Consolidated Financial Statements and Supplementary Information

The St. Vincent's Medical Center
Member of Ascension Health, a Subsidiary of Ascension
Years Ended September 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

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Building a better working world

The St. Vincent's Medical Center

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2013 and 2012

Contents

Building a better working world

Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, CT 06103-1506

Tel: +1 860 247 3100
Fax: +1 860 725 6040
ey.com

Report of Independent Auditors

The Board of Directors
The St. Vincent's Medical Center
Bridgeport, Connecticut

We have audited the accompanying consolidated financial statements of The St. Vincent's Medical Center and Subsidiaries (the Medical Center), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The St. Vincent's College, Inc. (the College), a wholly-owned subsidiary, which statements reflect total assets constituting 3% in 2013 and 2012, and total revenues constituting 2% in 2013 and 2012 of the related consolidated totals. 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, 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Medical Center and Subsidiaries at September 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Change in Presentation of the Provision for Bad Debts

As discussed in Note 2 to the consolidated financial statements, the Medical Center changed the presentation of the provision for bad debts as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, effective October 1, 2012. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

February 21, 2014

The St. Vincent's Medical Center

Consolidated Balance Sheets
(Dollars in Thousands)

	September 30 2013	September 30 2012
Assets		
Current assets:		
Cash and cash equivalents	$ **3,775**	$ 4,995
Interest in investments held by Ascension	**–**	18,023
Accounts receivable, less allowances for uncollectible accounts ($26,326 in 2013 and $26,426 in 2012)	**56,043**	54,446
Advances to parent and affiliated entities, net	**1,545**	4,804
Inventories and other current assets	**20,298**	8,778
Total current assets	**81,661**	91,046
Interest in investments held by Ascension	**353,820**	320,899
Assets limited as to use:		
Temporarily restricted	**295**	308
Temporarily restricted interest in The St. Vincent's Medical Center Foundation, Inc.	**12,483**	12,461
Permanently restricted	**68**	68
Permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	**11,446**	11,201
Total assets limited as to use	**24,292**	24,038
Unrestricted interest in The St. Vincent's Medical Center Foundation, Inc.	**312**	312
Property and equipment:		
Land and improvements	**8,923**	7,832
Buildings and equipment	**423,481**	415,923
Construction in progress	**2,567**	193
Less accumulated depreciation	**(238,875)**	(219,030)
Total property and equipment, net	**196,096**	204,918
Other assets	**23,386**	18,903
Total assets	$ **679,567**	$ 660,116

	September 30 2013	September 30 2012
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ **57,554**	$ 61,492
Current portion of long-term debt	**737**	998
Current portion of note payable, other	**1,075**	1,075
Current portion of note payable, affiliate	–	438
Estimated third-party payor settlements	**5,681**	12,000
Total current liabilities	**65,047**	76,003
Noncurrent liabilities:		
Long-term debt	**57,489**	46,911
Pension and other postretirement liabilities	**7,062**	11,256
Self-insurance liabilities	**3,499**	3,237
Note payable, other	–	1,075
Note payable, affiliate	–	10,315
Other	**8,702**	7,352
Total noncurrent liabilities	**76,752**	80,146
Total liabilities	**141,799**	156,149
Net assets:		
Unrestricted	**513,476**	479,929
Temporarily restricted	**12,778**	12,769
Permanently restricted	**11,514**	11,269
Total net assets	**537,768**	503,967
Total liabilities and net assets	$ **679,567**	$ 660,116

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

The St. Vincent's Medical Center

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

	Year Ended September 30	
	2013	**2012**
Operating revenues:		
Net patient service revenue	$ **461,036**	$ 442,092
Less provision for doubtful accounts	**27,679**	29,349
Net patient service revenue, less provision for doubtful accounts	**433,357**	412,743
Other revenue	**15,292**	17,580
Net assets released from restrictions for operations	**1,419**	1,281
Total operating revenues	**450,068**	431,604
Operating expenses:		
Salaries and wages	**199,026**	189,479
Employee benefits	**50,785**	45,369
Purchased services	**37,389**	36,738
Professional fees	**19,054**	11,045
Supplies	**56,503**	55,529
Insurance	**4,873**	5,639
Interest	**1,954**	2,149
Depreciation and amortization	**25,145**	22,972
Other	**28,859**	26,133
Total operating expenses before non-recurring (losses) and curtailment gain, net	**423,588**	395,053
Income from operations before non-recurring (losses) and curtailment gain, net	**26,480**	36,551
Non-recurring (losses) and curtailment gain, net	**(8,727)**	24,163
Income from operations	**17,753**	60,714
Non-operating gains (losses):		
Investment return, net	**24,905**	24,513
Other	**(51)**	31
Total non-operating gains (losses), net	**24,854**	24,544
Excess of revenues and gains over expenses and losses	**42,607**	85,258

Continued on next page.

The St. Vincent's Medical Center

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

(Dollars in Thousands)

	Year Ended September 30 2013	2012
Unrestricted net assets:		
Excess of revenues and gains over expenses and losses	**$ 42,607**	$ 85,258
Transfers to System, parent, and affiliated entities, net	**(13,880)**	(12,848)
Net assets released from restrictions for property acquisitions	**3,831**	3,869
Pension and other postretirement liability adjustments	**989**	(22,185)
Increase in unrestricted net assets	**33,547**	54,094
Temporarily restricted net assets:		
Contributions	**5,237**	5,127
Investment return	**–**	21
Net assets released from restrictions	**(5,250)**	(5,150)
Change in temporarily restricted interest in The St. Vincent's Medical Center Foundation, Inc.	**22**	1,202
Other	**–**	33
Increase in temporarily restricted net assets	**9**	1,233
Permanently restricted net assets:		
Change in permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	**245**	1,135
Increase in net assets	**33,801**	56,462
Net assets, beginning	**503,967**	447,505
Net assets, ending	**$ 537,768**	$ 503,967

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

The St. Vincent's Medical Center

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended September 30	
	2013	**2012**
Cash flows from operating activities		
Increase in net assets	$ **33,801**	$ 56,462
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**25,145**	22,972
Loss on sale of property and equipment	**234**	136
Pension and other postretirement liability adjustments	**(989)**	22,185
Restricted contributions and net investment return	**(5,237)**	(5,148)
Net change in unrealized gains on investments	**(13,107)**	(4,585)
Increase in interest in The St. Vincent's Medical Center Foundation, Inc.	**(267)**	(2,337)
Transfers to System, parent, and affiliated entities, net	**13,880**	12,848
(Increase) decrease in:		
Interest in investments held by Ascension	**(1,791)**	(59,391)
Accounts receivable, net	**(1,597)**	(6,820)
Advances to parent and affiliated entities, net	**3,259**	3,665
Inventories and other current assets	**(11,520)**	72
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(3,938)**	11,338
Estimated third-party payor settlements	**(6,319)**	1,117
Pension and other postretirement liabilities	**(2,443)**	(24,971)
Other noncurrent liabilities	**1,612**	(2,514)
Net cash provided by operating activities	**30,723**	25,029
Cash flows from investing activities		
Property and equipment additions, net	**(11,907)**	(15,825)
Software in development, net	**(4,056)**	(3,000)
Decrease (increase) in assets limited as to use – temporarily restricted	**13**	(31)
Increase in other assets	**(5,080)**	(4,447)
Net cash used in investing activities	**(21,030)**	(23,303)

The St. Vincent's Medical Center

Consolidated Statements of Cash Flows (continued)
(Dollars in Thousands)

	Year Ended September 30 2013	2012
Cash flows from financing activities		
Transfers to System, parent, and affiliated entities, net	**$ (14,640)**	$ (10,537)
Restricted contributions and net investment return	**5,237**	5,148
Issuance of note payable	**–**	2,150
Repayments of long-term debt and notes payable, affiliate	**(1,510)**	(424)
Net cash used in financing activities	**(10,913)**	(3,663)
Net decrease in cash and cash equivalents	**(1,220)**	(1,937)
Cash and cash equivalents, beginning	**4,995**	6,932
Cash and cash equivalents, ending	**$ 3,775**	$ 4,995

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

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements

September 30, 2013
(Dollars in Thousands)

1. Organization and Mission

Organizational Structure

The St. Vincent's Medical Center (Medical Center), a subsidiary of its parent, St. Vincent's Health Services Corporation (SVHS), is a member of Ascension Health. Ascension Health Alliance, doing business as Ascension, is 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 23 of the United States and the District of Columbia. In addition to serving as the sole corporate member of Ascension Health, Ascension serves as the member or shareholder of various other subsidiaries. Ascension, its subsidiaries, and the Health Ministries are referred to collectively, from time to time hereafter as the System.

Ascension is sponsored by Ascension Sponsor, a Public Juridic Person. The Participating Entities of Ascension Sponsor 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, the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province.

The Medical Center is a nonprofit hospital system, consisting of an acute care hospital located in Bridgeport, Connecticut and a behavioral health hospital located in Westport, Connecticut. 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. Subsidiaries of the Medical Center include the St. Vincent's Multispecialty Group, Inc. (Multispecialty Group) and the St. Vincent's College, Inc. (College). The Multispecialty Group, a nonprofit subsidiary of the Medical Center, is a consolidated group of primary care and specialty physicians and allied health professionals providing services to the Medical Center and the community. The College, a nonprofit subsidiary of the Medical Center, is an institution of higher learning that offers bachelor degrees in nursing and radiologic sciences, associate degrees in nursing, radiography, medical assisting, and general studies, as well as certificate programs in multiple health care fields. The Medical Center 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.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Mission (continued)

The accompanying consolidated financial statements include the accounts of the Medical Center, the Multispecialty Group, and the College. All significant intercompany transactions have been eliminated in consolidation.

Organizational Changes

On July 1, 2013, Hall-Brooke Behavioral Health Services, Inc. (Hall-Brooke) closed its special education school and merged its remaining operations and all of its assets with the Medical Center. In consideration, the Medical Center assumed all of the outstanding liabilities and future operations of Hall-Brooke and the responsibility to continue to engage in the operations of the remaining services.

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 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.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Mission (continued)

- 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 to persons living in poverty and community benefit programs. The cost of providing care to 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).

The amount of traditional charity care provided, determined on the basis of cost was approximately $4,444 and $5,060 for the years ended September 30, 2013 and 2012, 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.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the Medical Center are consolidated, and all significant inter-entity transactions have been eliminated in consolidation.

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.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Interest in Investments Held by Ascension, Investments, and Investment Return

Prior to April 2012, the Medical Center held a significant portion of its investments through the Ascension Legacy Portfolio (formerly, the Health System Depository or HSD), an investment pool of funds in which the System and a limited number of nonprofit health care providers participated. The Ascension Legacy Portfolio investments were managed primarily by external investment managers within established investment guidelines. The value of the Medical Center's investment in the Ascension Legacy Portfolio represented the Medical Center's pro rata share of the Ascension Legacy Portfolio's funds held for participants.

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 Ascension Legacy Portfolio. Catholic Healthcare Investment Management Company (CHIMCO), a wholly owned subsidiary of Ascension, acts as manager and serves as the principal investment advisor for the Alpha Fund, overseeing the investment strategies offered to the Alpha Fund's members. In April 2012, a significant portion of the assets in the Ascension Legacy Portfolio was transferred to the Alpha Fund, in which Ascension has an investment interest, as a member of the Alpha Fund. Ascension invests funds in the Alpha Fund on behalf of the Medical Center. As of September 30, 2013 and 2012, the Medical Center has an interest in investments held by Ascension, which is reflected in the accompanying Consolidated Balance Sheets, and represents the Medical Center's pro rata share of Ascension's investment interest in the Alpha Fund.

The Medical Center also invests in equities and fixed income securities which are locally managed. Substantially all of these funds are held by The St. Vincent's Medical Center Foundation, Inc. (Foundation), where the Medical Center has a beneficial interest in the Foundation's assets.

The Medical Center reports its interest in investments held by Ascension in the accompanying Consolidated Balance Sheets as short or long term, based on liquidity needs which, prior to September 30, 2013, were directed by the Medical Center and, as of September 30, 2013, are

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

directed by Ascension. The Medical Center 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 Medical Center.

The Medical Center's investments, excluding its interest in investments held by Ascension, are measured at fair value and are classified as trading securities. The Alpha Fund's and the Ascension Legacy Portfolio'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; corporate and foreign fixed income securities; asset-backed securities; and equity securities. The Alpha Fund's and Ascension Legacy Portfolio's investments also include alternative investments and other investments, which are valued based on the net asset value of the investments. In addition, the Alpha Fund participates, and the Ascension Legacy Portfolio 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 Medical Center's investments, as well as the Medical Center's return on its interest in investments held by Ascension, and are reported as nonoperating gains (losses) in the accompanying 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.

Interest in The St. Vincent's Medical Center Foundation, Inc.

The interest in the Foundation represents the Medical Center's interest in the net assets of the Foundation. This investment is accounted for in accordance with Accounting Standards Codification (ASC) 958-20, *Beneficiary's Recognition of Interest in a Financially Interrelated Recipient Entity.*

The St. Vincent's Medical Center

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:

	September 30	
	2013	**2012**
Capitalized computer software costs, net	**$ 3,851**	$ 4,875
Software under development	**10,544**	6,488
Goodwill	**1,695**	1,554
Total intangible assets, net	**$ 16,090**	$ 12,917

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, 2013 and 2012 was $3,796 and $1,443, respectively.

In January 2013, the Medical Center abandoned its implementation of several software upgrades to its current electronic medical record and patient revenue systems and decided to implement replacement systems. Accordingly, software under development of $4,371 was abandoned and recorded in 2013 as a non-recurring loss on the accompanying Consolidated Statements of Operations and Changes in Net Assets. In addition, as of January 2013, the expected useful lives for the remaining capitalized computer software costs related to the current systems were shortened to expected lives of 16 to 28 months to reflect the expected remaining period the current systems would remain in use. Accelerated amortization expense for the year ended September 30, 2013 was $2,613.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The replacement systems are expected to cost approximately $26,000 and are currently in the application development phase and are scheduled to be fully operational by May 1, 2014. As of September 30, 2013, capitalized costs of $8,638 have been incurred during the application development phase and amortization will begin once the software is placed into use. The project has remaining contractual commitments of approximately $7,329 as of September 30, 2013.

Property and Equipment

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 2013 and 2012 was $21,349 and $21,529, respectively.

Estimated useful lives by asset category are as follows: land improvements – 10 to 15 years; buildings – 15 to 40 years; and equipment – 5 to 20 years. Interest costs incurred as part of related construction are capitalized during the period of construction. No interest was capitalized during 2013 or 2012.

Several capital projects have remaining construction and related equipment purchase commitments of approximately $682 as of September 30, 2013.

The Medical Center 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 St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The Medical Center'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 $128 and $164 as of September 30, 2013 and 2012, 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 2013 and 2012, $36 and $228, 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 Medical Center 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 include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowments 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.

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

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Operating and Non-operating Activities

The Medical Center'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 Medical Center's primary mission are considered to be non-operating, consisting primarily of gains on invested funds, and gains or losses on other investments.

Net Patient Service Revenue, Accounts Receivable, and Allowance for Doubtful Accounts

The following table summarizes net revenue from services to patients:

	Year Ended September 30 2013	2012
Gross patient service revenue	**$1,280,211**	$1,178,334
Deductions:		
Allowances	**804,184**	720,912
Charity care	**14,991**	15,330
Net patient service revenue	**$ 461,036**	$ 442,092

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided 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 $7,252 and $8,194 for the years ended September 30, 2013 and 2012, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The percentage of net patient service revenue earned by payor for the years ended September 30, 2013 and 2012 is as follows:

	Year Ended September 30	
	2013	**2012**
Medicare	**43%**	39%
Medicaid	**14**	12
HMO	**31**	30
Commercial	**9**	9
Self-pay and other	**3**	10
	100%	100%

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable, less allowance for doubtful accounts, at September 30, 2013 and 2012 are as follows:

	Year Ended September 30	
	2013	**2012**
Medicare	**38%**	37%
Medicaid	**10**	9
HMO	**25**	29
Commercial	**16**	15
Self-pay and other	**11**	10
	100%	100%

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The provision for doubtful accounts 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 doubtful 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 doubtful accounts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Medical Center follows 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. See Adoption of New Accounting Standards section for change in accounting presentation of allowance for doubtful accounts in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

The methodology for determining the allowance for doubtful accounts and related write-offs on uninsured patient accounts has remained consistent with the prior year. The Medical Center has not experienced material changes in write-off trends and has not materially changed its charity care policy since September 30, 2012.

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.

(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 recognizes revenue from Medicaid incentive payments after it adopts certified EHR technology. Incentive payments totaling \$2,830 and \$4,057 for the years ended September 30, 2013 and 2012, respectively, 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.

Impairment, Restructuring, and Nonrecurring Expenses

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, 2013, the Medical Center recorded costs associated with a workforce reduction of \$1,626. The amount was comprised primarily of severance compensation, outplacement costs and estimated future unemployment compensation. In addition, during the year ended September 30, 2013, the Medical Center recorded costs associated with the implementation of a System-wide information technology and process standardization project as described in the Related-Party Transactions footnote. Cost of \$2,730 related to the implementation was comprised primarily of additional temporary resources and consultants.

During the year ended September 30, 2012, the Medical Center recorded total curtailment gain and impairment loss, net, of \$24,163. This amount was comprised primarily of pension curtailment gains of \$24,506, as discussed in the Pension Plans note, partially offset by long-lived asset impairments of \$343.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Health Ministry Income Taxes

The Medical Center, the Multispecialty Group, and the College are tax-exempt organizations under Internal Revenue Code Section 501(c) (3) and their related income is exempt from federal income tax under Section 501(a). The Medical Center 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.

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 2012 consolidated financial statements to conform to the 2013 presentation.

Subsequent Events

The Medical Center 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, 2013, the Medical Center evaluated subsequent events through February 21, 2014, representing the date on which the financial statements were available to be issued. There were no subsequent events that required recognition or disclosure in the financial statements.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Adoption of New Accounting Standard

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This accounting standards update requires health care entities that recognize significant amounts of patient service revenue at the time services are rendered to present the provision for doubtful accounts related to patient service revenue as a reduction to patient service revenue in the accompanying Consolidated Statement of Operations and Changes in Net Assets rather than as operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for doubtful accounts are also required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011.

The Medical Center recognizes a significant amount of patient service revenue at the time services are rendered in certain settings such as the emergency room, even though the patient's ability to pay is not initially assessed. The Medical Center assessed the significance of adopting this accounting standards update at the consolidated level. The Medical Center adopted this accounting standards update as of October 1, 2012 and retrospectively applied the presentation requirements to all periods presented. The adoption of this guidance resulted in the reclassification of the Medical Center's provision for doubtful accounts for the year ended September 30, 2012, decreasing total operating revenue and total operating expenses before non-recurring losses and curtailment gain, net by $29,349.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

At September 30, 2013 and 2012, the Medical Center's investments are comprised of its interest in investments held by Ascension and certain other investments, including investments held and managed by the Foundation. Assets limited as to use primarily include investments restricted by donors. The Medical Center's cash, cash equivalents, interest in investments held by Ascension, and assets limited as to use and other long-term investments are reported in the accompanying Consolidated Balance Sheets as presented in the following table:

	September 30	
	2013	**2012**
Cash and cash equivalents	**$ 3,775**	$ 4,995
Interest in investments held by Ascension, current	–	18,023
Interest in investments held by Ascension	**353,820**	320,899
Assets limited as to use:		
Temporarily and permanently restricted	**24,292**	24,038
Other long-term investments	**312**	312
	$ 382,199	$ 368,267

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

The composition of cash and investments classified as cash and cash equivalents and interest in investments held by Ascension is summarized as follows:

	September 30	
	2013	**2012**
Cash and cash equivalents	**$ 3,775**	$ 4,995
Other assets limited as to use	**24,292**	24,038
Unrestricted interest in the Foundation	**312**	312
Interest in investments held by Ascension	**353,820**	338,922
	$ 382,199	$ 368,267

(Dollars in Thousands)

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

As of September 30, 2013 and 2012, the composition of interest in investments held by Ascension is as follows:

	2013	2012
Cash, cash equivalents and short-term investments	**2.3%**	5.7%
U.S. government obligations	**21.6**	28.1
Asset-backed securities	**8.0**	9.2
Corporate and foreign fixed income maturities	**12.6**	9.1
Equity securities	**18.3**	15.7
Alternative investments and other investments:		
Private equity and real estate funds	**6.1**	6.6
Hedge funds	**23.7**	19.5
Commodities funds and other investments	**7.4**	6.1
	100.0%	100.0%

As of September 30, 2013 and 2012, the composition of total Foundation investments is as follows:

	2013	2012
Cash, cash equivalents, and short-term investments	**5.1%**	6.5%
U.S. government obligations	**4.2**	5.0
Asset-backed securities	**3.3**	4.0
Corporate and foreign fixed income maturities	**6.2**	6.1
Private equity and other investments	**81.2**	78.4
	100.0%	100.0%

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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

Investment return recognized by the Medical Center is summarized as follows:

	Year Ended September 30 2013	2012
Return on interest in investments held by Ascension and Ascension legacy portfolio	**$ 24,905**	$ 24,513
Interest and dividends	**–**	21
Total investment return, net	**$ 24,905**	$ 24,534
Investment return included in non-operating gains	**$ 24,905**	$ 24,513
Increase in temporarily restricted net assets	**–**	21
Total investment return, net	**$ 24,905**	$ 24,534

4. Fair Value Measurements

The Medical Center 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 Medical Center'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.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

Ascension, the Medical Center and the Foundation follow 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, 2013 and 2012, the Level 2 and Level 3 assets and liabilities 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 rate 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.

4. Fair Value Measurements (continued)

Pooled Short-Term Investment Funds

The fair value of pooled short-term investment funds 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 Securities

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. 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.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

Alternative Investments and Other Investments

Alternative investments consist of hedge funds, private equity funds, commodity funds, and real estate partnerships. The fair value of alternative investments is primarily determined using techniques consistent with both the market and income approaches, based on the 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.

Other alternative investments are valued using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth and other business and market sector fundamentals.

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, and Assets Limited as to Use and Other Long-Term Investments notes, the Medical Center has an interest in investments held by Ascension and certain other investments such as those investments held and managed by the Foundation. As of September 30, 2013, 20%, 41%, and 39% of the total Alpha Fund 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 liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2 and Level 3 inputs, respectively. As of September 30, 2012, 20%, 47%, and 33% of the total Alpha Fund 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 0%, 100%, and 0% of total Alpha Fund liabilities that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

As of September 30, 2013, 69%, 14% and 17% of the total assets held by the Foundation on behalf of the Medical Center 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, 2012, 64%, 18% and 18% of the total assets held by the Foundation on behalf of the Medical Center that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively.

5. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2013	**2012**
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, 2013) set at prevailing market rates	**$ 29,285**	$ 21,147
Intercompany debt with Ascension, payable in installments through November 2053; interest (3.4% and 3.6% at September 30, 2013 and 2012, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	**15,460**	15,592
Intercompany debt with Ascension, payable in installments from November 2030 through November 2047; interest (3.4% and 3.6% at September 30, 2013 and 2012, respectively) adjusted based on prevailing blended market interest rate of underlying debt obligations	**13,481**	11,170
	58,226	47,909
Less current portion of long-term debt	**737**	998
	$ 57,489	$ 46,911

The St. Vincent's Medical Center

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:	
2014	$ 737
2015	665
2016	1,141
2017	1,244
2018	1,271
Thereafter	53,168
	$ 58,226

Certain members of Ascension 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. 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 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 with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation. The Medical Center 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 (or, solely with respect to the Connecticut Bonds, the Connecticut Borrowers (the Medical Center and Hall-Brooke Behavioral Health Services, Inc. (Hall-Brooke)) pursuant to separate Loan Agreements, each dated as of November 1, 1999, between the related issuer of such series and Ascension (or,

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Long-Term Debt (continued)

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, in its capacity of managing the system's debt program, has committed to making loans to the Medical Center 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, subordinate 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. 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 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, with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation. The Medical Center 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.

The St. Vincent's Medical Center

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 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, 2013, 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, 2013 and 2012, there were no borrowings under the line of credit.

As of September 30, 2013, the Subordinate Credit Group has a $75,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $75,000 extends to November 26, 2014. As of September 30, 2013, $49,990 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 $5,184,305, which represents 39% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at September 30, 2013.

The St. Vincent's Medical Center

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 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, 2013 is approximately $368,000.

On July 1, 2013, Hall-Brooke legally transferred its obligation under the Bonds directly to the Medical Center.

During the years ended September 30, 2013 and 2012, interest paid was approximately $1,954 and $2,149, respectively. There was no capitalized interest in 2013 or 2012.

6. Notes Payable, Other

In 2012, the Medical Center purchased a physician practice. The purchase included a promissory note for a portion of the purchase price. The note was fully satisfied in January 2014.

7. Endowments

The Medical Center'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 Medical Center determining the amount of endowment assets to be appropriated for spending.

The Medical Center'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 Medical Center 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

7. Endowments (continued)

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 Medical Center in a manner consistent with the standard for expenditure as prescribed by Connecticut UPMIFA. In accordance with Connecticut UPMIFA, the Medical Center 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 Medical Center 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 Medical Center.
(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 Medical Center 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 \$0 and \$11 as of September 30, 2013 and 2012, respectively.

Return Objectives and Risk Parameters

The Foundation, in consultation with the Medical Center's Board of Trustees, 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 Medical Center 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 management costs. Actual results in any given year may vary from this amount. The Medical Center expects its endowment funds, over time, to provide an average annual 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.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Endowments (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Medical Center relies on the Foundation's total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation 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 Medical Center 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 Medical Center considers the long-term expected return on its endowment. Accordingly, over the long-term, the Medical Center expects the current spending policy to allow its endowment to grow at the average rate of inflation and investment fees annually. This is consistent with the Medical Center'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.

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning	$ (11)	$ 1,490	$ 11,269	$ 12,748
Investment return:				
Investment income	–	217	–	217
Net appreciation (realized and unrealized), net	11	1,126	–	1,137
Total investment return, net	11	1,343	–	1,354
Contributions	–	–	86	86
Transfers	–	(131)	159	28
Appropriation of endowment assets for expenditure	–	(464)	–	(464)
Endowment net assets, ending	$ –	$ 2,238	$ 11,514	$ 13,752

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning	$ (490)	$ 903	$ 10,134	$ 10,547
Investment return:				
Investment income	–	257	–	257
Net appreciation (realized and unrealized), net	479	1,134	–	1,613
Total investment return, net	479	1,391	–	1,870
Contributions	–	(11)	1,039	1,028
Transfers	–	(565)	96	(469)
Appropriation of endowment assets for expenditure	–	(228)	–	(228)
Endowment net assets (deficit), ending	$ (11)	$ 1,490	$ 11,269	$ 12,748

8. Pension Plans

The Medical Center participates in the Ascension Health Pension Plan, the Ascension Health Defined Contribution Plan, and the Supplemental Defined Benefit Retirement Plan. Details of these plans are as follows.

Ascension Health Pension Plan

The Medical Center participates in the Ascension Health Pension Plan (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 (the 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

8. Pension Plans (continued)

Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Net periodic pension income of $5,614 in 2013 and $3,941 in 2012 was charged to the Medical Center. The service cost component of net periodic pension cost charged to the Medical Center is actuarially determined while all other components are allocated based on the Medical Center'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 affected the Ascension Plan, as well as provides an enhanced comprehensive defined contribution plan. These changes became effective January 1, 2013. These changes resulted in the Medical Center's recognition of a nonrecurring curtailment gain of $23,626 during the year ended September 30, 2012. These changes also resulted in one-time decreases to the projected benefit obligation of $13,765 during the year ended September 30, 2012. The projected benefit obligation is included in pension and other postretirement liabilities 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, 2013 and 2012, the Ascension Plan had a net unfunded liability of $153,013 and $246,280, respectively. The Medical Center's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying Consolidated Balance Sheets at September 30, 2013 and 2012 was $1,573 and $8,644, respectively. As a result of updating the funded status of the Ascension Plan, the Medical Center's allocated share of the Ascension Plan's net funded liability was reduced by $760 during the year ended September 30, 2013 and an additional pension liability of $15,898 was transferred during the year ended September 30, 2012. These transfers are included in pension and other postretirement liability adjustments in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

As of September 30, 2013 and 2012, the fair value of the Ascension Plan's assets available for benefits was $3,875,691 and $4,032,942, respectively. As discussed in the Fair Value Measurements note, the Medical Center, 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, 2013, 22%, 35% and 43% 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.

8. Pension Plans (continued)

With respect to the Ascension Plan's liabilities measured at fair value on a recurring basis, 0%, 97% and 3% were categorized as Level 1, Level 2 and Level 3, respectively, as of September 30, 2013. Additionally, 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.

Ascension Health Defined Contribution Plan

The Medical Center participates in the Ascension Health Defined Contribution Plan (the Defined Contribution Plan), a contributory and noncontributory defined contribution plan sponsored by Ascension Health which covers all eligible associates. 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 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 $7,363 and $3,601 for the years ended September 30, 2013 and 2012, respectively.

Supplemental Defined Benefit Retirement Plan

The Medical Center has a Supplemental Defined Benefit Retirement Plan (SERP) for certain executive and professional employees. The amount recorded in other liabilities as of September 30, 2013 and 2012 was $1,184 and $1,203, respectively. In 2013 and 2012, the discount rate used was 4.45% and 3.70%, respectively. The SERP is not funded.

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

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9. Other Postretirement Benefits

In addition to participation in the Ascension Plan and Defined Contribution Plan, 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 Health Plan limits the Medical Center's contribution per employee to twelve hundred dollars per annum. The Health Plan is not funded.

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

	2013	2012
Change in benefit obligation		
Benefit obligation, beginning	**$ (2,612)**	$ (2,698)
Service cost	**(4)**	(3)
Interest cost	**(99)**	(119)
Actuarial gains (losses)	**48**	(59)
Benefits paid	**243**	267
Benefit obligation, ending	**$ (2,424)**	$ (2,612)
Change in plan assets		
Fair value of plan assets, beginning	**$ –**	$ –
Employer contributions	**243**	267
Benefits paid	**(243)**	(267)
Fair value of plan assets, ending	**$ –**	$ –
Funded status	**$ (2,424)**	$ (2,612)
Unrecognized gain	**–**	–
Unrecognized prior service cost	**–**	–
Accrued benefit cost	**$ (2,424)**	$ (2,612)

(Dollars in Thousands)

9. Other Postretirement Benefits (continued)

	2013	2012
Components of net periodic benefit		
Service cost	**$ 4**	$ 3
Interest cost	**99**	119
Net amortization and deferral	**197**	275
Net periodic cost	**$ 300**	$ 397
Assumption		
Discount rate	**4.89%**	3.98%

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

	2013	2012
Unrecognized prior service credit	**$ –**	$ –
Unrecognized actuarial gains	**254**	403
	$ 254	$ 403

Changes in benefit obligations recognized in unrestricted net assets include:

	September 30	
	2013	2012
Current year actuarial gains (losses)	**$ 48**	$ (59)
Amortization of actuarial gains	**(197)**	(267)
Amortization of prior service cost	**–**	(8)
	$ (149)	$ (334)

The actuarial gains included in unrestricted net assets that are expected to be recognized as a reduction of net periodic cost during the year ending September 30, 2014 are $1.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Other Postretirement Benefits (continued)

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

2014	$ 270
2015	263
2016	252
2017	240
2018	227
2019-2023	935

In 2013, the discount rate was increased from 3.98% to 4.89% and did not have a material effect on net periodic benefit cost for the year ended September 30, 2013.

10. Self-Insurance Programs

The Medical Center 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 2013 and 2012. 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 Medical Center 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 Medical Center has a deductible of $100 per claim. Excess coverage is provided through AHIL, with limits up to

(Dollars in Thousands)

10. Self-Insurance Programs (continued)

$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 $4,290 and $4,949 for the years ended September 30, 2013 and 2012, respectively. For the year ended September 30, 2013, the expense has been reduced by $4,275 of excess premiums previously retained by Ascension Health's professional and general liability self-insured program which has been returned to the Health Ministry. Included in current liabilities and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are liabilities for deductibles and reserves for claims incurred but not yet reported of approximately $5,374 and $5,183 at September 30, 2013 and 2012, respectively.

Workers' Compensation

The Medical Center 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. On July 1, 2011, the Medical Center implemented a $100 deductible, thereby assuming responsibility for indemnity and expenses 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 members. 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 $1,347 and $1,582 for the years ended September 30, 2013 and 2012, respectively. Included in current liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of $976 and $852 at September 30, 2013 and 2012, respectively.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

11. Lease Commitments

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

Years ending September 30:	
2014	$ 3,092
2015	2,459
2016	1,796
2017	1,143
2018	771
Thereafter	3,666
	$ 12,927

Rental expense under operating leases amounted to $5,989 and $4,389 in 2013 and 2012, respectively.

12. Related-Party Transactions

The Medical Center 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 Medical Center for these services represent both allocations of common costs and specifically identified expenses that are incurred by the System on behalf of the Medical Center. Allocations are based on relevant metrics such as the Medical Center's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of the System. The amounts charged to the Medical Center for these services may not necessarily result in the net costs that would be incurred by the Medical Center on a stand-alone basis. The Medical Center then allocates a portion of such costs to all the affiliated entities based on a pro-rata share of operating expenses. The charges allocated to the Medical Center, net of $193 and $220 allocated to affiliated entities, were approximately $2,905 and $2,870 for the years ended September 30, 2013 and 2012, respectively.

In addition, the System is in the process of implementing a System-wide information technology process standardization project that is expected to be fully implemented by June 30, 2016. SVHS's implementation was completed in September 2013. The Medical Center has been and

(Dollars in Thousands)

12. Related-Party Transactions (continued)

will continue to be allocated its share of the costs to fund this project. The Medical Center then allocates such funding to all affiliated entities based on a pro-rata share of operating expenses. The Medical Center made payments to the System, net of funding allocated to affiliated entities, of $5,863 and $6,067 for the years ended September 30, 2013 and 2012, respectively. These payments are included in transfers to System, parent, and affiliated entities in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

During 2013 and 2012, the Medical Center transferred $513 and $505, respectively, to the System to fund the Medical Center's allocated portion of an unmet debt obligation of a former member of the obligated group. The transfers are included in transfer to System, parent, and affiliated entities, net, on the accompanying Consolidated Statements of Operations and Changes in Net Assets.

During 2013 and 2012 the Medical Center transferred $10,494 and $3,541, respectively, to the System to fund its allocated portion of the System obligations of both the System and several of its members. The transfers are included in transfer to System, parent, and affiliated entities, net, in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

During 2013 and 2012, the Medical Center transferred $572 and $601, respectively, to the System to fund the Medical Center's allocated portion of cost associated with ministry services provided by Daughters of Charity. The transfers are included in transfer to System, parent, and affiliated entities, net in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

Effective July 1, 2013, the System changed its method of allocating various corporate and shared services from a cost allocation method to a net asset transfer. Costs of $1,229 were transferred to the System for the three month period. The transfers are included in transfer to System, parent, and affiliated entities, net in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

The Medical Center operates consolidated supportive functions, including information management, patient financial and coding services, accounting, payroll, purchasing, human resources, security, automotive fleet and other miscellaneous services. For the years ended September 30, 2013 and 2012, the Medical Center charged affiliated entities $1,632 and $1,635, respectively, for these services, which have been reported as other operating revenues in the Consolidated Statements of Operations and Changes in Net Assets.

The St. Vincent's Medical Center

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Related-Party Transactions (continued)

In addition, the Medical Center and its affiliated entities provide all its employees medical insurance coverage through a consolidated self-insured administered program. The Medical Center incurs the entire costs, including actual experiences, incurred but not reported liabilities and administrative costs. The Medical Center charges affiliated entities based on an estimated per contract premium based on level of participation. For the years ended September 30, 2013 and 2012, the Medical Center charged affiliated entities $2,801 and $2,942, respectively. The amount charged may not result in net costs if each affiliated entity were on a stand-alone basis.

The Medical Center leases several properties from affiliated entities for various programs and additional classroom space for the College. For the years ended September 30, 2013 and 2012, the Medical Center paid rent to affiliated entities of $452 and $443, respectively.

The Medical Center purchases facility management services for Development Corp., for management of properties other than its two main and several outpatient facilities. The Medical Center paid fees to Development Corp. of $260 and $224, respectively.

During 2013, the Medical Center transferred $2,000 to SVHS which was then simultaneously transferred to St. Vincent's Development Corporation (Development Corp), also an affiliate of SVHS, to be used to support operating losses on properties held by Development Corp for the future needs of the Medical Center and SVHS. During 2012, the Medical Center transferred net assets of $348, relating to several properties, to Development Corp to be managed for the Medical Center and affiliated entities.

As described in the Organization and Mission footnote, on July 1, 2013 Hall-Brooke merged its remaining operations and all of its assets with the Medical Center and the Medical Center assumed all of the outstanding liabilities and future operations of Hall-Brooke and the responsibility to continue to engage in the operations of the remaining services. In connection with the merger, net assets of $6,031 was transferred to the Medical Center.

As partial consideration associated with the transfer of inpatient operations on October 1, 2008, the Medical Center entered into a long-term note agreement with Hall-Brooke, whereby the Medical Center agreed to assume the principal and interest payments of Hall-Brooke's outstanding CHEFA Variable Rate Demand Revenue Bonds, Series 1999B (Bonds) as of the date of the transfer. The terms of the note are consistent with the terms of the Bonds and bear no interest or administrative fees, other than the interest costs of the Bonds. The Bonds are subject

(Dollars in Thousands)

12. Related-Party Transactions (continued)

to a seven-day put provision payable in installments through November 2029 and interest is set at the prevailing market rate. Hall-Brooke legally transferred its obligation under the Bonds directly to the Medical Center on July 1, 2013.

Interest paid on the note payable was $389 for the year ended September 30, 2012.

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2013	**2012**
Health care services	**$ 3,741**	$ 2,998
Education and training	**2,375**	2,545
Capital	**3,595**	4,587
Other	**3,067**	2,639
	$ 12,778	$ 12,769

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

	September 30	
	2013	**2012**
Health care services	**$ 6,249**	$ 6,077
Education	**1,935**	1,930
Capital	**1,393**	1,393
Other	**1,937**	1,869
	$ 11,514	$ 11,269

(Dollars in Thousands)

14. Contingencies and Commitments

In addition to professional liability claims, the Medical Center 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 Medical Center'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, 2013 and 2012, such gains and losses cannot be determined. Management expects any related adjustment will not have a material adverse effect on the Medical Center's consolidated financial position.

In March 2013, Ascension and some of its subsidiaries were named as defendants to litigation surrounding the Church Plan status of the Ascension Plan. The ultimate outcome of this matter and the effect, if any, on the Medical Center's financial statements is not determinable.

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 Medical Center 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 February 21, 2014, the DOJ has not asserted any claims against the Medical Center. Ascension Health and the Medical Center continue to fully cooperate with the DOJ in its investigation.

Supplementary Information

Building a better working world

Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, CT 06103-1506

Tel: +1 860 247 3100
Fax: +1 860 725 6040
ey.com

Report of Independent Auditors on Supplementary Information

The Board of Directors
The St. Vincent's Medical Center
Bridgeport, Connecticut

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet, consolidating statement of operations and changes in unrestricted net assets, and the schedule of net cost of providing care of persons living in poverty and community benefit programs is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audits and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

February 21, 2014

The St. Vincent's Medical Center

Consolidating Balance Sheet

September 30, 2013
(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Consolidated The St. Vincent's Medical Center
Assets				
Current assets:				
Cash and cash equivalents	$ 3,609	$ 72	$ 94	$ 3,775
Accounts receivable, less allowances for uncollectible accounts of $26,326	52,068	3,975	–	56,043
Advances to (from) parent and affiliated entities, net	18,040	(16,640)	145	1,545
Inventories and other current assets	17,085	316	2,897	20,298
Total current assets	90,802	(12,277)	3,136	81,661
Interest in investments held by Ascension	342,380	(246)	11,686	353,820
Assets limited as to use:				
Temporarily restricted	213	–	82	295
Temporarily restricted interest in the St. Vincent's Medical Center Foundation, Inc.	10,641	–	1,842	12,483
Permanently restricted	68	–	–	68
Permanently restricted interest in the St. Vincent's Medical Center Foundation, Inc.	9,710	–	1,736	11,446
Total assets limited as to use	20,632	–	3,660	24,292
Unrestricted interest in The St. Vincent's Medical Center Foundation, Inc.	–	–	312	312
Property and equipment:				
Land and improvements	8,923	–	–	8,923
Buildings and equipment	418,463	1,853	3,165	423,481
Construction in progress	2,003	564	–	2,567
Less accumulated depreciation	(237,495)	(569)	(811)	(238,875)
Total property and equipment, net	191,894	1,848	2,354	196,096
Other assets	22,629	756	1	23,386
Total assets	$ 668,337	$ (9,919)	$ 21,149	$ 679,567

The St. Vincent's Medical Center

Consolidating Balance Sheet (continued)

September 30, 2013
(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Consolidated The St. Vincent's Medical Center
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	$ 49,119	$ 4,575	$ 3,860	$ 57,554
Current portion of long-term debt	737	–	–	737
Current portion of note payable, other		1,075	–	1,075
Estimated third-party payor settlements	5,681	–	–	5,681
Total current liabilities	55,537	5,650	3,860	65,047
Noncurrent liabilities:				
Long-term debt	57,489	–	–	57,489
Pension and other postretirement liabilities	5,704	514	844	7,062
Self-insurance liabilities	2,498	1,001	–	3,499
Other	8,689	13	–	8,702
Total noncurrent liabilities	74,380	1,528	844	76,752
Total liabilities	129,917	7,178	4,704	141,799
Net assets (deficit):				
Unrestricted	517,788	(17,097)	12,785	513,476
Temporarily restricted	10,854	–	1,924	12,778
Permanently restricted	9,778	–	1,736	11,514
Total net assets (deficit)	538,420	(17,097)	16,445	537,768
Total liabilities and net assets	$ 668,337	$ (9,919)	$ 21,149	$ 679,567

The St. Vincent's Medical Center

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

Year Ended September 30, 2013
(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Eliminations	Consolidated The St. Vincent's Medical Center
Operating revenues:					
Net patient service revenue	$ 434,001	$ 27,035	$ –	$ –	$ 461,036
Less provision for doubtful accounts	25,817	1,862	–	–	27,679
Net patient service revenue, less provision for doubtful accounts	408,184	25,173	–	–	433,357
Other revenue	15,967	22,235	7,623	(30,533)	15,292
Net assets released from restrictions for operations	580	–	839	–	1,419
Total operating revenues	424,731	47,408	8,462	(30,533)	450,068
Operating expenses:					
Salaries and wages	159,616	34,964	4,446	–	199,026
Employee benefits	44,720	4,917	1,148	–	50,785
Purchased services	61,783	5,585	393	(30,372)	37,389
Professional fees	9,461	9,463	130	–	19,054
Supplies	55,551	813	139	–	56,503
Insurance	3,726	1,142	5	–	4,873
Interest	1,954	–	–	–	1,954
Depreciation and amortization	24,642	446	57	–	25,145
Other	24,465	3,789	766	(161)	28,859
Total operating expenses before non-recurring losses, net	385,918	61,119	7,084	(30,533)	423,588
Income (loss) from operations before non-recurring losses, net	38,813	(13,711)	1,378	–	26,480
Non-recurring losses, net	(8,573)	(154)	–	–	(8,727)
Income (loss) from operations	30,240	(13,865)	1,378	–	17,753
Non-operating gains (losses):					
Investment return, net	24,164	2	739	–	24,905
Other	(501)	–	450	–	(51)
Total non-operating gains (losses), net	23,663	2	1,189	–	24,854
Excess (deficiency) of revenues and gains over expenses and losses	53,903	(13,863)	2,567	–	42,607
Transfers to System, parent, and affiliated entities, net	(13,570)	(62)	(248)	–	(13,880)
Net assets released from restrictions for property acquisitions	1,415	–	2,416	–	3,831
Pension and other postretirement liability adjustments	860	72	57	–	989
Increase (decrease) in unrestricted net assets	42,608	(13,853)	4,792	–	33,547
Unrestricted net assets, beginning	475,180	(3,244)	7,993	–	479,929
Unrestricted net assets, ending	$ 517,788	$ (17,097)	$ 12,785	$ –	$ 513,476

The St. Vincent's Medical Center

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

Year Ended September 30, 2013
(Dollars in Thousands)

The net cost to the Medical Center, 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	$ 4,444
Unpaid cost of public programs for persons living in poverty	11,160
Other programs for persons living in poverty and other vulnerable persons	2,746
Community benefit programs	5,851
Care of persons living in poverty and community benefit programs	$ 24,201

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