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Report of Independent Auditors

The Board of Trustees
St. Joseph Health System and Affiliates

We have audited the accompanying consolidated financial statements of St. Joseph Health System and Affiliates, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the fiscal 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. 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 audit 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Joseph Health System and Affiliates at June 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for the fiscal years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating financial statements are presented for purposes of additional analysis and are 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 audits 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

September 26, 2014

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidated Balance Sheets
(In Thousands)

	June 30	
	2014	2013
Assets		
Current assets:		
Cash and equivalents	\$ 269,991	\$ 329,513
Short-term marketable securities	852,635	782,752
Patient accounts receivable, less allowance for doubtful accounts ((\$240,482 and \$262,282 as of June 30, 2014 and 2013, respectively))	641,384	607,548
Other assets	258,722	294,900
Total current assets	2,022,732	2,014,713
Long-term marketable securities	1,080,035	990,317
Assets limited as to use:		
Board designated	1,546,445	1,350,270
Held in trust	115,077	127,810
Total assets limited as to use	1,661,522	1,478,080
Property and equipment, net	3,853,737	3,641,852
Investments and other	130,225	115,250
Collateral held for swap counterparty	-	8,926
Notes receivable	21,711	23,152
Deferred financing costs, net	22,570	23,247
Goodwill and other intangibles, net	234,176	255,935
	408,682	426,510
Total assets	\$ 9,026,708	\$ 8,551,472
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 133,843	\$ 176,866
Accrued compensation and related liabilities	302,343	309,424
Accrued liabilities	491,547	366,648
Payable to third-party payors	62,317	75,873
Current maturities of long-term debt	49,025	202,453
Total current liabilities	1,039,075	1,131,264
Interest rate swaps	85,838	85,983
Other liabilities	257,313	252,227
Long-term debt, less current maturities	2,327,367	2,118,137
Total liabilities	3,709,593	3,587,611
Net assets:		
Unrestricted:		
Controlling interest	4,893,626	4,598,399
Noncontrolling interests in subsidiaries	107,624	76,418
Temporarily restricted	246,259	223,370
Permanently restricted	69,606	65,674
	5,317,115	4,963,861
Total liabilities and net assets	\$ 9,026,708	\$ 8,551,472

See accompanying notes.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2014	2013
Revenues:		
Patient service, net of contractual allowances and discounts	\$ 4,480,661	\$ 4,088,718
Provision for doubtful accounts	205,438	236,897
Net patient service, net of provision for doubtful accounts	4,275,223	3,851,821
Premium	1,130,559	943,634
Other	225,884	160,245
Total revenues	5,631,666	4,955,700
Expenses:		
Compensation and benefits	2,467,614	2,179,898
Supplies and other	1,139,382	1,048,765
Professional fees and purchased services	1,598,746	1,369,459
Depreciation and amortization	303,521	235,496
Interest	110,737	72,346
Impairment of goodwill	27,754	-
Total expenses	5,647,754	4,905,964
Operating (loss) income	(16,088)	49,736
Nonoperating gains, net	324,875	159,584
Contribution from affiliation	-	1,712,981
Excess of revenues over expenses	308,787	1,922,301
Less: Excess of revenues over expenses attributable to noncontrolling interests	15,985	41,314
Excess of revenues over expenses attributable to controlling interests	\$ 292,802	\$ 1,880,987
Unrestricted net assets		
Excess of revenues over expenses attributable to controlling interests	\$ 292,802	\$ 1,880,987
Net assets released from restrictions and other attributable to controlling interests	2,425	7,737
Increase in unrestricted net assets attributable to controlling interests	295,227	1,888,724
Excess of revenues over expenses attributable to noncontrolling interests	15,985	41,314
Net assets released from restrictions and other attributable to noncontrolling interests	15,221	(816)
Increase in unrestricted net assets attributable to noncontrolling interests	31,206	40,498
Increase in unrestricted net assets	326,433	1,929,222
Temporarily and permanently restricted net assets		
Restricted contributions and other, net	60,205	53,529
Restricted net assets released from restrictions	(33,384)	(36,932)
Restricted net assets contribution from affiliation	-	136,981
Increase in temporarily and permanently restricted net assets	26,821	153,578
Increase in net assets	353,254	2,082,800
Net assets at beginning of year	4,963,861	2,881,061
Net assets at end of year	\$ 5,317,115	\$ 4,963,861

See accompanying notes.

St. Joseph Health System and Affiliates
A St. Joseph Health Ministry Corporation

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2014	2013
Cash flows from operating activities and nonoperating gains		
Increase in net assets	\$ 353,254	\$ 2,082,800
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains:		
Impairment of goodwill	27,754	-
Contribution from affiliation	-	(1,849,962)
Provision for doubtful accounts	205,438	236,897
Depreciation and amortization	303,521	235,496
Loss on disposal of assets	5,906	-
Loss on debt extinguishment	7,326	-
Amortization of deferred financing costs	1,078	891
Change in fair value of investments designated as trading	(181,967)	2,976
Restricted contributions and other, net	(60,205)	(16,597)
Change in fair value of interest rate swap agreements	(145)	(34,720)
Changes in operating assets and liabilities:		
Patient accounts receivable	(239,274)	(263,340)
Investments designated as trading	(161,076)	69,795
Other assets	38,515	(73,502)
Accounts payable	(43,023)	32,453
Accrued compensation and related liabilities	(7,081)	22,239
Accrued liabilities	85,416	56,199
Payable to third-party payors	(13,556)	11,085
Other liabilities	5,086	12,770
Net cash provided by operating activities and nonoperating gains	<u>326,967</u>	<u>525,480</u>
Investing activities		
Purchase of property and equipment	(458,010)	(472,060)
(Increase) decrease in investments and other	(15,725)	1,883
Decrease in collateral held for swap counterparty	8,926	31,476
Decrease (increase) in notes receivable	1,441	(18,441)
Cash contribution from Hoag affiliation	-	147,078
Acquisitions, net of cash acquired	(26,092)	(145,210)
Net cash used in investing activities	<u>(489,460)</u>	<u>(455,274)</u>
Financing activities		
Restricted contributions and other	60,205	16,597
Proceeds from line of credit	-	121,000
Repayment of line of credit	(24,000)	(40,000)
Proceeds from long-term debt	701,720	2,646
Refunding of long-term debt	(552,844)	-
Repayment of long-term debt	(44,849)	(41,115)
Payment of debt extinguishment	(33,303)	-
(Increase) decrease in deferred financing costs	(3,958)	239
Net cash provided by financing activities	<u>102,971</u>	<u>59,367</u>
(Decrease) increase in cash and equivalents	(59,522)	129,573
Cash and equivalents at beginning of year	<u>329,513</u>	<u>199,940</u>
Cash and equivalents at end of year	<u>\$ 269,991</u>	<u>\$ 329,513</u>
Supplemental disclosure of noncash information		
Construction obligation	<u>\$ 39,253</u>	<u>\$ 36,474</u>
Capital lease obligation	<u>\$ 5,571</u>	<u>\$ 13,835</u>

See accompanying notes.