668

	(Unaudited) March 31, 2013	June 30, 2012
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Compensation and benefits	**$ 18,611**	$ 22,443
Third-party liabilities	**8,335**	4,687
Accounts payable and accrued expenses	**23,304**	22,564
Network affiliation payable	**148**	33
Current portion of long-term debt	**12,198**	12,198
Total current liabilities	**62,596**	61,925
Accrued professional liability	**23,593**	22,282
Pension obligation	**58,124**	58,124
Long-term compensation and benefits and other long-term liabilities	**20,143**	20,889
Capital lease obligation	**24,675**	21,923
Long-term debt	**179,200**	188,275
Total liabilities	**368,331**	373,418
Net assets:		
Unrestricted	**419,670**	380,040
Temporarily restricted	**12,886**	12,210
Total net assets	**432,556**	392,250
Total liabilities and net assets	**$ 800,887**	$ 765,668

See accompanying notes.

Bethesda Hospital, Inc. and Subsidiaries

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

	Nine Months Ended March 31	
	2013	2012
	(In Thousands)	
Revenue		
Net patient service revenue:		
Acute inpatient	**$ 203,383**	$ 210,358
Outpatient	**214,895**	187,348
Other patient	**23,332**	25,730
Total net patient service revenue before provision for doubtful accounts	**441,610**	423,436
Provision for doubtful accounts	**(32,915)**	(30,150)
Total net patient service revenue	**408,695**	393,286
Nonpatient (loss) revenue:		
Loss from unconsolidated organizations	**(21,248)**	(11,089)
Operating loss from network affiliation	**(171)**	(2,430)
Other revenue, net	**19,706**	12,615
Total revenue	**406,982**	392,382
Expenses		
Salaries and wages	**142,521**	134,286
Employee benefits	**39,254**	38,068
Medical professional fees	**4,471**	3,458
Purchased services	**20,330**	20,810
Supplies	**75,487**	77,084
Bad debts	**21**	26
Utilities	**3,746**	3,837
Insurance	**3,564**	4,632
Rental, leases, and maintenance	**11,973**	9,715
Depreciation and amortization	**17,121**	16,253
Interest	**7,263**	7,182
Shared service allocation	**59,696**	49,431
Other, net	**9,219**	8,537
Total operating expenses	**394,666**	373,319
Income from operations	**12,316**	19,063
Nonoperating income (loss):		
Nonoperating income from network affiliation	**23**	2,813
Investment income (loss)	**34,501**	(504)
Total nonoperating income	**34,524**	2,309
Excess of revenue over expenses	**$ 46,840**	$ 21,372

(Continued on next page)

Bethesda Hospital, Inc. and Subsidiaries

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

	Nine Months Ended March 31	
	2013	**2012**
	(In Thousands)	
Excess of revenue over expenses	**$ 46,840**	$ 21,372
Other changes in net assets, net	**(6,534)**	2,968
Increase in net assets	**40,306**	24,340
Net assets at beginning of year	**392,250**	407,079
Net assets at end of period	**$ 432,556**	$ 431,419

See accompanying notes.

Bethesda Hospital, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended March 31	
	2013	**2012**
	(In Thousands)	
Operating activities		
Changes in net assets	**$ 40,306**	$ 24,340
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	**32,915**	30,150
Depreciation and amortization	**17,121**	16,253
Loss from unconsolidated organizations	**21,247**	11,089
Net changes in current assets and liabilities:		
Net patient and other accounts receivable	**(43,907)**	(36,508)
Other current assets	**(3,638)**	87
Current liabilities	**(373)**	(17,708)
Change in due to/from related organizations	**(58,531)**	(3,219)
Other changes, net	**565**	5,322
Net cash provided by operating activities, before net change in assets limited as to use and investments	**5,705**	29,806
Net change in assets limited as to use and investments	**26,948**	10,015
Net cash provided by operating activities	**32,653**	39,821
Investing activities		
Additions to property and equipment	**(11,773)**	(8,136)
Acquisition of Butler County Medical Center	**–**	(19,455)
Acquisition of Cincinnati Surgery Center	**(2,946)**	–
Change in investments in unconsolidated organizations	**(14,303)**	(17,776)
Net cash used in investing activities	**(29,022)**	(45,367)
Financing activities		
Repayment of long-term debt	**(9,075)**	(8,642)
Repayment of capital lease obligation	**(837)**	(88)
Net cash used in financing activities	**(9,912)**	(8,730)
Decrease in cash and cash equivalents	**(6,281)**	(14,276)
Cash and cash equivalents at beginning of year	**9,792**	18,635
Cash and cash equivalents at end of period	**$ 3,511**	$ 4,359

See accompanying notes.

A. Summary of Significant Accounting Policies

Organization

Bethesda Hospital, Inc. and Subsidiaries (the Hospital), an Ohio nonprofit corporation, is a subsidiary of Bethesda, Inc., an Ohio non-profit corporation recognized by the Internal Revenue Service as exempt from federal income taxation under Section 501(a) of the Internal Revenue Code as a charitable organization described in section 501(c)(3) of the Internal Revenue Code. The mission of the Hospital is to provide health care and related services through its inpatient, outpatient, and community-based facilities and programs. The Hospital has a long-term commitment to medical education through its support of the physician residency program and healthcare training programs for technicians, as well as patient education in disease management and awareness.

The Hospital is a participant in a network affiliation agreement with The Good Samaritan Hospital of Cincinnati, Ohio (the Partner), an Ohio non-profit corporation recognized by the Internal Revenue Service as exempt from the federal income taxation under Section 501(a) of the Internal Revenue Code as a charitable organization described in section 501(c)(3) of the Internal Revenue Code. The agreement provides for, among other things, joint management of the combined operations of the facilities of the Hospital and the Partner. The Hospital and the Partner share the excess of revenue over expenses as defined in the network affiliation agreement. The Hospital and the Partner also own 50% each of a joint venture, TriHealth, Inc. The Hospital accounts for TriHealth, Inc. using the equity method of accounting.

Basis of Presentation

The consolidated financial statements of the Hospital include the accounts of Bethesda Hospital, Inc. (including Bethesda Northeast Cardiac Center, LLC, a consolidated majority-owned joint venture), Senior Services, a division of Bethesda Hospital, Inc., and Hospice of Cincinnati Inc. and Subsidiary (Hospice) and Bethesda Properties, Inc., subsidiaries of Bethesda Hospital, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. Interim results are subject to variations and are not necessarily indicative of the consolidated results of operations for a full fiscal year. In the opinion of management, adjustments (which include only normal recurring adjustments) necessary for a fair statement of the consolidated results of the interim periods shown have been made.

A. Summary of Significant Accounting Policies (continued)

On December 31, 2012 TriHealth, Inc. purchased the Evendale Medical Center, the Evendale Imaging Center and the Evendale Medical Center at Westside. The acquisition allows TriHealth, Inc. to provide more comprehensive care and enhanced services to patients in the Evendale and Sharonville area while also providing additional services on the west side of Cincinnati. The Evendale Medical Center, now TriHealth Evendale Hospital, consists of two surgery centers and an imaging center located at 3155 Glendale Milford Road. It caters to several specialties, including orthopedics, otolaryngology, podiatry, gastroenterology, plastic surgery, gynecology, pain management, ophthalmology and general surgery. In addition, Evendale Medical Center at Westside, located at 3660 Edgewood Drive in Monfort Heights, will now be called TriHealth Evendale West Surgery Center, and consists of four operating rooms and two procedure rooms. TriHealth, Inc. paid cash of $104 million at the time of closing for the purchase. The Partner increased its investment in TriHealth, Inc. by sending $52,000 in cash to facilitate the purchase.

Fair Value Measurements

The Hospital follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosure* (ASC 820), which defines fair value as the price that would be reached to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumption in fair value measurements, and as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity’s own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

A. Summary of Significant Accounting Policies (continued)

- Level 1 – inputs utilize quoted market prices in active markets for identical assets or liabilities that the Hospital has the ability to access.

- Level 2 – inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

- Level 3 – inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Hospital's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC 820, the Hospital utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability. The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Hospital, including those traded on exchanges, to be valued at. The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Hospital's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

Cash and Cash Equivalents

Cash and cash equivalents include all deposits with banks and investments in interest-bearing securities with maturity dates of 90 days or less from the date of purchase.

(Dollar Amounts in Thousands)

A. Summary of Significant Accounting Policies (continued)

Net Patient Accounts Receivable

Net patient accounts receivable and net patient service revenue have been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Management periodically assesses the adequacy of the allowances for uncollectible accounts based upon historical write-off experience. The results of these reviews are used to modify as necessary the provisions for bad debts and to establish appropriate allowances for uncollectible net patient accounts receivable. After satisfaction of amounts due from insurance, the Hospital follows established guidelines for placing certain patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Hospital.

Financial instruments that potentially subject the Hospital to concentrations of credit risk consist primarily of nongovernmental patient accounts receivable. The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The percentages of gross patient accounts receivable from patients and third-party payors approximated the following at:

	March 31, 2013	**June 30, 2012**
Medicare	**17%**	17%
Medicaid	**3**	3
Managed care	**21**	21
Self-pay	**26**	26
Commercial and other	**33**	33
	100%	100%

A. Summary of Significant Accounting Policies (continued)

Inventories

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

Assets Limited as to Use and Investments

Assets limited as to use and investments include assets set aside for future long-term purposes, including capital improvements, amounts contributed by donors with stipulated restrictions, and trustee-held funds under professional liability funding arrangement.

Substantially all of the Hospital’s assets limited as to use are held in the Bethesda Master Trust (the Trust) which is professionally managed under the administration of Bethesda, Inc. (and the Bethesda Investment Committee). The Hospital’s investments are represented by percentage allocation rather than specific securities. The Hospital accounts for its investments in the Trust similar to the equity method of accounting.

Assets limited as to use and investments held outside the Trust include cash and cash equivalents, marketable debt and marketable equity securities.

Investment income (loss) (including net realized gains on investments, dividends and interest, and the net change in unrealized gains (losses) on investments designated as trading) is included in excess of revenue over expenses unless the income or loss is restricted by donor or by law.

The global financial markets and banking system are subject to volatility which could adversely impact the Hospital. The Hospital’s assets limited as to use and investments are exposed to various risks such as interest rate, market, and credit risks.

A. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at historical cost or, if donated or impaired, at fair market value at the date of receipt or determination. Depreciation is provided over the estimated useful life of each class of depreciable asset which range from 2 to 40 years, and is computed using the straight-line method. For property and equipment under capital lease, amortization is determined over the shorter period of the lease term or the estimated useful life of the property and equipment and is included in depreciation and amortization expense. Depreciation expense was $16,893 and $16,228 for the nine months ended March 31, 2013 and 2012, respectively, and is included in depreciation and amortization expense.

The cost and related accumulated depreciation of property and equipment that is sold or retired are removed from the respective accounts and the resulting gain or loss is recorded in other revenue, net. Select property and equipment purchased prior to year-end are excluded from the additions to property and equipment, net in the consolidated statements of cash flows as cash payment was not made at the end of the year. These excluded additions as of March 31, 2013 and 2012 were $809 and $772, respectively.

Investments in Unconsolidated Organizations

The Hospital maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. These investments are accounted for using the equity method of accounting.

A. Summary of Significant Accounting Policies (continued)

Net Assets

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. Conditional promises and indications of donors' intentions to give are reported at fair value at the date the conditions are met or the gifts are received. All unrestricted contributions are included in the excess of revenue over expenses as other revenue, net. Other gifts are reported as temporarily restricted 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 other revenue, net when restricted for operations or as unrestricted net assets when restricted for property and equipment. Temporarily restricted net assets are primarily restricted for strategic capital projects and in support of the Hospital's mission.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. The basis for payment under these agreements includes prospectively determined rates, cost reimbursement, negotiated discounts from established rates, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, review, and investigations. The differences between the estimated and actual adjustments are recorded as part of net patient service revenue in future periods, as the amounts become known, or as years are no longer subject to such audits, reviews, and investigations.

The American Recovery and Reinvestment Act of 2009 established incentive payments under Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record technology. Payments under the program are calculated based upon estimated discharges, charity care and other input data and are predicted upon the Hospital's attainment of program and attestation criteria and are subject to regulatory audit. As of March 31, 2013, the Hospital has not attested to attaining the program criteria, and no payments under the program have been received and no revenue has been recognized.

A. Summary of Significant Accounting Policies (continued)

Charity Care

As an integral part of its mission, the Hospital accepts and treats all patients without regard to the ability to pay. Services to patients are classified as charity care in accordance with established criteria. Charity care represents services rendered for which partial or no payment is expected and, as such is not included in net patient service revenue in the consolidated statements of operations and changes in net assets. The estimated direct and indirect costs of charity care, quantified as the cost of free or discounted health services provided to persons who cannot afford to pay, was $12,844 and $10,823 for the nine month periods ended March 31, 2013 and 2012, respectively. Charity care costs are estimated based on multiplying the ratio of costs to gross charges for all payments not attributable to other community benefits programs by the revenue recognized and written-off for health services provided to persons who cannot afford to pay. The Ohio Hospital Care Assurance Program (HCAP) provides some reimbursement to the Hospital for services provided to qualified persons who cannot afford to pay. The amount of net HCAP reimbursements was $6,310 and $0 for the nine month periods ended March 31, 2013 and 2012, respectively.

Other Revenue, Net

Other revenue, net includes cafeteria revenue, rental income, auxiliary and gift shop revenue, program support from Bethesda Foundation, Inc., gains and losses on the sale or disposal of property and equipment, and revenue from other miscellaneous sources.

Excess of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include the line excess of revenue over expenses which represents the operating indicator for the Hospital. Consistent with industry practice, changes in net assets which are excluded from the excess of revenue over expenses include change in plan assets and benefit obligation of pension plan, change in funded status of TriHealth, Inc. pension plan, transfers to Bethesda, Inc., and certain other changes in net assets.

A. Summary of Significant Accounting Policies (continued)

Federal Income Taxes

The Hospital, excluding Bethesda Northeast Cardiac Center, LLC and Bethesda Properties, Inc., are comprised of entities that have been recognized by the Internal Revenue Service as exempt from income taxation under Section 501(a) of the Internal Revenue Code as charitable organizations described in Section 501(c)(3) of the Internal Revenue Code. Bethesda Properties, Inc. is recognized by the Internal Revenue Service as exempt from income taxation under Section 501(a) of the Internal Revenue Code as a title-holding corporation described in Section 501(c)(2) of the Internal Revenue Code. Bethesda Northeast Cardiac Center, LLC, is treated as a partnership for federal income tax purposes and thus is not directly subject to income taxation. The Hospital completed an analysis of uncertain tax positions in accordance with applicable accounting guidance at June 30, 2012 and determined no amounts were required to be recognized in the consolidated financial statements at June 30, 2012. No material changes occurred that would cause any amounts to be recognized in the consolidated financial statements at March 31, 2013.

Litigation

During the normal course of business, the Hospital may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements. After consultation with legal counsel, management believes that any such matters will be resolved without material adverse impact to the consolidated financial position or results of operations of the Hospital.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets, liabilities, revenue, and expenses. Actual results could vary from those estimates.

A. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

The FASB has issued Accounting Standards Update (ASU) No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The amendments in ASU 2010-24 clarify that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. The ASU is effective for fiscal 2012 and has been adopted by the Hospital in the consolidated financial statements. The adoption of this ASU resulted in an increase of other long-term assets and accrued professional liability expense of $5,800 in fiscal 2012.

The FASB has issued ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. ASU 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost, identified as the direct and indirect costs of providing the charity care, be used as the measurement basis for disclosure purposes. ASU 2010-23 also requires disclosure of the method used to identify such costs. This ASU is effective for fiscal year 2012 and has been adopted by the Hospital in the consolidated financial statements. The adoption of this new standard only impacted disclosures in the notes to the consolidated financial statements.

The FASB issued ASU No. 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. ASU 2011-07 is intended to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful receivables. ASU 2011-07 requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of net patient service revenue as well as qualitative and quantitative information about changes in the allowance for doubtful receivables. The ASU is effective for fiscal 2013 and has been adopted by the Hospital in the consolidated financial statements.

A. Summary of Significant Accounting Policies (continued)

The FASB has issued ASU No. 2011-04, *Fair Value Measurements (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosures Requirements in U.S. GAAP and IFRSs*. The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. generally accepted accounting principles for measuring fair value and for disclosing information about fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Hospital is currently evaluating the impact of the adoption of ASU 2011-04.

Healthcare Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes the Hospital is in compliance with all applicable laws and regulations of the Medicare and Medicaid programs. Compliance with such laws and regulations is complex and can be subject to future governmental interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

B. Net Patient Service Revenue

Net patient service revenue is derived from services provided to patients who are directly responsible for payment or are covered by various insurance or managed care programs. The Hospital receives payments from the federal government on behalf of patients covered by the Medicare program, from state governments for Medicaid and other state-sponsored programs, from certain private insurance companies and managed care programs and from patients themselves. A summary of payment arrangements with major third-party payors follows:

> *Medicare* – Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or procedure. These rates vary according to patient classification systems based on clinical, diagnostic, and other factors.

(Dollar Amounts in Thousands)

B. Net Patient Service Revenue (continued)

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are primarily paid under the traditional Medicaid plan, and are paid at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a cost reimbursement methodology, fee schedules, or discounts from established charges.

Other – The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The Hospital's Medicare, Medicaid, and other payor utilization percentages, based upon net patient service revenue as of March 31, are summarized as follows:

	2013	**2012**
Medicare	**26%**	19%
Medicaid	**2**	2
Managed care	**22**	19
Self-pay	**4**	25
Commercial and other	**46**	35
	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue has increased for the nine months ended March 31, 2013 and 2012, respectively, due to favorable changes in estimates related to prior years' cost report settlements and other third-party payor activity.

(Dollar Amounts in Thousands)

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

The following is a summary of the carrying value of cash and cash equivalents, assets limited as to use, and investments at:

	March 31, 2013	June 30, 2012
Bethesda Master Trust	**$ 340,450**	$ 356,772
Other:		
Cash and cash equivalents	**4,019**	9,864
Marketable debt securities:		
U.S. government agency	**13,758**	24,653
Corporate	**1,897**	2,232
Marketable equity securities	**758**	590
Total other	**20,432**	37,339
	$ 360,882	$ 394,111

Substantially all of the Hospital's assets limited as to use are held in the Trust. The carrying value of the assets held by participants is an allocation of the underlying carrying value of the assets in the Trust, based on the asset allocation specific to each participant and its relative percentage allocation. The asset allocation specific to the Hospital is as follows at:

	March 31, 2013	June 30, 2012
Cash and cash equivalents	**4%**	2%
Marketable equity securities	**30**	30
Marketable debt securities	**–**	–
Mutual funds	**20**	20
Alternative investments:		
Hedge funds	**11**	12
Limited liability companies	**15**	16
Private equity funds	**5**	6
Real estate investment trusts	**4**	4
Other limited partnerships	**9**	8
Commingled funds	**2**	2
	100%	100%

(Dollar Amounts in Thousands)

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

The carrying value of cash equivalents, marketable equity securities, marketable debt securities, and mutual funds included in the Trust, substantially all of which are traded on national exchanges and over-the-counter markets, is based on the last reported sales price on the last business day of the fiscal year.

The carrying value of hedge funds, limited liability companies, private equity funds, real estate investment trusts, and other limited partnerships, collectively, alternative investments, are based on valuations provided by the administrators of the specific financial instruments. Alternative investments are accounted for similar to the equity method of accounting based on the net asset value (NAV) provided by the respective administrators of the individual alternative investments. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity instruments. The underlying investments themselves are subject to various risks including market, credit, liquidity, and foreign exchange risk. Bethesda, Inc. believes the value of these financial instruments in the consolidated balance sheets is a reasonable estimate of its ownership interest in the alternative investment NAV. Because these financial instruments are not readily marketable, the carrying value is subject to uncertainty and, therefore, may differ from the value that would have been used had a market for such financial instruments existed. Such differences could be material. The Hospital's risk related to alternative investments is limited to its carrying value plus any amounts committed to private equity by Bethesda, Inc.

Investment income (loss) from the Trust, including dividend and interest income (net of expenses), net realized gains (losses) on investments, and the net change in unrealized gains (losses) on investments, is distributed to participants based on their relative percentage allocation. The following is a summary of total investment income (loss) for the nine month periods ended March 31:

	2013	**2012**
Dividend and interest income (net of expenses)	**$ 3,015**	$ 3,150
Net realized gains (losses) on investments	**19,088**	(156)
Net change in unrealized gains (losses) on investments	**12,398**	(3,498)
	$ 34,501	$ (504)

(Dollar Amounts in Thousands)

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

The Hospital's relative allocation, based on the carrying value of the underlying assets of the entire Trust was approximately 64% and 68% at March 31, 2013 and June 30, 2012, respectively.

D. Fair Value Measurements

The carrying amount reported in the consolidated balance sheets for current assets (other than assets limited as to use which are separately disclosed) and current liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments. These financial instruments are not required to be marked to fair value on a recurring basis and therefore are not disclosed in the accompanying table. The Trust is accounted for similar to the equity method of accounting and therefore also not disclosed in the accompanying table. Bethesda, Inc. believes the carrying amount of the Trust approximates fair value based on the nature of the underlying assets.

The following table represents the financial instruments measured at fair value on a recurring basis, outside of the Trust, based on the fair value hierarchy at:

	March 31, 2013				June 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash and cash equivalents	**$ 3,511**	**$ –**	**$ –**	**$ 3,511**	$ 9,792	$ –	$ –	$ 9,792
Assets limited as to use and investments:								
Cash equivalents	**508**	**–**	**–**	**508**	72	–	–	72
Marketable debt securities:								
U.S. government agency	**–**	**13,758**	**–**	**13,758**	–	24,653	–	24,653
Corporate	**–**	**1,897**	**–**	**1,897**	–	2,232	–	2,232
Marketable equity securities	**758**	**–**	**–**	**758**	590	–	–	590
Total assets limited as to use and investments	**1,266**	**15,655**	**–**	**16,921**	662	26,885	–	27,547
Total assets at fair value	**$ 4,777**	**$ 15,655**	**$ –**	**$ 20,432**	$ 10,454	$ 26,885	$ –	$ 37,339

D. Fair Value Measurements (continued)

The following table represents financial instruments at fair value and at other than fair value which reconcile to the consolidated balance sheets of the Company at:

	March 31, 2013			June 30, 2012		
	Financial Instruments at Fair Value	Financial Instruments at Other Than Fair Value	Total	Financial Instruments at Fair Value	Financial Instruments at Other Than Fair Value	Total
	(In Thousands)					
Assets						
Cash and cash equivalents	**$ 3,511**	**$ –**	**$ 3,511**	$ 9,792	$ –	$ 9,792
Assets limited as to use and Investments	**16,921**	**340,450**	**357,371**	27,547	356,772	384,319
Total assets	**$ 20,432**	**$ 340,450**	**$ 360,882**	$ 37,339	$ 356,772	$ 394,111

The Hospital's cash and cash equivalents and investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations or alternative pricing sources, primarily matrix pricing, with reasonable levels of price transparency. Matrix pricing, primarily used for marketable debt securities, is based on quoting prices for securities with similar coupons, ratings and maturities, rather than on specific bids and offers for the specific security. The types of financial instruments based on quoted market prices in active markets include most marketable equity securities and cash equivalents (money market securities). Such instruments are generally classified within Level 1 of the fair value hierarchy. The Hospital does not adjust the quoted market price for such financial instruments.

The types of financial instruments valued based on quoted market prices in markets that are not active, broker or dealer quotations or alternative pricing sources, including matrix pricing, with reasonable levels of price transparency include U.S. government agency and corporate marketable debt securities. Such financial instruments are generally classified within Level 2 for the fair market value hierarchy. Primarily all of the Hospital's marketable debt securities are actively traded and the recorded fair value reflects current market conditions. However, due to the inherent volatility in the investment market there is at least a possibility that recorded investment values may change by a material amount in the near term.

D. Fair Value Measurements (continued)

Following is the summary of the inputs and valuation techniques as of March 31, 2013 and June 30, 2012 used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation Technique
U.S. government agency	Broker/Dealer	Market
Corporate	Broker/Dealer	Market

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods 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 estimate of fair value at the consolidated balance sheet date.

The Hospital's non-financial assets and liabilities not permitted or required to be measured at fair value on a recurring basis typically relate to assets and liabilities acquired in a business combination. The Hospital is required to provide additional disclosures about fair value measurements as part of the consolidated financial statements for each major category of assets and liabilities measured at fair value on a non-recurring basis. In general, non-recurring fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities, which generally are not applicable to non-financial assets and liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows.

(Dollar Amounts in Thousands)

E. Property and Equipment

The following is a summary of property and equipment at:

	March 31, 2013	June 30, 2012
Land and improvements	**$ 15,880**	$ 15,880
Buildings and improvements	**352,080**	348,558
Equipment	**203,253**	201,355
	571,213	565,793
Less accumulated depreciation	**320,549**	305,732
	250,664	260,061
Construction-in-progress	**14,804**	5,894
	$ 265,468	$ 265,955

Accounting guidance for asset retirement obligation requires the recognition of a liability for the fair value of asset retirement obligations in instances where there is a legal liability and the amount can be reasonably estimated. Management has recorded asset retirement obligations of $3,852 and $3,857 at March 31, 2013 and June 30, 2012, respectively.

The Hospital evaluates whether events and circumstances have occurred that indicate the remaining useful life of property, and equipment may not be recoverable. Management determined there were no impairment issues as of March 31, 2013 or June 30, 2012.

Included in property and equipment, net at March 31, 2013 and June 30, 2012 are $676 and $546 of net property and equipment owned by the Hospital and used by TriHealth, Inc. The depreciation associated with this property and equipment is recorded by the Hospital and allocated back to TriHealth, Inc. based on estimated usage.

(Dollar Amounts in Thousands)

F. Leases

On March 1, 2012, the Hospital entered into a building lease agreement with Duke Realty-Butler County Surgical, LLC, to lease 100% of the square footage of all three facilities owned by Prexus Health Partners, LLC. The initial lease term is fifteen years, with the option to extend the initial lease term for up to six additional periods of five years each. Lease payments are defined with an imputed interest rate of 2.5%. The Hospital has determined that this lease meets the criteria for capital lease accounting treatment.

The capital lease obligation is $24,675, excluding short-term portion of $1,329 which is recorded in accounts payable and accrued expenses at March 31, 2013. Asset under capital lease was included in property and equipment on the balance sheet of $23,459, less accumulated depreciation of $391 as of June 30, 2012. As a result of the capital lease being a non-cash transaction, it is excluded from the consolidated statement of cash flow.

The future minimum payments of the Hospital’s capital lease obligation based on scheduled maturity are as follows:

2013	$ 491
2014	1,976
2015	2,016
2016	2,056
2017	2,097
Thereafter	22,437
Total minimum payments	31,073
Less amounts representing interest	(5,069)
Present value of minimum lease payments	26,004
Less current portion	1,329
	$ 24,675

Total rental expense under all operating leases for the nine month periods ended March 31, 2013 and 2012 was $5,845 and $4,931, respectively.

(Dollar Amounts in Thousands)

G. Long-Term Debt

All of the Hospital's long-term debt is in the form of notes payable to Catholic Health Initiatives (CHI). CHI is the parent of the Partner and a tax-exempt Colorado corporation sponsored by a lay-religious partnership, calling on other Catholic sponsors and systems to unite to ensure the future of Catholic health care. The Hospital participates in a unified CHI credit governed agreement under a Capital Obligation Document (COD). Under the COD, CHI is the sole obligor on all debt. Debt under the COD is evidenced by a promissory note between the Hospital and CHI, which include monthly installments of interest and may be repaid in advance without penalty. The Hospital is only responsible for debt evidenced under the executed promissory notes as of March 31, 2013. The Hospital is defined as a participant under the COD and has agreed to certain financial and nonfinancial covenants. The Hospital was in compliance with all covenants at March 31, 2013 and June 30, 2012.

The following is a summary of long-term debt at:

	March 31, 2013	June 30, 2012
Note payable to CHI (Phase II), due 2029	**$ 122,202**	$ 125,671
Note payable to CHI (Project Fund), due 2017	**10,033**	11,828
Note payable to CHI (Phase I), due 2026	**6,773**	7,054
Note payable to CHI (2001 Refinance), due 2022	**52,390**	55,920
Line of credit	**-**	-
	191,398	200,473
Less current portion of long-term debt	**12,198**	12,198
	$ 179,200	$ 188,275

All of the notes payable to CHI are variable-rate debt with historical interest rate of 4.75% consistently throughout 2012 (4.75% at June 30, 2012) and as of March 31, 2013. The variable-rate associated with the notes payable to CHI is based on a blended rate of the underlying fixed and variable-rate external debt held by CHI.

(Dollar Amounts in Thousands)

G. Long-Term Debt (continued)

A summary of scheduled principal payments on long-term debt for the next five years and thereafter is as follows:

	Amounts Due
Period Ending June 30, 2013	$ 6,099
Fiscal Year Ending:	
2014	12,808
2015	13,449
2016	14,121
2017	13,325
Thereafter	131,596
	$ 191,398

Interest paid on long-term debt was $7,263 and $7,181 for the nine month periods ended March 31, 2013 and 2012, respectively.

The Hospital maintains a line of credit with Fifth Third Bank with available credit of $47,500. The amount outstanding was $0 as of March 31, 2013 and June 30, 2012, respectively.

H. Functional Expenses

The Hospital provides health care services to individuals within the tri-state area including inpatient, outpatient, ambulatory, long-term care, and community-based services. Support services include administration, finance and accounting, information technology, public relations, human resources, legal, mission services, and other functions that are supported centrally for all of the Hospital. The following summarizes the expenses related to providing those services for the nine months ended March 31:

	2013	2012
Health care services	**$ 334,970**	$ 323,888
Support services	**59,696**	49,431
	$ 394,666	$ 373,319

I. Retirement Plan

The Hospital has a qualified noncontributory defined benefit retirement plan (the Plan) covering substantially all Bethesda Hospital, Inc. employees and those of certain other subsidiaries of Bethesda Hospital, Inc. and Bethesda, Inc. Under the Plan, employee benefits are based on employees' years of service, retirement age, and compensation. Vesting occurs over a three-year period. Annual contributions are made to the Plan sufficient to satisfy legal funding requirements.

The Hospital recognizes the funded status (that is, the difference between the fair value of plan assets and the projected benefit obligations) of the Plan in the consolidated balance sheets, with a corresponding adjustment to unrestricted net assets. Actuarial gains and losses that arise and are not recognized as net periodic pension expense in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension expense on the same basis as the amounts recognized in unrestricted net assets.

Several amendments to the defined benefit pension plan went into effect on January 1, 2011. The Plan now requires each new employee to complete 1,000 hours during the first Plan year in which he or she is hired in order to become a participant in the Plan effective as of their hire date. The previous requirement was 800 hours. This same increase from 800 to 1,000 hours worked per year is also now required in order to receive a year of service credit towards vesting and to accumulate any credits to be used in calculating an annual accrual under the Plan.

The calculation of the number of credits earned each year was amended as well. The calculation is still based on a combination of the employees' age and years of service, but the number of credits earned at each level was reduced. However, employees are now eligible to participate in the TriHealth, Inc. 401(k) Plan (the 401(k) Plan) where employees that are paid at least 1,000 hours in the calendar year are eligible for an employer match in the 401(k) Plan equal to 1.8% of their contributions.

I. Retirement Plan (continued)

Estimated amounts for the components of net periodic pension expense for the nine months ended March 31 are summarized in the table below. Amounts will be adjusted at year-end to reflect actual results, based on the final annual actuarial reports (in thousands):

	2013	**2012**
Service cost	**$ 5,344**	$ 4,772
Interest cost	**7,553**	8,928
Expected return on plan assets	**(12,005)**	(12,629)
Amortization of net prior service cost	**91**	92
Settlement/curtailment expense	**-**	-
Amortization of net actuarial loss	**5,796**	4,640
	$ 6,779	$ 5,803

J. Self-Insured Liabilities

Bethesda, Inc. has a self-insurance program for the primary layer of professional liability coverage. Self-insurance limits with respect to the primary layer of professional liability coverage are $3,000 per occurrence and $12,000 in the annual aggregate. Insurance in excess of the primary layer, including excess liability coverage, is provided by commercial insurance carriers on a claims-made basis. In addition, management maintains current claims-made insurance coverage to cover any known incidents that may be asserted.

The consolidated financial statements include an actuarially determined accrual for asserted and reported claims and other claims which may result from past services provided to patients discounted at a rate of 1.25% at March 31, 2013 and June 30, 2012. The actuarially determined accrual for the Hospital's professional liability coverage is an estimate. The possibility exists that the estimate will change by a material amount in the future. The expense for the Hospital's professional liability coverage amounted to $1,743 and $2,733 for the nine month periods ended March 31, 2013 and 2012, respectively.

Bethesda, Inc. and subsidiaries contribute amounts to a trust fund to provide for the actuarially determined liability under the primary layer of professional liability coverage. The contributed assets are held in an irrevocable trust for future professional liability claims.

J. Self-Insured Liabilities (continued)

Certain Hospital entities are self-insured for employee health benefits. Employee health benefits are paid through a local claims processor based on plan coverage determined by the Hospital. An estimated liability of $3,794 and $3,914 for outstanding and incurred but not reported claims has been included in compensation and benefits as of March 31, 2013 and June 30, 2012, respectively, and is believed by management to be adequate for the cost of potential losses.

Certain Hospital entities are self-insured for workers' compensation coverage. An estimated liability for outstanding and incurred but not reported workers' compensation claims of $4,416 and $4,051 has been included in other long-term liabilities as of March 31, 2013 and June 30, 2012, respectively. The discount rate used to compute the workers' compensation liability as of March 31, 2013 and June 30, 2012 was 1.25%. Management believes this amount to be adequate for the cost of potential losses. The Hospital also purchases commercial excess insurance to limit its self-insurance exposure.

K. Related-Party Transactions

The Hospital enters into various related-party transactions in the ordinary course of business with Bethesda, Inc., certain other Bethesda, Inc. subsidiaries, and the Partner. Information related to the annual settlement with the Partner under the network affiliation agreement is disclosed in Note L. All other significant activity that occurs in the normal course of business with Bethesda, Inc., other Bethesda, Inc. subsidiaries, and the Partner are disclosed in this note.

(Dollar Amounts in Thousands)

K. Related-Party Transactions (continued)

The following is a summary of the net amounts due from (to) related organizations:

	March 31, 2013	**June 30, 2012**
Bethesda Foundation, Inc.	**$ 11,734**	$ 12,520
The Good Samaritan Hospital of Cincinnati, Ohio	**8,189**	2,380
Bethesda Healthcare, Inc.	**15,157**	15,054
TriHealth, Inc.	**27,881**	(1,670)
Bethesda, Inc.	**(2,570)**	2,403
Other	**(18)**	-
	60,373	30,687
Less current portion of due from related organizations	**36,053**	710
	$ 24,320	$ 29,977

Bethesda Foundation, Inc. (the Foundation) is a wholly owned subsidiary of Bethesda, Inc., which engages in fundraising activities and invests the resulting assets to support the operations of the Hospital, as well as other related entities. The receivable from the Foundation represents amounts held by the Foundation on behalf of the Hospital. The Foundation also charges an administrative fee to Hospice for fundraising services. The amount recognized as other revenue in the consolidated statements of operations and changes in net assets by the Hospital related to these services was $484 and $375 for the nine months ended March 31, 2013 and 2012, respectively.

The amount due from the Partner represents an accumulation of overhead costs, payroll, accounts payable, and other centrally managed processes creating a corresponding receivable that is received periodically by a transfer of cash, and is short term in nature.

The amount due from Bethesda Healthcare, Inc. represents an accumulation of operating losses and capital investments as well as notes payable paid by the Hospital on behalf of Bethesda Healthcare, Inc. to the Partner. Bethesda, Inc. has guaranteed the payment of the amounts due to the Hospital from Bethesda Healthcare, Inc.

(Dollar Amounts in Thousands)

K. Related-Party Transactions (continued)

The amount due from TriHealth, Inc. is a result of the timing of the Hospital's reimbursement to TriHealth, Inc. as the Hospital's payroll and accounts payable are processed by TriHealth administrative support services.

The amount due from (to) Bethesda, Inc. is a result of the timing of the Hospital's disbursement to Bethesda Inc. for other operating expenses. A $10,000 capital transfer was made from the Hospital to Bethesda, Inc. for the period ending June 30, 2012. An additional $5,000 transfer was made during the nine month period ending March 31, 2013.

L. Network Affiliation Agreement

Under the agreement described in Note A, the Hospital recognized expense related to the sharing of the excess of revenue over expenses of the Hospital and the Partner for the nine month periods ended March 31, 2013 and 2012. The revenue share is computed on patient and nonpatient revenue, only for entities defined in the network affiliation agreement and the resulting impact is recorded by the Hospital. The network affiliation agreement excludes changes in net unrealized losses and gains on investments designated as trading.

Loss from network affiliation and the network affiliation (payable) receivable related to the sharing of excess of revenue over expenses between the Hospital and the Partner for the nine month periods ended March 31 are as follows:

	2013	**2012**
Operating loss from network affiliation	**$ (171)**	$ (2,430)
Nonoperating gain from network affiliation	**23**	2,813
	$ (148)	$ 383

The network affiliation agreement requires the network affiliation payable or receivable be settled within 90 days after the close of the year. During the nine months ended March 31, 2013, $33 was paid to the Partner from the Hospital related to the 2012 network affiliation agreement.

(Dollar Amounts in Thousands)

M. Investments in Unconsolidated Organizations

The Hospital maintains an ownership percentage of 50% or less in various joint ventures and other companies that do not require consolidation. These investments are accounted for using the equity method of accounting. The following is a summary of the investments in unconsolidated organizations at:

	March 31, 2013	**June 30, 2012**
TriHealth, Inc.	**$ 22,239**	$ –
Vantage Oncology Treatment Centers – Ohio, LLC	**4,292**	4,673
Other	**1,571**	1,528
	$ 28,102	$ 6,201

The following is a summary of the (loss) income from unconsolidated organizations as of March 31:

	2013	**2012**
TriHealth, Inc.	**$ (22,120)**	$ (13,509)
Vantage Oncology Treatment Centers – Ohio, LLC	**592**	2,215
Other	**280**	205
	$ (21,248)	$ (11,089)

The Hospital entered into the Vantage Oncology Treatment Centers-Ohio, LLC joint venture during the current year. The Hospital owns 25% of Vantage Oncology Treatment Centers-Ohio, LLC. The Hospital recognized a gain of $1,554 included in loss from unconsolidated organizations in 2012 related to the transfer of certain assets to form vantage Oncology Treatment Centers-Ohio, LLC.

TriHealth, Inc. (TriHealth) is a joint venture equally owned by the Hospital and the Partner. TriHealth was formed to provide a comprehensive and integrated provider base to optimize the health status of the community. TriHealth operates various health care-related businesses, including physician practices, property management, and other physician support services companies. In addition, TriHealth provides administrative support services for both the Hospital and the Partner. Administrative support services include general administration, information systems, finance, human resources, and other general support services. TriHealth cash flows are funded equally by the Hospital and the Partner.

(Dollar Amounts in Thousands)

M. Investments in Unconsolidated Organizations (continued)

The following is a summary of TriHealth's assets, liabilities, and net assets (from its unaudited consolidated financial statements) at:

	March 31, 2013	June 30, 2012
Total assets	**$ 200,499**	$ 132,417
Total liabilities	**156,022**	132,417
Net assets	**44,477**	–
Total liabilities and net assets	**$ 200,499**	$ 132,417

The following is a summary of TriHealth's results of operations and changes in net assets for the nine months ended March 31 (from its unaudited consolidated financial statements):

	2013	2012
Total revenue	**$ 186,961**	$ 168,340
Total expenses	**231,194**	195,288
Loss from operations	**(44,233)**	(26,948)
Total non-operating (loss) income	**(8)**	70
Excess of expenses over revenue	**(44,241)**	(26,878)
Changes in net assets	**88,718**	30,277
Increase in net assets	**44,477**	3,399
Net assets at beginning of year	**–**	6,774
Net assets at end of period	**$ 44,477**	$ 10,173

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet (Unaudited)

March 31, 2013
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$ –	$ (269)	$ 33	$ 3,747	$ –	$ 3,511
Net patient accounts receivable, less allowance of $30,248	–	442	5,400	40,861	–	46,703
Other accounts (payable) receivable	17	(85)	–	3,720	–	3,652
Current portion of assets limited as to use	–	–	–	24,862	–	24,862
Inventories	–	–	–	2,060	–	2,060
Prepaid and other current assets	–	–	34	506	–	540
Network affiliation receivable	–	–	–	–	–	–
Current portion of due from (to) related organizations, net	3,193	55,825	7,194	(30,159)	–	36,053
Total current assets	3,210	55,913	12,661	45,597	–	117,381
Assets limited as to use and investments:						
Assets limited as to use:						
Internally designated for capital and other funds	–	–	10,149	283,401	–	293,550
Restricted by donors	–	–	–	3,210	–	3,210
Trustee-held funds under professional liability funding arrangement	–	–	–	22,796	–	22,796
Investments	–	–	–	12,953	–	12,953
Total assets limited as to use and investments	–	–	10,149	322,360	–	332,509
Property and equipment, net	20,574	24	8,992	235,878	–	265,468
Investments in unconsolidated organizations	–	–	–	33,109	(5,007)	28,102
Goodwill and identifiable intangible assets	–	–	–	22,071	–	22,071
Due from related organizations	–	–	1,652	22,668	–	24,320
Pension asset	–	–	–	5,222	–	5,222
Other long-term assets	–	–	598	5,814	(598)	5,814
Total assets	$ 23,784	$ 55,937	$ 34,052	$ 692,719	$ (5,605)	$ 800,887

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet (Unaudited)

March 31, 2013
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Liabilities and net assets						
Current liabilities:						
Compensation and benefits	$ –	$ –	$ 1,516	$ 17,095	$ –	$ 18,611
Third-party liabilities	–	–	–	8,335	-	8,335
Accounts payable and accrued expenses	1,065	6,194	1,738	14,307	–	23,304
Network affiliation payable	–	–	–	148	–	148
Current portion of long-term debt	–	–	–	12,198	–	12,198
Total current liabilities	1,065	6,194	3,254	52,083	–	62,596
Accrued professional liability	–	–	284	23,907	(598)	23,593
Pension obligation	–	–	–	58,124	–	58,124
Long-term compensation and benefits and other long-term liabilities	1,894	1,673	314	16,262	–	20,143
Capital lease obligation	–	–	–	24,675	–	24,675
Long-term debt	–	–	–	179,200	–	179,200
Total liabilities	2,959	7,867	3,852	354,251	(598)	368,331
Net assets:						
Unrestricted	20,825	48,070	28,427	327,234	(4,886)	419,670
Temporarily restricted	–	–	1,773	11,234	(121)	12,886
Total net assets	20,825	48,070	30,200	338,468	(5,007)	432,556
Total liabilities and net assets	$ 23,784	$ 55,937	$ 34,052	$ 692,719	$ (5,605)	$ 800,887

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2012
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$ –	$ (466)	$ 67	$ 10,191	$ –	$ 9,792
Net patient accounts receivable, less allowance of $21,869	–	259	5,701	31,339	–	37,299
Other accounts (payable) receivable	(21)	–	–	2,085	–	2,064
Current portion of assets limited as to use	–	–	–	19,168	–	19,168
Inventories	–	–	–	1,969	–	1,969
Prepaid and other current assets	–	–	99	2,116	–	2,215
Current portion of due from (to) related organizations, net	544	54,820	4,827	(59,481)	–	710
Total current assets	523	54,613	10,694	7,387	–	73,217
Assets limited as to use and investments:						
Assets limited as to use:						
Internally designated for capital and other funds	–	–	9,148	308,414	–	317,562
Restricted by donors	–	–	–	3,155	–	3,155
Trustee-held funds under professional liability funding arrangement	–	–	–	20,637	–	20,637
Investments	–	–	–	23,797	–	23,797
Total assets limited as to use and investments	–	–	9,148	356,003	–	365,151
Property and equipment, net	22,282	28	8,719	234,926	–	265,955
Investments in unconsolidated organizations	–	–	–	11,274	(5,073)	6,201
Goodwill and identifiable intangible assets	–	–	–	19,353	–	19,353
Due from related organizations	–	–	1,644	28,333	–	29,977
Other long-term assets	–	–	598	5,814	(598)	5,814
Total assets	$ 22,805	$ 54,641	$ 30,803	$ 663,090	$ (5,671)	$ 765,668

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2012
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Liabilities and net assets						
Current liabilities:						
Compensation and benefits	$ –	$ 32	$ 1,518	$ 20,893	$ –	$ 22,443
Third-party liabilities	–	–	–	4,687	-	4,687
Accounts payable and accrued expenses	934	5,461	1,640	14,529	–	22,564
Network affiliation payable	–	–	–	33	–	33
Current portion of long-term debt	–	–	–	12,198	–	12,198
Total current liabilities	934	5,493	3,158	52,340	–	61,925
Accrued professional liability	–	–	598	22,282	(598)	22,282
Pension obligation	–	–	–	58,124	–	58,124
Long-term compensation and benefits and other long-term liabilities	1,920	3,801	–	15,168	–	20,889
Capital lease obligation	–	–	–	21,923	–	21,923
Long-term debt	–	–	–	188,275	–	188,275
Total liabilities	2,854	9,294	3,756	358,112	(598)	373,418
Net assets:						
Unrestricted	19,951	45,347	25,282	294,412	(4,952)	380,040
Temporarily restricted	–	–	1,765	10,566	(121)	12,210
Total net assets	19,951	45,347	27,047	304,978	(5,073)	392,250
Total liabilities and net assets	$ 22,805	$ 54,641	$ 30,803	$ 663,090	$ (5,671)	$ 765,668

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Nine Months Ended March 31, 2013 (Unaudited)
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Revenue						
Net patient service revenue:						
Acute inpatient	$ –	$ –	$ 6,705	$ 197,093	$ (415)	$ 203,383
Outpatient	–	2,387	24,463	186,967	1,078	214,895
Other patient	–	23,332	–	–	–	23,332
Total net patient service revenue before provision for doubtful accounts	–	25,719	31,168	384,060	663	441,610
Provision for doubtful accounts		(223)	(25)	(32,667)	–	(32,915)
Total net patient service revenue	–	25,496	31,143	351,393	663	408,695
Nonpatient (loss) revenue:						
Loss from unconsolidated organizations	–	–	–	(21,248)	–	(21,248)
Operating loss from network affiliation	–	–	–	(171)	–	(171)
Other revenue, net	4,252	1,194	5,799	14,577	(6,116)	19,706
Total revenue	4,252	26,690	36,942	344,551	(5,453)	406,982
Expenses						
Salaries and wages	282	6,563	20,688	115,348	(360)	142,521
Employee benefits	83	1,649	5,215	32,377	(70)	39,254
Medical professional fees	–	2,117	259	2,095	–	4,471
Purchased services	218	8,366	1,996	10,228	(478)	20,330
Supplies	322	3,267	2,983	68,922	(7)	75,487
Bad debts	21	–	–	–	–	21
Utilities	462	127	506	2,651	–	3,746
Insurance	–	–	3	3,568	(7)	3,564
Rental, leases, and maintenance	2	521	2,149	10,820	(1,519)	11,973
Depreciation and amortization	1,043	106	665	15,307	–	17,121
Interest	96	–	–	7,167	–	7,263
Shared service allocation	–	–	–	59,696	–	59,696
Other, net	16	1,251	1,167	9,797	(3,012)	9,219
Total operating expenses	2,545	23,967	35,631	337,976	(5,453)	394,666
Income from operations	1,707	2,723	1,311	6,575	–	12,316
Nonoperating income:						
Nonoperating income from network affiliation	–	–	–	23	–	23
Investment income	–	–	1,001	33,500	–	34,501
Total nonoperating income	–	–	1,001	33,523	–	34,524
Excess of revenue over expenses	1,707	2,723	2,312	40,098	–	46,840
Other changes in net assets, net	(833)	–	841	(6,608)	66	(6,534)
Increase in net assets	874	2,723	3,153	33,490	66	40,306
Net assets at beginning of year	19,951	45,347	27,047	304,978	(5,073)	392,250
Net assets at end of period	$ 20,825	$ 48,070	$ 30,200	$ 338,468	$ (5,007)	$ 432,556

Bethesda Hospital, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Nine Months Ended March 31, 2012 (Unaudited)
(In Thousands)

	Bethesda Properties, Inc.	Senior Services, a Division of Bethesda Hospital, Inc.	Hospice of Cincinnati, Inc. and Subsidiary	Bethesda Hospital, Inc.	Reclass-ifications/ Eliminations	Bethesda Hospital, Inc. and Subsidiaries Consolidated
Revenue						
Net patient service revenue:						
Acute inpatient	$ –	$ –	$ 7,767	$ 203,191	$ (600)	$ 210,358
Outpatient	–	2,677	23,719	159,722	1,230	187,348
Other patient	–	25,730	–	–	–	25,730
Total net patient service revenue before provision for doubtful accounts	–	28,407	31,486	362,913	630	423,436
Provision for doubtful accounts		(141)	(104)	(29,905)	–	(30,150)
Total net patient service revenue	–	28,266	31,382	333,008	630	393,286
Nonpatient (loss) revenue:						
Loss from unconsolidated organizations	–	–	–	(11,089)	–	(11,089)
Operating loss from network affiliation	–	–	–	(2,430)	–	(2,430)
Other revenue, net	4,561	981	5,554	7,718	(6,199)	12,615
Total revenue	4,561	29,247	36,936	327,207	(5,569)	392,382
Expenses						
Salaries and wages	301	6,566	20,211	107,566	(358)	134,286
Employee benefits	73	1,530	4,806	31,727	(68)	38,068
Medical professional fees	–	2,095	249	1,114	–	3,458
Purchased services	239	8,534	1,978	10,615	(556)	20,810
Supplies	333	3,751	3,198	69,811	(9)	77,084
Bad debts	26	–	–	–	–	26
Utilities	487	149	453	2,748	–	3,837
Insurance	–	–	–	4,639	(7)	4,632
Rental, leases, and maintenance	2	544	2,783	8,253	(1,867)	9,715
Depreciation and amortization	1,225	100	556	14,372	–	16,253
Interest	106	–	–	7,076	–	7,182
Shared service allocation	–	–	–	49,431	–	49,431
Other, net	241	1,691	1,286	8,023	(2,704)	8,537
Total operating expenses	3,033	24,960	35,520	315,375	(5,569)	373,319
Income from operations	1,528	4,287	1,416	11,832	–	19,063
Nonoperating income (loss):						
Nonoperating income from network affiliation	–	–	–	2,813	–	2,813
Investment loss	–	–	(16)	(488)	–	(504)
Total nonoperating (loss) income:	–	–	(16)	2,325	–	2,309
Excess of revenue over expenses	1,528	4,287	1,400	14,157	–	21,372
Other changes in net assets, net	2	–	399	2,400	167	2,968
Increase in net assets	1,530	4,287	1,799	16,557	167	24,340
Net assets at beginning of year	18,034	39,647	25,144	329,538	(5,284)	407,079
Net assets at end of period	$ 19,564	$ 43,934	$ 26,943	$ 346,095	$ (5,117)	$ 431,419