Sinai Health System and Affiliates

Consolidated Financial Report
June 30, 2012

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
Sinai Health System
Chicago, Illinois

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sinai Health System and Affiliates as of June 30, 2012 and 2011, and the results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Chicago, Illinois
October 10, 2012

Sinai Health System and Affiliates

Consolidated Balance Sheets
June 30, 2012 and 2011
(Dollars in Thousands)

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 8,851**	$ 10,758
Assets limited as to use		
Externally designated investments	**4,272**	4,197
Internally designated investments under self-insurance program	**-**	3
Patient accounts receivable, less allowances of $28,277 in 2012 and $36,306 in 2011	**58,335**	53,076
Notes receivable, current portion	**7,825**	8,525
Other accounts receivable	**8,673**	7,069
Prepaid expenses, inventories, and other	**6,141**	6,336
Total current assets	**94,097**	89,964
Assets Limited as to Use, net of amounts required to meet current liabilities		
Internally designated investments for capital program	**11,948**	15,640
Externally designated investments under debt agreements	**14,910**	14,057
Total assets limited as to use	**26,858**	29,697
Other Assets		
Deferred bond issuance costs, less amortization of $754 in 2012 and $658 in 2011	**2,226**	2,322
Notes receivable, long-term portion	**11,670**	9,494
Other investments	**189**	169
Other	**10,139**	9,365
Total other assets	**24,224**	21,350
Property and Equipment, net	**113,193**	114,881
Total assets	**$ 258,372**	$ 255,892

See Notes to Consolidated Financial Statements.

Sinai Health System and Affiliates

Consolidated Balance Sheets (Continued)
June 30, 2012 and 2011
(Dollars in Thousands)

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	**$ 47,107**	$ 49,034
Accrued salaries and employee benefits	**18,255**	21,941
Amounts due to third-party payors	**6,794**	4,880
Self-insurance claims payable	**2,217**	2,003
Notes payable	**2,001**	2,889
Current maturities of long-term debt	**4,586**	4,159
Other current liabilities	**11,447**	7,804
Total current liabilities	**92,407**	92,710
Noncurrent Liabilities		
Long-term debt, less current maturities	**98,023**	100,011
Self-insurance claims payable, less current portion	**48,658**	46,134
Other	**4,546**	4,414
Total liabilities	**243,634**	243,269
Commitments and Contingencies (Notes 10, 14 and 16)		
Net Assets		
Noncontrolling interest in subsidiary	**245**	123
Unrestricted	**1,346**	4,051
Temporarily restricted	**13,147**	8,449
	14,738	12,623
Total liabilities and net assets	**$ 258,372**	$ 255,892

See Notes to Consolidated Financial Statements.

Sinai Health System and Affiliates

Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2012 and 2011
(Dollars in Thousands)

	2012	2011
Unrestricted revenue and other support:		
Net patient service revenue	$ 347,231	$ 376,003
Other revenue	21,030	13,870
Investment income	727	653
Contributions from the Jewish Federation of Metropolitan Chicago	744	685
Grant revenue	13,856	17,195
Net assets released from restrictions	236	686
Total unrestricted revenue and other support	383,824	409,092
Expenses:		
Salaries and wages	212,732	209,064
Supplies and purchased services	73,810	77,795
Depreciation and amortization	13,091	12,736
Provision for bad debts	24,760	50,623
Insurance	10,754	9,323
Interest	5,375	5,587
Provider tax	17,081	17,081
Other	28,066	26,254
Total expenses	385,669	408,463
(Loss) income from operations	(1,845)	629
Nonoperating (losses) gains:		
Contributions	16	35
Investment income	794	2,038
Net change in unrealized gains and losses on investments	(230)	(221)
Contributions to other organizations	(1,700)	(2,000)
Other	730	21
Net income attributable to noncontrolling interest	(233)	(104)
Total nonoperating losses	(623)	(231)
(Deficit) revenue in excess of expenses	$ (2,468)	$ 398

See Notes to Consolidated Financial Statements.

Sinai Health System and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended June 30, 2012 and 2011
(Dollars in Thousands)

	2012	2011
Unrestricted net assets:		
(Deficit) revenue in excess of expenses	$ (2,468)	$ 398
Other changes in unrestricted net assets	(115)	188
Net assets released from restriction used for capital purposes	-	66
(Decrease) increase in unrestricted net assets	(2,583)	652
Temporarily restricted net assets:		
Contributions	5,044	4,573
Net assets released from restriction used in operations	(236)	(611)
Net assets released from restriction used for capital purposes	-	(66)
Other changes in temporarily restricted net assets	(110)	(226)
Increase in temporarily restricted net assets	4,698	3,670
Permanently restricted net assets:		
Net assets released from restriction used in operations	-	(75)
Decrease in permanently restricted net assets	-	(75)
Increase in net assets	2,115	4,247
Net assets, beginning of year	12,623	8,376
Net assets, end of year	$ 14,738	$ 12,623

Sinai Health System and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011
(Dollars in Thousands)

	2012	2011
Cash Flows from Operating Activities		
Increase in net assets	**$ 2,115**	$ 4,247
Change attributable to noncontrolling interest	**(122)**	(101)
Increase in net assets after change attributable to noncontrolling interest	**1,993**	4,146
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**13,187**	12,852
Provision for self-insurance in excess of amounts paid	**2,738**	342
Restricted contributions	**(5,044)**	(4,573)
Provision for bad debts	**24,760**	50,623
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(30,019)**	(54,283)
Investments	**2,747**	(4,566)
Amounts due to third-party payors, net	**1,914**	(1,323)
Prepaid expenses, inventories, and other current assets	**(1,409)**	3,538
Accounts payable, accrued expenses, and other current liabilities	**(1,970)**	10,109
Other noncurrent assets and liabilities	**(520)**	(2,183)
Net cash provided by operating activities	**8,377**	14,682
Cash Flows from Investing Activities		
Purchases of buildings and equipment	**(11,403)**	(15,033)
(Decrease) increase in notes receivable	**(1,476)**	909
Net cash used in investing activities	**(12,879)**	(14,124)
Cash Flows from Financing Activities		
Repayments of notes payable and long-term debt	**(2,449)**	(3,527)
Proceeds from restricted contributions	**5,044**	4,573
Net cash provided by financing activities	**2,595**	1,046
(Decrease) increase in cash and cash equivalents	**(1,907)**	1,604
Cash and cash equivalents:		
Beginning of year	**10,758**	9,154
End of year	**$ 8,851**	$ 10,758
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	**$ 5,591**	$ 5,656

See Notes to Consolidated Financial Statements.

Note 1. Organization and Summary of Significant Accounting Policies

Organization and basis of consolidation: The consolidated financial statements include the accounts and transactions of Sinai Health System (the Corporation) and its affiliates. The Corporation is the sole corporate member of its affiliates. All significant intercompany transactions and balances have been eliminated in consolidation. The Corporation and its affiliates provide comprehensive health care services to residents of the Chicago metropolitan area.

Affiliates of the Corporation include:

- Mount Sinai Hospital Medical Center of Chicago and Subsidiaries (Mount Sinai) – Mount Sinai is a licensed 319-bed teaching, research, and tertiary-care facility that offers medical, surgical, behavioral health, therapeutic, and diagnostic services to meet the needs of the community and patients of the southwest side of Chicago. Subsidiaries of Mount Sinai include Sinai Community Pharmacy and Sinai Touhy Pharmacy which are wholly owned, and Hawthorne Works Medical Imaging, LLC which is a joint venture in which Mount Sinai has a controlling 51 percent ownership interest.
- Schwab Rehabilitation Hospital & Care Network (Schwab) – Schwab is a licensed 102-bed rehabilitation hospital that offers comprehensive inpatient and outpatient rehabilitation services for adults and children.
- Mount Sinai Community Foundation dba Sinai Medical Group (SMG) – SMG is a physician group with over 200 physician specialists in more than 30 specialties, such as anesthesiology, cardiology, emergency medicine, endocrinology, gastroenterology, infectious disease, neurology, radiology, oncology, psychiatry, endocrinology, urology and neurosurgery. SMG physicians practice at clinics throughout the communities the System serves as well as on the Mount Sinai campus.
- Sinai Community Institute (SCI) – SCI is an organization that develops community-based health and social service programs designed to help families within the community improve their health and well-being through education, employment, wellness and nutrition.

A summary of significant accounting policies is as follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the accompanying consolidated financial statements include contractual allowance reserves, allowances for uncollectible accounts and charity care, depreciation and amortization, amounts due to third-party payors, and self insurance claims payable.

Cash and cash equivalents: Cash and cash equivalents include highly liquid short-term investments with maturities of three months or less at the date of acquisition. The carrying value of cash equivalents approximates fair value. Throughout the year, the Corporation may have amounts on deposit with financial institutions in excess of those insured by the FDIC. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Patient accounts receivable: Patient accounts receivable are stated at net realizable value. The Corporation maintains allowances for uncollectible accounts for estimated losses resulting from a payor's inability to make payment on accounts. The Corporation estimates the allowance for uncollectible accounts based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience. After satisfaction of amounts due from insurance, the Corporation follows established guidelines for placing certain past-due balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Corporation.

Inventories: Inventories are stated at the lower of cost, on the first-in, first-out method, or market.

Assets limited as to use and investments: Assets limited as to use consist of investments set aside by the Board of Directors for future capital improvements and for endowment funds, over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Additionally, assets limited as to use include investments held by trustees under debt agreements, self-insurance and employee benefit trust arrangements.

Investments are carried at fair value and all investments in debt securities are reported at fair value based on quoted market prices. The Corporation has designated its investment portfolio as trading, with unrealized gains and losses and investment income, which includes realized gains and losses, included in revenue in excess of expenses unless the income or loss is restricted by donor intent.

Property and equipment: Property and equipment are stated at cost and depreciated over the estimated useful lives of the assets ranging from 3 to 40 years using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense in the accompanying consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets. No interest was capitalized during the years ended June 30, 2012 and 2011.

Asset impairment: The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified. No impairments were identified during the years ended June 30, 2012 and 2011.

Deferred bond issuance costs: Bond issuance costs are deferred and amortized over the life of the related debt, using a method which approximates the effective interest method.

Self-insurance liabilities: The Corporation's accruals for self-insurance represent the present value of the estimated liability for asserted and unasserted professional malpractice and patient general liability claims. The provision is actuarially determined.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Noncontrolling interest: Effective July 1, 2010, the Corporation adopted the new measurement and presentation requirements for noncontrolling interests in the consolidated financial statements. As a result of this adoption, the Corporation reclassified its minority interest in joint ventures to noncontrolling interests, included in net assets for the years ended June 30, 2012 and 2011.

Noncontrolling interest represents the portion of net assets in the subsidiaries not attributable, directly or indirectly, to Mount Sinai. The profit or loss derived from the performance of the subsidiary is allocated to the excess of revenue over expenses attributable to the noncontrolling interest in the consolidated statements of operations and changes in net assets.

Net assets: Resources are classified for reporting purposes into three net asset categories as unrestricted, temporarily restricted, and permanently restricted according to the absence or existence of donor-imposed restrictions. Temporarily restricted net assets are those assets, including contributions and accumulated investment returns, whose use has been limited by donors for a specific purpose or time period. During the year ended June 30, 2012, the Corporation was awarded a grant by the State of Illinois Department of Public Health in the amount of $7,000 to fund designated capital projects. The grant term begins July 1, 2011 and ends June 30, 2013. As of June 30, 2012, $3,500 of the grant had been received. Because of contingencies relating to receipt of additional funds under the grant, the remaining $3,500 has not been recorded in the accompanying consolidated financial statements. The $3,500 is reported within temporarily restricted net assets in the accompanying consolidated balance sheet.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Corporation. The Corporation had no permanently restricted net assets at June 30, 2012 and 2011.

Net patient service revenue: The Corporation has agreements with various third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, per diem rates, and fee schedules. Net patient service revenue is reported at the estimated net amounts received or due from patients, third-party payors, and others for services rendered. These amounts include estimated adjustments under certain reimbursement agreements with third-party payors, which are subject to audit by the applicable administering agency. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

Medicare and Medicaid Electronic Health Records (EHR) incentive programs: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid Incentive Programs beginning in federal fiscal year 2011 for eligible acute care hospitals that are meaningful users of certified EHR technology, as defined by the Federal Register. The Corporation has implemented certified EHR technology that has enabled them to demonstrate their meaningful use and to qualify for the Incentive Programs. The initial incentive payments received for both the Medicare and Medicaid EHR incentive programs are estimates based upon data from prior year's reimbursement reports. The final settlements will be determined after the submission of the current annual reimbursement reports and subsequent audits by the fiscal intermediary. The EHR Incentive Programs are expected to continue through September 30, 2014 and the incentive payments will be calculated annually. After that date, hospitals that are not meaningful users of certified users of certified EHR technology will be subject to a potential decrease in their Medicare and Medicaid payments.

The Corporation successfully registered for the Medicare EHR Incentive Program on September 6, 2011. The Corporation is in the process of completing the attestation process after demonstrating the ninety days of continuous use as a meaningful user. For the Federal year ended September 30, 2011, no amounts have been received or recorded in revenue in the year ended June 30, 2012.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

The Corporation successfully registered for the Illinois Medicaid EHR Incentive Program in December 2011. The Corporation completed the attestation process on January 30, 2012. For the year ended June 30, 2012, the Corporation received $5,600 and has recorded this entire amount in other revenue in the year ended June 30, 2012.

Contributions: Contributions are reported as either temporarily or permanently restricted net assets if the contributions are received with donor stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restriction.

Unconditional promises to give cash or other assets are reported as pledges receivable and contributions at fair value at the date the promise is received, within the appropriate net asset class. At June 30, 2012 and 2011, pledges receivable were discounted at approximately 3.0 percent. The allowance for uncollectible pledges at June 30, 2012 and 2011 was $163 and $0, respectively.

Grant revenue: Grants are recognized as revenue when earned. Expense driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met.

Charity care: The Corporation provides care to all patients regardless of their ability to pay who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charity care provided by the Corporation is included with no realizable value in net patient service revenue by recording the revenue at gross charges and then a charity care write-off is recorded which offsets the recorded revenue. Charity care is measured based on the Corporation's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The amount of charity based on cost was $34,651 and $20,560 during the years ended June 30, 2012 and 2011, respectively.

Operating indicator: The Corporation's income from operations includes all unrestricted revenue, including investment income on trustee-held investments, other support, and expenses for the reporting period. Nonoperating income includes nonoperating gains and losses, contributions, investment income on board-designated and other investments, contributions to related parties, and other nonoperating activities, which management views as outside of normal patient care related activities.

Revenue in excess of expenses: The consolidated statements of operations and changes in net assets include revenue in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of expenses consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets.

Reclassifications: Certain amounts in the 2011 consolidated financial statements have been reclassified to conform with the 2012 presentation with no effect on net assets.

Income taxes: The Corporation, Mount Sinai, Schwab, SMG, and SCI are tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and each as required files a Form 990 (Return of Organization Exempt from Income Tax) annually.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

The Corporation adopted FASB issued guidance for uncertainty in income taxes. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Examples of tax positions common to health systems include such matters as the following: the tax-exempt status of each entity, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income (UBIT). UBIT is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the “more likely than not” recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. As of June 30, 2012 and 2011, there were no unrecognized tax benefits identified and recorded.

Forms 990 filed by the Corporation, Mount Sinai, Schwab, SMG, and SCI are subject to examination by the Internal Revenue Service (IRS) for up to three years from the extended due date of each return. Forms 990 filed by the Corporation, Mount Sinai, Schwab, SMG, and SCI are no longer subject to examination for the year ended June 30, 2008 and prior.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosures through October 10, 2012, the date the consolidated financial statements were issued.

New accounting guidance: During the year ended June 30, 2012, the Corporation adopted the disclosure guidance contained in the Financial Accounting Standards Board’s (FASB) Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure – a consensus of the FASB Emerging Issues Task Force*. This ASU requires that the measurement of charity care by a health care entity for disclosure purposes be based on the direct and indirect costs of providing the charity care, and that the Corporation provide disclosure regarding the method used to identify or determine such costs.

Effective July 1, 2011, the Corporation adopted the provisions of FASB ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries – a consensus of the FASB Emerging Issues Task Force*, which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. The adoption of ASU 2010-24 had no impact on the Corporation’s consolidated financial statements.

Note 2. Financial Condition

The Corporation generated income/loss from operations totaling a loss of $1,845 and a gain of $629 for the years ended June 30, 2012 and 2011, respectively. The financial viability of the Corporation is largely dependent on the financial viability of its affiliates, Mount Sinai and Schwab. For the years ended June 30, 2012 and 2011, Mount Sinai’s loss from operations totaled $515 and $1,845, respectively. For the years ended June 30, 2012 and 2011, Schwab’s income/loss from operations totaled a loss of $695 and a gain of $2,474, respectively.

Note 2. Financial Condition (Continued)

In both fiscal 2012 and 2011, the Corporation's income from operations was impacted by enhanced net patient service revenue. For the years ended June 30, 2012 and 2011, Mount Sinai and Schwab, combined, received additional State of Illinois Department of Public Aid (IDPA) revenue of $40,431 in both fiscal years. These increases in revenue were partially offset by $17,081 in hospital provider tax assessments for both fiscal 2012 and 2011, and by increases in uncompensated care. This program was renewed and extended through December 31, 2014. See Note 5 for further information.

The Corporation continues to be pressured by rising costs attributable to clinical labor (including physician, nursing, and certain ancillary staff), new technology, and higher uncompensated care. Additionally, the Corporation and its major affiliate, Mount Sinai, continue to be highly dependent on reimbursement from IDPA. Any future decline in reimbursement, continued significant cost increases, or continued growth in uncompensated care may require management and the Board of Directors to further realign or reduce services to the community.

Note 3. Asset Retirement Obligations

In accordance with FASB issued guidance on, A*ccounting for Conditional Asset Retirement Obligations*, the Corporation records all known asset retirement obligations for which the liability's fair value can be reasonably estimated, including certain asbestos removal costs. At June 30, 2012 and 2011, the Corporation had remaining asset retirement obligations of $3,117 and $2,941, respectively, which are recorded as other long-term liabilities in the consolidated balance sheets. The liability was estimated using an inflation rate of 3.44 percent and a discount rate of 6 percent. The asset retirement obligation will continue to accrete until 2016 at which time the Corporation expects to remediate the situation. The liability in 2016 will be approximately $3,433.

Note 4. Contractual Arrangements with Third-Party Payors

The Corporation provides care to certain patients under payment arrangements with Medicare, Medicaid, Blue Cross, and various managed care programs. At Mount Sinai, the Medicare program pays for inpatient, capital costs, and outpatient services at predetermined rates. Medical education costs are reimbursed at interim rates with annual settlements based on reimbursable costs. At Schwab, the Medicare program reimburses both inpatient and outpatient services, including capital costs, at predetermined rates. Medical education costs are reimbursed at interim rates with annual settlements based on reimbursable costs. The Medicaid program pays the Corporation for covered services at predetermined rates. Services provided to inpatients covered by the Blue Cross program are paid at interim rates with monthly settlements based upon predetermined rates. Reported costs and services provided under the reimbursement arrangements with Medicare, Medicaid, and Blue Cross are subject to audit or review by the administering agencies. Changes in the Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on the Corporation.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, 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 Corporation also has contractual arrangements with various Health Maintenance and Preferred Provider Organizations, the terms of which call for the Corporation to be paid for covered services at negotiated rates.

(Dollars in Thousands)

Note 4. Contractual Agreements with Third-Party Payors (Continued)

Provisions have been made in the consolidated financial statements for contractual adjustments, representing the difference between the Corporation's standard charges for services and estimated payments received from payors. Net patient service revenue received under the Medicare and Medicaid reimbursement arrangements with Mount Sinai and Schwab amounted to approximately $244,160 and $244,528 (excluding the hospital tax assessment program revenue discussed in Note 5) in the years ended June 30, 2012 and 2011, respectively. Revenue received under HMO/PPO arrangements amounted to approximately $44,574 and $45,515 in the years ended June 30, 2012 and 2011, respectively. Net patient service revenue increased by $1,948 and $224 in 2012 and 2011, respectively, as a result of third-party settlements and changes in estimates related to prior years.

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements. Medicaid accounts receivable account for 59 percent and 56 percent of the Corporation's net accounts receivable at June 30, 2012 and 2011, respectively. Medicare accounts receivable account for 9 and 15 percent of the Corporation's net accounts receivable at June 30, 2012 and 2011, respectively.

Note 5. Illinois Provider Tax Assessment Program

The Corporation is part of the State of Illinois hospital tax assessment program which is administered by the Illinois Department of Public Aid. The laws and regulations authorizing this Program have been revised and extended for the period July 1, 2008 to December 31, 2014. There is no assurance of the continuation of this program after December 31, 2014. Under this renewed program, the Corporation is to receive annually approximately $40,431 from the State and pay annually a provider tax assessment approximating $17,081. For the years ended June 30, 2012 and 2011, the Corporation has recorded $40,431, in assessment revenue (reported as net patient service revenue) and $17,081, in provider tax expense (reported in other operating expenses). In the past, the State of Illinois has significantly delayed certain payments related to this program as well as collection of the related assessment tax. The State of Illinois' payment methodology is to make monthly payments, and as of June 30, 2012, the State of Illinois has been current in payments and collections related to this program. Although future payments cannot be assured, management believes that the assessment program's obligations will be fulfilled in the next year.

Note 6. Assets Limited as to Use and Investments

Assets limited as to use and investments consist of the following at June 30:

	Fair Value	
	2012	2011
Investment agreements	$ 6,812	$ 6,816
Cash equivalents - money market funds and mutual funds	1,281	1,177
United States Treasury securities	13,691	12,783
Federation pooled funds	7,234	11,191
Mutual funds invested in equity securities	1,698	1,814
Equities	603	285
	$ 31,319	$ 34,066

(Dollars in Thousands)

Note 6. Assets Limited as to Use and Investments (Continued)

Total investment return for the years ended June 30 is as follows:

	2012	2011
Interest and dividend income	$ 1,521	$ 2,691
Net change in unrealized gains and losses on investments	(230)	(221)
	$ 1,291	$ 2,470
Reported as:		
Operating revenue	$ 727	$ 653
Nonoperating gains	564	1,817
	$ 1,291	$ 2,470

Note 7. Property and Equipment

Property and equipment consist of the following at June 30:

	2012	2011
Land and land improvements	$ 6,325	$ 6,325
Building and improvements	182,799	180,112
Equipment	115,915	108,010
Construction in progress	2,194	1,785
	307,233	296,232
Less accumulated depreciation and amortization	(194,040)	(181,351)
	$ 113,193	$ 114,881

(Dollars in Thousands)

Note 8. Long-Term Debt

Long-term debt consists of the following at June 30:

	2012	2011
Illinois Health Facilities Authority FHA Insured Mortgage Revenue Refunding Bonds, Series 2003, 1.37% to 5.15%, payable in semiannual installments with maturities through 2037	$ 85,135	$ 86,840
Northern Trust Company, term loan, variable rate (0.628% at June 30, 2012) maturing August 2012 subsequently renewed to October 2012	5,684	5,684
Illinois Development Finance Authority Revenue Bonds Series 1997, variable rate (0.54% and 0.36% at June 30, 2012 and 2011, respectively) maturing March 1, 2022	5,000	5,000
Capital lease obligations	6,587	6,430
Other	203	216
	102,609	104,170
Less current maturities	(4,586)	(4,159)
	$ 98,023	$ 100,011

In April 2006, the Illinois Finance Authority issued $7,300 in Illinois Finance Revenue Bonds (Mount Sinai Hospital Medical Center of Chicago), Series 2006. The bonds were issued under the Illinois Finance Authority Act and under and pursuant to a Master Financing Agreement between Mount Sinai Hospital Medical Center of Chicago and GE Capital Public Finance, Inc. They were issued for the purpose of making a loan to Mount Sinai to finance and refinance the costs of acquiring and equipping certain of the health facilities of Mount Sinai. These bonds were paid in full in May 2011.

In December 2003, the Illinois Health Facilities Authority, on behalf of the Corporation, issued $97,505 in Illinois Health Facilities Authority Federal Housing Authority (FHA) Insured Mortgage Revenue Refunding Bonds, Series 2003 (Series 2003 Bonds). The proceeds from the sale of the Series 2003 Bonds were used to pay certain expenses incurred in connection with the issuance of the Series 2003 Bonds, to refund the outstanding principal amount of other bonds, and to add the debt service reserve fund for the benefit of the Series 2003 Bond closing.

Under the terms of a master trust indenture, the Corporation, Mount Sinai, and Schwab form the Obligated Group, $6,640 was held on deposit with a trustee for bond redemption and interest payments at June 30, 2012 and 2011. Additionally, hospitals insured by the U.S. Department of Housing and Urban Development (HUD) under Section 242 of the National Housing Act are required to fund a Mortgage Reserve Fund. Mount Sinai and Schwab make quarterly deposits to the fund. At June 30, 2012 and 2011, the fund had a balance of $8,269 and $7,417, respectively.

Substantially all of the assets of the Corporation secure the outstanding bonds. The terms of the agreements require quarterly financial reporting measures, as well as audited financial statements to be received by a certain number of days after year-end.

(Dollars in Thousands)

Note 8. Long-Term Debt (Continued)

The agreement requires that an insurance certificate be obtained evidencing that the liability insurance is fully funded. As of June 30, 2012, this insurance certificate was not obtained as the liability insurance is not fully funded. The Corporation worked with HUD and the bond trustees to address the self-insurance trust deficiency and instituted a corrective action plan. The Corporation was not in compliance with this requirement but has obtained notification from the bond trustees that the cure period has been extended indefinitely and that no event of default has occurred so long as the cure period is in effect.

In July 2008, Mount Sinai and SMG's outstanding portion of the Series 2002 bonds were placed in a term loan with the Northern Trust Company in a principal amount of $5,915. This note was reduced to $5,684 in 2010. Under the terms of the agreement, interest is payable monthly, at a rate based on a 30-day LIBOR (.628 percent at June 30, 2012) plus 100 basis points. The loan with Northern Trust matures on October 12, 2012, and a commitment letter has been received from JP Morgan Chase to extend the term loan through October 15, 2015. The loan is guaranteed by the Jewish Federation of Metropolitan Chicago (Federation). There are no funds held on deposit with a trustee for the years ended June 30, 2012 and 2011.

During 1997, SCI issued $5,000 in bonds through the Illinois Development Finance Authority. The bonds are guaranteed by the Federation.

Future maturities of long-term debt are as follows:

Year ending June 30:	
2013	$ 4,586
2014	4,099
2015	3,231
2016	8,000
2017	2,154
Thereafter	80,539
	$ 102,609

At June 2012 and 2011, the Corporation had outstanding irrevocable letters of credit, other than the letters of credit related to the Series 1997 and Series 2002 debt disclosed above, totaling $3,274 and $3,434, respectively. No amounts were outstanding under the letters of credit at June 30, 2012 and 2011.

Capital lease obligations relate to certain equipment which Mount Sinai leases under various lease agreements that expire through 2017. The net carrying value of this equipment was $7,733 and $7,060 at June 30, 2012 and 2011, respectively. The Corporation has capital lease obligations outstanding of $6,587 and $6,430 at June 30, 2012 and 2011, respectively.

(Dollars in Thousands)

Note 8. Long-Term Debt (Continued)

Future minimum payments under capital lease obligations with initial or remaining terms of one year or more consist of the following at June 30, 2012:

Capital Lease:	
2013	$ 3,033
2014	2,350
2015	1,311
2016	280
2017	4
Total future minimum lease payments	6,978
Less amount representing interest	(391)
Present value of future minimum lease payments	$ 6,587

Note 9. Notes Payable

Mount Sinai has a revolving credit agreement, which allows it to borrow principal amounts up to $4,000, effective until February 28, 2013. Interest on amounts borrowed is at adjusted LIBOR rates (3.25 percent at June 30, 2012); adjusted LIBOR rate is annual LIBOR divided by reserve percentage (reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency liabilities). Mount Sinai had $2,001 and $2,200 outstanding under the credit agreement at June 30, 2012 and 2011, respectively.

During November 2002, Mount Sinai secured a note payable with the Federation that bears interest at the U.S. Treasury rate plus 1 percent. At June 30, 2012 and 2011, $0 and $364 was outstanding under this agreement, respectively. The note matured in January 2012.

During May 2001, SMG issued a promissory note to a bank totaling $3,025. The note bears interest at adjusted LIBOR rates. SMG's net patient accounts receivable are pledged as collateral under the note. SMG had outstanding balances under the note of $0 and $325 at June 30, 2012 and 2011, respectively. The note matured in February 2012.

Note 10. Insurance

Effective June 1, 1976, Mount Sinai, and effective July 1, 1985, Schwab, became self-insured for professional malpractice and patient general liability claims and for the costs of claims administration and defense. Effective November 1, 2003, the Corporation does not maintain a commercial excess insurance policy. The Corporation has retained all risk for claims occurring subsequent to this date. The liability for self-insured risks is based on a report of consulting actuaries that is updated annually to reflect the Corporation's actual experience. Obligations for self-insured liabilities were approximately $44,015 and $41,300 as of June 30, 2012 and 2011, respectively. The provision is actuarially determined. The undiscounted amount of these claims was $50,827 and $48,377 at June 30, 2012 and 2011, respectively. The interest rate used to discount these claims was 4.75 and 5.25 percent at June 30, 2012 and 2011, respectively. The claims that are expected to be paid within 12 months are classified as current liabilities in the accompanying consolidated financial statements. Claims expected to be paid after 12 months are classified as noncurrent.

SMG has purchased professional malpractice insurance for employed physicians on a claims-made basis with annual limits of $1,000 per occurrence and $3,000 in the aggregate, per physician. The policy term extends through June 30, 2013.

Note 10. Insurance (Continued)

SMG management is not aware of any factors that would cause insurance expense to vary materially from the amounts provided. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the policy's term, but reported subsequently, may not be insured. Estimated provisions for incurred but not reported claim expenses have been provided for based on SMG's historical claims experience and amounted to approximately $6,860 and $6,800 at June 30, 2012 and 2011, respectively. The undiscounted amount of these claims was $7,872 and $7,803 at June 30, 2012 and 2011, respectively. The interest rate used to discount these claims was 4.75 and 5.25 percent at June 30, 2012 and 2011, respectively.

Note 11. Employee Benefit Plans

The Corporation participates in a multi-employer defined-contribution plan covering substantially all full-time employees who have completed one year of service. Matching contributions are based on each participant's contribution. Contributions are based on each participant's salary level. Retirement benefits are funded as accrued through the selected retirement plan vendor. A retirement plan for union employees of the Corporation, covered by a collective bargaining agreement negotiated with SEIU-HC, is also in place.

Schwab has a defined-contribution (money purchase) plan covering substantially all of its full-time employees. Contributions are based on each participant's income level. Insurance annuity contracts are purchased for individuals who retire. Schwab funds the plan's costs as accrued.

The Corporation recorded expense of $1,954 and $1,892 for the years ended June 30, 2012 and 2011, respectively, related to these plans.

In addition, SMG has a nonqualified deferred compensation plan as the primary vehicle for a physician retirement savings plan. Participation in the plan is voluntary and is open to all eligible physicians. Plan investments are held by a trustee and are the property of SMG until the funds are withdrawn by a participant. The consolidated balance sheets include plan investments reflected as other noncurrent assets and the corresponding obligations are reflected as other noncurrent liabilities in the amount of $918 and $990 at June 30, 2012 and 2011, respectively. The plan is funded by the participants.

Note 12. Notes Receivable and Transactions With Other Organizations

Access Community Health Network (Access) is a private community health center organization formerly affiliated with the Corporation. Access and the Corporation collaborate to provide health care services and improve the health of citizens living in the metropolitan Chicago area serviced by the Corporation and Access.

During the years ended June 30, 2012 and 2011, the Corporation provided certain services totaling $3,297 and $7,984, respectively, to Access. Additionally, the Corporation provided contributions to Access totaling $1,700 for the years ended June 30, 2012 and 2011, respectively, for uncompensated care. Also, the Corporation charges Access interest on the amounts due to the Corporation and all amounts owed to the Corporation are documented and supported by underlying contractual agreements. The annual interest rate was 5 percent for the years ended June 30, 2012 and 2011. Interest income was $1,005 and $1,047 for the years ended June 30, 2012 and 2011, respectively. Amounts due from Access are reported as notes receivable current and long term in the accompanying consolidated balance sheets, and mature at various times, ranging from due upon demand to June 30, 2016.

There were contributions to other organizations of $0 and $300, for the years ended June 30, 2012 and 2011, respectively.

(Dollars in Thousands)

Note 13. Temporarily and Permanently Restricted Net Assets

The Corporation's endowment consists of an endowment development program with donated funds which was established to support Mount Sinai. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment includes permanently and temporarily donor-restricted principal. Income earned on the principal is unrestricted and can be used for general operating expenses and maintenance of Mount Sinai.

On June 30, 2009, the governor of the State of Illinois signed into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA differs from laws previously in place in a few key areas. It eliminates the historic dollar value rule with respect to endowment fund spending, it updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds.

Interpretation of Relevant Law – The Board of Directors of the Corporation has interpreted the Illinois UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1) The duration and preservation of the fund;
2) The purpose of the Corporation and the donor-restricted endowment fund;
3) General economic conditions;
4) The possible effect of inflation and deflation;
5) The expected total return from income and the appreciation of investments;
6) Other resources of the Corporation, and;
7) The investment policies of the Corporation.

The Organization's endowment net asset composition by type of fund is as follows for the years ended June 30, 2012 and 2011:

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Board-designated	2,004	-	-	2,004	1,967	-	-	1,967
Total funds	$ 2,004	$ -	$ -	$ 2,004	$ 1,967	$ -	$ -	$ 1,967

(Dollars in Thousands)

Note 13. Temporarily and Permanently Restricted Net Assets (Continued)

The changes in endowment net assets of the Corporation were as follows for the years ended June 30, 2012 and 2011:

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,967	$ -	$ -	$ 1,967	$ 1,586	$ -	$ 75	$ 1,661
Other changes:								
Reclassification	-	-	-	-	75	-	(75)	-
Investment return:								
Investment gain	37	-	-	37	306	-	-	306
Endowment net assets, end of year	$ 2,004	$ -	$ -	$ 2,004	$ 1,967	$ -	$ -	$ 1,967

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Illinois UPMIFA requires the Corporation to retain as a fund of perpetual duration. There were no deficiencies in the endowment fund as of June 30, 2012 and 2011.

Return Objectives and Risk Parameters – The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to achieve an annualized long-term average return of nominal percent. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Corporation does not have a spending policy relating to its endowment; however, there are policies and procedures in place to ensure that expenditures are used to properly support hospital operations.

(Dollars in Thousands)

Note 13. Temporarily and Permanently Restricted Net Assets (Continued)

Temporarily restricted net assets are available for the following purposes at June 30:

	2012	2011
Scholarships	$ 163	$ 220
Research	29	26
Health care services	4,395	5,933
Purchase of property and equipment	8,560	2,270
	$ 13,147	$ 8,449

Net assets were released from donor restrictions by incurring expenditures for the following purposes during the years ended June 30:

	2012	2011
Purchase of property and equipment	$ -	$ 66
Health care services	236	686
Total net assets released from restriction	$ 236	$ 752

Note 14. Leases

Future minimum payments under noncancelable operating leases with terms of one year or more are as follows:

Year ending June 30:	
2013	$ 983
2014	263
2015	263
2016	263
2017	263
Total	$ 2,035

Rental expense under operating leases amounted to $1,119 and $1,223 for the years ended June 30, 2012 and 2011, respectively.

(Dollars in Thousands)

Note 15. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to this, general and administrative, and fundraising functions are as follows for the years ended June 30:

	2012	2011
Health care services	$ 367,339	$ 391,400
General and administrative	17,765	16,432
Fundraising	565	631
	$ 385,669	$ 408,463

Certain costs have been allocated between health care services and general and administrative costs.

Note 16. Commitments and Contingencies

Litigation – In addition to professional liability claims, the Corporation is involved in litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the Corporation's consolidated financial position, results of operations and cash flows.

Illinois Hospital Uninsured Patient Discount Act – As part of the package of hospital legislation that passed the Illinois General Assembly the last week of May, Senate Bill 3261 amends the Illinois Hospital Uninsured Patient Discount Act. All hospitals will need to provide a 100% discount for medically necessary services exceeding three hundred dollars to uninsured patients who are Illinois residents, who apply for the discount and have a family income of up to 200% of the federal poverty level (FPL) at urban hospitals and 125% of the FPL at rural and critical access hospitals.

Regulatory Environment Including Fraud and Abuse Matters – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Corporation is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries that are expected to have a material adverse effect on the Corporation have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

CMS Recovery Audit Contractor Program – Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. CMS rolled out this program nationally, in Illinois during the fiscal year ended June 30, 2010. At June 30, 2012 and 2011, the Corporation recorded a liability for estimated amounts that will be repaid under the RAC program based on the Corporation's RAC program experience to date.

Note 16. Commitments and Contingencies (Continued)

Medicare and Medicaid Reimbursement – The Governor of Illinois recently signed into law the budget for the State's fiscal year ending June 30, 2013, which reduces Medicaid appropriations to hospitals in the upcoming year. These reductions are expected to delay Medicaid payments into the State's fiscal year 2014 and the potential to cut spending in the upcoming year. For non-expedited hospitals, payments based on claims will be held for the first one hundred and sixty days of the State fiscal year, whereas, for expedited hospitals such as Mount Sinai and Schwab, payments will be based on a twelve day cycle beginning in August based on their claims. In addition to delayed Medicaid payments, deep cuts to both the Medicare and Medicaid programs are under consideration by the U.S. Congress as it looks to cut federal spending. Such cuts in Medicaid and Medicare reimbursement, if enacted, could have a significant adverse effect on the Corporation's consolidated financial statements.

Property and Sales Tax Exemption – On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieve the burden of government or address the health of low-income or underserved individuals. Management believes that the Corporation meets the requirements under the law to maintain its property and sales tax exemption.

Construction in Progress – Construction in progress as of June 30, 2012, consists primarily of costs related to the expansion of the third floor of the Sinai Community Institute Building for the movement of the clinics out of the Kling Building. The estimated cost to complete the project is approximately $4,200 at June 30, 2012.

Potential Strategic Relationship **–** On September 25, 2012, the Corporation executed a Change of Membership Agreement with Holy Cross Hospital (Holy Cross) and the Sisters of St. Casimir under which the Corporation would become the sole corporate member of Holy Cross effective January 1, 2013. Closing of the transaction is conditioned upon obtaining all required consents and regulatory approvals, including approval of a Certificate of Need application, HUD approval under the existing regulatory agreement, completion of due diligence to the Corporation's satisfaction, and no material change with respect to the business or financial condition of Holy Cross between the execution date and effective date. There is no assurance that the transaction will be completed or if completed that it will be as currently anticipated in terms of timing, structure, size, or cost.

Pending Mortgage Modification – The Corporation is in the process of a mortgage modification of its existing Series 2003 Bonds by issuing fully modified mortgage backed securities, Government National Mortgage Association (GNMA) Collateralized Taxable Revenue Bonds (Series 2012). The Series 2012 Bonds will be issued under and secured by a Trust Indenture dated around November 1, 2012 for the purpose of refinancing all of the outstanding Illinois Health Facilities Authority FHA Insured Series 2003 Mortgage Revenue Refunding Bonds and to pay certain costs associated with the issuance of the Series 2012 Bonds. The Series 2012 Bonds will mature in 2036.

(Dollars in Thousands)

Note 17. Fair Value Disclosures

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. In determining fair value, the Corporation uses various methods including market, income and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal year ended June 30, 2012, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Fair Value on a Recurring Basis – The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of June 30, 2012 and 2011.

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Investment agreements	$ 6,812	$ -	$ -	$ 6,812
Cash equivalents - money market funds and mutual funds	1,281	-	-	1,281
United States Treasury securities	13,691	-	-	13,691
Federation pooled funds	-	-	7,234	7,234
Mutual funds invested in equity securities	1,698	-	-	1,698
Equities	603	-	-	603
	$ 24,085	$ -	$ 7,234	$ 31,319

(Dollars in Thousands)

Note 17. Fair Value Disclosures (Continued)

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Investment agreements	$ 6,816	$ -	$ -	$ 6,816
Cash equivalents - money market funds mutual funds	1,177	-	-	1,177
United States Treasury securities	12,783	-	-	12,783
Federation pooled funds	-	-	11,191	11,191
Mutual funds invested in equity securities	1,814	-	-	1,814
Equities	285	-	-	285
	$ 22,875	$ -	$ 11,191	$ 34,066

Investment agreements consist primarily of guaranteed investment contracts.

Investments – The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

The Corporation invests in a pooled fund maintained by the Federation. The Federation's pooled fund is comprised of various types of investments including: mutual funds, equity and debt securities, alternative investments and other investment vehicles. The Corporation owns only a portion of the Federation's pooled fund; the Corporation does not own or have any interest in the underlying investments. As an outside investor in the portfolio, the Corporation has the ability to withdraw funds from its account on the first day of any calendar quarter. Withdrawal requests are required to be submitted to Federation in writing at least five days prior to quarter-end and withdrawals representing 25 percent or more of an investor's assets are paid in two installments.

Alternative investments and other investment vehicles are valued at fair value based on the applicable percentage ownership of the investment funds' net assets as of year-end, as determined by the Federation. In determining fair value, the Federation utilizes valuations and other information provided by fund managers or the general partners of investment partnerships. The underlying investment funds value securities and other financial instruments substantially on a mark-to-market or fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds are determined by the investment manager or sponsor of the respective fund. The fair value of the Federation's alternative investments generally represents the amount expected to be received if the Federation were to liquidate its alternative investments, excluding any redemption charges that may apply.

Accordingly, the estimated fair values of the alternative investments may differ significantly from the values that would have been used had a ready market existed for these investments.

The Corporation currently invests a significant amount of funds in the pooled funds of the Federation. In the event the Federation does not fulfill its obligations, the Corporation may be exposed to risk. This risk of default depends on the creditworthiness of the counterparty to these transactions. The Federation attempts to minimize this credit risk by monitoring the creditworthiness of its counterparties.

(Dollars in Thousands)

Note 17. Fair Value Disclosures (Continued)

The following table presents a reconciliation of activity for the Level 3 financial instruments:

	2012 Federation	2011 Federation
Balance, July 1	$ 11,191	$ 9,562
Revenue in excess of expenses	29	2,077
Sale of investment securities	(4,092)	-
Purchase of investment securities	106	(448)
Balance, June 30	$ 7,234	$ 11,191

Gains and losses above relate to assets still held at June 30, 2012 and 2011, and are recorded on the consolidated statement of operations and changes in net assets for the years ended June 30, 2012 and 2011, as follows:

	2012	2011
Investment income-operating	$ 340	$ 75
Net change in unrealized gains and losses on investments	(311)	2,002
	$ 29	$ 2,077

The Corporation, as an investor in the Federation pooled funds, enters into transactions with a variety of securities and derivative financial instruments, including exchange-traded future and options contracts. These derivative financial instruments may have market and/or credit risk in excess of the amounts recorded in the consolidated balance sheets.

(Dollars in Thousands)

Note 17. Fair Value Disclosures (Continued)

As of June 30, 2012 and 2011, the pooled funds of the Federation were invested as follows:

	2012 Percentage of Total Pooled Fund	2011 Percentage of Total Pooled Fund
Federation Hierarchy Level 1		
Money market funds	2 %	2 %
Mutual funds and other investment vehicles		
Domestic equity - large capitalization	12	13
Domestic equity - small capitalization	5	7
International equity	14	17
Fixed income - domestic	8	8
Fixed income - international	5	5
Total Percentage Federation Hierarchy Level 1	46 %	52 %
Federation Hierarchy Level 2		
State of Israel bonds	0 %	1 %
Total Percentage Federation Hierarchy Level 2	0 %	1 %
Federation Hierarchy Level 3		
Alternative investments		
Absolute return hedge funds	18 %	19 %
Real asset funds (real estate, energy and natural resources)	21	15
Private equity and fund-of-funds	15	13
Total Percentage Federation Hierarchy Level 3	54 %	47 %

Fair Value of Financial Instruments – The following methods and assumptions were used by the Corporation to estimate the fair value of other financial instruments not detailed above.

The carrying values of cash and cash equivalents, patient accounts receivable, other accounts receivable, accounts payable and accrued expenses, and amounts due to third-party payors are reasonable estimates of their fair value due to the short-term nature of these financial instruments.

The fair value of the long-term debt is estimated based on the quoted market prices for the same or similar issues or on current rates offered to market participants for debt of the same remaining maturities. The approximate fair value of outstanding debt and notes payable at June 30, 2012 and 2011, was $108,000 and $107,000, respectively.

Note 18. Pending Adoption of New Accounting Principles

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities – a consensus of the FASB Emerging Issues Task Force*. ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay, to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, ASU 2011-07 requires those health care entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

For public entities such as the Corporation, the provisions of ASU 2011-07 are effective for fiscal years and interim periods within those years beginning after December 15, 2011, with early adoption permitted. The changes to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by ASU 2011-07 should be provided for the period of adoption and subsequent reporting periods. The Corporation is assessing the impact of the implementation of ASU 2011-07 on its consolidated financial statements.

McGladrey

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
Sinai Health System
Chicago, Illinois

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating and other supplementary information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies 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 consolidating and supplementary information, except for the portion marked “unaudited,” on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Chicago, Illinois
October 10, 2012

Sinai Health System and Affiliates

Details of Consolidated Balance Sheet
June 30, 2012
(Dollars in Thousands)

	Sinai Health System	Mount Sinai Hospital Medical Center and Subsidiaries	Schwab Rehabilitation Hospital	Sinai Community Foundation	Sinai Community Institute	Eliminations	Consolidated
Assets							
Current Assets							
Cash and cash equivalents	$ 1,326	$ 6,052	$ 772	$ 260	$ 441	$ -	$ 8,851
Assets limited as to use							
Externally designated investments	-	3,521	751	-	-	-	4,272
Patient accounts receivable, less allowances	-	35,583	5,986	16,766	-	-	58,335
Due from affiliates	-	1,736	52,273	-	-	(54,009)	-
Notes receivable, current portion	1,951	2,472	-	3,402	-	-	7,825
Other accounts receivable	334	3,075	168	3,234	1,862	-	8,673
Prepaid expenses, inventories, and other	288	5,357	334	162	-	-	6,141
Total current assets	3,899	57,796	60,284	23,824	2,303	(54,009)	94,097
Assets Limited as to Use, net of amounts required to meet current liabilities							
Internally designated investments for capital program	-	9,224	2,724	-	-	-	11,948
Externally designated investments under debt agreements	-	12,196	2,714	-	-	-	14,910
Total assets limited as to use	-	21,420	5,438	-	-	-	26,858
Other Assets							
Deferred bond issuance costs, less amortization	-	1,604	594	-	28	-	2,226
Notes receivable, long-term portion	2,045	5,569	415	3,565	76	-	11,670
Other investments	-	-	189	-	-	-	189
Other	5,401	2,159	(101)	2,651	29	-	10,139
Total other assets	7,446	9,332	1,097	6,216	133	-	24,224
Property and Equipment, net	8,302	79,103	18,190	1,842	5,756	-	113,193
Total assets	$ 19,647	$ 167,651	$ 85,009	$ 31,882	$ 8,192	$ (54,009)	$ 258,372

Sinai Health System and Affiliates

Details of Consolidated Balance Sheet (Continued)
June 30, 2012
(Dollars in Thousands)

	Sinai Health System	Mount Sinai Hospital Medical Center and Subsidiaries	Schwab Rehabilitation Hospital	Sinai Community Foundation	Sinai Community Institute	Eliminations	Consolidated
Liabilities and Net Assets (Deficit)							
Current Liabilities							
Accounts payable and accrued expenses	$ 2,391	$ 39,919	$ 946	$ 3,558	$ 293	$ -	$ 47,107
Accrued salaries and employee benefits	828	10,461	1,854	4,848	264	-	18,255
Amounts due to third-party payors	-	3,216	3,578	-	-	-	6,794
Due to affiliates	4,287	-	-	211,685	15,122	(231,094)	-
Self-insurance claims payable	-	1,544	529	144	-	-	2,217
Notes payable	-	2,001	-	-	-	-	2,001
Current maturities of long-term debt	591	3,356	483	156	-	-	4,586
Other current liabilities	1,780	6,848	683	1,953	183	-	11,447
Total current liabilities	9,877	67,345	8,073	222,344	15,862	(231,094)	92,407
Noncurrent Liabilities							
Long-term debt, less current maturities	646	70,930	20,224	1,223	5,000	-	98,023
Self-insurance claims payable, less current portion	-	39,581	2,362	6,715	-	-	48,658
Due to affiliates	-	-	-	-	-	-	-
Other	432	2,579	617	918	-	-	4,546
Total liabilities	10,955	180,435	31,276	231,200	20,862	(231,094)	243,634
Net Assets (Deficit)							
Noncontrolling interest in subsidiary	-	245	-	-	-	-	245
Unrestricted	77	(17,156)	53,377	(199,367)	(12,670)	177,085	1,346
Temporarily restricted	8,615	4,127	356	49	-	-	13,147
	8,692	(12,784)	53,733	(199,318)	(12,670)	177,085	14,738
Total liabilities and net assets (deficit)	$ 19,647	$ 167,651	$ 85,009	$ 31,882	$ 8,192	$ (54,009)	$ 258,372

Sinai Health System and Affiliates

Details of Consolidated Schedule of Operations
Year Ended June 30, 2012
(Dollars in Thousands)

	Sinai Health System	Mount Sinai Hospital Medical Center and Subsidiaries	Schwab Rehabilitation Hospital	Sinai Community Foundation	Sinai Community Institute	Eliminations	Consolidated
Unrestricted revenue and other support:							
Net patient service revenue	$ -	$ 266,113	$ 40,001	$ 41,117	$ -	$ -	$ 347,231
Other revenue	22,933	14,861	507	21,259	725	(39,255)	21,030
Investment income	-	552	175	-	-	-	727
Contributions from the Jewish Federation of Metropolitan Chicago	-	744	-	-	-	-	744
Grant revenue	2,372	4,581	224	344	6,335	-	13,856
Net assets released from restrictions	11	195	30	-	-	-	236
Total unrestricted revenue and other support	25,316	287,046	40,937	62,720	7,060	(39,255)	383,824
Expenses:							
Salaries and wages	14,275	119,966	25,126	64,438	4,931	(16,004)	212,732
Supplies and purchased services	3,037	75,596	7,554	4,537	1,414	(18,328)	73,810
Depreciation and amortization	2,198	9,014	1,207	455	217	-	13,091
Provision for bad debts	-	38,291	1,184	8,186	199	(23,100)	24,760
Insurance	-	6,003	(46)	4,783	14	-	10,754
Interest	34	4,952	1,182	9	53	(855)	5,375
Provider tax	-	13,938	3,143	-	-	-	17,081
Other	6,122	19,801	2,282	3,742	1,042	(4,923)	28,066
Total expenses	25,666	287,561	41,632	86,150	7,870	(63,210)	385,669
Income (loss) from operations	(350)	(515)	(695)	(23,430)	(810)	23,955	(1,845)
Nonoperating (losses) gains:							
Contributions	-	13	-	-	3	-	16
Investment income	-	547	37	210	-	-	794
Net change in unrealized gains and (losses)							-
on investments	-	(152)	(78)	-	-	-	(230)
Contributions to other organizations	-	(1,700)	-	-	-	-	(1,700)
Affiliate interest income	-	-	855	-	-	(855)	-
Other	-	711	-	19	-	-	730
Net loss attributable to noncontrolling interest	-	(233)	-	-	-	-	(233)
Total nonoperating (losses) gains	-	(814)	814	229	3	(855)	(623)
Revenue in excess of (less than) expenses	$ (350)	$ (1,329)	$ 119	$ (23,201)	$ (807)	$ 23,100	$ (2,468)

Sinai Health System and Affiliates

Details of Consolidated Balance Sheet
June 30, 2011
(Dollars in Thousands)

	Sinai Health System	Mount Sinai Hospital Medical Center and Subsidiaries	Schwab Rehabilitation Hospital	Sinai Community Foundation	Sinai Community Institute	Eliminations	Consolidated
Assets							
Current Assets							
Cash and cash equivalents	$ 347	$ 8,827	$ 894	$ 439	$ 251	$ -	$ 10,758
Assets limited as to use							
Externally designated investments	-	3,448	749	-	-	-	4,197
Internally designated investments under			-				
self-insurance program	-	3	-	-	-	-	3
Patient accounts receivable, less allowances for uncollectible accounts	-	33,378	5,133	14,565	-	-	53,076
Due from affiliates	-	-	51,048	-	-	(51,048)	-
Notes receivable, current portion	3,949	3,314	416	770	76	-	8,525
Other accounts receivable	514	3,862	210	1,151	1,332	-	7,069
Prepaid expenses, inventories, and other	46	5,373	778	23	116	-	6,336
Total current assets	4,856	58,205	59,228	16,948	1,775	(51,048)	89,964
Assets Limited as to Use, net of amounts required to meet current liabilities							
Internally designated investments for capital program	-	11,955	3,685	-	-	-	15,640
Internally designated investments under self-insurance program	-	-	-	-	-	-	-
Externally designated investments under debt agreements	-	11,345	2,712	-	-	-	14,057
Total assets limited as to use	-	23,300	6,397	-	-	-	29,697
Other Assets							
Deferred bond issuance costs, less amortization	-	1,672	619	-	31	-	2,322
Notes receivable, long-term portion	-	3,868	-	5,626	-	-	9,494
Other investments	-	-	169	-	-	-	169
Other	5,271	1,876	(88)	2,306	-	-	9,365
Total other assets	5,271	7,416	700	7,932	31	-	21,350
Property and Equipment, net	7,807	80,885	18,782	2,011	5,396	-	114,881
Total assets	$ 17,934	$ 169,806	$ 85,107	$ 26,891	$ 7,202	$ (51,048)	$ 255,892

Sinai Health System and Affiliates

Details of Consolidated Balance Sheet (Continued)
June 30, 2011
(Dollars in Thousands)

	Sinai Health System	Mount Sinai Hospital Medical Center and Subsidiaries	Schwab Rehabilitation Hospital	Sinai Community Foundation	Sinai Community Institute	Eliminations	Consolidated
Liabilities and Net Assets (Deficit)							
Current Liabilities							
Accounts payable and accrued expenses	$ 1,114	$ 43,926	$ 1,663	$ 2,033	$ 298	$ -	$ 49,034
Accrued salaries and employee benefits	1,143	12,160	3,483	4,736	419	-	21,941
Amounts due to third-party payors	-	3,090	1,434	356	-	-	4,880
Due to affiliates	5,257	2,344	-	184,367	12,933	(204,901)	-
Self-insurance claims payable	-	1,327	442	234	-	-	2,003
Notes payable	-	2,564	-	325	-	-	2,889
Current maturities of long-term debt	426	2,996	426	311	-	-	4,159
Other current liabilities	1,249	4,282	132	1,726	415	-	7,804
Total current liabilities	9,189	72,689	7,580	194,088	14,065	(204,901)	92,710
Noncurrent Liabilities							
Long-term debt, less current maturities	414	72,651	20,572	1,374	5,000	-	100,011
Self-insurance claims payable,							-
less current portion	-	36,825	2,751	6,558	-	-	46,134
Due to affiliates	-	132	-	-	-	(132)	-
Other	386	2,459	579	990	-	-	4,414
Total liabilities	9,989	184,756	31,482	203,010	19,065	(205,033)	243,269
Net Assets (Deficit)							
Noncontrolling interest in subsidiary	-	123	-	-	-	-	123
Unrestricted	427	(15,588)	53,257	(176,167)	(11,863)	153,985	4,051
Temporarily restricted	7,518	515	368	48	-	-	8,449
	7,945	(14,950)	53,625	(176,119)	(11,863)	153,985	12,623
Total liabilities and net assets (deficit)	$ 17,934	$ 169,806	$ 85,107	$ 26,891	$ 7,202	$ (51,048)	$ 255,892

Sinai Health System and Affiliates

Details of Consolidated Schedule of Operations
Year Ended June 30, 2011
(Dollars in Thousands)

	Sinai Health System	Mount Sinai Hospital Medical Center and Subsidiaries	Schwab Rehabilitation Hospital	Sinai Community Foundation	Sinai Community Institute	Eliminations	Consolidated
Unrestricted revenue and other support:							
Net patient service revenue	$ -	$ 291,902	$ 43,028	$ 41,073	$ -	$ -	$ 376,003
Other revenue	25,238	9,311	756	19,199	1,041	(41,675)	13,870
Investment income	-	477	150	26	-	-	653
Contributions from the Jewish Federation of Metropolitan Chicago	-	685	-	-	-	-	685
Grant revenue	2,804	5,607	382	343	8,059	-	17,195
Net assets released from restrictions	185	391	83	14	13	-	686
Total unrestricted revenue and other support	28,227	308,373	44,399	60,655	9,113	(41,675)	409,092
Expenses:							
Salaries and wages	14,145	121,998	24,843	58,960	4,635	(15,517)	209,064
Supplies and purchased services	6,967	75,867	7,898	4,080	4,096	(21,113)	77,795
Depreciation and amortization	1,882	8,982	1,242	412	218	-	12,736
Provision for bad debts	-	58,727	1,640	11,626	133	(21,503)	50,623
Insurance	-	5,264	(390)	4,437	12	-	9,323
Interest	46	5,130	1,197	19	50	(855)	5,587
Provider tax	-	13,938	3,143	-	-	-	17,081
Other	5,190	20,312	2,352	2,406	1,039	(5,045)	26,254
Total expenses	28,230	310,218	41,925	81,940	10,183	(64,033)	408,463
Income (loss) from operations	(3)	(1,845)	2,474	(21,285)	(1,070)	22,358	629
Nonoperating gains (losses):							
Contributions	4	30	-	-	1	-	35
Investment income	-	1,377	465	196	-	-	2,038
Net change in unrealized gains and losses on investments	-	(194)	(27)	-	-	-	(221)
Contributions to related party	-	(2,000)	-	-	-	-	(2,000)
Affiliate interest income	-	-	855	-	-	(855)	-
Other	-	21	-	-	-	-	21
Net loss attributable to noncontrolling interest	-	(104)	-	-	-	-	(104)
	4	(870)	1,293	196	1	(855)	(231)
Revenue in excess of (less than) expenses	$ 1	$ (2,715)	$ 3,767	$ (21,089)	$ (1,069)	$ 21,503	$ 398

Schedule of Charity Care and Community Benefits
Years Ended June 30, 2012 and 2011
(Dollars in Thousands) - Unaudited

The Corporation provides care to patients who meet certain criteria under its free care policy without charge or at amounts less than its established rates. Since the Corporation does not pursue collection of these amounts, they are not reported as revenue.

The amount of charges forgone for services and supplies furnished under the Corporation's free care policy totaled $134,805 and $80,833 during the years ended June 30, 2012 and 2011, respectively.

In addition, the Corporation is involved in many unsponsored community benefits. Unsponsored community benefits are programs or activities that provide treatment and/or promote health and healing as a response to identified community needs, not provided for marketing purposes and that meet at least one of the following criteria: (1) generate a low or negative margin, (2) respond to the needs of special populations, (3) supply services or programs that would likely be discontinued, or would need to be provided by another not-for-profit or government provider if the decision was made on a purely financial basis, (4) respond to public health needs, and/or (5) involve education or research that improves overall community health.

Benefits for the poor include services provided to persons who are economically poor or are medically indigent and cannot afford to pay for health care services because they have inadequate resources and/or are uninsured or underinsured.

Benefits for the broader community refer to persons in the general community, beyond and including those in target populations. Most services for the broader community are aimed at improving the health and welfare of the overall community.

Traditional charity care is free or discounted health services provided to persons who cannot afford to pay and who meet the Corporation's criteria for financial assistance.

The following is a summary of the Corporation's community benefits for the years ended June 30, 2012 and 2011, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with the Community Benefits Act (Public Act 93-480):

Sinai Health System and Affiliates

Schedule of Charity Care and Community Benefits (Continued)
Years Ended June 30, 2012 and 2011
(Dollars in Thousands) - Unaudited

	2012 Total Community Benefit	% of Total Expenses	2011 Total Community Benefit	% of Total Expenses
Benefits for the poor, at cost				
Traditional charity care	$ 34,651	8.5 %	$ 20,560	5.0 %
Benefits for the poor				
Community services:				
Community health services	1,563	0.4	1,924	0.5
Health professions education	1,877	0.5	2,207	0.5
Subsidized health services	20,628	5.1	21,154	4.9
Research	100	0.0	107	0.0
Grants and donations	1,700	0.4	1,700	0.4
Community benefit operations	19	0.0	31	0.0
Total community services for the poor	25,887	6.4	27,123	6.3
Total benefits for the poor	60,538	14.9	47,683	11.3
Benefits for the broader community				
Community services:				
Community health services	2,125	0.5	2,539	0.6
Health professions education	2,552	0.6	2,913	0.7
Subsidized health services	-	0.1	469	0.0
Research	136	0.0	141	0.0
Community benefit operations	27	0.0	42	0.0
Total benefits for the broader community	4,840	1.2	6,104	1.3
Total community benefits	65,378	16.1	53,787	12.6
Bad debt expense*	16,574	4.1	38,997	11.9
Total community benefits including bad debt expense	$ 81,952	20.2 %	$ 92,784	24.5 %

* Bad debt expense converted to cost would be $4,257 for June 30, 2012 and $9,990 at June 30, 2011. Therefore, if bad debt expense were converted to cost, the total community benefits would be as follows:

	2012	2011
Total community benefits, per above	$ 65,378	$ 53,787
Bad debt expense, at cost	4,257	9,990
Total community benefits including bad debt expense	$ 69,635	$ 63,777