



CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

St. Vincent's Health Services Corporation and Subsidiaries  
Member of Ascension Health, a Subsidiary  
of Ascension Health Alliance  
Years Ended September 30, 2012 and 2011  
With Report of Independent Auditors

Ernst & Young LLP

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St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Financial Statements  
and Supplementary Information

Years Ended September 30, 2012 and 2011

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## Report of Independent Auditors

The Board of Directors  
St. Vincent's Health Services Corporation  
Bridgeport, Connecticut

We have audited the accompanying consolidated balance sheets of St. Vincent's Health Services Corporation and Subsidiaries (the "Corporation") as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and 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 did not audit the financial statements of St. Vincent's College, Inc. (the "College"), Hall-Brooke Behavioral Services, Inc. ("Hall-Brooke"), St. Vincent's Development Corporation ("Development") or The St. Vincent's Special Needs Center (the "Special Needs Center"), all wholly-owned subsidiaries, which statements reflect total assets of 11% and 10% as of September 30, 2012 and 2011, and revenues of 7% and 8%, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the College, Hall-Brooke, Development and the Special Needs Center, is based solely on the report of the other auditors.

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. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation at September 30, 2012 and 2011, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

January 28, 2013

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Balance Sheets  
*(Dollars in Thousands)*

	September 30	
	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,416	\$ 8,155
Interest in investments held by Ascension Health Alliance	20,274	4,548
Accounts receivable, less allowance for uncollectible accounts (\$26,426 in 2012 and \$28,663 in 2011)	54,446	47,626
Inventories and other	13,027	13,983
Total current assets	<u>95,163</u>	<u>74,312</u>
Interest in investments held by Ascension Health Alliance	341,371	108,053
Board-designated investments and assets limited as to use:		
Interest in investments held by Ascension Health Alliance	—	184,050
Noncurrent pledge receivables, net	1,838	1,955
Other board-designated investments	10,589	14,260
Temporarily or permanently restricted	27,139	24,094
Total board-designated investments and assets limited as to use	<u>39,566</u>	<u>224,359</u>
Property and equipment:		
Land and improvements	14,273	14,040
Buildings and equipment	450,060	426,272
Construction in progress	388	8,014
Less accumulated depreciation	<u>(234,011)</u>	<u>(212,078)</u>
Total property and equipment, net	<u>230,710</u>	<u>236,248</u>
Other assets	19,727	13,706
Total assets	<u>\$ 726,537</u>	<u>\$ 656,678</u>

	September 30	
	2012	2011
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 64,619	\$ 52,506
Current portion of long-term debt	1,436	1,427
Current portion of note payable	1,075	—
Estimated third-party payor settlements	12,000	10,883
Other current liabilities	461	459
Total current liabilities	<u>79,591</u>	<u>65,275</u>
Noncurrent liabilities:		
Long-term debt	57,226	57,659
Note payable	1,075	—
Self-insurance liabilities	3,237	2,963
Pension and other postretirement liabilities	13,433	13,962
Other liabilities	7,649	10,458
Total noncurrent liabilities	<u>82,620</u>	<u>85,042</u>
Total liabilities	<u>162,211</u>	<u>150,317</u>
Net assets:		
Unrestricted	537,187	482,267
Temporarily restricted	15,159	13,250
Permanently restricted	11,980	10,844
Total net assets	<u>564,326</u>	<u>506,361</u>
Total liabilities and net assets	<u>\$ 726,537</u>	<u>\$ 656,678</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

St. Vincent's Health Services Corporation and Subsidiaries

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

	Year Ended September 30	
	2012	2011
Operating revenues:		
Net patient service revenue	\$ 442,096	\$ 400,348
Other revenue	42,644	37,202
Net assets released from restrictions for operations	1,378	1,356
Total operating revenues	<u>486,118</u>	<u>438,906</u>
Operating expenses:		
Salaries and wages	202,881	185,064
Employee benefits	50,097	48,538
Purchased services	36,613	29,978
Professional fees	11,527	8,730
Supplies	56,184	60,040
Insurance	6,092	5,559
Bad debts	29,355	33,993
Interest	2,149	2,776
Depreciation and amortization	24,176	24,213
Other	30,236	27,704
Total operating expenses before curtailment gain and impairment loss, net	<u>449,310</u>	<u>426,595</u>
Income from operations before curtailment gain and impairment loss, net	36,808	12,311
Curtailment gain and impairment loss, net	<u>24,507</u>	<u>—</u>
Income from operations	61,315	12,311
Non-operating gains (losses):		
Investment returns, net	26,921	11,660
Other	(1,356)	(1,229)
Total non-operating gains, net	<u>25,565</u>	<u>10,431</u>
Excess of revenue and gains over expenses	<u>86,880</u>	<u>22,742</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

St. Vincent's Health Services Corporation and Subsidiaries

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

	Year Ended September 30	
	2012	2011
Unrestricted net assets:		
Excess of revenue and gains over expenses	\$ 86,880	\$ 22,742
Transfers (to) from System, net	(13,572)	19,705
Net assets released from restrictions for property acquisitions	4,376	8,131
Pension and other postretirement liability adjustments	(22,733)	5,712
Transfer from temporarily and permanently restricted net assets	324	71
Other	(355)	666
Increase in unrestricted net assets	<u>54,920</u>	<u>57,027</u>
Temporarily restricted net assets:		
Contributions	7,526	5,619
Investment returns	341	621
Net change in unrealized gains (losses) on investments	1,730	(795)
Net assets released from restrictions	(5,754)	(9,487)
Transfer to unrestricted and permanently restricted net assets	(421)	(97)
Other	(1,513)	(1,199)
Increase (decrease) in temporarily restricted net assets	<u>1,909</u>	<u>(5,338)</u>
Permanently restricted net assets:		
Contributions	1,039	24
Transfer from unrestricted and temporarily restricted net assets	97	26
Increase in permanently restricted net assets	<u>1,136</u>	<u>50</u>
Increase in net assets	<u>57,965</u>	<u>51,739</u>
Net assets, beginning	<u>506,361</u>	454,622
Net assets, ending	<u>\$ 564,326</u>	<u>\$ 506,361</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows  
 (Dollars in Thousands)

	Year Ended September 30	
	2012	2011
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 57,965	\$ 51,739
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	24,176	24,213
Donated property	-	(762)
Loss on sale of property and equipment	398	762
Pension and other post-retirement liability adjustments	22,733	(5,712)
Restricted contributions and investment returns	(8,906)	(6,264)
Net change in unrealized (gains) and losses on investments	(7,258)	8,425
Transfers to (from) System, net	13,572	(19,705)
(Increase) decrease in:		
Investments, including interest in investments held by Ascension Health Alliance	(49,370)	(17,737)
Accounts receivable, net	(6,820)	(1,885)
Inventories and other current assets	956	1,050
Increase (decrease) in:		
Accounts payable and accrued liabilities	12,113	9,614
Estimated third-party payor settlements	1,117	(1,408)
Other current liabilities	2	(2,014)
Pension and other postretirement liabilities	(25,459)	5,839
Other liabilities	(2,535)	2,151
Net cash provided by operating activities	<u>32,684</u>	<u>48,306</u>
<b>Cash flows from investing activities</b>		
Property and equipment additions, net	(17,580)	(26,243)
Proceeds from sale of property and equipment	1	180
(Increase) decrease in assets limited as to use – restricted	(7,623)	5,233
Increase in other assets	(7,466)	(3,864)
Net cash used in investing activities	<u>(32,668)</u>	<u>(24,694)</u>
<b>Cash flows from financing activities</b>		
Transfers to System, net	(11,387)	(8,613)
Repayment of long-term debt	(424)	(20,643)
Issuance of note payable	2,150	-
Restricted contributions and investment income	8,906	6,264
Net cash used in financing activities	<u>(755)</u>	<u>(22,992)</u>
Net (decrease) increase in cash and cash equivalents	<u>(739)</u>	<u>620</u>
Cash and cash equivalents, beginning	8,155	7,535
Cash and cash equivalents, ending	<u>\$ 7,416</u>	<u>\$ 8,155</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

## St. Vincent's Health Services Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

September 30, 2012

*(Dollars in Thousands)*

#### **1. Organization and Mission**

##### **Organizational Structure**

St. Vincent's Health Services Corporation (Corporation) is a member of Ascension Health. In December 2011, Ascension Health Alliance became the sole corporate member and parent organization of Ascension Health, a Catholic, national health system, consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 21 of the United States and the District of Columbia. In addition to serving as the sole corporate member of Ascension Health, Ascension Health Alliance serves as the member or shareholder of various other subsidiaries. Ascension Health Alliance, its subsidiaries, and the Health Ministries are referred to collectively, from time to time hereafter, as the System.

Ascension Health Alliance is sponsored by Ascension Health Ministries, a Public Juridic Person. The Participating Entities of Ascension Health Ministries are the Daughters of Charity of St. Vincent de Paul in the United States, St. Louise Province, the Congregation of St. Joseph, the Congregation of the Sisters of St. Joseph of Carondelet, and the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province.

St. Vincent's Health Services Corporation, located in Bridgeport, Connecticut, is a nonprofit integrated health care delivery system. The Corporation is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services. Subsidiaries of the Corporation include:

The St. Vincent's Medical Center (Medical Center) is a nonprofit hospital system, consisting of an acute care hospital located in Bridgeport, Connecticut, a behavioral health hospital located in Westport, Connecticut and several nonprofit subsidiaries. The Medical Center provides inpatient, outpatient, and emergency care services for residents of the Greater Bridgeport area and its neighboring towns. Admitting physicians are primarily practitioners in the local area. The St. Vincent's Multispecialty Group, Inc. (Multispecialty Group), a nonprofit subsidiary of the Medical Center, is a consolidated group of primary care and specialty physicians and allied health professionals providing service to the Medical Center and the community. The St. Vincent's College, Inc. (College), a nonprofit subsidiary of the Medical Center, is an institution of higher learning that offers associate degrees in nursing, radiography, medical assisting, and health care management, as well as certificate programs in multi-skilled assisting, health care management, and health promotion.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**1. Organization and Mission (continued)**

Hall-Brooke Behavioral Health Services, Inc. (Hall-Brooke), located in Fairfield County, Connecticut, is principally engaged in the operation of a special education school in Westport, Connecticut and residential services for residents of Fairfield County.

The St. Vincent's Special Needs Center (Special Needs), a nonprofit organization, provides a broad spectrum of educational, therapeutic, and recreational programming services for persons with disabilities.

The St. Vincent's Medical Center Foundation, Inc. (Foundation) is a nonprofit organization managing the charitable funds of the Corporation, allowing distribution to the Corporation and other affiliated nonprofit corporations organized and operated for charitable, religious, educational, or scientific purposes.

St. Vincent's Development Corporation (Development Corp.) is a nonprofit corporation managing various real estate holdings within the Corporation.

Pequot Medical Associates, P.C. (Pequot) is an independent professional corporation providing physician services. Pequot and the Medical Center share common management, as a result Pequot is presented as a part of the consolidation. Pequot was dissolved in August 2011.

Vincentures, Inc. (Vincentures) is a for profit organization that is inactive as of September 30, 2003 and is not shown on the consolidating balance sheets and statements of operations and changes in net assets.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**1. Organization and Mission (continued)**

**Mission**

The System directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing, and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay. The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.
- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for the persons living in poverty and other vulnerable persons.
- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and community benefit programs. The cost of providing care of persons living in poverty and community benefit programs is estimated using internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association (CHA) and the Internal Revenue Service (IRS).

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**1. Organization and Mission (continued)**

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately \$5,060 and \$3,553 for the years ended September 30, 2012 and 2011, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying supplementary information.

**Principles of Consolidation**

All corporations and other entities for which operating control is exercised by the Corporation or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Special Needs is the only consolidated corporation not on a September 30 fiscal year-end basis. Special Needs is reported on a June 30 fiscal year-end basis.

Investments in entities where the Corporation does not have operating control are recorded under the equity or cost method of accounting. There are no entities recorded under the equity method of accounting as of September 30, 2012 and 2011, respectively.

**2. Significant Accounting Policies**

**Use of Estimates**

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**

Carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments classified as other than current assets and current liabilities are disclosed in the Fair Value Measurements note.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

**Interest in Investments Held by Ascension Health Alliance, Investments, and Investment Return**

At September 30, 2011, and prior to April 2012, the Corporation held a significant portion of its investments through the Health System Depository (HSD), an investment pool of funds in which the System and a limited number of nonprofit health care providers participated. The HSD investments were managed primarily by external investment managers within established investment guidelines. The value of the Corporation's investment in the HSD represented the Corporation's pro rata share of the HSD's funds held for participants. At September 30, 2011, the Corporation's investment in the HSD was \$296,651, reflected in assets limited as to use and other current and long term investments in the accompanying consolidated balance sheet.

During the year ended September 30, 2012, the CHIMCO Alpha Fund, LLC (Alpha Fund) was created to hold primarily all investments previously held through the HSD. Catholic Healthcare Investment Management Company (CHIMCO), a wholly owned subsidiary of Ascension Health Alliance, acts as manager and serves as the principal investment advisor for the Alpha Fund within established investment guidelines, including socially responsible investment guidelines. In April 2012, a significant portion of the HSD's funds held for participants was transferred to the Alpha Fund, in which Ascension Health Alliance has an investment interest, as a member of the Alpha Fund. Ascension Health Alliance invests funds in the Alpha Fund on behalf of the Corporation. As of September 30, 2012, the Corporation has an interest in investments held by Ascension Health Alliance, which is reflected in the accompanying consolidated balance sheet, and represents the Corporation's pro rata share of Ascension Health Alliance's investment interest in the Alpha Fund.

The Corporation also invests in equities and fixed income securities which are locally managed. All of these funds are held by the Foundation, where the Corporation has a beneficial interest in the Foundation's assets.

The Corporation reports its interest in investments held by Ascension Health Alliance in the accompanying September 30, 2012 consolidated balance sheet as a current or long term asset, based on liquidity needs as directed by the Corporation. The Corporation reports its other investments, including Foundation investments, in the accompanying consolidated balance sheets based upon the long or short term nature of the investments and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Corporation.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

The Corporation's investments, excluding its interest in investments held by Ascension Health Alliance, are measured at fair value and are classified as trading securities. The Alpha Fund's and the HSD's investments which are required to be recorded at fair value are classified as trading securities, and include pooled short term investment funds; U.S. government, state, municipal, and agency obligations; asset backed securities; corporate and foreign fixed income maturities; and equity securities, including private equity securities. The Alpha Fund's and HSD's investments also include alternative investments, including investments in real assets, hedge funds, private equity funds, commodity funds, and private credit funds, which are valued based on the net asset value of the investments. In addition, the Alpha Fund participates, and the HSD participated, in securities lending transactions whereby a portion of its investments is loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns are comprised of dividends, interest, and gains and losses on the Corporation's investments, as well as the Corporation's return on its interest in investments held by Ascension Health Alliance, and are reported as nonoperating gains (losses) in the consolidated statements of operations and changes in net assets, unless the return is restricted by donor or law.

**Inventories**

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value utilizing first-in, first-out (FIFO), or a methodology that closely approximates FIFO.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

**Intangible Assets**

Intangible assets primarily consist of goodwill and capitalized computer software costs, including software internally developed. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Intangible assets are included in other noncurrent assets on the accompanying consolidated balance sheets and are comprised of the following:

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
Capitalized computer software costs, net	<b>\$ 11,377</b>	\$ 7,122
Goodwill	<b>1,554</b>	375
Total intangible assets, net	<b><u>\$ 12,931</u></b>	<b><u>\$ 7,497</u></b>

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets for the years ended September 30, 2012 and 2011 was \$1,445 and \$1,332, respectively.

**Property and Equipment, Net**

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift.

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets.

Depreciation expense in years ended September 30, 2012 and 2011 was \$22,731 and \$22,881, respectively. Estimated useful lives by asset category are as follows: land improvements – 10 to 15 years; buildings – 10 to 40 years; and equipment – 5 to 25 years. Interest costs incurred as part of the related construction are capitalized during the period of construction. No interest was capitalized during 2012 or 2011.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$2,886 as of September 30, 2012.

The Corporation recognizes the fair value of asset retirement obligations, including conditional asset retirement obligations, if the fair value can be reasonably estimated, in the period in which the liability is incurred. Asset retirement obligations include, but are not limited to, certain types of environmental issues which are legally required to be remediated upon an asset's retirement, as well as contractually required asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be conditional on a future event and/or where the timing or method of such settlement may be uncertain. Subsequent to initial recognition, accretion expense is recognized until the asset retirement liability is estimated to be settled.

The Corporation's most significant asset retirement obligation relates to required future asbestos remediation of physical plant and buildings constructed prior to 1975. Asset retirement obligations of \$164 and \$392 as of September 30, 2012 and 2011, respectively, are recorded in other noncurrent liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations.

During 2012 and 2011, \$228 and \$17, respectively, of retirement obligations were incurred and settled.

**Temporarily and Permanently Restricted Net Assets**

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

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

**Contributions, Bequests, and Grants**

Unrestricted contributions, bequests, and grants are included in operating revenues when pledged or received, and donor restricted items are reflected as additions to net asset balances. Restricted expenditures are transferred to the unrestricted net asset balance if used for capital additions, reported as other operating revenue if used for operating purposes, or reported as an offset to revenue deductions if used for charity care.

**Performance Indicator**

The performance indicator is excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from System, net assets released from restrictions for property acquisitions, and contributions of property and equipment.

**Operating and Non-operating Activities**

The Corporation's primary mission is to meet the health care needs in its market area through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, and other health care and educational services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation's primary mission are considered to be non-operating, consisting primarily of the Foundation operations, losses on invested funds, losses on the disposal of property and equipment, unrestricted gifts and bequests, and gains or losses on other investments.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

**Net Patient Service Revenue, Accounts Receivable, and Allowances for Uncollectible Accounts**

The following table summarizes net revenue from services to patients:

	<b>Year Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Gross patient service revenue	<b>\$ 1,178,334</b>	\$ 1,025,861
Deductions:		
Allowances	<b>720,908</b>	616,487
Charity care	<b>15,330</b>	9,026
Net patient service revenue	<b><u>\$ 442,096</u></b>	<b><u>\$ 400,348</u></b>

Patient accounts receivable and revenue are recorded when patient services are performed. Amounts received from most payors are different from established billing rates of the Medical Center, and these differences are accounted for as allowances.

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided excluding the provision for bad debt expense, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by approximately \$8,194 and \$1,638 for the years ended September 30, 2012 and 2011, respectively.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

During 2012 and 2011, approximately 39% and 39%, respectively, of net patient service revenue was received under the Medicare program, 12% and 13%, respectively, under various state Medicaid programs, 30% and 31%, respectively, from contracts with HMOs and PPOs, 9% and 9%, respectively, from contracts with commercial carriers, and 10% and 8%, respectively, from other payors.

The Medical Center grants credit without collateral to their patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of net accounts receivable at September 30, 2012 and 2011, include Medicare (42% and 39%, respectively), Medicaid (14% and 17%, respectively), HMOs and PPOs (17% and 14%, respectively), commercial carriers (10% and 10%, respectively), and self-pay and other (17% and 20%, respectively).

The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Medical Center follow established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Medical Center's policies.

**Electronic Health Record Incentive Payments**

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

The Medical Center accounts for HITECH incentive payments as a gain contingency. Income from Medicare incentive payments is recognized as revenue after the Medical Center has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period and the cost report period that will be used to determine the final incentive payment has ended. The Medical Center recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling \$4,057 for the year ended September 30, 2012, are included in total operating revenue in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Medical Center's compliance with the meaningful use criteria is subject to audit by the federal government.

**Curtailment Gain and Impairment Loss**

Long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on discounted net cash flows or other estimates of fair value.

During the year ended September 30, 2012, the Corporation recorded total curtailment gain and impairment loss, net, of \$24,507. This amount was comprised primarily of pension curtailment gains of \$25,059, as discussed in the Pension Plans note, partially offset by long-lived asset impairments of \$552.

**Health Ministry Income Taxes**

The member health care entities of the Corporation, except for Pequot and Vincitures, are tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). No provision is necessary for Pequot as it filed for dissolution in August 2011, and Vincitures is inactive. The Corporation accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

**Regulatory Compliance**

The Medical Center is required to file annual operating information with the State of Connecticut Office of Health Care Access (OHCA).

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Medical Center. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of these investigations will not have a material adverse impact on the consolidated financial statements of the Medical Center.

**Reclassifications**

Certain reclassifications were made to the 2011 consolidated financial statements to conform to the 2012 presentation.

**Subsequent Events**

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2012, the Corporation evaluated subsequent events through January 28, 2013, representing the date on which the financial statements were available to be issued. There were no other nonrecognized subsequent events that required recognition or disclosure in the financial statements.

**Adoption of New Accounting Standards**

In January 2010, the Financial Accounting Standards Board (FASB) issued its accounting standards update (ASU) entitled *Improving Disclosures about Fair Value Measurements* in ASU No. 2010-06. This standards update clarified certain fair value measurement guidance and required that additional fair value measurement disclosures be made. The Corporation adopted a portion of this guidance during the fiscal year ended September 30, 2010, and the remaining requirements as of October 1, 2011, as required. The disclosure updates adopted as of October 1, 2011, result in the provision of additional detail within the reconciliation of beginning and ending balances for assets and liabilities measured at fair value, whose fair value inputs are based on significant unobservable inputs (i.e., Level 3 assets and liabilities). These additional

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**2. Significant Accounting Policies (continued)**

disclosure requirements are provided in the Fair Value Measurements note. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended September 30, 2012.

In August 2010, the FASB issued its accounting standards update entitled *Measuring Charity Care for Disclosure* in ASU No. 2010-23. The provisions of this update require health care entities to disclose charity care based on cost measurements, defined as the direct and indirect costs of providing the charity care. The Corporation adopted this guidance on October 1, 2011; however, as the Corporation has historically used cost-based measures for the calculation and disclosure of its charity care, the adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements for the year ended September 30, 2012.

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)*. This accounting standards update provides clarifications to certain existing fair value measurement guidance, and includes updated guidance for certain fair value measurement principles and disclosures. The Corporation will adopt this guidance as of October 1, 2013. The adoption of this guidance is not expected to have a material impact on the Corporation's consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debt and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This accounting standards update requires healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the statement of operations rather than as operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for uncollectible accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Corporation plans to adopt the provisions of this accounting standards update as of and for the year ended September 30, 2013, and retrospectively apply the presentation requirements to all periods presented.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, Assets Limited as to Use, and Other Long-term Investments**

At September 30, 2012, the Corporation's investments are comprised of its interest in investments held by Ascension Health Alliance and certain other investments, such as those investments held and managed by the Foundation. At September 30, 2011, the Corporation's investments were comprised of the Corporation's pro rata share of the HSD's funds held for participants and certain other investments, such as those investments held and managed by the Foundation. Assets limited as to use primarily include investments restricted by donors. The Corporation's cash, cash equivalents, interest in investments held by Ascension Health Alliance, and assets limited as to use and other long-term investments are reported in the accompanying balance sheets as presented in the following table:

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 7,416	\$ 8,155
Interest in investments held by Ascension Health Alliance, current	20,274	4,548
Interest in investments held by Ascension Health Alliance	341,371	108,053
Pledges receivable, net	1,838	1,955
Board-designated investments	10,589	198,310
Temporarily or permanently restricted	27,139	24,094
Total	<u>\$ 408,627</u>	<u>\$ 345,115</u>

In 2012, the Medical Center undesignated interest in investments held by Ascension Health Alliance, which were designated to be use for future capital expenditures and debt repayments.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, Assets Limited as to Use, and Other Long-term Investments (continued)**

The composition of cash and investments classified as cash and cash equivalents, interest in investments held by Ascension Health Alliance, board-designated investments, and assets limited as to use is summarized as follows:

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 10,129	\$ 16,042
U.S. government obligations	1,834	2,227
Corporate and foreign fixed income investments	2,245	2,032
Asset backed securities	1,488	1,077
Equity securities	22,236	19,307
Pledges receivable, net	1,838	1,955
Other investments	7,212	5,824
Interest in investments held by Ascension Health Alliance	361,645	—
Pro rata share of HSD funds held for participants	—	296,651
	<b>\$ 408,627</b>	<b>\$ 345,115</b>

As of September 30, 2012 and 2011, the composition of total Alpha Fund and HSD investments is as follows:

	<b>Year Ended</b>	
	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
Cash and cash equivalents and short-term investments	5.7%	2.6%
U.S. government obligations	28.1	35.4
Asset-backed securities	9.2	15.6
Corporate and foreign fixed income maturities	9.1	9.3
Private equity and other investments	47.9	37.1
	<b>100.0%</b>	<b>100.0%</b>

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**3. Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use, and Other Long-term Investments (continued)**

Investment return recognized by the Corporation is summarized as follows:

	Year Ended	
	September 30	
	2012	2011
Return on interest in investments held by Ascension Health Alliance and investment return in HSD	\$ 24,513	\$ 11,479
Interest and dividends	799	654
Net gains (losses) on investments reported at fair value	3,680	(647)
Total investment return, net	<u>\$ 28,992</u>	<u>\$ 11,486</u>
Investment return included in non-operating gains	\$ 26,921	\$ 11,660
Investment return reported separately as increase (decrease) in temporarily restricted net assets	2,071	(174)
Total investment return, net	<u>\$ 28,992</u>	<u>\$ 11,486</u>

**4. Fair Value Measurements**

The Corporation categorizes for disclosure purposes, assets and liabilities measured at fair value in the financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**4. Fair Value Measurements (continued)**

The Corporation follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

- Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.
- Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar investments in active markets or exchanges or prices quoted for identical or similar investments in markets that are not active. If the asset or liability has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

As of September 30, 2012 and 2011, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

*Cash and cash equivalents and short-term investments*

Short-term investments designated as Level 2 investments are primarily comprised of commercial paper, whose fair value is based on amortized cost. Significant observable inputs include security cost, maturity, and credit rating, interest and par value. Cash and cash equivalents and additional short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**4. Fair Value Measurements (continued)**

*Guaranteed pooled fund*

The fair value of guaranteed pooled fund investments is based on cost plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying the annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

*U.S. government, state, municipal and agency obligations*

The fair value of investments in U.S. government, state, municipal and agency obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

*Corporate and foreign fixed income investments*

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

*Asset-backed securities*

The fair value of U.S. agency and corporate asset-backed securities is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

*Equity securities*

The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**4. Fair Value Measurements (continued)**

*Private equity and other investments*

The fair value of private equity investments is primarily determined using techniques consistent with both the market and income approaches, based on the Corporation's estimates and assumptions in absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

Alternative investments consist of hedge funds, private equity funds, and real estate partnerships. Alternative investments are valued using net asset values as determined by external investment managers.

*Derivative assets and liabilities*

The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Derivative contracts include interest rate, credit default, and total return swaps. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Interest in Investments Held by Ascension Health Alliance, and Assets Limited as to Use and Other Long-Term Investments notes, the Corporation has an investment in the Alpha Fund, HSD, and certain other investments, such as those investments held and managed by the Foundation. As of September 30, 2012, 20%, 47% and 33% of total Alpha Fund and HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while, 0%, 100% and 0% of total Alpha Fund and HSD liabilities that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively. As of September 30, 2011, 21%, 77% and 2% of total HSD assets that were measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while, 2%, 59% and 39% of total HSD liabilities that were measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**4. Fair Value Measurements (continued)**

The following table summarizes fair value measurements, by level, at September 30, 2012, for all other financial assets and liabilities which are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,010	\$ —	\$ —	\$ 1,010
Short-term investments	—	1,001	—	1,001
U.S. government obligations	—	1,834	—	1,834
Corporate and foreign fixed income investments	—	2,245	—	2,245
Asset backed securities	—	1,489	—	1,489
Equity investments	22,236	—	—	22,236
Private equity and other investments	290	—	6,725	7,015
Assets not at fair value	—	—	—	10,152
Deferred compensation assets, included in other noncurrent assets, invested in:				
Mutual funds	5,980	—	—	5,980
Guaranteed pooled fund	—	—	6	6

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**4. Fair Value Measurements (continued)**

The following table summarizes fair value measurements, by level, at September 30, 2011, for all other financial assets and liabilities which are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,979	\$ —	\$ —	\$ 5,979
Short-term investments	—	1,253	—	1,253
U.S. government obligations	—	2,227	—	2,227
Corporate and foreign fixed income investments	—	2,032	—	2,032
Asset backed securities	—	1,077	—	1,077
Equity investments	19,307	—	—	19,307
Private equity and other investments	78	—	5,557	5,635
Assets not at fair value	—	—	—	10,950
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	5,083	—	—	5,083
Guaranteed pooled fund	—	—	3	3

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**4. Fair Value Measurements (continued)**

During the year ended September 30, 2012, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3), were comprised of the following:

	<b>For the Year Ended September 30, 2012</b>	
	<b>Other Investments</b>	<b>Guaranteed Pooled Fund</b>
Balance – beginning	\$ 5,557	\$ 3
Total realized and unrealized gains (losses):		
Included in non-operating gains	20	–
Included in changes in net assets	11	–
Purchases	1,137	4
Sales	–	(2)
Transfers into Level 3	–	1
Balance – ending	<u>\$ 6,725</u>	<u>\$ 6</u>

During the year ended September 30, 2011, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3), were comprised of the following:

	<b>For the Year Ended September 30, 2011</b>	
	<b>Other Investments</b>	<b>Guaranteed Pooled Fund</b>
Balance – beginning	\$ 3,400	\$ 7
Total realized and unrealized gains (losses):		
Included in non-operating gains	243	–
Included in changes in net assets	(86)	–
Purchases	2,000	–
Sales	–	(1)
Transfers (out of) Level 3	–	(3)
Balance – ending	<u>\$ 5,557</u>	<u>\$ 3</u>

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**4. Fair Value Measurements (continued)**

The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

**5. Long-Term Debt**

Long-term debt consists of the following:

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
State of Connecticut Health and Educational Facilities Authority (CHEFA), Variable Rate Demand Revenue Bonds (Ascension Health Credit Group), Series 1999B payable through November 2029; subject to a fixed rate of interest through February 1, 2017; interest (1.55% at September 30, 2012) set at prevailing market rates	<b>\$ 31,900</b>	\$ 33,200
Intercompany debt with Ascension Health Alliance, payable in installments through November 2051; interest (3.6% and 3.7% at September 30, 2012 and 2011, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	<b>15,592</b>	15,719
Intercompany debt with Ascension Health Alliance, payable in installments from November 2030 through November 2047; interest (3.6% and 3.7% at September 30, 2012 and 2011, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	<b>11,170</b>	10,167
	<b>58,662</b>	59,086
Less current portion of long-term debt	<b>1,436</b>	1,427
	<b>\$ 57,226</b>	\$ 57,659

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**5. Long-Term Debt (continued)**

Scheduled principal repayments of long-term debt are as follows:

Year ending September 30:	
2013	\$ 1,436
2014	1,550
2015	1,658
2016	1,625
2017	1,768
Thereafter	<u>50,625</u>
Total	<u>\$ 58,662</u>

Certain members of Ascension Health Alliance formed the Ascension Health Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, senior designated affiliate, or senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by Ascension Health Alliance. Though senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI, Ascension Health Alliance may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including repayment of the outstanding obligations. Additionally, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health Alliance with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation. The Corporation is a senior obligated group member under the terms of the Senior MTI.

In November 1999, the Credit Group issued \$2,365,725 of Hospital Revenue Bonds Series 1999 Bonds (1999 Bonds) through eleven different issuing authorities in nine states. The Bonds of each series were issued pursuant to separate Bond Indentures, each dated as of November 1, 1999, between the related issuer of such series and the Bond Trustee for each series. The proceeds of each series of bonds were loaned by the related Issuer to Ascension Health (or, solely with respect to the Connecticut Bonds, the Connecticut Borrowers, (the Medical Center and Hall-Brooke) pursuant to separate Loan Agreements, each dated as of November 1, 1999,

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**5. Long-Term Debt (continued)**

between the related issuer of such series and Ascension Health (or, solely with respect to the Connecticut Bonds, a Connecticut Borrower). The proceeds of the Connecticut bonds were loaned to the Medical Center and Hall-Brooke and were used to refund the CHEFA Variable Rate Demand Revenue Bonds (Charity Obligated Group) St. Vincent's Medical Center/Hall-Brooke Issue, Series 1999B.

Ascension Health, in its capacity of managing the system's debt program, has committed to making loans to the Corporation through November 15, 2029 in amounts ranging from \$187 to \$626 annually, with repayment to occur in annual installments ranging from \$110 to \$1,278, from November 2030 through November 2047.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members, subordinated designated affiliates, and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by Ascension Health Alliance. Though subordinate designated affiliates and subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI, Ascension Health Alliance may cause each subordinate designated affiliate to transfer such amounts as are necessary to enable the obligated group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with Ascension Health Alliance with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation. The Corporation is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper, and other obligations, the proceeds of which are in turn loaned to the Senior and Subordinate Credit Group members subject to a long-term amortization schedule of 1 to 39 years.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**5. Long-Term Debt (continued)**

Certain portions of Senior and Subordinate Credit Group borrowings may be periodically subject to interest rate swap arrangements to effectively convert borrowing rates on such obligations from a floating to a fixed interest rate or vice versa based on market conditions. Additionally, Senior and Subordinate Credit Group borrowings may, from time to time, be refinanced or restructured in order to take advantage of favorable market interest rates or other financial opportunities. Any gain or loss on refinancing, as well as any bond premiums or discounts, are allocated to the Senior and Subordinate Credit Group members based on their pro rata share of the Senior and Subordinate Credit Group's obligations. Senior and Subordinate Credit Group refinancing transactions rarely have a significant impact on the outstanding borrowings or intercompany debt amortization schedule of any individual Senior and Subordinate Credit Group member.

The carrying amounts of intercompany debt with Ascension Health Alliance and other debt approximate fair value based on a portfolio market valuation provided by a third party.

The Senior and Subordinate Credit Group financing documents contain certain restrictive covenants, including a debt service coverage ratio.

As of September 30, 2012, the Senior Credit Group has a line of credit of \$1,000,000 which may be used as a source of funding for unremarketed variable rate debt (including commercial paper) or for general corporate purposes, toward which bank commitments totaling \$1,000,000 extended to November 9, 2014. As of September 30, 2012 and 2011, there were no borrowings under the line of credit.

As of September 30, 2012, the Subordinate Credit Group has a \$50,000 revolving line of credit related to its letters of credit program toward which a bank commitment of \$50,000 extends to December 27, 2012. As of September 30, 2012, \$26,607 of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

The outstanding principal amount of all hospital revenue bonds is \$4,451,285, which represents 39% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at September 30, 2012.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**5. Long-Term Debt (continued)**

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt which can be as short as 30 days or as long as 27 years. The maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under its guarantees, and other commitments at September 30, 2012 is approximately \$203,000.

On April 1, 2011, the Medical Center participated with several other subsidiaries of the Corporation in redeeming its intercompany debt with Ascension as part of a \$20,000 debt redemption. The Medical Center's portion of the debt redemption was \$12,258. Special Need's portion of the debt redemption was \$6,503. Hall-Brooke's portion of the debt redemption was \$1,239.

During the years ended September 30, 2012 and 2011, interest paid was approximately \$2,149 and \$2,776, respectively. There was no capitalized interest in 2012 or 2011.

**6. Notes Payable**

In 2012, the Medical Center purchased a physician practice. The purchase included a promissory note for a portion of the purchase price. The note is payable in two equal installment payments of \$1,075, due on January 1, 2013 and 2014.

**7. Permanently Restricted Endowments**

The Corporation's endowments consist of funds established for a variety of purposes. These endowments consist of donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowment funds are held by the Foundation and investment decisions are made by the Foundation, with the Corporation determining the amount of endowment assets to be appropriated for spending.

The Corporation's Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (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

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**7. Permanently Restricted Endowments (continued)**

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, if applicable, (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard for expenditure as proscribed by Connecticut UPMIFA.

In accordance with Connecticut UPMIFA, the Corporation considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes 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.
- (7) The investment policies of the Foundation.

**Endowment 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 Connecticut UPMIFA requires the Corporation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$11 and \$502 as of September 30, 2012 and 2011, respectively.

**Return Objectives and Risk Parameters**

The Corporation's Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments 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. Under these policies, endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**7. Permanently Restricted Endowments (continued)**

management costs. Actual results in any given year may vary from this amount. The Corporation expects its endowment funds, over time, to provide an average rate of return to exceed inflation and investment fees by at least 2% to 5%, dependent on investment mix. 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). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Corporation has a policy of evaluating the spending decisions for each endowment fund based upon the intentions of the donors. In determining the annual amount to be spent, the Corporation considers the long-term expected return on its endowment. Accordingly, over the long-term, the Corporation expects the current spending policy to allow its endowment to grow at an average rate of inflation and investment fees annually. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as, to provide additional real growth through new gifts and investment return.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**7. Permanently Restricted Endowments (continued)**

**Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets (deficit), beginning	\$ (502)	\$ 1,332	\$ 10,844	\$ 11,674
Investment return:				
Investment income	-	285	-	285
Net appreciation (realized and unrealized)	491	1,354	-	1,845
Total investment return	491	1,639	-	2,130
Contributions	-	(11)	1,039	1,028
Transfers	-	(578)	97	(481)
Appropriation of endowment assets for expenditure	-	(239)	-	(239)
Endowment net assets (deficit), ending	<u>\$ (11)</u>	<u>\$ 2,143</u>	<u>\$ 11,980</u>	<u>\$ 14,112</u>

**Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets (deficit), beginning	\$ (462)	\$ 1,888	\$ 10,794	\$ 12,220
Investment return:				
Investment income	-	253	-	253
Net depreciation (realized and unrealized)	(40)	(229)	-	(269)
Total investment return	(40)	24	-	(16)
Contributions	-	-	24	24
Transfers	-	(526)	26	(500)
Appropriation of endowment assets for expenditure	-	(54)	-	(54)
Endowment net assets (deficit), ending	<u>\$ (502)</u>	<u>\$ 1,332</u>	<u>\$ 10,844</u>	<u>\$ 11,674</u>

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**8. Pension Plans**

The Corporation participates in the Ascension Health Pension Plan (Ascension Plan), the Ascension Health Defined Contribution Plan (Defined Contribution Plan), and the Supplemental Defined Benefit Retirement Plan (SERP). Details of these plans are as follows.

*Ascension Health Pension Plan*

The Corporation participates in the Ascension Plan, a noncontributory defined benefit pension plan which covers substantially all eligible employees of certain System entities. Benefits cover all eligible employees hired prior to January 1, 2006 and are based on each participant's years of service and compensation. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust (Trust), a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates.

Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Net periodic pension cost of (\$3,724) and \$9,599 in the years ended September 30, 2012 and 2011, respectively, was charged to the Corporation. The service cost component of net periodic pension cost charged to the Corporation is actuarially determined while all other components are allocated based on the Corporation's pro rata share of Ascension Health's overall projected benefit obligation.

During the year ended September 30, 2012, the System approved and communicated to employees a redesign of associate retirement benefits, which affects the Ascension Plan, as well as provides an enhanced comprehensive defined contribution plan. These changes will become effective January 1, 2013. These changes resulted in the Corporation's recognition of a nonrecurring curtailment gain of \$24,179 during the year ended September 30, 2012. These changes also resulted in one-time decreases to the projected benefit obligation of \$14,662. The projected benefit obligation is included in pension and other postretirement liabilities and transfers (to) from System in the accompanying consolidated balance sheets.

The assets of the Ascension Plan are available to pay the benefits of eligible employees of all participating entities. In the event participating entities are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so. As of September 30, 2012, the Ascension Plan had a net unfunded liability of \$246,280. The

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**8. Pension Plans (continued)**

Corporation's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at September 30, 2012 and 2011 was \$10,821 and \$11,238, respectively. As a result of updating the funded status of the Ascension Plan, the Corporation's allocated share of the Ascension Plan's net funded liability was reduced by \$26,711 and \$29,456 during the years ended September 30, 2012 and 2011, respectively. These transfers are included in transfer (to) from System, net, in the accompanying consolidated statements of operations and changes in net assets.

As of September 30, 2012 and 2011, the fair value of the Ascension Plan's assets available for benefits was \$5,984,511 and \$3,794,392, respectively. As discussed in the Fair Value Measurements note, the Corporation, as well as the System, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of September 30, 2012, 19%, 44% and 37% of the Ascension Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3, respectively. With respect to the Ascension Plan's liabilities measured at fair value on a recurring basis, 1%, 88% and 11% were categorized as Level 1, Level 2 and Level 3, respectively, as of September 30, 2012. Additionally, as of September 30, 2011, 17%, 48%, and 35% of the Ascension Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3, respectively. With respect to the Ascension Plan's liabilities measured at fair value on a recurring basis, 5%, 19% and 76% were categorized as Level 1, Level 2 and Level 3, respectively as of September 30, 2011.

In December 2011, the System notified all Ascension Plan participants that the Ascension Plan will be frozen as of January 1, 2013, at which time all eligible associates will join the Defined Contribution Plan. The Corporation is currently evaluating the impact this change will have on the Corporation's financial statements.

*Ascension Health Defined Contribution Plan*

The Corporation participates in the Defined Contribution Plan, a contributory and noncontributory, defined contribution plan sponsored by Ascension Health which covers all eligible associates hired after January 1, 2006. There are three primary types of contributions to the Defined Contribution Plan: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**8. Pension Plans (continued)**

as a percentage of a participant's salary and increases over specified periods of employee service. These benefits are funded annually and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period and participants become fully vested in all employer contributions immediately. Defined contribution expense, representing both employer automatic contributions and employer matching contributions, was \$3,816 and \$3,123 for the years ended September 30, 2012 and 2011, respectively.

*Supplemental Defined Benefit Retirement Plan*

The Medical Center has a noncontributory SERP for certain executive and professional employees. The amount recorded in other liabilities as of September 30, 2012 and 2011 was \$1,203 and \$4,663, respectively. In 2012 and 2011, the discount rate used was 4% and 5%, respectively. The SERP is not funded.

Consistent with the redesign of the associate retirement benefits, the SERP was amended to reflect consistency. These changes results in the Medical Center's recognition of a non-recurring curtailment gain of \$880 during the year ended September 30, 2012.

**9. Other Postretirement Benefits**

In addition to participation in Ascension Health's defined benefit pension plan and defined contribution pension plans, the Medical Center sponsors a defined benefit health care plan (Health Plan) for certain employees that provides postretirement medical benefits to those employees who reach the age of 65 and satisfy certain service requirements. The Health Plan limits benefits to only current beneficiaries and current active employees who were at least age 62, with at least 7 years of service as of September 30, 2009. The plan limits the Medical Center's contribution per employee to twelve hundred dollars per annum. The Plan is not funded.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**9. Other Postretirement Benefits (continued)**

Significant disclosures relating to the Health Plan as of the measurement date (September 30) follow:

	<u>2012</u>	<u>2011</u>
<b>Change in benefit obligation</b>		
Benefit obligation, beginning	\$ (2,698)	\$ (3,173)
Service cost	(3)	(19)
Interest cost	(119)	(151)
Actuarial (losses) gains	(59)	374
Benefits paid	267	271
Benefit obligation, ending	<u>\$ (2,612)</u>	<u>\$ (2,698)</u>
 <b>Change in plan assets</b>		
Fair value of plan assets, beginning	\$ —	\$ —
Employer contributions	267	271
Benefits paid	(267)	(271)
Fair value of plan assets, ending	<u>\$ —</u>	<u>\$ —</u>
 <b>Funded status</b>		
Unrecognized prior service cost	—	—
Unrecognized net actuarial loss	—	—
Accrued benefit cost	<u>\$ (2,612)</u>	<u>\$ (2,698)</u>
 <b>Components of net periodic benefit</b>		
Service cost	\$ 3	\$ 19
Interest cost	119	151
Net amortization and deferral	275	(37)
Net periodic cost	<u>\$ 397</u>	<u>\$ 133</u>
 <b>Assumption</b>		
Discount rate	3.98%	4.64%

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**9. Other Postretirement Benefits (continued)**

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic other postretirement benefit cost:

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
Unrecognized prior service credit	\$ -	\$ 8
Unrecognized actuarial gains	403	728
	<u>\$ 403</u>	<u>\$ 736</u>

Changes in benefit obligations recognized in unrestricted net assets include:

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
Current year actuarial gains	\$ 59	\$ (374)
Amortization of actuarial losses	267	27
Amortization of prior service cost	8	10
	<u>\$ 334</u>	<u>\$ (337)</u>

The actuarial gains included in unrestricted net assets and expected to be recognized as a reduction of net periodic cost during the year ending September 30, 2013 are \$197.

The following benefit payments which reflect expected future service are expected to be paid as follows:

2013	\$ 275
2014	255
2015	241
2016	229
2017	954
2018 – 2021	-

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**10. Self-Insurance Programs**

The Corporation participates in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2012 and 2011. In the event that sufficient funds are not available from the self-insurance programs, each participating entity may be assessed its pro rata share of the deficiency. If contributions exceed the losses paid, the excess may be returned to participating entities.

**Professional and General Liability Programs**

The Corporation participates in Ascension Health's professional and general liability self-insured program which provides claims-made coverage through a wholly owned on-shore trust and offshore captive insurance company, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of \$10,000 per occurrence with no aggregate. The Corporation has a deductible of \$100 per claim. Excess coverage is provided through AHIL, with limits up to \$185,000. AHIL retains \$5,000 per occurrence and \$5,000 annual aggregate for professional liability. AHIL also retains a 20% quota share of the first \$25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense of \$5,471 and \$5,113 for the years ended September 30, 2012 and 2011, respectively. Included in current liabilities and long-term self-insurance liabilities on the accompanying consolidated balance sheets are professional and general liability loss reserves of approximately \$5,183 and \$4,426, respectively.

**Workers' Compensation**

The Corporation participates in Ascension Health's workers' compensation program which provides occurrence coverage through a grantor trust. The trust provides coverage up to \$1,000 per occurrence with no aggregate.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**10. Self-Insurance Programs (continued)**

On July 1, 2011, the System implemented a \$100 deductible, thereby assuming responsibility for indemnity and expense for each and every claim occurring and reported after that date, up to the deductible amount. The trust provides a mechanism for funding the workers' compensation obligations of its member. Excess insurance against catastrophic loss is obtained through commercial insurers. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of \$1,884 and \$1,966 for the years ended September 30, 2012 and 2011, respectively. Included in current liabilities on the accompanying consolidated balance sheets are workers' compensation loss reserves of \$972 and \$293 at September 30, 2012 and 2011, respectively.

**11. Lease Commitments**

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

Years ending September 30:	
2013	\$ 3,901
2014	3,916
2015	3,115
2016	2,478
2017	1,843
Thereafter	8,628
Total	<u>\$ 23,881</u>

Rental expense under operating leases amounted to \$5,781 and \$4,529 for the years ended September 30, 2012 and 2011, respectively.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**12. Related-Party Transactions**

The Corporation utilized various centralized programs and overhead services of the System or its other sponsored organizations including risk management, retirement services, treasury, debt management, executive management support, administrative services, and information technology services. The charges allocated to the Corporation for these services represent both allocations of common costs and specifically identified expenses that are incurred by the System on behalf of the Corporation. Allocations are based on relevant metrics such as the Corporation's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of the System. The amounts charged to the Corporation for these services may not necessarily result in the net costs that would be incurred by the Corporation on a stand-alone basis. The charges allocated to the Corporation were approximately \$3,091 and \$2,693 for the years ended September 30, 2012 and 2011, respectively.

In addition to the charges discussed above, the Corporation made payments to the System of \$6,921 and \$6,963 for the years ended September 30, 2012 and 2011, respectively, representing the Corporation's share of costs to fund a System-wide information technology and process standardization project that is expected to continue through December 2014. These payments are included in transfers (to) from System, net, in the accompanying consolidated statements of operations and changes in net assets.

During 2012 and 2011, the Corporation transferred \$505 and \$511 to the System, to fund the Corporation's allocated portion of an unmet debt obligation of a former member of the obligated group. The System's current intentions are to allocate one additional amount to the Corporation during 2013.

In addition, during 2012 the Corporation transferred \$3,541 to the System to fund its allocated portion of the System for obligations of both the System and several of its members. The transfers are included in transfer (to) from System, net, on the accompanying consolidated statements of operations and changes in net assets.

During 2012 and 2011, the Corporation transferred \$601 and \$923 to the System to fund the Medical Center's allocated portion of cost associated with ministry services provided by Daughters of Charity.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**13. Temporarily and Permanently Restricted Net Assets**

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Pledges receivable at September 30, 2012 and 2011 are comprised primarily of amounts contributed for the construction of the master facility plan at the Medical Center, including the Cancer Center, Emergency Department, and Level 2 renovations.

Pledges receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue and is reflected in accordance with donor imposed restrictions, if any, on the contributions.

Pledges receivable included in assets limited as to use as of September 30 are:

	<u>2012</u>	<u>2011</u>
Due within one year	\$ 1,010	\$ 2,235
Due in one to five years	2,053	2,040
Thereafter	—	251
	<u>3,063</u>	<u>4,526</u>
Less allowance and discount to present value	403	835
	<u>2,660</u>	<u>3,691</u>
Less pledges receivable, net – current portion	822	1,736
Pledges receivable, net	<u>\$ 1,838</u>	<u>\$ 1,955</u>

The discount recognizes the present value of the pledges. The allowance recognizes the estimated uncollectible portion of the pledges.

Temporarily restricted net assets are available for the following purposes:

	<u>September 30</u>	
	<u>2012</u>	<u>2011</u>
Health care services	\$ 3,168	\$ 2,487
Education and training	2,557	1,733
Capital	6,405	6,218
Other	3,029	2,812
	<u>\$ 15,159</u>	<u>\$ 13,250</u>

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**13. Temporarily and Permanently Restricted Net Assets (continued)**

Permanently restricted net assets are to be held in perpetuity, the income from which is used for temporarily restricted activities of the designated entity and expendable for the following purposes:

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
Health care services	\$ 7,104	\$ 5,976
Education	2,130	2,128
Capital	1,904	1,904
Other	842	836
	<u>\$ 11,980</u>	<u>\$ 10,844</u>

**14. Commitments and Contingencies**

In addition to professional liability claims, the Corporation is involved in litigation and regulatory investigations 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 a material adverse effect on the Corporation's consolidated balance sheets.

In January 2006, the Medical Center, AHIL, and an insurance provider entered into an agreement to provide professional liability insurance for community physicians. The agreement stipulates that future actuarial gains and losses will be solely the responsibility of the Medical Center. As of September 30, 2012 and 2011, such gains and losses cannot be determined. Management expects any related adjustment will not have a material adverse effect on the Corporation's consolidated financial position.

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICDs) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, the Corporation will be reviewing applicable medical records for response to the DOJ. The DOJ's investigation spans a time frame beginning in 2004 and extending through the present time. Through January 28, 2013, the DOJ has not asserted any claims against the Corporation. Ascension Health and the Corporation continue to fully cooperate with the DOJ in its investigation.

## Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Directors  
St. Vincent's Health Services Corporation

We have audited the consolidated financial statements of the St. Vincent's Health Services Corporation and Subsidiaries (the Corporation) as of and for the year ended September 30, 2012, and have issued our report thereon dated January 28, 2013 which contained an unqualified opinion on those financial statements. The financial statements of The St. Vincent's College, Inc. (the College), Hall-Brooke Behavioral Services, Inc. (Hall-Brooke), St. Vincent's Development Corporation (Development), and St. Vincent's Special Needs Center (Special Needs) were audited by other auditors. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets, consolidating statements of operations and changes in net assets, and the schedule of net cost of providing care of persons living in poverty and community benefit programs are presented for the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst & Young LLP*

January 28, 2013

St. Vincent's Health Services Corporation and Subsidiaries  
Consolidating Balance Sheet

September 30, 2012

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
<b>Assets</b>									
Current assets:									
Cash and cash equivalents	\$ -	\$ 4,995	\$ 1,098	\$ 544	\$ 386	\$ 393	\$ -	\$ -	\$ 7,416
Interest in investments held by Ascension Health Alliance	-	18,023	-	1,757	306	188	-	-	20,274
Accounts receivable, less allowance for uncollectible accounts \$26,426	-	54,446	-	-	-	-	-	-	54,446
Advances to (from) affiliated entities, net	-	4,804	(2,263)	112	(1,311)	(842)	-	(500)	-
Inventories and other	-	8,778	1,058	1,822	114	755	-	500	13,027
Current portion of note receivable, affiliate	-	-	-	-	-	438	-	(438)	-
Total current assets	-	91,046	(107)	4,235	(505)	932	-	(438)	95,163
Interest in investments held by Ascension Health Alliance	-	320,899	-	16,260	323	3,889	-	-	341,371
Note receivable, affiliate, less current portion	-	-	-	-	-	10,315	-	(10,315)	-
Board-designated investments and assets limited as to use:									
Noncurrent pledge receivable, net	-	-	1,838	-	-	-	-	-	1,838
Other board-designated investments	-	-	10,589	-	-	-	-	-	10,589
Temporarily or permanently restricted	-	376	26,755	8	-	-	-	-	27,139
Temporarily or permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	-	23,662	-	2,746	-	194	-	(26,602)	-
Total board-designated investments and assets limited as to use	-	24,038	39,182	2,754	-	194	-	(26,602)	39,566
Interest in The St. Vincent's Medical Center Foundation, Inc.	3,763	312	-	494	-	3	-	(4,572)	-
Property and equipment:									
Land and improvements	-	7,832	105	871	4,653	812	-	-	14,273
Buildings and equipment	-	415,923	617	15,628	13,700	4,192	-	-	450,060
Construction in progress	-	193	-	34	161	-	-	-	388
Less accumulated depreciation	-	(219,030)	(193)	(7,535)	(5,283)	(1,970)	-	-	(234,011)
Total property and equipment, net	-	204,918	529	8,998	13,231	3,034	-	-	230,710
Other assets	-	18,903	785	15	24	-	-	-	19,727
Total assets	\$ 3,763	\$ 660,116	\$ 40,389	\$ 32,756	\$ 13,073	\$ 18,367	\$ -	\$ (41,927)	\$ 726,537

St. Vincent's Health Services Corporation and Subsidiaries  
 Consolidating Balance Sheet (continued)

September 30, 2012

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
<b>Liabilities and net assets</b>									
<b>Current liabilities:</b>									
Accounts payable and accrued liabilities	\$ -	\$ 61,492	\$ 146	\$ 2,102	\$ 425	\$ 454	\$ -	\$ -	\$ 64,619
Current portion of long-term debt	-	998	-	-	-	438	-	-	1,436
Current portion of note payable, affiliate	-	438	-	-	-	-	-	(438)	-
Current portion of note payable	-	1,075	-	-	-	-	-	-	1,075
Estimated third-party payor settlements	-	12,000	-	-	-	-	-	-	12,000
Other current liabilities	-	-	8	323	10	120	-	-	461
Total current liabilities	-	76,003	154	2,425	435	1,012	-	(438)	79,591
<b>Noncurrent liabilities:</b>									
Long-term debt	-	46,911	-	-	-	10,315	-	-	57,226
Note payable	-	1,075	-	-	-	-	-	-	1,075
Note payable, affiliate	-	10,315	-	-	-	-	-	(10,315)	-
Self-insurance liabilities	-	3,237	-	-	-	-	-	-	3,237
Pension and other postretirement liabilities	-	11,256	-	1,586	-	591	-	-	13,433
Other liabilities	-	7,352	91	-	90	116	-	-	7,649
Total noncurrent liabilities	-	80,146	91	1,586	90	11,022	-	(10,315)	82,620
Total liabilities	-	156,149	245	4,011	525	12,034	-	(10,753)	162,211
<b>Net assets:</b>									
Unrestricted	3,763	479,929	13,389	25,991	12,548	6,139	-	(4,572)	537,187
Temporarily restricted	-	12,769	14,843	2,044	-	194	-	(14,691)	15,159
Permanently restricted	-	11,269	11,912	710	-	-	-	(11,911)	11,980
Total net assets	3,763	503,967	40,144	28,745	12,548	6,333	-	(31,174)	564,326
Total liabilities and net assets	\$ 3,763	\$ 660,116	\$ 40,389	\$ 32,756	\$ 13,073	\$ 18,367	\$ -	\$ (41,927)	\$ 726,537

**St. Vincent's Health Services Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
 September 30, 2011

*(Dollars in Thousands)*

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
<b>Assets</b>									
Current assets:									
Cash and cash equivalents	\$ -	\$ 6,932	\$ 575	\$ 267	\$ 278	\$ 103	\$ -	\$ -	\$ 8,155
Interest in investments held by Ascension Health Alliance	-	1,463	-	2,339	86	660	-	-	4,548
Accounts receivable, less allowance for uncollectible accounts \$28,663	-	47,626	-	-	-	-	-	-	47,626
Advances to (from) affiliated entities, net	-	8,469	(7,203)	(93)	(641)	(145)	(351)	(36)	-
Inventories and other	-	8,850	2,007	2,104	173	461	388	388	13,983
Current portion of note receivable, affiliate	-	-	-	-	-	438	-	(438)	-
Total current assets	-	73,340	(4,621)	4,617	(104)	1,517	(351)	(86)	74,312
Interest in investments held by Ascension Health Alliance	-	89,464	-	14,523	769	3,297	-	-	108,053
Note receivable, affiliate, less current portion	-	-	-	-	-	10,753	-	(10,753)	-
Board-designated investments and assets limited as to use:									
Interest in investments held by Ascension Health Alliance	-	184,050	-	-	-	-	-	-	184,050
Noncurrent pledge receivable, net	-	-	1,955	-	-	-	-	-	1,955
Other board-designated investments	-	-	14,260	-	-	-	-	-	14,260
Temporarily or permanently restricted	-	345	23,741	8	-	-	-	-	24,094
Temporarily or permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	-	21,325	-	2,894	-	136	-	(24,355)	-
Total board-designated investments and assets limited as to use	-	205,720	39,956	2,902	-	136	-	(24,355)	224,359
Interest in The St. Vincent's Medical Center Foundation, Inc.	3,763	312	-	761	-	3	-	(4,839)	-
Property and equipment, net:									
Land and improvements	-	7,808	105	871	4,444	812	-	-	14,040
Buildings and equipment	-	393,394	617	14,758	13,349	4,154	-	-	426,272
Construction in progress	-	7,870	-	95	49	-	-	-	8,014
Less accumulated depreciation	-	(198,169)	(152)	(7,003)	(4,914)	(1,840)	-	-	(212,078)
Total property and equipment, net	-	210,903	570	8,721	12,928	3,126	-	-	236,248
Other assets	-	12,899	768	15	24	-	-	-	13,706
Total assets	\$ 3,763	\$ 592,638	\$ 36,673	\$ 31,539	\$ 13,617	\$ 18,832	\$ (351)	\$ (40,033)	\$ 656,678

St. Vincent's Health Services Corporation and Subsidiaries  
 Consolidating Balance Sheet (continued)  
 September 30, 2011

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
<b>Liabilities and net assets</b>									
Current liabilities:									
Accounts payable and accrued liabilities	\$ -	\$ 50,154	\$ 223	\$ 1,452	\$ 277	\$ 400	\$ 3	\$ (3)	\$ 52,506
Current portion of long-term debt	-	989	-	-	-	438	-	-	1,427
Current portion of note payable, affiliate	-	438	-	-	-	-	-	(438)	-
Estimated third-party payor settlements	-	10,883	-	-	-	-	-	-	10,883
Other current liabilities	-	-	22	322	-	115	-	-	459
Total current liabilities	-	62,464	245	1,774	277	953	3	(441)	65,275
Noncurrent liabilities:									
Long-term debt	-	46,906	-	-	-	10,753	-	-	57,659
Self-insurance liabilities	-	2,963	-	-	-	-	-	-	2,963
Note payable, affiliate	-	10,753	-	-	-	-	-	(10,753)	-
Pension and other postretirement liabilities	-	11,907	-	1,586	-	469	-	-	13,962
Other liabilities	-	10,140	155	-	-	163	-	-	10,458
Total noncurrent liabilities	-	82,669	155	1,586	-	11,385	-	(10,753)	85,042
Total liabilities	-	145,133	400	3,360	277	12,338	3	(11,194)	150,317
Net assets:									
Unrestricted	3,763	425,835	12,533	25,276	13,340	6,358	(354)	(4,484)	482,267
Temporarily restricted	-	11,536	12,964	2,197	-	136	-	(13,583)	13,250
Permanently restricted	-	10,134	10,776	706	-	-	-	(10,772)	10,844
Total net assets	3,763	447,505	36,273	28,179	13,340	6,494	(354)	(28,839)	506,361
Total liabilities and net assets	\$ 3,763	\$ 592,638	\$ 36,673	\$ 31,539	\$ 13,617	\$ 18,832	\$ (351)	\$ (40,033)	\$ 656,678

**St. Vincent's Health Services Corporation and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended September 30, 2012**

*(Dollars in Thousands)*

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Operating revenues:									
Net patient service revenue	\$ -	\$ 442,092	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ -	\$ 442,096
Other revenue	-	17,580	538	21,866	2,991	3,715	-	(4,046)	42,644
Net assets released from restrictions used for operations	-	1,281	-	54	-	43	-	-	1,378
Total operating revenues	-	460,953	538	21,920	2,991	3,762	-	(4,046)	486,118
Operating expenses:									
Salaries and wages	-	189,479	66	11,755	-	1,581	-	-	202,881
Employee benefits	-	45,369	10	4,070	-	648	-	-	50,097
Purchased services	-	36,738	-	1,238	1,179	423	-	(2,965)	36,613
Professional fees	-	11,045	-	233	179	70	-	-	11,527
Supplies	-	55,529	11	598	14	32	-	-	56,184
Insurance	-	5,639	-	431	13	9	-	-	6,092
Bad debts	-	29,349	-	4	(3)	5	-	-	29,355
Interest	-	2,149	-	-	-	-	-	-	2,149
Depreciation and amortization	-	22,972	3	557	514	130	-	-	24,176
Other	-	26,133	357	2,348	1,507	1,213	(354)	(968)	30,236
Total operating expenses before curtailment gain and impairment loss, net	-	424,402	447	21,234	3,403	4,111	(354)	(3,933)	449,310
Income (loss) from operations before curtailment gain and impairment loss, net	-	36,551	91	686	(412)	(349)	354	(113)	36,808
Curtailment gain and impairment loss, net	-	24,163	-	389	(209)	164	-	-	24,507
Income (loss) from operations	-	60,714	91	1,075	(621)	(185)	354	(113)	61,315
Non-operating gains (losses):									
Investment returns, net	-	24,513	2,407	(346)	49	298	-	-	26,921
Other	-	31	(1,500)	-	-	-	-	113	(1,356)
Total non-operating gains (losses), net	-	24,544	907	(346)	49	298	-	113	25,565
Excess (deficiency) of revenue and gains over expenses	-	85,258	998	729	(572)	113	354	-	86,880

**St. Vincent's Health Services Corporation and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**Year Ended September 30, 2012**

*(Dollars in Thousands)*

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Unrestricted net assets:									
Excess (deficiency) of revenue and gains over expenses	\$ -	\$ 85,258	\$ 998	\$ 729	\$ (572)	\$ 113	\$ 354	\$ -	\$ 86,880
Transfers (to) from sponsor, net	-	(12,848)	(466)	119	(220)	(157)	-	-	(13,572)
Net assets released from restrictions for property acquisitions	-	3,869	-	507	-	-	-	-	4,376
Pension and other postretirement liability adjustments	-	(22,185)	-	(373)	-	(175)	-	-	(22,733)
Transfer from temporarily and permanently restricted net assets	-	-	324	-	-	-	-	-	324
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	-	-	-	(267)	-	-	-	267	-
Other	-	-	-	-	-	-	-	(355)	(355)
Increase (decrease) in unrestricted net assets	-	54,094	856	715	(792)	(219)	354	(88)	54,920
Temporarily restricted net assets:									
Contributions	-	5,127	6,136	560	-	43	-	(4,340)	7,526
Investment returns	-	21	320	-	-	-	-	-	341
Net change in unrealized gains on investments	-	-	1,730	-	-	-	-	-	1,730
Net assets released from restrictions	-	(5,150)	(4,340)	(560)	-	(43)	-	4,339	(5,754)
Transfer to unrestricted and permanently restricted net assets	-	-	(421)	-	-	-	-	-	(421)
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	-	1,202	-	(153)	-	58	-	(1,107)	-
Other	-	33	(1,546)	-	-	-	-	-	(1,513)
Increase (decrease) in temporarily restricted net assets	-	1,233	1,879	(153)	-	58	-	(1,108)	1,909
Permanently restricted net assets:									
Contributions	-	-	1,039	-	-	-	-	-	1,039
Transfer from unrestricted and temporarily restricted net assets	-	-	97	-	-	-	-	-	97
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	-	1,135	-	4	-	-	-	(1,139)	-
Increase (decrease) in permanently restricted net assets	-	1,135	1,136	4	-	-	-	(1,139)	1,136
Increase (decrease) in net assets	-	56,462	3,871	566	(792)	(161)	354	(2,335)	57,965
Net assets, beginning	3,763	447,505	36,273	28,179	13,340	6,494	(354)	(28,839)	506,361
Net assets, ending	\$ 3,763	\$ 503,967	\$ 40,144	\$ 28,745	\$ 12,548	\$ 6,333	\$ -	\$ (31,174)	\$ 564,326

St. Vincent's Health Services Corporation and Subsidiaries  
 Consolidating Statement of Operations and Changes in Net Assets  
 Year Ended September 30, 2011

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Operating revenues:									
Net patient service revenue	\$ -	\$ 400,189	\$ -	\$ -	\$ -	\$ 159	\$ -	\$ -	\$ 400,348
Other revenue	-	11,968	381	21,151	2,772	6,584	-	(5,654)	37,202
Net assets released from restrictions for operations	-	1,200	-	101	-	55	-	-	1,356
Total operating revenues	-	413,357	381	21,252	2,772	6,798	-	(5,654)	438,906
Operating expenses:									
Salaries and wages	-	170,718	43	11,579	-	2,724	-	-	185,064
Employee benefits	-	43,075	9	4,178	-	1,276	-	-	48,538
Purchased services	-	32,005	-	980	1,175	452	-	(4,634)	29,978
Professional fees	-	8,082	-	228	296	124	-	-	8,730
Supplies	-	59,384	-	564	10	82	-	-	60,040
Insurance	-	5,166	-	424	11	(42)	-	-	5,559
Bad debts	-	33,855	-	(1)	120	19	-	-	33,993
Interest	-	2,562	-	191	-	23	-	-	2,776
Depreciation and amortization	-	22,954	2	577	526	154	-	-	24,213
Other	-	23,271	186	2,304	1,299	1,412	-	(768)	27,704
Total operating expenses	-	401,072	240	21,024	3,437	6,224	-	(5,402)	426,595
Income (loss) from operations	-	12,285	141	228	(665)	574	-	(252)	12,311
Non-operating gains (losses):									
Investment returns, net	-	7,962	181	3,314	48	155	-	-	11,660
Other	-	81	(1,567)	4	-	1	-	252	(1,229)
Total non-operating gains (losses), net	-	8,043	(1,386)	3,318	48	156	-	252	10,431
Excess (deficiency) of revenue and gains over expenses	-	20,328	(1,245)	3,546	(617)	730	-	-	22,742

**St. Vincent's Health Services Corporation and Subsidiaries**  
**Consolidating Statement of Operations and Changes in Net Assets (continued)**  
**Year Ended September 30, 2011**

*(Dollars in Thousands)*

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Unrestricted net assets:									
Excess (deficiency) of revenue and gains over expenses	\$ -	\$ 20,328	\$ (1,245)	\$ 3,546	\$ (617)	\$ 730	\$ -	\$ -	\$ 22,742
Transfers from (to) sponsor, net	-	20,098	(283)	(182)	(18)	90	-	-	19,705
Net assets released from restrictions for property acquisitions	-	8,092	-	39	-	-	-	-	8,131
Pension and other postretirement liability adjustments	-	4,533	-	1,137	-	42	-	-	5,712
Transfer from temporarily and permanently restricted net assets	-	-	71	-	-	-	-	-	71
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	(215)	-	-	88	-	-	-	127	-
Other	-	-	204	762	(300)	-	-	-	666
Increase (decrease) in unrestricted net assets	(215)	53,051	(1,253)	5,390	(935)	862	-	127	57,027
Temporarily restricted net assets:									
Contributions	-	9,304	5,460	141	-	55	-	(9,341)	5,619
Investment returns	-	18	603	-	-	-	-	-	621
Net change in unrealized (losses) on investments	-	-	(795)	-	-	-	-	-	(795)
Net assets released from restrictions	-	(9,292)	(9,341)	(140)	-	(55)	-	9,341	(9,487)
Transfer to unrestricted and permanently restricted net assets	-	-	(97)	-	-	-	-	-	(97)
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	-	(5,025)	-	556	-	(43)	-	4,512	-
Other	-	-	(1,199)	-	-	-	-	-	(1,199)
(Decrease) increase in temporarily restricted net assets	-	(4,995)	(5,369)	557	-	(43)	-	4,512	(5,338)
Permanently restricted net assets:									
Contributions	-	-	24	-	-	-	-	-	24
Transfer from unrestricted and temporarily restricted net assets	-	-	26	-	-	-	-	-	26
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	-	46	-	-	-	-	-	(46)	-
Increase (decrease) in permanently restricted net assets	-	46	50	-	-	-	-	(46)	50
Increase (decrease) in net assets	(215)	48,102	(6,572)	5,947	(935)	819	-	4,593	51,739
Net assets, beginning	3,978	399,403	42,845	22,232	14,275	5,675	(354)	(33,452)	454,626
Net assets, ending	\$ 3,763	\$ 447,505	\$ 36,273	\$ 28,179	\$ 13,340	\$ 6,494	\$ (354)	\$ (28,839)	\$ 506,367

ST. VINCENT'S  
 MEDICAL CENTER  
 DOCKET # 12-035AR

St. Vincent's Health Services Corporation and Subsidiaries

Schedule of Net Cost of Providing Care of Persons  
Living in Poverty and Community Benefit Programs

Years Ended September 30, 2012

*(Dollars in Thousands)*

The net cost to the Corporation, excluding the provision for bad debt expense, of providing care of persons living in poverty and community benefit programs is as follows:

Traditional charity care provided	\$ 5,060
Unpaid cost of public programs for persons living in poverty	13,923
Other programs for living in poverty and other vulnerable persons	3,537
Community benefit programs	<u>7,212</u>
Care of persons living in poverty and community benefit programs	<u>\$ 29,732</u>

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