Consolidated Financial Statements and OMB Circular A-133 Reports and Schedules

Sisters of Charity of Leavenworth Health System, Inc.
Years Ended December 31, 2012 and 2011
With Reports of Independent Auditors

Ernst & Young LLP

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OMB Circular A-133 Reports and Schedules

Years Ended December 31, 2012 and 2011

Contents

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Report of Independent Auditors

The Board of Directors
Sisters of Charity of Leavenworth
Health System, Inc.

We have audited the accompanying consolidated financial statements of Sisters of Charity of Leavenworth Health System, Inc., which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the entity's 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sisters of Charity of Leavenworth Health System, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities"

As disclosed in Note 2 to the consolidated financial statements, SCL Health System changed its presentation and disclosure of bad debt expense as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities". Our opinion is not modified with respect to this matter.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2013, on our consideration of Sisters of Charity of Leavenworth Health System, Inc.'s 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 Sisters of Charity of Leavenworth Health System, Inc.'s internal control over financial reporting and compliance.

Ernst & Young LLP

May 3, 2013, except for the schedule of expenditures
of federal awards for which the date is
September 25, 2013

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Balance Sheets

	December 31 2012	December 31 2011
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 29.6**	$ 102.8
Current portion of investments	**97.0**	84.3
Accounts receivable:		
Patient (less allowance for uncollectible accounts of $147.0 million and $167.1 million at December 31, 2012 and 2011, respectively)	**367.9**	350.6
Pledges receivable, net and other	**26.2**	38.9
Inventory	**40.3**	35.2
Prepaids and other assets	**37.7**	34.5
Assets held for sale	**282.6**	680.7
Total current assets	**881.3**	1,327.0
Investments:		
Investments, net of current portion	**1,637.9**	1,601.3
Assets limited as to use:		
Restricted funds – self-insured risks	**77.7**	66.8
Trustee-held funds	**69.4**	70.1
	147.1	136.9
Land, buildings, and equipment, net	**1,532.2**	1,451.5
Other assets:		
Investments in joint ventures	**24.2**	15.0
Pledges receivable, net	**5.1**	1.5
Other assets	**40.3**	28.3
	69.6	44.8
Total assets	**$ 4,268.1**	$ 4,561.5

	December 31	
	2012	2011
	(In Millions)	
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term obligations	**$ 67.7**	$ 56.4
Accrued interest payable	**29.3**	27.9
Accounts payable	**162.4**	134.5
Accrued salaries, wages, and benefits	**111.9**	95.4
Other accrued expenses	**59.6**	65.0
Liabilities held for sale	**24.1**	23.9
Total current liabilities	**455.0**	403.1
Other noncurrent liabilities:		
Reserve for self-insured risks	**75.9**	72.3
Accrued pension payable	**53.5**	21.1
Accrued swap payable	**27.8**	27.7
Other liabilities	**18.3**	19.8
	175.5	140.9
Capital structure:		
Bonds payable	**1,329.0**	1,366.4
Other notes and capital leases payable	**250.0**	21.5
	1,579.0	1,387.9
Less current maturities	**67.7**	56.4
	1,511.3	1,331.5
Total liabilities	**2,141.8**	1,875.5
Net assets:		
Noncontrolling interest	**2.7**	251.3
SCL Health System controlling interest	**1,986.7**	2,283.2
Total unrestricted net assets	**1,989.4**	2,534.5
Temporarily restricted	**105.2**	120.7
Permanently restricted	**31.7**	30.8
Total net assets	**2,126.3**	2,686.0
Total liabilities and net assets	**$ 4,268.1**	$ 4,561.5

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Operations

	Year Ended December 31	
	2012	**2011**
	(In Millions)	
Patient services		
Operating revenue:		
Net patient service revenue before provision for bad debts	**$ 2,193.1**	$ 2,111.3
Provision for bad debts	**(93.5)**	(116.5)
Net patient service revenue	**2,099.6**	1,994.8
Other operating revenue	**90.3**	68.8
Net assets released from restrictions	**7.4**	4.8
Net gain from joint ventures	**22.7**	8.2
Net gain (loss) from disposal of assets	**3.4**	(0.6)
Total operating revenue	**2,223.4**	2,076.0
Operating expenses:		
Salaries and wages	**907.1**	832.5
Employee benefits	**205.2**	193.6
Other operating expenses	**813.7**	765.0
Depreciation and amortization	**185.2**	190.1
Interest and amortization	**55.5**	58.1
Total operating expenses	**2,166.7**	2,039.3
Income from continuing operations	**56.7**	36.7
Nonoperating gains (losses)		
Income tax expense	**(7.1)**	(2.3)
Investment income	**139.2**	5.5
Loss on early extinguishment of debt	**(0.6)**	(1.7)
Mission Fund expenditures	**(5.1)**	(0.4)
Total nonoperating gains, net	**126.4**	1.1
Excess of revenue over expenses	**183.1**	37.8
Less amounts attributable to noncontrolling interest	**2.5**	2.6
Excess of revenue over expenses attributable to SCL Health System	**$ 180.6**	$ 35.2

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Changes in Net Assets

	Year Ended December 31, 2012			Year Ended December 31, 2011		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
		(In Millions)			*(In Millions)*	
Unrestricted net assets						
Excess of revenue over expenses	**$ 183.1**	**$ 180.6**	**$ 2.5**	$ 37.8	$ 35.2	$ 2.6
Loss related to discontinued operations	**(427.1)**	**(427.1)**	**–**	(26.3)	(26.3)	–
Change in unrealized value of interest rate swaps	**1.5**	**1.5**	**–**	(14.2)	(14.2)	–
Acquisition of noncontrolling interest of Exempla Inc.	**(274.7)**	**–**	**(274.7)**	–	–	–
Change in noncontrolling interest	**–**	**(26.1)**	**26.1**	–	(11.1)	11.1
Distributions to noncontrolling interest	**(2.5)**	**–**	**(2.5)**	(4.4)	–	(4.4)
Contributions to related organizations	**(4.6)**	**(4.6)**	**–**	(10.5)	(10.5)	–
Pension-related charges other than net periodic pension costs	**(28.2)**	**(28.2)**	**–**	(39.9)	(39.9)	–
Net assets released for capital acquisitions	**7.4**	**7.4**	**–**	10.6	10.6	–
	(545.1)	**(296.5)**	**(248.6)**	(46.9)	(56.2)	9.3
Temporarily restricted net assets						
Contributions	**17.5**	**17.5**	**–**	27.5	27.5	–
Net investment activity	**1.9**	**1.9**	**–**	(0.4)	(0.4)	–
Net assets released from restrictions	**(34.9)**	**(34.9)**	**–**	(27.7)	(27.7)	–
	(15.5)	**(15.5)**	**–**	(0.6)	(0.6)	–
Permanently restricted net assets						
Contributions	**0.5**	**0.5**	**–**	0.8	0.8	–
Net investment activity	**0.4**	**0.4**	**–**	0.2	0.2	–
	0.9	**0.9**	**–**	1.0	1.0	–
(Decrease) increase in net assets	**(559.7)**	**(311.1)**	**(248.6)**	(46.5)	(55.8)	9.3
Beginning net assets	**2,686.0**	**2,434.7**	**251.3**	2,732.5	2,490.5	242.0
Ending net assets	**$ 2,126.3**	**$ 2,123.6**	**$ 2.7**	$ 2,686.0	$ 2,434.7	$ 251.3

See accompanying notes.

Sisters of Charity of Leavenworth Health System, Inc.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2012	**2011**
	(In Millions)	
Operating activities		
Decrease in net assets	**$ (559.7)**	$ (46.5)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and discontinued operations:		
Depreciation and amortization	**226.9**	232.7
Loss on assets held for sale	**394.6**	–
Note payable issued to acquire noncontrolling interest	**230.0**	–
Acquisition of noncontrolling interest	**44.7**	–
Change in cash from assets held for sale	**(1.2)**	(0.3)
Loss of defeasance of debt	**0.6**	0.9
Provision for bad debts	**120.5**	142.3
Increase in accounts receivable, net of allowances	**(127.4)**	(165.5)
Change in unrealized value of interest rate swaps	**1.5**	14.2
Restricted contributions	**(18.0)**	(28.3)
Pension-related charges other than net periodic pension costs	**26.5**	39.9
Net assets released for capital acquisitions	**(7.4)**	(10.6)
Net gain from joint ventures	**(22.8)**	(8.2)
Net gain from disposal of assets	**(3.7)**	(2.4)
(Increase) decrease in investments	**(69.4)**	33.1
Increase in other assets	**(59.2)**	(3.1)
Increase in liabilities	**74.5**	1.8
Net cash provided by operating activities	**251.0**	200.0
Investing activities		
Acquisition of land, buildings, and equipment	**(284.9)**	(183.5)
Acquisition of Mt. St. Vincent Home	**–**	(27.2)
Proceeds from disposal of land, buildings, and equipment	**4.4**	0.2
Decrease in investments in joint ventures	**13.1**	10.2
Net cash used in investing activities	**(267.4)**	(200.3)
Financing activities		
Acquisition of noncontrolling interest	**(44.7)**	–
Restricted contributions	**18.0**	28.3
Net assets released for capital acquisitions	**7.4**	10.6
Proceeds from issuance of long-term debt, net of original issue discount and financing costs	**76.0**	62.2
Payments on bonds, notes, and capital leases payable	**(37.5)**	(33.8)
Defeasance of bonds payable, including call and interest premium	**(76.0)**	(62.2)
Net cash (used in) provided by financing activities	**(56.8)**	**5.1**
Net (decrease) increase in cash and cash equivalents	**(73.2)**	4.8
Beginning cash and cash equivalents	**102.8**	98.0
Ending cash and cash equivalents	**$ 29.6**	$ 102.8
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, including amounts capitalized	**$ 57.9**	$ 65.0
Interest expense capitalized	**$ 2.3**	$ 0.6
Note payable issued to acquire noncontrolling interest	**$ 230.0**	$ –

See accompanying notes.

1. Organization

The Sisters of Charity of Leavenworth Health System, Inc. (SCL Health System) is a Catholic ministry that operates as a Kansas not-for-profit corporation, headquartered in Denver, Colorado. The mission of SCL Health System is to reveal and foster God's healing love by improving the health of the people and communities we serve, especially those who are poor and vulnerable.

The primary ministry of SCL Health System is to witness the Gospel of Jesus by striving to provide quality health care in a spirit of justice and charity. Services are provided based on community need and available resources, with special concern for the poor and underserved. The ministry is carried out in many ways, including the provision of health care services at its locations.

SCL Health System controls a group of related entities identified as Affiliates (collectively referred to as SCL Health System). SCL Health System and its hospital, foundation, and clinic Affiliates have been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Income tax expenses in the accompanying consolidated statements of operations relate to wholly owned for-profit entities.

The Sisters of Charity of Leavenworth formed a new canonical entity, Leaven Ministries, which was approved by the Catholic Church to be the new Sponsor of SCL Health System. The transfer of sponsorship took place September 25, 2011. This transition did not affect day-to-day operations of SCL Health System. Leadership of the Sisters of Charity of Leavenworth religious community remains involved in Leaven Ministries. The members of Leaven Ministries include three Sisters and two lay leaders.

On January 1, 1998, Exempla Healthcare, a Denver, Colorado-based health care delivery system, was formed by a Joint Operating Agreement (JOA) between the parent company of SCL Health System, Community First Foundation (CFF), Exempla, Inc. (Exempla), and Saint Joseph Hospital, Inc. (SJH). Under the JOA, Exempla operates SJH and Exempla's subsidiaries: Exempla Lutheran Medical Center; Exempla Good Samaritan Medical Center (EGSMC); and Exempla Partners, LLC. In December 2009, SCL Health System gained control of Exempla and its subsidiaries and accordingly was consolidated into SCL Health System's consolidated financial statements from that date forward. In fiscal 2010, Exempla became a Restricted Affiliate under the SCL Health System Master Trust Indenture (MTI).

On October 2, 2012, SCL Health System terminated the JOA, acquiring the remaining 50% noncontrolling interest in Exempla Healthcare for $274.7 million, the price defined in the 2010 JOA amendment. SCL Health System paid CFF $44.7 million at the date of closing, and executed a $230.0 million note to CFF, with principal payable over a 20-year term with interest at the prime rate, adjusted quarterly.

In 2012, SCL Health System committed to a plan to sell Providence Medical Center in Kansas City, Kansas (PMC); Saint John Hospital in Leavenworth, Kansas (SJL); and Saint John's Hospital and Health Center in Santa Monica, California (SJSM). See Note 3 for discussion of the accounting and reporting for discontinued operations.

1. Organization (continued)

The following organizations comprise the Affiliates that are owned by or affiliated with SCL Health System directly or indirectly through sole or shared corporate membership. All Affiliates listed below are included in the accompanying consolidated financial statements. Restricted Affiliates is a defined term under the MTI. See Note 7 for discussion regarding the Restricted Affiliates.

Restricted Affiliates	Location
Kansas	
Providence Medical Center, Inc.[1]	Kansas City, Kansas
Saint John Hospital, Inc.[1]	Leavenworth, Kansas
St. Francis Health Center, Inc.	Topeka, Kansas
Colorado	
Exempla, Inc. and Subsidiaries	Denver, Colorado
Exempla Lutheran Medical Center	Wheat Ridge, Colorado
Exempla Lutheran Medical Center Foundation	Wheat Ridge, Colorado
Exempla Good Samaritan Medical Center, LLC	Lafayette, Colorado
Exempla Good Samaritan Medical Center Foundation	Lafayette, Colorado
Exempla Partners, LLC	Denver, Colorado
Saint Joseph Hospital, Inc.	Denver, Colorado
St. Mary's Hospital & Medical Center, Inc.	Grand Junction, Colorado
Montana	
Holy Rosary Healthcare	Miles City, Montana
St. James Healthcare	Butte, Montana
St. Vincent Healthcare	Billings, Montana
California	
Saint John's Hospital and Health Center[1]	Santa Monica, California

[1]Restricted Affiliate held for sale as of December 31, 2012

1. Organization (continued)

Other Affiliates	Location
Kansas	
Providence/Saint John Foundation, Inc.	Kansas City, Kansas
St. Francis Health Center Foundation	Topeka, Kansas
Holton Community Hospital	Holton, Kansas
Caritas Clinics, Inc.	Leavenworth and Kansas City, Kansas
Marian Clinic, Inc.	Topeka, Kansas
Caritas, Inc. and Subsidiaries	Lenexa, Kansas
Colorado	
Saint Joseph Hospital Foundation	Denver, Colorado
St. Mary's Hospital Foundation	Grand Junction, Colorado
Marillac Clinic, Inc.	Grand Junction, Colorado
Mount St. Vincent (effective as of March 1, 2011)	Denver, Colorado
Montana	
St. Vincent Foundation, Inc.	Billings, Montana
St. James Healthcare Foundation, Inc.	Butte, Montana
Holy Rosary Healthcare Foundation, Inc.	Miles City, Montana
California	
Saint John's Hospital and Health Center Foundation[2]	Santa Monica, California
John Wayne Cancer Center, Inc. and Subsidiaries[2]	Santa Monica, California
Grand Cayman, BWI	
Leaven Insurance Company, Ltd.	Georgetown, Grand Cayman, BWI

[2]Affiliate held for sale as of December 31, 2012, in connection with Saint John's Hospital and Health Center

2. Summary of Significant Accounting Policies

Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased that have not otherwise been classified as assets limited as to use by Board designation or other arrangements under trust agreements due to a designation for long-term purposes.

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

SCL Health System provides health care services through inpatient, outpatient, and ambulatory care facilities and grants credit to patients, substantially all of whom are local residents in the communities served by SCL Health System. SCL Health System generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies, including, but not limited to, Medicare, Medicaid, health maintenance organizations, and commercial insurance policies.

Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts, and subsequent recoveries are added. The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering the business and general economic condition in its service area, trends in health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical collection experience by payor category and other factors. The results of these reviews are then used to make any modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible accounts. The allowance for uncollectible accounts includes a reserve for both uninsured patients and balance after insurance accounts receivable. SCL Health System's allowance percentage for uninsured patients is approximately 94.0% and 30.3% for balance after insurance accounts receivable. At December 31, 2012 and 2011, the allowance for uncollectible accounts was approximately $147.0 million and $167.1 million, respectively. The uncollectible allowance decreased in 2012 as more uninsured patients qualified to receive charity assistance, per SCL Health System's charity policy, and the timing of accounts written off as uncollectible was standardized across the organization.

The following is a rollforward of the provision for bad debts as reflected in the accompanying consolidated balance sheets:

	2012	**2011**
	(In Millions)	
Balance, beginning of year	**$ 167.1**	$ 192.8
Provision for bad debts	**120.5**	142.3
Write-offs, net of recoveries	**(140.6)**	(168.0)
Balance, end of year	**$ 147.0**	$ 167.1

Inventory

Inventory consists primarily of medical supplies and pharmaceuticals and is stated at the lower of actual cost, generally on the first-in, first-out basis or market.

2. Summary of Significant Accounting Policies (continued)

Investments and Assets Limited as to Use

SCL Health System holds the majority of its investments through the Comprehensive Investment Program (CIP), an investment pool of funds in which a limited number of unaffiliated nonprofit entities participate. SCL Health System does not consolidate the entire investment pool of funds as a portion of the investments represent the interest of other entities. Accordingly, as related to the CIP, SCL Health System's investments recorded in the accompanying consolidated financial statements consist only of SCL Health System's pro rata share of the CIP's investments held for participants.

SCL Health System invests funds in excess of operating requirements. Trustee-held funds are the unspent proceeds related to bond financings and investments related to the executive supplemental retirement plans. Restricted funds – self-insured risks are funds set aside by SCL Health System to satisfy insurance claims and other related expenditures. Investments in equity and debt securities are measured at fair value.

For purposes of recognizing investment returns as a component of excess of revenue over expenses, substantially all investments are considered to be trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Gains and losses with respect to disposition of marketable securities are based on the specific-identification method. Investment returns related to temporarily and permanently restricted net assets are added or deducted from the appropriate net asset balance based on donors' intent.

Derivative Financial Instruments

SCL Health System investment fund managers use derivative financial instruments in the investment portfolio to moderate changes in value due to fluctuations in financial markets. SCL Health System has not designated its derivatives related to marketable securities as hedges, and the change in fair value of these derivatives is recognized as a component of investment income.

SCL Health System uses interest rate swap contracts in managing its capital structure. SCL Health System recognizes these derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and the type of hedging relationship.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of unrestricted net assets and reclassified into excess of revenues over expenses in the same period or periods during which the cash flows of the hedged transaction are settled. The ineffective portion is recorded in the excess of revenues over expenses in the current period. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, subsequent gains or losses on the derivatives would be recorded in excess of revenues over expenses.

2. Summary of Significant Accounting Policies (continued)

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or fair market value at the date of donation. Improvements and replacements are capitalized, and repairs and maintenance are expensed when incurred. Interest incurred in connection with borrowings to finance major construction or expansion of facilities is capitalized during the construction period and subsequently amortized over the lives of the related assets. Provision for depreciation is calculated using the straight-line method, which allocates the cost of tangible property equally over its estimated life. Estimated useful lives are generally those recommended by the American Hospital Association.

Land, buildings, equipment, and accumulated depreciation, as of December 31, were as follows:

	2012	2011
	(In Millions)	
Land	**$ 122.4**	$ 123.0
Buildings, land improvements, and equipment	**3,016.1**	2,918.2
Construction in progress	**214.9**	85.1
	3,353.4	3,126.3
Less accumulated depreciation	**1,821.2**	1,674.8
	$ 1,532.2	$ 1,451.5

Asset Impairment

SCL Health System considers whether indicators of impairment are present or performs the necessary test to determine whether the carrying value of an asset is appropriate. Impairment write-downs are recognized in income from operations at the time the impairment is identified, except for alternative investment impairments, which are recognized in investment income in nonoperating gains (losses).

During 2011, SCL Health System began work on a replacement hospital for SJH, which is expected to open at the beginning of 2015. As a result, the remaining useful life of the building and equipment assets was reevaluated during 2011. Accelerated depreciation on building and equipment assets whose useful life will end on December 31, 2014, was $12.0 million and $8.4 million in 2012 and 2011, respectively, and is projected to be $12.2 million each year through 2014. See Note 3 for discussion of asset impairment related to discontinued operations.

Meaningful Use Revenue

The American Recovery and Reinvestment Act of 2009 established incentive payments under Medicare and Medicaid programs for certain eligible professionals, hospitals, and critical access hospitals (Providers). Providers can receive incentive payments by adopting, implementing, and upgrading electronic health records (EHR) technology. Providers can also receive incentive payments for demonstrating meaningful use of EHR technology. Upon satisfaction of the meaningful use criteria, using a grant accounting model, SCL Health System recognized $15.6 million and $8.3 million of these incentive payments within other operating revenue on the consolidated statements of operations for the years ended December 31, 2012 and 2011, respectively, related to continuing

2. Summary of Significant Accounting Policies (continued)

operations. If specified meaningful use criteria are met in future periods, SCL Health System may qualify for additional incentive payments.

Deferred Financing Costs

Deferred financing costs are amortized over the lives of the bonds utilizing the effective interest method.

Investments in Joint Ventures

SCL Health System accounts for investments in joint ventures using the equity or cost method, depending on the nature of the investment and extent of control or ownership by SCL Health System.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by SCL Health System has been limited by donors to a specific time period or purpose. These assets relate primarily to gifts restricted for capital expenditures, research, or health care services.

Permanently restricted net assets have been restricted by donors to be maintained by SCL Health System in perpetuity, the income from which is expendable based on donor intent.

Contributions to Related Organizations

SCL Health System records payments to the Sponsor and transfers from the related foundations to other affiliated entities as contributions to related organizations, which are recorded as changes in net assets.

Contributions for Long-Lived Assets

Contributions for long-lived assets are those contributions, bequests, or grants to SCL Health System for the sole purpose of acquiring capitalized long-lived assets.

Contributions, Bequests, and Grants

Donors' unconditional pledges to give cash and other assets are reported at fair value at the date the promise is received. Donors' conditional pledges to give and indications of intentions to give are reported at fair value at the date the condition is satisfied. Except for contributions for long-lived assets, all unrestricted contributions, bequests, and grants are included in excess of revenue over expenses. Contributions, bequests, and grants 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 is satisfied (as to either time or purpose), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Resources temporarily restricted by donors for additions to land, buildings, and equipment whose purposes have been met are recorded as net assets released for

2. Summary of Significant Accounting Policies (continued)

capital acquisitions in the consolidated statements of operations and changes in net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Endowments

SCL Health System's endowments consist of approximately 70 individual funds established for a variety of purposes. Endowment assets include those assets of donor-restricted funds that SCL Health System must hold in perpetuity or for a donor-specified period, as well as Board-designated funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

SCL Health System is subject to the Uniform Prudent Management of Institutional Funds Acts (UPMIFA), as separately enacted in Kansas, Colorado, Montana, and California. Collectively, these statutes establish requirements for the management, investment, and expenditures of endowed funds. SCL Health System has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of their relevant benchmarks while assuming a reasonable level of investment risk.

As of December 31, 2012 and 2011, the permanently restricted endowment net assets were $28.7 million and $27.8 million, respectively. Included in these amounts are $14.4 million and $14.3 million, respectively, of endowments associated with discontinued operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Operating and Nonoperating Gains (Losses)

SCL Health System's primary mission is to meet the health care needs of its service areas through a broad range of general and specialized health care services, including inpatient, acute care, outpatient, physician, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to SCL Health System's primary mission are considered to be nonoperating. Nonoperating activities include income tax expense, investment income, loss on early extinguishment of debt, and Mission Fund expenditures.

2. Summary of Significant Accounting Policies (continued)

Operating and Performance Indicators

The activities of SCL Health System are primarily related to providing health care services, and accordingly, expense information by functional classification is not used as a basis for measuring performance. Furthermore, since substantially all resources are derived from providing health care services, similar to that provided by a business enterprise, the following indicators are considered important in evaluating how well management has discharged its stewardship responsibilities:

Operating Indicator (income from continuing operations) – Includes all unrestricted revenue, gains, and other support; equity income or loss of unconsolidated health care subsidiaries; and expenses directly related to the recurring and ongoing health care operations during the reporting period. The operating indicator excludes income tax expense, investment income or losses (including changes in unrealized gains and losses on investments), loss on early extinguishment of debt, Mission Fund expenditures, amounts attributable to noncontrolling interest, and gains and losses deemed by management not to be directly related to providing health care services.

Performance Indicator (excess of revenues over expenses) – Includes income from continuing operations and nonoperating gains, net. The performance indicator excludes the change in fair value of interest rate swaps designated as a hedge, noncontrolling interest, pension-related charges other than net periodic pension costs, contributions to related organizations, contributions for capital expenditures, and net assets released from restricted funds.

Noncontrolling Interest in Subsidiaries

SCL Health System attributed excess of revenue over expenses of $2.5 million and $2.6 million for the years ended December 31, 2012 and 2011, respectively, to the noncontrolling interests based on the contractual terms of joint ventures and the ownership percentage of the noncontrolling interests in certain of the consolidated subsidiaries. These amounts are reflected in unrestricted net assets in the consolidated balance sheets, net of distributions.

SCL Health System acquired the remaining 50% noncontrolling interest in Exempla Healthcare in October 2012, at the price defined in the 2010 amendment. The acceleration of the transaction reduced unrestricted net assets by $274.7 million, reflected in acquisitions of noncontrolling interest of Exempla Inc. in the consolidated statement of changes in net assets.

Discontinued Operations

A component of an entity is reported as discontinued operations if, among other things, such component (i) has been disposed of or is classified as held for sale, (ii) has operations and cash flows that can be clearly distinguished from the rest of the reporting entity, and (iii) will be eliminated from the ongoing operations of the reporting entity. In the period that a component meets such criteria, its results of operations for current and prior periods are reclassified to discontinued operations and the assets and liabilities of the related disposal group are segregated on the consolidated balance sheet. See Note 3 for information regarding SCL Health System’s discontinued operations.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain balances in the 2011 consolidated financial statements have been reclassified to conform to the current year presentation. The effect of such reclassifications did not change total net assets or excess of revenues over expenses.

Adoption of Accounting Pronouncements

In May 2011, accounting guidance was issued that specified the valuation concept of highest and best use is applicable to nonfinancial assets and liabilities only. The guidance also permits the measurement of financial instruments managed in a portfolio to be measured at the price that would be received to sell or transfer between market participants at the measurement date. Additionally, the guidance allows for the use of premiums and discounts in measuring an asset or liability in the absence of a Level 1 input. This guidance also requires additional disclosures for Level 3 measurements, including the valuation process used and the use of a nonfinancial asset in a way that differs from the asset's highest and best use. SCL Health System adopted the provisions of this guidance in 2012, which did not have a significant impact on the consolidated financial statements as it only requires additional disclosures.

In July 2011, guidance was issued that requires health care entities to reflect bad debt expense as a reduction to net patient revenue (net of contractual allowances and discounts) on the statements of operations. Additionally, the following disclosures are required for interim and annual reporting: the policy for considering collectibility in the timing and amount of revenue and bad debt recognized, patient service revenue by payor source, and qualitative and quantitative information about changes in the allowance for doubtful accounts. SCL Health System adopted the provisions of this guidance on January 1, 2012, which did not have a significant impact on the consolidated financial statements.

3. Discontinued Operations

SCL Health System entered into an Asset Purchase Agreement with Prime Healthcare for the sale of PMC and SJL for $54.1 million and completed the sale transaction on April 1, 2013. SCL Health System had received offers for the sale of the Santa Monica location. No final agreement has been reached as discussions are ongoing with the various bidders. In accordance with Accounting Standards Codification (ASC) 205-20, *Presentation of Financial Statements – Discontinued Operations*, and ASC 360-10, *Property, Plant, and Equipment – Overall*, the results of operations associated with these locations 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 inventory, prepaid expenses, fixed assets, restricted pledges, and investments in joint ventures. Liabilities held for sale consist of accrued expenses.

3. Discontinued Operations (continued)

Related to the locations held for sale, SCL Health System recorded a deficiency of revenue over expenses of $427.1 million and $26.3 million for the years ended December 31, 2012 and 2011, respectively, which is reported as discontinued operations in the accompanying consolidated financial statements. Included in the loss on discontinued operations for 2012 is an asset impairment loss of $394.6 million representing the difference between the fair value of assets held for sale, less costs to sell, and their net book value. Total operating revenues, total operating expenses, and asset impairment included in the results of discontinued operations for the years ended December 31 are summarized below:

	2012	2011
	(In Millions)	
Total operating revenues	**$ 498.5**	$ 477.8
Total operating expenses	**(530.3)**	(503.0)
Asset impairment	**(394.6)**	–
	(426.4)	(25.2)
Nonoperating losses	**(0.7)**	(1.1)
Loss related to discontinued operations	**$ (427.1)**	$ (26.3)

The consolidated statements of cash flows include the use of $46.9 million and $13.7 million of operating, investing, and financing activities related to discontinued operations for the years ended December 31, 2012 and 2011, respectively.

4. Charity Care

SCL Health System has a mission to care for those who are poor and vulnerable and provides charity care to patients deemed to be either financially or medically indigent. Policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets.

The cost to provide charity care using the consolidated cost to charge ratio was $80.1 million and $75.9 million for 2012 and 2011, respectively. The ratio of cost to charges is calculated based on SCL Health System's total operating expenses less other nonpatient operating revenue divided by gross patient service revenue.

In addition to traditional charity care services, SCL Health System has a financial assistance policy that offers discounted services to uninsured patients who do not otherwise qualify for charity. The payments expected from patients are based on rates negotiated with managed care plans, with discounts determined on a sliding scale tied to the federal poverty level. SCL Health System's financial assistance policy prohibits the use of collection practices that do not respect the dignity of its patients. Liens on principal residences may only be used when there is clear evidence of the patient's ability to pay, may not be used to force foreclosure or sale, and must be approved by the Affiliate's Board Finance Committee.

4. Charity Care (continued)

SCL Health System benefits its communities in a variety of ways. To improve the health status of citizens in the communities served, it provides numerous community education programs that alert the public to various health problems and how they can be addressed. SCL Health System offers health promotion and wellness programs and provides specific health care services and programs for senior citizens. Each of these programs helps contain the growth of community health care costs through prevention and positive intervention. SCL Health System has established a Mission Fund at each Affiliate. Earnings from the funds are available to support these charitable services and programs.

SCL Health System addresses problems of the poor in the communities by providing services such as health fairs and screenings at no cost or at substantially reduced rates. It provides prenatal education classes especially for low-income persons and transportation for those who otherwise would have no access to medical services. SCL Health System also supports organizations that provide other outreach programs for the poor, including the stand-alone clinics that serve only the medically underserved populations in their service areas.

SCL Health System encourages use of its facilities, consistent with its tax-exempt status, by other organizations and individuals to join in carrying out a broad health agenda. It promotes volunteerism by providing specific programs and training for volunteers from the community, encourages staff involvement in community organizations, and provides health-related information to the community by sponsoring speaker bureaus and tours of its facilities.

SCL Health System sponsors four stand-alone clinic affiliates (the Clinics) specifically for those individuals who have no other source of health care assistance. Generally, the Clinics do not serve persons with Medicare or any kind of private health insurance. The majority of funding for the Clinics is generated from individual contributions, donations, foundations, grants, and in-kind services. The Clinics create access to health care for those individuals without access, provide channels for physicians to reach the poor, and make a difference in the communities where they are established.

Effective for tax years beginning after March 23, 2010, the Patient Protection and Affordable Care Act (Affordable Care Act) requires, among other things, that hospital organizations establish a financial assistance policy and a policy relating to emergency medical care. SCL Health System adopted policies to be fully compliant with the new tax provisions as of January 1, 2011.

5. Net Patient Service Revenue

A significant portion of SCL Health System's services are provided to patients under Medicare, Medicaid, and other agreements with third-party contractual agencies. Such contracts provide for payment or reimbursement to SCL Health System at other-than-standard charges. Estimated settlements have been reflected in the accompanying consolidated balance sheets for differences between interim payments and the total payments to be received under the contracts.

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due or payable until cost reports are audited or otherwise reviewed and settled upon by the applicable administrative agencies. Normal estimation differences between final settlements and amounts accrued in previous years are reported as current year contractual adjustments.

5. Net Patient Service Revenue (continued)

Net patient service revenue as reflected in the accompanying consolidated statements of operations and changes in net assets consists of the following:

	2012	2011
	(In Millions)	
Gross patient service charges:		
Inpatient charges	**$ 3,703.6**	$ 3,378.4
Outpatient charges	**2,974.4**	2,681.0
Total gross patient service charges	**6,678.0**	6,059.4
Deductions from patient service charges:		
Contractual allowances and other	**4,227.1**	3,714.7
Charity allowances	**257.8**	233.4
Total deductions from patient service charges	**4,484.9**	3,948.1
Net patient service revenue before provision for bad debts	**2,193.1**	2,111.3
Provision for bad debts	**93.5**	116.5
Net patient service revenue	**$ 2,099.6**	$ 1,994.8

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, or investigations.

The primary sources of consolidated gross patient service charges include Medicare, state-administered Medicaid programs, contracted rate payors (including health maintenance organizations and preferred provider organizations), commercial insurers, self-paying patients, and other sources. The following information provides consolidated net patient service revenue before the provision for doubtful accounts by payor for the years ended December 31:

	2012		2011	
	(In Millions)			
Medicare	**$ 645.4**	**29%**	$ 677.3	32%
Medicaid	**205.3**	**9**	168.3	8
Managed care, commercial, and other	**1,218.7**	**56**	1,160.8	55
Self-pay	**123.7**	**6**	104.9	5
	$ 2,193.1	**100%**	$ 2,111.3	100%

5. Net Patient Service Revenue (continued)

Revenue from Kaiser Permanente (see Note 12) represented approximately 21.6% and 22.6% of SCL Health System's net patient service revenue for the years ended December 31, 2012 and 2011, respectively, related to continuing operations. Approximately 67% of SCL Health System's net patient service revenue is derived from Affiliates doing business in the state of Colorado.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Centers for Medicare & Medicaid Services (CMS) have made inquiries regarding certain reimbursements claimed by SCL Health System. SCL Health System has adopted internal organizational responsibility and compliance programs to address these concerns and seeks to proactively respond to these requests. SCL Health System does not expect that the ultimate resolution of these inquiries will be material to its consolidated financial statements.

6. Investments and Assets Limited as to Use

The majority of SCL Health System's investments comprise its pro rata share of the CIP's funds held for participants and certain other investments such as those investments held and managed by foundations and the captive insurance company. Investments and assets limited as to use, stated at fair value, were as follows:

	December 31	
	2012	**2011**
	(In Millions)	
Held in the CIP:		
Cash and enhanced cash included in pooled accounts	**$ 290.7**	$ 398.7
Fixed income	**160.1**	268.8
Domestic equity	**141.4**	192.0
Global/international equity	**213.5**	289.5
Real estate	**175.9**	179.4
Mutual funds	**503.4**	140.1
Absolute return funds	**28.7**	79.5
Core hedge funds	**78.1**	38.5
Private equity	**20.9**	17.6
Commingled funds	**49.5**	22.0
	1,662.2	1,626.1
Investments held outside of the CIP	**219.8**	196.4
	$ 1,882.0	$ 1,822.5

SCL Health System's pro rata share of the CIP's funds was $1,662.2 million and $1,626.1 million at December 31, 2012 and 2011, respectively, representing 85% and 86%, respectively, of the funds held for participants in the CIP at those respective dates.

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

SCL Health System's investments are exposed to various kinds and levels of risk. Fixed income securities expose SCL Health System to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities. SCL Health System's investments are diversified across a broad range of asset classes, durations, and funds to avoid concentrations of risk in any particular company, region, or industry.

Equity securities expose SCL Health System to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets, both foreign and domestic. Performance risk is that risk associated with a company's operating performance. Liquidity risk as previously defined tends to be higher for foreign equities and equities related to small capitalization companies.

The real estate investments, absolute return funds, and core hedge funds present similar risks to all of the traditional investments, with some additional risks. Due to the fact that these investments are invested through limited partnerships, private real estate investment trusts (REITs), insurance separate accounts, or other limited-access-type vehicles, pricing is infrequent. These investments may also employ leverage that may lead to additional risk of loss. Although these investments are diversified by region and property type, they may at times have concentrations in a particular region or property type, which may cause additional risk. The real estate investments, absolute return funds, and core hedge funds are redeemable on a quarterly basis with 60 to 90 days' notice. Private equity funds have restrictions on liquidity withdrawals. Interim liquidity in private equity funds is only available after the investments realize profits. As of December 31, 2012, SCL Health System had given full redemption notices to investment managers in the absolute return funds and $40.9 million in core hedge funds. These redemptions are expected to be paid to SCL Health System based on the liquidity requirements of each investment manager. Subsequent to December 31, 2012, SCL Health System received $24.5 million of cash proceeds on redemption notices given to investment managers. In addition, SCL Health System has not committed any additional investments to private equity funds as of December 31, 2012.

7. Capital Structure

Long-term debt for SCL Health System consists of the following at December 31:

	Annual Interest Rates	2012	2011
		(In Millions)	
Tax-exempt bond issues:			
2012, due through December 2031	Variable rate, 0.57%	**$ 74.5**	$ –
2011, due through January 2039	Variable rate, 0.64% and 0.68%	**61.6**	62.6
2010, due through January 2040	2.50% to 5.25%	**962.0**	984.8
2006, due through December 2031	Variable rate, 0.13% and 0.08%	**25.8**	103.3
2003, due through December 2038	Variable rate, 0.15% and 0.08%	**123.8**	130.6
2002, due through December 2032	Variable rate, 0.15% and 0.09%	**59.8**	61.8
Total under the SCL Health System master trust indenture		**1,307.5**	1,343.1
Note payable to Community First Foundation, due through October 2032	Variable rate, 3.25%	**230.0**	–
Note payable to Kaiser Permanente, due November 2032	6.00%	**16.5**	16.5
Other notes and capital leases		**8.2**	9.9
		1,562.2	1,369.5
Original issue discount, net		**16.8**	18.4
Current maturities of long-term debt		**(67.7)**	(56.4)
		$ 1,511.3	$ 1,331.5

The Corporation is the sole member of an Obligated Group of which the Restricted Affiliates are included under the terms of a Master Trust Indenture (MTI) amended and restated as of January 1, 1994. Under the terms of the MTI, debt can be incurred for which the Obligated Group is jointly and severally liable. As of December 31, 2012, the outstanding indebtedness under the MTI was $1,307.5 million, exclusive of original issue discount or premium. In addition, as of December 31, 2012, there were also guarantees of indebtedness by SCL Health System outstanding under the MTI of approximately $38.7 million (see Note 14). The Obligated Group has agreed to certain covenants, including, among other things, a specified debt service coverage ratio and debt to capitalization ratio, a restriction on certain types of additional indebtedness, and a restriction on asset dispositions in excess of specified amounts. The consolidated results of the Obligated Group and Restricted Affiliates are used to determine compliance with certain covenants of the MTI. As of December 31, 2012 and 2011, SCL Health System was in compliance with all covenants.

On June 15, 2011, SCL Health System issued $62.6 million of Colorado Health Facilities Authority Variable Rate Revenue Bonds Series 2011A as a private placement with Bank of America, N.A. The private placement was used to refund the outstanding 2002 Series B and 2009 Series A Exempla, Inc. Colorado Health Facilities Authority Variable Rate Revenue Bonds.

7. Capital Structure (continued)

On April 4, 2012, SCL Health System issued $76.3 million of Kansas Development Finance Authority Variable Rate Demand Revenue Bonds Series 2012A as a private placement with Citibank, N.A. The private placement was used to refund the outstanding 2006 Series C and 2006 Series D SCL Health System Kansas Development Finance Authority Variable Rate Demand Revenue Bonds.

The Series 2002, 2003, and 2006 Variable Rate Demand Bonds are backed by Standby Bond Purchase Agreements with JPMorgan Chase Bank and BNY Mellon. The Standby Bond Purchase Agreement supporting the 2003 Series A and 2003 (CA) bonds expires on March 1, 2017. The Standby Bond Purchase Agreement supporting the 2002, 2003 (MT), 2003 Series B, and 2006 Series A bonds expires on November 26, 2014. In the event that bonds bearing interest at a weekly or daily rate are not successfully remarketed or if funds are not available for remarketing, JPMorgan Chase Bank; Morgan Stanley Bank, N.A.; or BNY Mellon will pay the purchase price for debt that is tendered. The repayment terms of the Standby Bond Purchase Agreements cause a portion of the Series 2002, 2003, and 2006 Variable Rate Demand Bonds to be classified as current.

EGSMC's multiyear agreement with a Kaiser Permanente affiliate (see Note 12) provides for certain capital and operational funding through a subordinated note payable with a November 2032 maturity date. Payment of interest and principal is dependent on EGSMC meeting certain financial ratios. The note payable provides for a maximum principal amount of $18.0 million.

Scheduled principal repayments on long-term debt (excluding original issue discount, net) are as follows:

Years Ending December 31	**Scheduled**	**Scheduled With Variable Classified as Current**
	(In Millions)	
2013	$ 50.5	$ 67.2
2014	52.0	109.5
2015	52.7	109.5
2016	54.2	86.8
2017	56.0	43.4
Thereafter	1,296.8	1,145.8
	$ 1,562.2	$ 1,562.2

8. Derivative Instruments

SCL Health System has entered into three interest rate swaps. The objective of the hedges is to offset the variability of cash flows due to the repricing of outstanding debt. Details of the interest rate swaps are outlined below:

Notional amount	$36,225,000	$36,225,000	$60,000,000
Fixed annual payment rate	3.180%	3.789%	4.215%
Variable receiver rate	68% of LIBOR	SIFMA Rate	SIFMA Rate
Effective date	December 5, 2003	December 5, 2003	October 2, 2008
Termination date	December 1, 2023	December 1, 2023	December 1, 2031
Reset	Monthly	Weekly	Weekly
Settlement	Monthly	Monthly	Monthly
Classification	Cash flow hedge	Cash flow hedge	Cash flow hedge
Fair value at December 31, 2012	**$(4.9) million**	**$(5.8) million**	**$(17.1) million**
Fair value at December 31, 2011	$(5.1) million	$(5.7) million	$(16.9) million

SCL Health System measures the effectiveness of the hedges quarterly based on the cumulative dollar-offset approach. The change in unrealized value of interest rate swaps is excluded from the excess of revenue over expenses for the portion of the hedge determined to be effective. Any ineffective portion of the hedges is recorded as investment income. The ineffective portion of the hedges was $(1.6) million and $(0.2) million for the years ended December 31, 2012 and 2011, respectively. The fair value of the swaps is recorded in other noncurrent liabilities at December 31, 2012 and 2011.

9. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurements and disclosures topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification 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).

Certain of SCL Health System's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed income, equity instruments, and interest rate swap contracts. 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 – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as money market securities and listed equities.

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported from observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and interest rate swap contracts.

9. Fair Value Measurements (continued)

Level 3 – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The CIP's investments include equities, various fixed income securities, and alternative investments as detailed in the Investment and Assets Limited As to Use note. As of December 31, 2012, 58% of CIP's investments were Level 1, 24% Level 2, and 18% Level 3. As of December 31, 2011, 58% of CIP's investments were Level 1, 25% Level 2, and 17% Level 3.

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2012:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In Millions)			
Assets				
Investments:				
Cash and cash equivalents	$ 93.6	$ 93.6	$ –	$ –
U.S. government and agency obligations	2.2	1.3	0.9	–
Corporate debt	19.4	–	19.4	–
Real estate	7.7	–	–	7.7
Mutual funds	82.7	82.7	–	–
Domestic equity	12.2	12.2	–	–
Global/international equity	2.0	2.0	–	–
Held in CIP	1,662.2	–	1,662.2	–
	$ 1,882.0	$ 191.8	$ 1,682.5	$ 7.7
Liabilities				
Obligations under swap contracts	$ 27.8	$ –	$ 27.8	$ –

9. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at December 31, 2011:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In Millions)			
Assets				
Investments:				
Cash and short-term investments	$ 76.8	$ 76.8	$ –	$ –
U.S. government and agency obligations	25.0	22.0	3.0	–
Corporate debt	15.6	–	15.6	–
Real estate	6.5	–	–	6.5
Mutual funds	58.3	58.3	–	–
Domestic equity	11.5	11.5	–	–
Global/international equity	2.7	2.7	–	–
Held in CIP	1,626.1	–	1,626.1	–
	$ 1,822.5	$ 171.3	$ 1,644.7	$ 6.5
Liabilities				
Obligations under swap contracts	$ 27.7	$ –	$ 27.7	$ –

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities (primarily holding within the CIP) were determined based upon the unitized value of CIP holdings and the underlying recent trading activity. The fair values of Level 2 securities related to fixed income securities were determined through 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 provided by third-party services where quoted market values are not available. Level 2 investments also include corporate fixed income, government bonds, and mortgage- and asset-backed securities. The fair values of the interest rate swap contracts are determined based on the present value of expected future cash flows using discount rates approximate with the risks involved. The valuations reflect a credit spread adjustment to the London Interbank Offered Rate (LIBOR) and Securities Industry and Financial Markets Association (SIFMA) discount curves in order to reflect the credit value adjustment for nonperformance risk. The credit spread adjustment is derived from other comparably rated entities' bonds priced in the market. Due to the volatility of the capital markets, there is a reasonable possibility of changes in fair value and additional gains (losses) in the near term subsequent to December 31, 2012. Level 3 includes real estate; fair value is determined using recent appraisals and purchase data.

9. Fair Value Measurements (continued)

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts and pledges receivable, and current liabilities are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair value of the fixed-rate bonds was approximately $1.1 billion at December 31, 2012 and 2011. The fair value of the variable-rate revenue bonds approximates the carrying value at December 31, 2012 and 2011. The carrying value of all other debt is assumed to approximate fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while SCL Health System 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 reporting date.

The following table is a rollforward of the financial assets classified within Level 3 of the valuation hierarchy defined above:

	Investments *(In Millions)*
Fair value at January 1, 2011	$ 5.6
Acquisitions	1.0
Dispositions	(0.4)
Unrealized gains	0.3
Fair value at December 31, 2011	6.5
Acquisitions	**1.2**
Dispositions	**(0.3)**
Unrealized gains	**0.3**
Fair value at December 31, 2012	**$ 7.7**

10. Retirement Plans

Defined-Contribution Plans

SCL Health System participates in a defined-contribution retirement plan (the Defined-Contribution Plan), which is a 401(a) defined-contribution retirement plan that covers substantially all employees. Employer contributions to the plan are based on a percentage of eligible compensation for participating employees and a percentage of participating employees' contributions to a related 403(b) plan. SCL Health System funded $45.3 million and $29.6 million related to the plan during 2012 and 2011, respectively.

Prior to 2012, SCL Health System employees at the Exempla entities participated in a separate defined-contribution plan (the Exempla Plan) covering substantially all employees of Exempla Healthcare. The Exempla Plan provided, among other things, that the employer would contribute 3% to 6% based upon years of employment as well as match up to 2% of wages of employee contributions to a separate 403(b) plan. SCL Health System funded approximately $19.6 million for contributions to the Exempla Plan for the year ended December 31, 2011. The Exempla Plan was merged into the SCL Health System plan effective January 1, 2012.

10. Retirement Plans (continued)

Defined-Benefit Plans

SCL Health System participates in three defined-benefit retirement plans (the Defined-Benefit Plans). The first plan is an unfunded executive supplemental retirement plan. A second plan is a single plan with multiple-employer participants that was frozen in 1996 for all participating associates except certain associates of St. James Healthcare. SCL Health System makes contributions to these plans based on the funding recommendations of the plans' actuaries. These two plans are collectively referred to as the SCLHS Plans.

A third plan (the Exempla Plan) relates to Exempla Healthcare. Prior to January 1, 1998, the predecessor to Exempla Healthcare had a defined-benefit pension plan (the Exempla Plan), which covered substantially all of its associates. The benefits were based on years of service and employees' final average compensation. Benefits under the plan have been frozen. SCL Health System's funding policy for this plan is to contribute annually the minimum amount under the requirements of the Employee Retirement Income Security Act of 1974. Contributions are currently intended to provide for benefits attributed for services rendered through January 1, 1998.

The following sets forth the Defined-Benefit Plans' funded status and accrued pension liability, as of December 31, as actuarially determined:

	2012	2011
	(In Millions)	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 354.5**	$ 339.5
Service cost	**2.8**	2.5
Interest cost	**17.1**	17.0
Actuarial loss	**43.7**	17.8
Benefits paid	**(19.0)**	(22.6)
Special termination benefits	**0.3**	–
Plan amendments and assumption changes	**0.3**	0.3
Projected benefit obligation at end of year	**399.7**	354.5
Change in plan assets		
Fair value of plan assets at beginning of year	**331.5**	348.2
Actual return on plan assets	**31.8**	0.1
Contributions	**2.3**	7.1
Benefits paid	**(19.0)**	(22.6)
Expenses paid	**(0.9)**	(1.3)
Fair value of plan assets at end of year	**345.7**	331.5
Accrued pension liability	**$ (54.0)**	$ (23.0)

10. Retirement Plans (continued)

Included in unrestricted net assets at December 31 are the following amounts that have not yet been recognized in net periodic pension cost:

	2012	2011
	(In Millions)	
Unrecognized actuarial losses	**$ 131.5**	$ 103.2
Unrecognized prior service costs	**1.7**	1.8
	$ 133.2	$ 105.0

Changes in plan assets and benefit obligations in unrestricted net assets include the following:

	2012	2011
	(In Millions)	
Unrecognized actuarial losses	**$ 36.8**	$ 43.7
Amortization of actuarial losses	**(7.8)**	(2.9)
Amortization of prior service costs	**(0.8)**	(0.9)
	$ 28.2	$ 39.9

The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension benefit during the year ending December 31, 2013, are $13.7 million.

No plan assets are expected to be returned to SCL Health System during the year ending December 31, 2013.

	2012	2011
	(In Millions)	
Components of net periodic benefit cost		
Service cost	**$ 3.7**	$ 4.2
Interest cost	**17.1**	17.0
Expected return on plan assets	**(24.6)**	(26.1)
Amortization of prior service cost	**0.8**	0.9
Special termination benefits	**0.3**	–
Settlement loss and amortization of actuarial losses	**7.8**	2.9
Net periodic pension expense (benefit)	**$ 5.1**	$ (1.1)

Weighted-average assumptions used to determine the balance sheet liability as of December 31 are as follows:

	2012	2011
Discount rate – SCLHS Plans	**3.94%**	4.83%
Discount rate – Exempla Plan	**4.05%**	4.91%
Rate of increase in future compensation levels (age graded)	**2.50 to 9.00**	2.50 to 9.00

10. Retirement Plans (continued)

Weighted-average assumptions used to determine pension benefit cost for the years ended December 31 are as follows:

	2012	2011
Discount rate – SCLHS Plans	**4.83%**	5.27%
Discount rate – Exempla Plan	**4.91%**	5.41%
Expected return on plan assets	**7.50%**	7.50%
Rate of increase in future compensation levels (age graded)	**2.50 to 9.00**	2.50 to 9.00

Plan Assets

The expected return on plan assets reflects historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the portfolio. The investment strategy is of a long-term nature and is intended to ensure that funds are available to pay benefits as they become due and to maximize the trust's total return at an appropriate level of investment risk.

The target and actual asset allocations by asset category are as follows:

Asset Category	Target Allocation	Actual Allocation 2012	Actual Allocation 2011
Enhanced cash	3.3%	**2.8%**	8.5%
Fixed income securities	28.6	**28.5**	33.8
Domestic equity securities	11.3	**11.3**	10.5
Global/international equities	31.7	**32.2**	26.1
Real estate	14.4	**14.6**	13.9
Core hedge funds	4.4	**4.2**	3.2
Tactical allocation funds	6.3	**6.4**	4.0
	100.0%	**100.0%**	100.0%

10. Retirement Plans (continued)

Financial assets carried at fair value are classified in the tables below in one of the three categories within the fair value hierarchy described in Note 9:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Millions)			
December 31, 2012				
Assets				
Cash and short-term investments	$ 18.0	$ 18.0	$ –	$ –
Mutual funds	114.3	114.3	–	–
Global/international equities	52.1	52.1	–	–
Domestic equities	37.1	37.1	–	–
Preferred securities	0.5	0.5	–	–
Real estate	33.7	–	–	33.7
Commingled funds	32.6	–	32.6	–
Hedge funds	14.5	–	–	14.5
Corporate debt	28.5	–	28.5	–
Agency mortgage-backed securities	7.4	1.2	6.2	–
Taxable municipals	1.6	–	1.6	–
International government obligations	4.5	–	4.5	–
Asset-backed securities	0.9	–	0.9	–
	$ 345.7	$ 223.2	$ 74.3	$ 48.2

10. Retirement Plans (continued)

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In Millions)			
December 31, 2011				
Assets				
Cash and short-term investments	$ 36.5	$ 36.5	$ –	$ –
Mutual funds	124.2	124.2	–	–
Global/international equities	39.5	39.5	–	–
Domestic equities	33.6	33.6	–	–
Real estate	35.0	–	–	35.0
Commingled funds	21.9	–	21.9	–
Hedge funds	10.6	–	–	10.6
Corporate debt	18.9	–	18.9	–
Agency mortgage-backed securities	7.8	1.5	6.3	–
International government obligations	3.1	–	3.1	–
Asset-backed securities	0.4	–	0.4	–
	$ 331.5	$ 235.3	$ 50.6	$ 45.6

The following table is a roll forward of the pension plan assets classified within Level 3 of the valuation hierarchy defined above:

	Alternative Investments
	(In Millions)
Fair value at December 31, 2010	$ 44.2
Acquisitions	1.1
Dispositions	(2.2)
Realized losses	0.2
Unrealized gains	2.3
Fair value at December 31, 2011	45.6
Acquisitions	**10.4**
Dispositions	**(8.1)**
Realized gains	**0.2**
Unrealized gains	**2.7**
Transfers out	**(2.6)**
Fair value at December 31, 2012	**$ 48.2**

10. Retirement Plans (continued)

SCL Health System transfers assets in and/or out of Level 3 as significant inputs, including performance attributes, used for the fair value measurement become observable or unobservable.

Expected Benefit Payments

Expected benefit payments to participants, excluding lump-sum distributions, are as follows (in millions):

2013	$	21.9
2014		24.2
2015		26.3
2016		27.2
2017		27.9
2018–2021		139.4

11. Insurance Coverage

SCL Health System provides an insurance program to insure for various insurable risks. SCL Health System obtains insurance through Leaven Insurance Company, Ltd. (Leaven), a wholly owned subsidiary and captive insurance company, as well as third-party insurers and other self-insured methods.

Aggregate excess umbrella coverage of $100.0 million and excess claims-made basis professional liability coverage of $100.0 million are obtained through Leaven, which cedes these risks to third-party commercial reinsurers located in the United States, Switzerland, the United Kingdom, and Bermuda. Claims-made general liability coverage provides for a self-insured retention of $1.0 million per claim up to an annual aggregate of $3.0 million. Effective October 1, 2010, professional liability coverage provides for a self-insured retention of $2.0 million per medical incident, $20.0 million annual aggregate (shared by all insureds), and a buffer layer of insurance is purchased from Leaven with limits of $2.0 million per medical incident, $5.0 million annual aggregate. For claims reported prior to October 1, 2010, professional liability coverage provides for a self-insured retention of $2.0 million per claim, $7.0 million annual aggregate (these limits are $2.0 million per claim, $8.0 million annual aggregate for Exempla Healthcare, and for St. Vincent Healthcare $3.0 million per claim, $12.0 million annual aggregate during the period from March 1, 2008 to February 28, 2009, and $4.0 million per claim, $14.0 million annual aggregate during the period from March 1, 2009 to September 30, 2010). Primary self-insured professional liability coverage for Kansas affiliates is limited to $0.2 million per claim up to an annual aggregate of $0.6 million per affiliate. This and additional statutory coverage purchased from the Kansas Health Care Stabilization will contribute to losses within the $2.0 million, $20.0 million self-insured retention. SCL Health System is self-insured to the extent of the deductible amounts not covered by other insurance. Related expense for this coverage totaled $13.6 million and $11.9 million in 2012 and 2011, respectively, and has been included in other operating expenses in the accompanying consolidated statements of operations. The loss reserves recorded for estimated self-insured professional and general liability, including estimates of the ultimate costs for both reported claims and claims incurred but not reported, are discounted at annual rates of 4% at December 31, 2012 and 2011. Professional and general liability coverage is provided through a revocable trust fund.

11. Insurance Coverage (continued)

SCL Health System self-insures and funds its obligations for workers' compensation. In connection therewith, SCL Health System (excluding Exempla Healthcare) has obtained excess workers' compensation insurance coverage from outside carriers for individual claims in excess of $750,000. Exempla Healthcare has obtained excess workers' compensation insurance coverage for claims in excess of $350,000. During 2012 and 2011, $8.2 million and $11.1 million, respectively, of workers' compensation expenses were charged to employee benefits expenses in the accompanying consolidated statements of operations and changes in net assets.

SCL Health System offers an employee benefit package to all eligible employees and their dependents. Portions of these benefits are self-insured and are provided through the SCL Health System Employee Benefit Plan (the Benefit Plan). Contributions to the Benefit Plan are made in amounts determined in accordance with the recommendations of an independent actuary based on past claims experience and other factors. During 2012 and 2011, $119.7 million and $113.8 million, respectively, of expenses were charged to employee benefits expenses in the accompanying consolidated statements of operations and changes in net assets.

SCL Health System is presently not aware of any unasserted casualty, professional liability, workers' compensation, or health and dental benefit claims that would have a material adverse impact on the accompanying consolidated financial statements.

12. Relationship With Kaiser Permanente

During 2002, EGSMC signed a multiyear agreement with a Kaiser Permanente affiliate, specifying the terms under which EGSMC would provide hospital services to Kaiser Permanente members beginning in 2005. Among other things, the agreement specifies payment terms and termination conditions. Beginning December 31, 2006, the agreement contains certain financial conditions relating to the operation of the hospital and provides that breach of the financial conditions would give Kaiser Permanente certain rights, including the right to purchase the hospital at a purchase price specified in the agreement. Management believes EGSMC was not in breach of the financial conditions as of December 31, 2012.

A Kaiser Permanente affiliate is also a noneconomic member of EGSMC, giving it certain rights to approve dissolution, reorganization, or voluntary bankruptcy of EGSMC. No such events occurred in 2012. During 2009, certain payments from Kaiser Permanente under the agreement represented advances from Kaiser Permanente, which are recorded as subordinated debt (see Note 7).

In 2012, Exempla Healthcare signed a multiyear agreement with a Kaiser Permanente affiliate, specifying the terms under which EGSMC provides hospital services to Kaiser Permanente. Among other things, the agreement specifies payment terms and termination conditions.

13. Commitments and Contingencies

SCL Health System has guaranteed approximately $17.6 million of debt for the purpose of constructing medical office buildings in Billings, Montana. This is part of a joint venture in which SCL Health System is a 50% partner and co-manager. SCL Health System receives an annual fee for the guarantee. SCL Health System has also guaranteed $21.1 million for a rural Kansas hospital, a medical office building in Wyoming, a university in Kansas, an ambulatory surgery center in Colorado, an imaging center venture in Kansas, an imaging center venture in California, a cancer center in Montana, and other beneficiaries. SCL Health System has not recorded any liability with respect to these guarantees at December 31, 2012.

In 2006, SJH discovered life-safety code violations in its north and south patient towers. In late 2006, SJH notified the CMS, the Joint Commission, and the Denver Fire Department of such findings, along with an action plan to mitigate the issues that was approved by the various agencies. Subsequent to that approval, SJH revised its action plan calling for a replacement of the hospital (rather than construction of additional rooms on the existing site). CMS has granted an extension for the use of the tower rooms through December 2014. SCL Health System is currently engaged in a major building improvement construction project to build the replacement hospital for SJH. Total project cost is estimated to be $623 million. Spending on the project through December 31, 2012, totals $144.7 million. The remaining expenditures will be incurred until December 2014, per an agreement with CMS.

SCL Health System has various strategic information systems projects in progress, the largest of which is a commitment of approximately $87.9 million to implement acute care and ambulatory electronic medical record software. As of December 31, 2012, SCL Health System has spent approximately $52.5 million on these projects and has reflected this in land, buildings, and equipment, net.

SCL Health System's rent expense under operating leases was $27.4 million and $29.7 million for the years ended December 31, 2012 and 2011, respectively. Scheduled noncancelable operating lease payments during the next five years and thereafter are as follows (in millions):

2013	$	18.5
2014		15.2
2015		12.2
2016		9.4
2017		6.2
Thereafter		11.6

14. Subsequent Events

SCL Health System evaluated events and transactions occurring subsequent to December 31, 2012 through May 3, 2013, the date of issuance of the consolidated financial statements.

As described in Note 3, Discontinued Operations, SCL Health System sold Providence Medical Center in Kansas City, Kansas, and Saint John Hospital in Leavenworth, Kansas, to Prime Healthcare Services on April 1, 2013. SCL Health System recognized no loss on disposal as the value of the related assets had previously been written down to fair market value in 2012.

14. Subsequent Events (continued)

On April 1, 2013, Providence Medical Center and Saint John Hospital were withdrawn as Restricted Affiliates under the Master Trust Indenture (as Amended and Restated) dated as of January 1, 1994, as amended, between SCL Health System and The Bank of New York Mellon Trust Company, N.A., as master trustee. In addition, remediation actions were taken in respect to outstanding tax-exempt bonds associated with Providence Medical Center and Saint John Hospital. Approximately $18.0 million of the disposition proceeds received from Prime Healthcare were used to redeem the allocable portion of the variable rate bonds. The remaining $32.8 million of disposition proceeds, which were allocable to fixed rate bonds, were deemed to have been used to pay or reimburse SCL Health System for capital expenditures previously made at St. Francis Health Center in Topeka, Kansas, and Saint Joseph Hospital in Denver, Colorado.

OMB Circular A-133
Reports and Schedules

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity-Identifying Number	Research and Development Cluster Expenditures	Other Federal Expenditures	Total Federal Expenditures
Corporation for National and Community Service					
Foster Grandparent Cluster:					
Foster Grandparent Program	94.011		$ –	$ 500,450	$ 500,450
Senior Companion Program	94.016		–	131,490	131,490
Total Foster Grandparent Cluster			–	631,940	631,940
U.S. Department of Health and Human Services					
Aging Cluster:					
Passed through from Area Agency on Aging,					
Mesa County Department of Human Services:					
Special Programs for the Aging: Title III, Part B: Grants for Supportive Services and Senior Centers	93.044	10-11-14	–	30,717	30,717
Special Programs for the Aging: Title III, Part C: Nutrition Services	93.045	10-11-15; 10-11-17	–	52,744	52,744
	93.045	13-11-15;13-11-17	–	233,956	233,956
Total Special Programs for the Aging: Title III, Part C: Nutrition Services			–	286,700	286,700
Total Aging Cluster			–	317,417	317,417
Research and Development Cluster:					
Passed through from Lovelace					
Respiratory Research Institute:					
Environmental Health	93.113	5R01ES015262	11,735	–	11,735
Direct:					
Cancer Treatment Research	93.395		6,307,876	–	6,307,876
ARRA – Trans-NIH Recovery Act Research Support	93.701		543,740	–	543,740
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		283,963	–	283,963
Cancer Cause and Prevention Research	93.393		12,743	–	12,743
Biomedical Research and Research Training	93.859		39,887	–	39,887
Other Programs:					
Direct:					
Maternal and Child Health Federal Consolidated Programs	93.110		–	208,136	208,136
Telehealth Programs	93.211		–	601,714	601,714
Comprehensive Geriatric Education Program (CGEP)	93.265		–	139,252	139,252

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity-Identifying Number	Research and Development Cluster Expenditures	Other Federal Expenditures	Total Federal Expenditures
U.S. Department of Health and Human Services (continued)					
Other Programs (continued):					
Direct (continued):					
National Community Centers of Excellence in Women's Health	93.290		$ –	$ 242,206	$ 242,206
Specially Selected Health Projects	93.888		–	22,278	22,278
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912		–	94,535	94,535
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918		–	396,060	396,060
Pass-Through:					
Passed through from Montana Health and Human Services:					
Preventive Health and Health Services Block Grant	93.991	11-07-3-01-084-0	–	21,741	21,741
Passed through from Colorado Public Health and Environment:					
Public Health and Social Services Emergency Fund	93.003	N/A	–	400	400
HIV Care Formula Grants	93.917	N/A	–	89,130	89,130
Passed through from University of Montana:			–		
PPHF-2012 Geriatric Education Centers	93.969	PG12-64342-02	–	22,272	22,272
Passed through from Montana Health Research and Research & Education Foundation:					
National Bioterrorism Hospital Preparedness Program	93.889	N/A	–	70,338	70,338
Total U.S. Department of Health and Human Services			7,199,944	2,225,479	9,425,423
U.S. Department of Energy					
Research and Development Cluster:					
Passed through from Lovelace Respiratory Research Institute:					
ARRA – Office of Science Financial Assistance Program	81.049	5R01ES015262	670	–	670
Total U.S. Department of Energy			670	–	670

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity-Identifying Number	Research and Development Cluster Expenditures	Other Federal Expenditures	Total Federal Expenditures
U.S. Department of Housing and Urban Development					
Pass through from City of Grand Junction:					
Community Development Block Grant	14.218	b11-mc-0013	$ –	$ 14,551	$ 14,551
Total U.S. Department of Housing and Urban Development			–	14,551	14,551
U.S. Department of Agriculture					
Passed through from Area Agency on Aging, Mesa County Department of Human Services:					
Nutrition Services Incentive	10.570	10-11-15; 10-11-17	–	70,244	70,244
Total U.S. Department of Agriculture			–	70,244	70,244
Total Expenditures of Federal Awards			$ 7,200,614	$ 2,942,214	$ 10,142,828

See accompanying notes to schedule of expenditures of federal awards.

1. Single Audit Reporting Entity

Sisters of Charity of Leavenworth Health System, Inc. (SCL Health System) includes expenditures in its schedule of expenditures of federal awards (the Schedule) for all federal programs administered by the entities included in SCL Health System's reporting entity used for its basic consolidated financial statements.

2. Basis of Presentation

The Schedule has been presented on the accrual basis of accounting. Accordingly, expenditures are recorded when incurred rather than when paid. The information in the Schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the basic consolidated financial statements.

3. Expenditures to Subrecipients

Of the federal expenditures presented in the Schedule, $507,261 was passed through to subrecipients under the following federal program:

Federal Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Research and Development Cluster:		
Cancer Treatment Research	93.395	$ 466,130
Biomedical Research and Research Training	93.859	41,131
		$ 507,261

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Management and the Board of Directors
Sisters of Charity of Leavenworth
Health System, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Sisters of Charity of Leavenworth Health System, Inc. (SCL Health System), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SCL Health System's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCL Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of SCL Health System's 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 2012-01, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCL Health System's financial statements are free of 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*.

SCL Health System Response to Finding

SCL Health System's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. SCL Health System's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

May 3, 2013

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Report of Independent Auditors on Compliance With Requirements for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Management and the Board of Directors
Sisters of Charity of Leavenworth
Health System, Inc.

Report on Compliance for Each Major Federal Program

We have audited Sisters of Charity of Leavenworth Health System, Inc.'s (SCL Health System) 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 SCL Health System's major federal programs for the year ended December 31, 2012. SCL Health System's 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 SCL Health System's 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; 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 SCL Health System's 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 SCL Health System's compliance.

Opinion on Each Major Federal Program

In our opinion, SCL Health System 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 SCL Health System 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 SCL Health System's 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 SCL Health System's 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding Nos. 2012-02 and 2012-03, that we consider to be significant deficiencies.

Finding No.	CFDA No.	Program (or Cluster) Name	Compliance Requirement
2012-02	93.044/93.045	Aging Cluster	Reporting
2012-02	93.918	Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	Reporting
2012-03	93.918	Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	Program Income

SCL Health System's response to the internal control over compliance findings identified in our audit are described in the accompanying Part III – Federal Award Findings and Questioned Costs Section. SCL Health System's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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.

Ernst & Young LLP

September 25, 2013

Sisters of Charity of Leavenworth Health System, Inc.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

Part I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unmodified, qualified, adverse, or disclaimer):	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?	X	Yes		None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards Section

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?	X	Yes		None Reported

Type of auditor's report issued on compliance for major programs (unmodified, qualified, adverse, or disclaimer):	Research and Development Cluster	– Unmodified
	Foster Grandparent Cluster	– Unmodified
	Aging Cluster	– Unmodified
	CFDA 93.918	– Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	X	Yes		No

Part I – Summary of Auditor's Results (continued)

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.113, 93.393, 93.395, 93.701, 93.846, 93.859, and 81.049	Research and Development Cluster
94.011 and 94.016	Foster Grandparent Cluster
93.044 and 93.045	Aging Cluster
93.918	Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease

Dollar threshold used to distinguish between Type A and Type B programs: $304,285

Auditee qualified as low-risk auditee? X Yes ____ No

Part II – Financial Statement Findings Section

This section identifies the significant deficiencies; material weaknesses; noncompliance with provisions of laws, regulations, contracts, and grant agreements; and abuse related to the financial statements for which *Government Auditing Standards* require reporting in an OMB Circular A-133 audit.

Finding No. 2012-01

Criteria or specific requirement:

Management is responsible for establishing and maintaining an effective and well-controlled cash accounting process.

Condition:

The implementation of EPIC, an integrated software suite used for billing, throughout 2012 changed the internal control environment around bank reconciliations. In particular, at St. Mary's Grand Junction, the cash operating bank account reconciliation as of September 30, 2012, was delayed and no subsequent reconciliations have been fully completed prior to May 3, 2013. St. Mary's Grand Junction converted to EPIC on August 1, 2012, and the cash posting to the bank account was occurring centrally but the responsibility for the reconciliation remained with Care Site management.

Context:

A sample of bank account reconciliations was selected to test internal control over cash accounting. The issue identified was determined to be isolated to the cash bank account reconciliation at St. Mary's Grand Junction. Prior to the finalization of the audit, SCL Health System's management performed a high level reconciliation as of December 31 to mitigate the risk of an undetected error in the financial statements.

Effect:

Ineffective performance and oversight of the cash account reconciliation increase the risk that management would not detect and correct a misstatement in the financial statements on a timely basis. This condition is exacerbated as SCL Health System has over 75 bank accounts at more than 14 financial institutions.

Cause:

The implementation of EPIC throughout 2012 changed the internal control environment around bank reconciliations.

Part II – Financial Statement Findings Section (continued)

Recommendation:

We recommend management assign the appropriate resources to ensure St. Mary's Grand Junction's operating account is reconciled and reviewed on a current basis. Additionally, with much of the centralization complete, management should evaluate the cash management program as to the feasibility of reducing the number of bank accounts required throughout the System.

View of responsible officials and planned corrective actions:

We agree with the recommendations. The reconciliation of this account at the Care Site was complicated by mapping errors from the EPIC interface, which misapplied certain cash receipts between the operating and local depository accounts. These interface issues took a period of time to identify and resolve, which delayed the completion of the cash reconciliations at the site. Our plan is to transition the cash reconciliation process to a dedicated cash team in Hospital Accounting at System Services, facilitating a standardized approach to cash reconciliations and problem resolution for system interface issues. We will assign a dedicated System Services resource to work with Care Site personnel to complete the detailed delinquent cash reconciliations as quickly as possible, and transition cash reconciliations to System Services by June 30, 2013.

A request for proposal was conducted for all cash management services in 2012 and a new provider has been selected. A new cash management process is being implemented in 2013. Under the new cash management structure, SCL Health System will be able to significantly reduce the number of bank accounts required throughout the organization as well as the number of lockboxes required.

Part III – Federal Award Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by Circular A-133 Section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Finding No. 2012-02

Federal program information:

Report on Schedule of Expenditures of Federal Awards (SEFA) as required by OMB Circular A-133

U.S. Department of Health and Human Services
CFDA: 93.044 & 93.045, Aging Cluster
CFDA: 93.918, Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease (Ryan White)

Criteria or specific requirement (including statutory, regulatory or other citation):

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), Subpart C, Section .300 states the following:

"The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §.310.
(e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by §.320(a) are granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.
(f) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with §.315(b) and §.315(c), respectively."

Part III – Federal Award Findings and Questioned Costs Section (continued)

In addition, Section .310(b) of OMB Circular A-133 states "the auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements." Furthermore, Section .310(b)(3) states one of the minimum required elements is to "provide total Federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available."

As such, SCL Health System's management is required to establish and maintain internal controls over the preparation of the Schedule of Expenditures of Federal Awards (SEFA) to ensure inclusion of all required elements and that the schedule is accurate and complete.

Condition:

SCL Health System's System Office is responsible for preparing the consolidated SEFA for all entities with eligible expenditures of federal awards. As part of the process, each SCL Health System entity is required to annually report the details of the federal expenditures to the System Office on a standardized template used across all entities, which includes instructions that cover the minimum SEFA requirements. The System Office then compiles the information and prepares a single schedule for SCL Health Systems. During the audit, there were instances where total expenditure detail from the accounting record was not reconciled to the expenditure provided on the SEFA.

Questioned costs:

None.

Context:

Expenditure details related to major programs selected for testing were agreed to the underlying accounting records and reconciled to amounts reported on the SEFA. The underlying accounting records were then subjected to sample testing to validate compliance and the effectiveness of internal controls over compliance. While performing procedures to reconcile the underlying accounting records to amounts reported on the SEFA, errors in the amount of approximately $360,000 were identified that would have resulted in an understatement of federal expenditures for 2012. Of this amount, approximately $204,000 related to the Aging Cluster (CFDA 93.044 & 93.045) and approximately $135,000 related to Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease (CFDA 93.918). The remaining balance of approximately $20,000 relate to other federal programs. Prior to the finalization of the audit, SCL Health System's management updated the SEFA prior to submission to the federal government.

Effect:

Ineffective performance and oversight of the preparation of the SEFA increase the risk that management would not detect and correct a misstatement in the SEFA on a timely basis.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Cause:

SCL Health System does not have adequate controls over the preparation and review of the consolidated SEFA to ensure the accuracy and completeness of the federal expenditures reported to the federal government.

Recommendation:

We recommend that management revaluate the SEFA preparation process and implement procedures to perform a consolidated review of expenditures to be reported, which would include a reconciliation process back to accounting records. Furthermore, the process should also include specific control points to validate the accuracy and completeness of the SEFA.

Views of responsible officials and planned corrective actions:

We agree with the finding and recommendation. A comprehensive grants management process and related training program will be developed and rolled out to relevant grants personnel at the Care Sites to ensure accurate and complete preparation of the SEFA. In addition, a reconciliation process to the general ledger will be performed at the System Office. The training development will start in the fourth quarter of 2013 and completion is anticipated by June 30, 2014.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Finding No. 2012-03

Federal program information:

U.S. Department of Housing and Urban Development
CFDA: 93.918, Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease (Ryan White)
Award Nos: 6 H76HA00593-12-3 and 6 H76HA00593-13-3
Project Period: 04/01/2000–3/31/2005
SCL Health System location: St. Mary's Hospital

Criteria or specific requirement (including statutory, regulatory or other citation):

OMB Circular A-133, Section .105 states:

"Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

(1) Effectiveness and efficiency of operations;
(2) Reliability of financial reporting; and
(3) Compliance with applicable laws and regulations.

Internal control pertaining to the compliance requirements for federal programs (internal control over federal programs) means a process effected by an entity's management and other personnel designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs:

(1) Transactions are properly recorded and accounted for to:
    i. Permit the preparation of reliable financial statements and Federal reports;
    ii. Maintain accountability over assets; and
    iii. Demonstrate compliance with laws, regulations, and other compliance requirements

Part 6 of the OMB Circular A-133 Compliance Supplement further indicates the need for controls over compliance requirement J., Program Income, which provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with program requirements.

Condition:

St. Mary's Hospital identified a control that a monthly reconciliation between a payment report from the billing system and Ryan White program income report would be performed monthly. The reconciliation ensures the accuracy of funds that are generated by the Ryan White program, which can be used for federal or nonfederal expenditures. Procedures to determine whether the control had been placed in operation revealed that the monthly reconciliation was not performed from August 2012 through December 2012. As a result, St. Mary's Hospital was not able to quantify the funds that were generated by the Ryan White program which could be used for federal or nonfederal expenditures.

Part III – Federal Award Findings and Questioned Costs Section (continued)

Questioned costs:

None.

Context:

SCL Health System's Ryan White program administration is at St. Mary's Hospital in Grand Junction, Colorado. On a monthly basis, St. Mary's Hospital is required to identify funds that are generated by the Ryan White program which can be used for federal or nonfederal expenditures. In performing procedures to determine whether the control had been placed in operation, it was revealed that the monthly reconciliation was not performed from August 2012 through December 2012. Management worked with information technology specialists to obtain the required reporting to quantify the program income.

Effect:

Ineffective performance and oversight of the reconciliation of program income increase the risk that management would not detect and correct a misstatement in the reporting of program income.

Cause:

In August 2012, SCL Health System implemented the EPIC billing system at St. Mary's Hospital. EPIC was not configured to generate the appropriate reporting requirements to allow St. Mary's Hospital to perform the reconciliation.

Recommendation:

EPIC has been updated to provide the required reporting; management should take steps to remediate the instances where the control was not performed and ensure the control is executed going forward. Further, we recommend more timely response to requests resulting from system implementation changes.

Views of responsible officials and planned corrective actions:

We agree with the finding and recommendation. This issue was caused by implementation of a new information system. As noted, an appropriate report from that system (EPIC) has been developed and we have identified resources to utilize going forward when such report development issues arise.

Sisters of Charity of Leavenworth Health System, Inc.

Summary Schedule of Prior Audit Findings

December 31, 2012

Federal Award Findings and Questioned Costs – Year Ended December 31, 2011

None identified.

Federal Award Findings and Questioned Costs – Year Ended December 31, 2010

None identified.

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