

**SAINT JOSEPH'S MERCY CARE
SERVICES, INC.**

COMBINED FINANCIAL STATEMENTS
AND COMPLIANCE REPORTS

Years Ended December 31, 2012 and 2011

And Report of Independent Auditor

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR	1-2
--	------------

FINANCIAL STATEMENTS

Combined Statements of Financial Position	3
Combined Statements of Activities	4
Combined Statements of Cash Flows.....	5
Notes to Combined Financial Statements.....	6-16

COMPLIANCE REPORTS

Schedule of Expenditures of Federal and State Awards	17
Notes to Schedule of Expenditures of Federal and State Awards	18
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	21-22
Schedule of Findings and Questioned Costs.....	23
Status of Prior Year's Findings	24

SUPPLEMENTARY COMBINING STATEMENTS

Combining Statement of Financial Position	25
Combining Statement of Activities	26

Report of Independent Auditor

The Board of Directors
Saint Joseph's Mercy Care Services, Inc.
Atlanta, Georgia

We have audited the accompanying combined financial statements of Saint Joseph's Mercy Care Services, Inc. ("SJMCS"), which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of SJMCS as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements of SJMCS as a whole. The accompanying schedule of expenditures of federal and state awards for the year ended December 31, 2012 is presented for the purposes of additional analyses as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplemental combining statements appearing on pages 26 through 27 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013 on our consideration of SJMCS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SJMCS' internal control over financial reporting and compliance.

Handwritten signature in cursive script that reads "Cheryl Bekart LLP".

Atlanta, Georgia
June 27, 2013

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,336	\$ 1,456
Patient accounts receivable, less allowances for uncollectible accounts of approximately \$9 in 2012 and \$13 in 2011	72	51
Grants receivable	417	468
Due from affiliates	-	34
Other assets	322	323
Total Current Assets	3,147	2,332
Property and equipment, net	11,096	10,990
Investments	7,370	6,590
Interest in net assets of Saint Joseph's Mercy Foundation, Inc.	6,534	6,817
Total Assets	\$ 28,147	\$ 26,729
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 395	\$ 252
Salaries and benefits payable	810	663
Due to affiliates	-	18
Other current liabilities	830	627
Total Current Liabilities	2,035	1,560
Other liabilities	2,774	2,354
Long-term debt	8,000	8,000
Total Liabilities	12,809	11,914
Net assets:		
Unrestricted	5,323	4,420
Temporarily restricted	6,646	7,026
Permanently restricted	3,369	3,369
Total Net Assets	15,338	14,815
Total Liabilities and Net Assets	\$ 28,147	\$ 26,729

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
COMBINED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	<u>2012</u>	<u>2011</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues, gains and other support:		
Grant income	\$ 6,804	\$ 7,077
Support received from Saint Joseph's Health System, Inc.	3,585	2,045
Contributions	1,909	872
Contributed goods and services	179	205
Investment income	1,266	34
Net patient service revenue	849	855
Other income	313	112
	<u>14,905</u>	<u>11,200</u>
Net assets released from restrictions	151	90
Total revenues, gains and other support	<u>15,056</u>	<u>11,290</u>
Expenses:		
Salaries and wages	8,057	7,502
Employee benefits and payroll taxes	1,817	1,884
Medical supplies	228	230
Drugs	225	257
Professional fees and purchased services	1,024	1,097
Depreciation	616	677
Taxes and insurance	142	55
Rent expense	144	126
Other supplies and expenses	1,337	1,144
Provision for bad debts	49	69
Total expenses	<u>13,639</u>	<u>13,041</u>
Excess (deficiency) of revenues over expenses	1,417	(1,751)
Pension adjustment	(514)	124
Change in unrestricted net assets	<u>903</u>	<u>(1,627)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	55	279
Change in interest held by related affiliate	(284)	276
Net assets released from restrictions	(151)	(90)
Change in temporarily restricted net assets	<u>(380)</u>	<u>465</u>
Change in net assets	<u>523</u>	<u>(1,162)</u>
Net assets, beginning of year	<u>14,815</u>	<u>15,977</u>
Net assets, end of year	<u>\$ 15,338</u>	<u>\$ 14,815</u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

	<u>2012</u>	<u>2011</u>
Cash flow from operating activities:		
Change in net assets	\$ 523	\$ (1,162)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net unrealized (gains) losses on investments	(1,207)	465
Net realized gains on investments	-	(311)
Pension adjustment	514	(124)
Provision for bad debts	49	69
Depreciation	616	677
Changes in operating assets and liabilities:		
Patient accounts receivable	(70)	(46)
Grants receivable	51	6
Due to/from affiliates	(498)	272
Other assets	1	108
Interest in net assets of Saint Joseph's Mercy Foundation, Inc.	283	(268)
Accounts payable and accrued expenses	913	202
Net cash provided by (used in) operating activities	<u>1,175</u>	<u>(112)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(722)	(89)
Net change in investments	427	(148)
Net cash used in investing activities	<u>(295)</u>	<u>(237)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	880	(349)
Cash and Cash Equivalents, Beginning of Year	<u>1,456</u>	<u>1,805</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,336</u>	<u>\$ 1,456</u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 1—Description of organization

Saint Joseph's Mercy Care Services, Inc. is a nonprofit corporation whose primary activity is the provision of health care services for the indigent and underserved in Atlanta, Georgia. Mercy Senior Care, Inc. ("MSC") is a nonprofit organization in Rome, Georgia, that provides adult day care, home living assistance, and employment assistance for the elderly, and is a controlled affiliate of Saint Joseph's Mercy Care Services, Inc. Mercy Services Downtown ("MSD") is a nonprofit organization designed to raise funds to expand and renovate the Saint Joseph's Mercy Care Services, Inc. headquarters. Based on the common control the combined financial statements include the accounts of Saint Joseph's Mercy Care Services, Inc., MSC and MSD (collectively, the "SJMCS").

Saint Joseph's Health System, Inc. ("SJHS") is a regional health corporation ("RHC") of Catholic Health East ("CHE"), a multi-institutional health system co-sponsored by ten religious communities. These religious communities co-sponsored and formed CHE in furtherance of their common missions to strengthen the mission of Catholic health care in communities in which they operate. CHE is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code.

SJMCS is a controlled entity of SJHS and therefore, the combined financial statements of SJMCS are included in the consolidated financial statements of SJHS.

SJMCS incurred a deficit of revenues, gains and other support over expenses before support provided by SJHS of \$3,585 and \$2,045 for the years ended December 31, 2012 and 2011, respectively. These losses are funded by SJHS. The provision of charity care is an integral part of the mission of SJHS and the Sisters of Mercy. SJMCS has received a commitment for continued support from SJHS.

Note 2—Summary of significant accounting policies

Basis of Preparation and Presentation - The combined financial statements of SJMCS have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. SJMCS is required to report information regarding its combined financial position and combined activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand, deposits with banks and highly liquid investments. SJMCS considers all highly liquid investments purchased with an original maturity of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk - SJMCS places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts through December 31, 2012. Effective January 1, 2013, the FDIC's unlimited coverage expired. During the year ended December 31, 2012, SJMCS from time to time may have had amounts on deposit in excess of the insured limits.

Patient Accounts Receivable - Current operations are charged with an allowance for uncollectible accounts based upon experience and any unusual circumstances which affect the collectability of receivables. Accounts deemed uncollectible are charged against the allowance. Patient accounts receivable are reported net of contractual adjustments which represent the difference between established billing rates and estimated reimbursement from Medicare, Medicaid and other third-party payment programs.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 2—Summary of significant accounting policies (continued)

Grants Receivable - SJMCS receives a substantial amount of its operating support from federal, state and local government grants. Grants receivable are funds expended by SJMCS that are eligible for reimbursement under the various awarded governmental grant programs. Therefore, grants receivable represent the unreimbursed expenditures of grants awarded.

Investments - Investments in marketable equities with readily determinable fair market values and all investments in debt securities are measured at fair value in the combined statements of financial position. Equity investments in managed funds, private partnerships, and other investments are accounted for under the equity method, which approximates fair value. Realized gains and losses on investments, unrealized gains and losses on securities, interest income (net of investment-related expenses), and dividends are included in investment income in the combined statements of activities. Investment income restricted by donors or law is reported as an increase in temporarily or permanently restricted net assets.

Investments in real estate investment trusts ("REITs"), hedge funds, private equities and other investments are reported at market values based upon financial information provided by external investment partners. Because those investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for the investments existed.

Property and Equipment - Property and equipment acquisitions are stated on the basis of cost with the exception of donated items, which are stated at fair market value at the date of donation. Replacements, maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense when incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Depreciation - Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are depreciated over the shorter of the remaining lease term or their estimated useful lives.

Lives used for depreciation calculations are as follows:

Vehicles	3-5 years
Buildings	30-35 years
Major Movable	5-10 years
Equipment	5-15 years

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

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 2—Summary of significant accounting policies (continued)

SJMCS classifies the portions of donor-restricted endowment funds of perpetual duration as permanently restricted net assets. Permanently restricted net assets of SJMCS are comprised of a) the original value of gifts donated to SJMCS through a permanent endowment, b) the original value of subsequent gifts to SJMCS through a permanent endowment, and c) accumulations to the permanent endowment in accordance with applicable donor gift instruments. Any portions of donor-restricted endowment funds that are not classified as permanently restricted are appropriated in accordance with donor intent.

SJMCS considers the following factors in determining if donor-restricted endowment funds are accumulated or appropriated:

- 1) the duration and preservation of the fund
- 2) the purposes of SJMCS' donor-restricted endowment funds
- 3) general economic conditions
- 4) effect of possible inflation or deflation
- 5) the expected total investment return and appreciation of investments
- 6) other resources of SJMCS
- 7) investment policies of SJMCS

The compositions of endowment fund net assets, by type of fund, at December 31, 2012 are as follows (in thousands of dollars):

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,369	\$ 3,369

Changes in the composition of endowment fund net assets as of December 31, 2012 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund net assets, beginning of year	\$ -	\$ 3,369	\$ 3,369
Investment return:			
Realized investment income	-	-	-
Unrealized investment income	595	-	595
Total investment return	-	-	-
Other changes in endowment funds	(595)	-	(595)
Endowment fund net assets, end of year	<u>\$ -</u>	<u>\$ 3,369</u>	<u>\$ 3,369</u>

SAINT JOSEPH’S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 2—Summary of significant accounting policies (continued)

The compositions of endowment fund net assets, by type of fund, at December 31, 2011 are as follows (in thousands of dollars):

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,369	\$ 3,369

Changes in the composition of endowment fund net assets as of December 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund net assets, beginning of year	\$ -	\$ 3,369	\$ 3,369
Investment return:			
Realized investment income	-	-	-
Unrealized investment income	3	-	3
Total investment return	-	-	-
Other changes in endowment funds	(3)	-	(3)
Endowment fund net assets, end of year	\$ -	\$ 3,369	\$ 3,369

Donor-Restricted Gifts - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restrictions is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

Retirement Plan - SJHS sponsors a single-employer defined benefit pension plan (the “Retirement Plan”) covering substantially all employees of each of the affiliated entities of SJHS. Retirement Plan benefits are based on years of service and the employee’s highest compensation during five of the employee’s last ten years of service. It is SJHS’ policy to fund the net pension cost and amortize the unfunded initial liability for prior service cost over 15 years. SJHS accounts for its Retirement Plan in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The funded status represents the difference between the fair value of the plan assets and the projected benefit obligation (“PBO”). The PBO represents the actuarial present value of benefits attributed to employee service including estimated future salary increases. Total pension adjustment allocated to SJMCS by SJHS for the years ended December 31, 2012 and 2011 was \$(514) and \$124, respectively. The related pension liability is recorded in other liabilities in the combined statements of financial position.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 2—Summary of significant accounting policies (continued)

SJHS also provides defined contribution plans under Sections 401(k) and 403(b) of the Internal Revenue Code for substantially all SJHS employees. Under the provisions of the plans, employees may deposit a portion of their earnings for each pay period on a pre-tax basis. SJHS matches 50% of each participant's voluntary contributions up to a maximum of 4% of the employee's annual salary for all employees who have reached the age of 21 and have completed one year of eligible service. SJMCS' matching contribution expense for the years ended December 31, 2012 and 2011 totaled approximately \$308 and \$194, respectively.

Income Taxes - SJMCS, MSD and MSC are exempt from income taxes pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes has been made. SJMCS, MSD and MSC have evaluated the effect of GAAP guidance on Accounting for Uncertainty in Income Taxes. Management believes that SJMCS, MSD and MSC continue to satisfy the requirements of tax-exempt organizations and therefore had no uncertain income tax positions at December 31, 2012. Management believes it is no longer subject to tax examinations for the years prior to 2009.

Donated Services - SJMCS receives donated services from health care professionals, which are recorded at fair value.

Use of Estimates - The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Accounting Pronouncements - In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-7, *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 2011-7"). ASU 2011-7 requires that the provision for doubtful accounts related to patient service revenue be presented as a deduction from revenue, similar to contractual discounts. Additionally, ASU 2011-7 requires certain additional disclosures designed to help users understand how contractual discounts and bad debts affect recorded revenue. This ASU applies to health care entities that recognize significant amounts of patient service revenue at the time services are rendered even though there has not been an assessment of the patient's ability to pay. This ASU was adopted by SJMCS on January 1, 2012, however, it has been determined that the reporting provisions in the ASU do not apply to SJMCS

On January 1, 2012 SJMCS adopted the updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately in the reconciliation of fair value measurements using significant observable inputs, Level 3, information about purchases, sales, issuances and settlements. The adoption of this guidance did not have a material impact on our combined statements of financial position, activities, and cash flows.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 3—Net patient service revenue

Third-party payors (Medicare, Medicaid and commercial insurance payors) provide payments at amounts different from established rates. Payment arrangements include prospectively determined rates per visit, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is recorded on the date of service and is reported at the estimated net realizable amounts for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Gross revenue and contractual adjustments for the years ended December 31, 2012 and 2011 are as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Gross patient revenue	\$ 5,489	\$ 4,909
Deductions from revenue	<u>(4,640)</u>	<u>(4,054)</u>
Net patient service revenue	<u>\$ 849</u>	<u>\$ 855</u>

Compliance with laws and regulations governing Medicare and Medicaid programs is complex and can be subject to future government interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

SJMCS renders care to patients covered by the Medicare and Medicaid programs. Reimbursements for outpatient services under the Medicare program are based on fixed amounts per eligible patient subject to certain adjustments. Payments for outpatient services under the Medicaid program are generally related to the cost of providing care subject to certain prescribed limits. Services rendered under these programs are recorded at established rates and reduced to the estimated amounts due from the third-party payors through recording of contractual adjustments and other discounts. Because SJMCS cannot pursue collections for the contractual or discounted amounts, they are not reported as revenue.

Note 4—Investments

Substantially all of SJMCS' investments are held in the CHE Consolidated Investment Program (the "Program"). The Program is structured under a Program Participation Agreement between each RHC and CHE, the Program facilitator. All investments in the Program are professionally managed under the administration of CHE.

Participants' investments held in the Program are assigned a weighted value for the time funds are available from participants for investments. The fair value of the Program's investments is allocated to participants based on the participants' investments. Investment income from the Program including interest income, dividends, and realized gains or losses from the sale of securities, and unrealized gains and losses is distributed to participants based on their weighted value of investment. The underlying fair value of investments in the Program, which are traded on national exchanges, is based on the last reported sales price on the last business day of the year. The fair value of investments traded in over-the-counter markets is based on the average of the last recorded bid and asked prices.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 4—Investments (continued)

SJMCS investments held in the Program, at fair value, as of December 31, 2012 and 2011 consist of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Cash and short-term investments	\$ 195	\$ 263
Government and fixed income securities	1,369	1,255
Equity securities	4,546	3,837
Alternative investments	1,260	1,235
Total	<u>\$ 7,370</u>	<u>\$ 6,590</u>

Investment income is comprised of the following for the years ended December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Interest income	\$ 131	\$ 188
Net unrealized gains (losses) on investments	1,207	(465)
Net realized gains (losses) on sales of investments	(72)	311
Total	<u>\$ 1,266</u>	<u>\$ 34</u>

Note 5—Fair value measurements

In accordance with GAAP fair value measurements are required to be classified and disclosed in one of the following three categories ("Fair Value Hierarchy"):

- Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 5—Fair value measurements (continued)

Investments at fair value at December 31, 2012 are as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Valuation Technique</u>
Cash and cash equivalents	\$ 156	\$ 39	\$ -	\$ 195	Market
Marketable debt securities	480	889	-	1,369	Market
Marketable equity securities	2,733	1,813	-	4,546	Market
Alternative investments	-	1	1,259	1,260	Market
Total	<u>\$ 3,369</u>	<u>\$ 2,742</u>	<u>\$ 1,259</u>	<u>\$ 7,370</u>	

Investments at fair value at December 31, 2011 are as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Valuation Technique</u>
Cash and cash equivalents	\$ 223	\$ 40	\$ -	\$ 263	Market
Marketable debt securities	479	776	-	1,255	Market
Marketable equity securities	3,792	45	-	3,837	Market
Alternative investments	112	-	1,123	1,235	Market
Total	<u>\$ 4,606</u>	<u>\$ 861</u>	<u>\$ 1,123</u>	<u>\$ 6,590</u>	

A roll forward of those investments that have been classified by SJMCS as Level 3 within the fair value hierarchy (defined above) is as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Fair value Beginning of Year	\$ 1,123	\$ 1,143
Purchases	-	-
Realized and unrealized gains	138	33
Sales	(2)	(53)
Fair value End of Year	<u>\$ 1,259</u>	<u>\$ 1,123</u>
Amount of unrealized losses related to Level 3 investments held at the end of the year, included in the combined statements of activities	<u>\$ -</u>	<u>\$ 18</u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 6—Charity care and community benefits

SJMCS provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than the established rates. Because SJMCS does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue or accounts receivable in the accompanying combined statements of financial position and activities.

SJMCS maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone and direct and indirect costs for services and supplies furnished under its charity care policies. Charges forgone for charity care were approximately \$4,559 and \$3,945 for the years ended December 31, 2012 and 2011, respectively. The direct and indirect costs associated with these services for charity care provided were approximately \$7,416 and \$7,028 for the years ended December 31, 2012 and 2011, respectively.

Note 7—Due to/from affiliated companies and related-party transactions

During the years ended December 31, 2012 and 2011, SJHS paid for certain costs and expenses on behalf of SJMCS. These expenses include certain employee benefits that were paid by SJHS and allocated to SJMCS. The amounts allocated to SJMCS during the years ended December 31, 2012 and 2011 were approximately \$307 and \$119, respectively.

During the years ended December 31, 2012 and 2011, financial and other services were provided by SJHS and billed monthly to affiliated entities in the form of dues. Included in purchased services expenses in the combined statements of activities for the years ended December 31, 2012 and 2011 was approximately \$377 and \$202, respectively, in dues charged by SJHS.

Saint Joseph's Mercy Foundation, Inc. ("SJMF"), which is controlled by SJHS, was established to solicit contributions from the general public and to support SJHS and its nonprofit affiliates, including SJMCS. Funds are distributed to SJMCS as determined by SJMF's Board of Directors and external donors. SJMF contributed approximately \$740 and \$722, respectively, for the years ended December 31, 2012 and 2011, which are included in unrestricted and temporarily restricted contributions in the accompanying combined statements of activities.

Investments held by SJMF for SJMCS' benefit at fair value totaled approximately \$4,525 and \$4,039 at December 31, 2012 and 2011, respectively. These investments consist principally of marketable equity and debt securities with fair values determined by quoted market prices. The change in net unrealized gains on investments held by SJMF for SJMCS' benefit has been excluded from revenues. At December 31, 2012 and 2011, the balance due from SJMF was approximately \$0 and \$8, respectively.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 8—Property and equipment

Property and equipment consist of the following as of December 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Land, Buildings and improvements	\$ 11,731	\$ 10,817
Furniture, fixtures and equipment	3,517	3,290
Construction in progress	<u>34</u>	<u>453</u>
Property and equipment – at cost	15,282	14,560
Less: accumulated depreciation	<u>(4,186)</u>	<u>(3,570)</u>
Property and equipment – net	<u>\$ 11,096</u>	<u>\$ 10,990</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$616 and \$677, respectively.

Note 9—Long-term debt

Long-term debt consists of the following at December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
MSD loan (loan A) dated March 12, 2010 in the original amount of \$5,778. This note requires annual interest payments at a fixed rate of 1%. This loan is secured by SJMF and is due April 12, 2017.	\$ 5,778	\$ 5,778
MSD loan (loan B) dated March 12, 2010 in the original amount of \$2,222. This note requires annual interest payments at a fixed rate of 1%. This loan is secured by SJMF and is due April 12, 2017.	<u>2,222</u>	<u>2,222</u>
Total long-term debt	<u>\$ 8,000</u>	<u>\$ 8,000</u>

MSD is subject to certain loan covenants as defined in the loan documents. At December 31, 2012, management is not aware of any violations of the covenants.

The aggregate annual maturities of long-term debt subsequent to December 31, 2012 are as follows:

2013	\$ -
2014	-
2015	-
2016	-
2017	<u>8,000</u>
	<u>\$ 8,000</u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 10—Operating leases

SJMCS leases certain office space and equipment under operating lease agreements. Lease expense totaled approximately \$144 and \$105 for the years ended December 31, 2012 and 2011, respectively. SJMCS minimum obligations over the remainder of the lease terms as of December 31, 2012 are as follows (in thousands):

2013	\$	28
	<u>\$</u>	<u>28</u>

Note 11—Functional expenses

SJMCS' primary purpose is to provide health care services to the indigent in Atlanta and Rome, Georgia. Expenses related to providing these services for the years ended December 31, 2012 and 2011 are as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Health care services	\$ 9,452	\$ 9,552
General and administrative	<u>4,701</u>	<u>3,365</u>
Total	<u>\$ 14,153</u>	<u>\$ 12,917</u>

Note 12—Temporarily and permanently restricted net assets

Temporarily restricted net assets at December 31, 2012 and 2011 are available for the following purposes (in thousands):

	<u>2012</u>	<u>2011</u>
Patient care and other health programs	\$ 6,632	\$ 6,730
Other	<u>14</u>	<u>296</u>
Total	<u>\$ 6,646</u>	<u>\$ 7,026</u>

Permanently restricted net assets of \$3,369 and \$3,369 at December 31, 2012 and 2011, respectively, is restricted as an endowment for patient care programs.

Note 13—Commitments and contingencies

SJMCS from time to time is involved in various lawsuits and regulatory investigations arising in the course of business. Based upon information, reports and analyses provided by outside consultants, attorneys and insurance carriers, management is of the opinion that adequate provisions have been made for all asserted and unasserted claims and that these matters will be resolved without material adverse effect on the future financial position or results of activities.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011
(DOLLARS IN THOUSANDS)

Note 14—Subsequent events

SJMCS evaluated subsequent events through June 27, 2013, the date the combined financial statements were available to be issued.

Effective May 1, 2013, CHE entered into a merger with Trinity Health, a multi-institutional health system. The newly formed health system is now SJMCS' parent company.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED DECEMBER 31, 2012

<u>Federal Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant ID Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development:			
<i>Direct Programs:</i>			
Supportive Housing Program	14.235	GA0024B4B001003	\$ 19,679
Supportive Housing Program	14.235		9,295
<i>Pass Through from City of Atlanta:</i>			
Housing Opportunities for Persons with AIDS	14.241	250131963	321,838
Total U.S. Department of Housing and Urban Development			350,812
U.S. Department of Labor:			
<i>Pass Through from Georgia Department of Human Resources:</i>			
Senior Community Service Employment Program	17.235	131616224	392,002
WIA Adult Program	17.258	10921607	74,156
Total U.S. Department of Labor			466,158
U.S. Department of Health and Human Services:			
<i>Direct Programs:</i>			
HIV Prevention Activities_Non-Governmental Organization Based	93.939	U65 PS002210-2	167,408
HIV Prevention Activities_Non-Governmental Organization Based	93.939	U65 PS002210-3	164,841
Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6H76HA00090-20	475
Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6H76HA00090-21	773,839
Community Health Centers	93.224	5H80CS00022-11	2,067,715
Community Health Centers	93.224	2H80CS00022-12	411,047
Community Health Centers	93.224	5H80CS00022-09	106,575
Community Health Centers	93.224	5H80CS00022-09	117,488
			3,809,388
<i>Pass Through from State of Georgia Department of Human Resources:</i>			
National Family Caregiver Support Program, Title III, Part E of the Older Americans Act	93.052	42700-373-0000005018	32,112
Aging Title III, Part E of the Older Americans Act	93.052	42700-373-0000005018	181,761
Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	131616224	19,762
			233,635
<i>Pass Through from Georgia Association for Primary Health Care:</i>			
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919		63,221
	93.919		77,743
			140,964
<i>Pass Through from Fulton County Board of Commissioners:</i>			
HIV Emergency Relief Project Grants	93.914	PC-118-201179222BL-4	204,351
HIV Emergency Relief Project Grants	93.914	PC-118-12SC84649B-TR	243,116
			447,467
<i>Pass Through from Hope</i>			
Supportive Services for Veterans Family	64.033		1,140
			1,140
Total U.S. Department of Health and Human Services			4,632,594
Total Federal Expenditures			\$ 5,449,564
State Grantor/Program			
State of Georgia Department of Community Health			
Healthcare Services to Homeless Individuals in the City of Atlanta	N/A	11008G	\$ 78,679
Healthcare Services to Homeless Individuals in the City of Atlanta	N/A	11008G	91,338
			170,017
State of Georgia Department of Human Resources:			
Mental Health, Developmental Disabilities and Addictive Diseases	N/A	441-93-1133041	165,999
Mental Health, Developmental Disabilities and Addictive Diseases	N/A	441-93-123053	166,004
Community Based Services (CBS)	N/A	131616224	52,052
Alzheimer State Funds	N/A	131616224	133,514
			517,569
Georgia Department of Early Care and Learning			
Bright from the Start	10.555	14,321	13,953
Total State Expenditures			\$ 701,539

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED DECEMBER 31, 2012

Note 1—Basis of presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state contract activity of SJMCS for the year ended December 31, 2012, and is presented based on accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2—Summary of significant accounting policies

The Schedule of Expenditures of Federal and State Awards is prepared on the accrual basis of accounting.

Note 3—Contingencies

These Federal and State programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect SJMCS' continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although SJMCS expects such amounts, if any, to be immaterial.

Note 4—Facilities and administrative costs

Expenditures consist of direct costs and indirect costs. SJMCS has a provisional facilities administrative rate for federal awards which is effective from January 1, 2010 until amended. The rate is 38% of modified total direct costs for all federal programs.

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Combined Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Board of Directors
Saint Joseph's Mercy Care Services, Inc.
Atlanta, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of SJMCS, which comprise the combined statement of financial position as of December 31, 2012, and the related combined statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SJMCS' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of SJMCS' internal control. Accordingly, we do not express an opinion on the effectiveness of SJMCS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of SJMCS' combined financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SJMCS' combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SJMCS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SJMCS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Atlanta, Georgia
June 27, 2013

**Report on Compliance with Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

The Board of Directors
Saint Joseph's Mercy Care Services, Inc.
Atlanta, Georgia

Report on Compliance for Each Major Federal Program

We have audited Saint Joseph's Mercy Care Services, Inc.'s ("SJMCS") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. SJMCS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SJMCS' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SJMCS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SJMCS' compliance.

Opinion on Each Major Federal Program

In our opinion, SJMCS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of SJMCS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SJMCS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SJMCS' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Atlanta, Georgia
June 27, 2013

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

Summary of the Auditor's Results

1. The auditor's report expresses an unmodified opinion on the combined financial statements of SJMCS.
2. Internal control over financial reporting:
Material weaknesses identified: **No**
Significant deficiencies identified that are not considered to be material weaknesses: **No**
3. No instances of noncompliance material to the combined financial statements of SJMCS, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Internal control over major programs:
Material weaknesses identified: **No**
Significant deficiencies identified that are not considered to be material weaknesses: **None reported**
5. The auditor's report on compliance for the major federal award program for SJMCS expresses an unmodified opinion on its major programs.
6. The programs tested as major programs were:
CFDA# 93.052 National Family Caregiver Support Program, Title III, Part E of the Older Americans Act
CFDA# 93.224 Community Health Centers
7. The dollar threshold for Type A programs for SJMCS was \$300,000.
8. SJMCS qualified as a low-risk auditee.

Findings in Relation to the Audit of the Combined Financial Statements

None

Federal Awards Findings and Questioned Costs

None

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

STATUS OF PRIOR YEAR'S FINDINGS

YEAR ENDED DECEMBER 31, 2012

Status of Prior Year's Findings In Relation to the Audit of the Combined Financial Statements

The following is an update of prior audit findings and is prepared in accordance with OMB Circular A-133.

Finding No. 2011-01

Accounting for interest in net assets held by a direct affiliate

Condition:

Saint Joseph's Mercy Foundation ("SJMF"), a direct affiliate, raises funds on behalf of SJMCS. Primarily in 2010 SJMF raised approximately \$6.0M for SJMCS, to pay future obligations under its long-term debt obligation incurred to finance the expansion and renovation of the downtown clinic, Saint Joseph's Mercy Downtown. These temporarily restricted contributions for the benefit of SJMCS were not recorded in the combined statement of financial condition and activities of SJMCS prior to the year ended December 31, 2011.

Criteria:

Under generally accepted accounting principles, these unconditional promises to give that are for the benefit of SJMCS should be recorded at fair value at the date the promise is received in the statement of financial condition and activities of SJMCS.

Cause:

Lack of timely communication between SJMCS and SJMF regarding assets held by SJMF for the benefit of SJMCS.

Recommendation:

We recommend that SJMCS and SJMF develop a mechanism to timely communicate, confirm and reconcile amounts held by SMJF for the benefit of SJMCS.

Management's Response:

SJMCS discovered the recording error during calendar year 2011 and adjusted its book accordingly. We will review the reconciliation process of the amounts held by SJMF for the benefit of SJMCS and identify opportunities to strengthen this control.

STATUS:

Corrective action has been taken and the matter has been resolved.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012
(DOLLARS IN THOUSANDS)

	Saint Joseph's Mercy Care Services, Inc.	Mercy Senior Care, Inc.	Mercy Services Downtown, Inc.	Combined Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 1,319	\$ 224	\$ 793	\$ 2,336
Patient accounts receivable, net	36	36	-	72
Grants receivable	339	78	-	417
Other assets	318	4	-	322
Total Current Assets	<u>2,012</u>	<u>342</u>	<u>793</u>	<u>3,147</u>
Property and equipment, net	3,506	1,125	6,465	11,096
Investments	7,370	-	-	7,370
Interest in net assets of Saint Joseph's Mercy Foundation, Inc.	6,534	-	-	6,534
Total Assets	<u>\$ 19,422</u>	<u>\$ 1,467</u>	<u>\$ 7,258</u>	<u>\$ 28,147</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 382	\$ 13	\$ -	\$ 395
Salaries and benefits payable	714	96	-	810
Other current liabilities	782	48	-	830
Total Current Liabilities	<u>1,878</u>	<u>157</u>	<u>-</u>	<u>2,035</u>
Other liabilities	2,563	211	-	2,774
Long-term debt	-	-	8,000	8,000
Total Liabilities	<u>4,441</u>	<u>368</u>	<u>8,000</u>	<u>12,809</u>
Net Assets (Deficit):				
Unrestricted	4,984	1,081	(742)	5,323
Temporarily restricted	6,628	18	-	6,646
Permanently restricted	3,369	-	-	3,369
Total Net Assets (Deficit)	<u>14,981</u>	<u>1,099</u>	<u>(742)</u>	<u>15,338</u>
Total Liabilities and Net Assets	<u>\$ 19,422</u>	<u>\$ 1,467</u>	<u>\$ 7,258</u>	<u>\$ 28,147</u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
COMBINING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012
(DOLLARS IN THOUSANDS)

	Saint Joseph's Mercy Care Services, Inc.	Mercy Senior Care, Inc.	Mercy Services Downtown, Inc.	Combined Total
CHANGES IN UNRESTRICTED NET ASSETS:				
Revenues, gains and other support:				
Grant income	\$ 5,895	\$ 909	\$ -	\$ 6,804
Support received from Saint Joseph's Health System, Inc.	3,259	320	6	3,585
Contributions	1,350	559	-	1,909
Contributed goods and services	179	-	-	179
Investment income	1,266	-	-	1,266
Net patient service revenue	733	116	-	849
Other income	228	5	80	313
	<u>12,910</u>	<u>1,909</u>	<u>86</u>	<u>14,905</u>
Net assets released from restrictions	151	-	-	151
Total revenues, gains and other support	<u>13,061</u>	<u>1,909</u>	<u>86</u>	<u>15,056</u>
Expenses:				
Salaries and wages	7,258	799	-	8,057
Employee benefits and payroll taxes	1,653	164	-	1,817
Medical supplies	223	5	-	228
Drugs	225	-	-	225
Professional fees and purchased services	984	37	3	1,024
Depreciation	274	29	313	616
Taxes and insurance	114	20	8	142
Rent expense	105	39	-	144
Other supplies and expenses	1,016	220	101	1,337
Provision for bad debts	49	-	-	49
Total expenses	<u>11,901</u>	<u>1,313</u>	<u>425</u>	<u>13,639</u>
Excess of revenues over expenses	1,160	596	(339)	1,417
Pension and Worker's Compensation adjustment	<u>(478)</u>	<u>(36)</u>	<u>-</u>	<u>(514)</u>
Change in unrestricted net assets	682	560	(339)	903
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	45	10	-	55
Net assets in related affiliates	(284)	-	-	(284)
Net assets released from restrictions	<u>(151)</u>	<u>-</u>	<u>-</u>	<u>(151)</u>
Change in temporarily restricted net assets	(390)	10	-	(380)
Change in Net Assets	292	570	(339)	523
Net assets, Beginning of Year (Restated)	<u>14,688</u>	<u>529</u>	<u>(402)</u>	<u>14,815</u>
Net assets, End of Year	<u>\$ 14,980</u>	<u>\$ 1,099</u>	<u>\$ (741)</u>	<u>\$ 15,338</u>