ST. VINCENTS
MEDICAL CENTER
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PAGE

Consolidated Financial Statements and Supplementary Information

St. Vincent's Health Services Corporation and Subsidiaries
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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2013 and 2012

Contents

Building a better
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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of St. Vincent's Health Services Corporation and Subsidiaries (the Corporation), 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 St. Vincent's College, Inc. (the College), Hall-Brooke Behavioral Health Services, Inc. (Hall-Brooke), St. Vincent's Development Corporation (Development) or The St. Vincent's Special Needs Center (the Special Needs Center), all wholly-owned subsidiaries, which statements reflect total assets constituting 10% and 11% in 2013 and 2012, and revenues constituting 8% and 7% in 2013 and 2012 of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the College, Hall-Brooke, Development and the Special Needs Center, is based solely on the reports of 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 reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation at September 30, 2013 and 2012, and the consolidated results of its operations and its 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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Balance Sheets
(Dollars in Thousands)

	September 30 2013	September 30 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,001**	$ 7,416
Interest in investments held by Ascension	**–**	20,274
Accounts receivable, less allowance for uncollectible accounts ($26,326 in 2013 and $26,426 in 2012)	**56,043**	54,446
Inventories and other current assets	**19,722**	13,027
Total current assets	**80,766**	95,163
Interest in investments held by Ascension	**375,348**	341,371
Board-designated investments and assets limited as to use:		
Noncurrent pledges receivable, net	**1,231**	1,838
Other board-designated investments	**13,380**	10,589
Temporarily or permanently restricted	**27,068**	27,139
Total board-designated investments and assets limited as to use	**41,679**	39,566
Property and equipment:		
Land and improvements	**14,584**	14,273
Buildings and equipment	**456,093**	450,060
Construction in progress	**3,172**	388
Less accumulated depreciation	**(253,094)**	(234,011)
Total property and equipment, net	**220,755**	230,710
Other assets	**24,235**	19,727
Total assets	**$ 742,783**	$ 726,537

	September 30 2013	2012
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 60,416**	$ 64,619
Current portion of long-term debt	**737**	1,436
Current portion of note payable	**1,075**	1,075
Estimated third-party payor settlements	**5,681**	12,000
Other current liabilities	**340**	461
Total current liabilities	**68,249**	79,591
Noncurrent liabilities:		
Long-term debt	**57,489**	57,226
Note payable	**–**	1,075
Self-insurance liabilities	**3,499**	3,237
Pension and other postretirement liabilities	**8,531**	13,433
Other liabilities	**8,892**	7,649
Total noncurrent liabilities	**78,411**	82,620
Total liabilities	**146,660**	162,211
Net assets:		
Unrestricted	**569,055**	537,187
Temporarily restricted	**14,844**	15,159
Permanently restricted	**12,224**	11,980
Total net assets	**596,123**	564,326
Total liabilities and net assets	**$ 742,783**	$ 726,537

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

St. Vincent's Health Services Corporation and Subsidiaries

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

	Year Ended September 30 2013	2012
Operating revenues:		
Net patient service revenue	$ **461,036**	$ 442,096
Less provision for doubtful accounts	**27,679**	29,349
Net patient service revenue, less provision for doubtful accounts	**433,357**	412,747
Other revenue	**39,575**	42,644
Net assets released from restrictions for operations	**1,685**	1,378
Total operating revenues	**474,617**	456,769
Operating expenses:		
Salaries and wages	**212,347**	202,881
Employee benefits	**55,142**	50,097
Purchased services	**37,145**	36,613
Professional fees	**19,519**	11,527
Supplies	**57,058**	56,184
Insurance	**5,349**	6,092
Interest	**1,954**	2,149
Depreciation and amortization	**26,417**	24,176
Other	**32,749**	30,242
Total operating expenses before non-recurring (losses) and curtailment gain, net	**447,680**	419,961
Income from operations before non-recurring (losses) and curtailment gain, net	**26,937**	36,808
Non-recurring (losses) and curtailment gain, net	**(9,021)**	24,507
Income from operations	**17,916**	61,315
Non-operating gains (losses):		
Investment return, net	**28,742**	26,921
Other	**(1,563)**	(1,356)
Total non-operating gains, net	**27,179**	25,565
Excess of revenue and gains over expenses and losses	**45,095**	86,880

St. Vincent's Health Services Corporation and Subsidiaries

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

	Year Ended September 30 2013	2012
Unrestricted net assets:		
Excess of revenue and gains over expenses and losses	$ **45,095**	$ 86,880
Transfers to System, net	**(18,527)**	(13,572)
Net assets released from restrictions for property acquisitions	**4,210**	4,376
Pension and other postretirement liability adjustments	**1,082**	(22,733)
Transfer from temporarily and permanently restricted net assets	**8**	324
Other	**–**	(355)
Increase in unrestricted net assets	**31,868**	54,920
Temporarily restricted net assets:		
Contributions	**5,135**	7,526
Investment return	**821**	341
Net change in unrealized gains on investments	**1,204**	1,730
Net assets released from restrictions	**(5,895)**	(5,754)
Transfer to unrestricted and permanently restricted net assets	**(157)**	(421)
Other	**(1,423)**	(1,513)
(Decrease) increase in temporarily restricted net assets	**(315)**	1,909
Permanently restricted net assets:		
Contributions	**95**	1,039
Transfer from unrestricted and temporarily restricted net assets	**149**	97
Increase in permanently restricted net assets	**244**	1,136
Increase in net assets	**31,797**	57,965
Net assets, beginning	**564,326**	506,361
Net assets, ending	$ **596,123**	$ 564,326

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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended September 30 2013	2012
Cash flows from operating activities		
Increase in net assets	$ **31,797**	$ 57,965
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**26,417**	24,176
Loss on sale of property and equipment	**234**	398
Pension and other postretirement liability adjustments	**(1,082)**	22,733
Restricted contributions and investment return	**(5,956)**	(8,906)
Net change in unrealized gains on investments	**(16,745)**	(7,258)
Transfers to System, net	**18,527**	13,572
(Increase) decrease in:		
Interest in investments held by Ascension	**(596)**	(49,370)
Accounts receivable, net	**(1,597)**	(6,820)
Inventories and other current assets	**(6,695)**	956
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(4,203)**	12,113
Estimated third-party payor settlements	**(6,319)**	1,117
Other current liabilities	**(121)**	2
Pension and other postretirement liabilities	**(2,616)**	(25,459)
Other liabilities	**1,505**	(2,535)
Net cash provided by operating activities	**32,550**	32,684
Cash flows from investing activities		
Property and equipment additions, net	**(14,992)**	(14,579)
Software in development, net	**(4,056)**	(3,000)
Decrease (increase) in assets limited as to use – restricted	**1,525**	(7,623)
Increase in other assets	**(5,105)**	(7,466)
Net cash used in investing activities	**(22,628)**	(32,668)
Cash flows from financing activities		
Transfers to System, net	**(16,783)**	(11,387)
Repayment of long-term debt	**(1,510)**	(424)
Issuance of note payable	**–**	2,150
Restricted contributions and investment return	**5,956**	8,906
Net cash used in financing activities	**(12,337)**	(755)
Net decrease in cash and cash equivalents	**(2,415)**	(739)
Cash and cash equivalents, beginning	**7,416**	8,155
Cash and cash equivalents, ending	$ **5,001**	$ 7,416

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

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2013
(Dollars in Thousands)

1. Organization and Mission

Organizational Structure

St. Vincent's Health Services Corporation (Corporation) 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.

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

The St. Vincent's Medical Center (Medical Center) is a nonprofit hospital system, consisting of an acute care hospital located in Bridgeport, Connecticut, a behavioral health hospital located in Westport, Connecticut and several nonprofit subsidiaries. The Medical Center provides inpatient, outpatient, and emergency care services for residents of the Greater Bridgeport area and its neighboring towns. Admitting physicians are primarily practitioners in the local area. The St. Vincent's Multispecialty Group, Inc. (Multispecialty Group), a nonprofit subsidiary of the Medical Center, is a consolidated group of primary care and specialty physicians and allied health professionals providing service to the Medical Center and the community. The St. Vincent's College, Inc. (College), a nonprofit subsidiary of the Medical Center, is an institution

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Mission (continued)

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.

Hall-Brooke Behavioral Health Services, Inc. (Hall-Brooke), located in Fairfield County, Connecticut, is principally engaged in the operation of a special education school in Westport, Connecticut and residential services for residents of Fairfield County. On July 1, 2013, 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.

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

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

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

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

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Mission (continued)

Mission

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

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

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care 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).

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost 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 Corporation or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Special Needs is the only consolidated corporation not on a September 30 fiscal year-end basis. Special Needs is reported on a June 30 fiscal year-end basis.

Investments in entities where the Corporation does not have operating control are recorded under the equity or cost method of accounting. There are no entities recorded under the equity method of accounting as of September 30, 2013 and 2012, respectively.

Use of Estimates

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

2. Significant Accounting Policies (continued)

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

Prior to April 2012, the Corporation 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 Corporation's investment in the Ascension Legacy Portfolio represented the Corporation'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 Corporation. As of September 30, 2013 and 2012, the Corporation has an interest in investments held by Ascension, which is reflected in the accompanying Consolidated Balance Sheets, and represents the Corporation's pro rata share of Ascension's investment interest in the Alpha Fund.

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

The Corporation reports its interest in investments held by Ascension 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 Corporation and, as of September 30, 2013, are directed by Ascension. The Corporation reports its other investments, including Foundation investments, in the accompanying Consolidated Balance Sheets based upon the long- or short-term nature of the investments and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of the Corporation.

2. Significant Accounting Policies (continued)

The Corporation'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 Corporation's investments, as well as the Corporation'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.

(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	**$ 3,855**	$ 4,889
Software under development	**10,544**	6,488
Goodwill	**1,695**	1,554
Total intangible assets, net	**$ 16,094**	$ 12,931

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 $3,799 and $1,445, 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.

2. Significant Accounting Policies (continued)

The replacement systems are expected to cost approximately $26,000 and are currently in the application development stage 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 stage 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, Net

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

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2013 and 2012 was $22,618 and $22,731, respectively.

Estimated useful lives by asset category are as follows: land improvements – 10 to 15 years; buildings – 10 to 40 years; and equipment – 5 to 25 years. Interest costs incurred as part of the related construction are capitalized during the period of construction. No interest was capitalized during 2013 or 2012.

Several capital projects have remaining construction and related equipment purchase commitments of approximately $818 as of September 30, 2013.

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

2. Significant Accounting Policies (continued)

The Corporation's most significant asset retirement obligation relates to required future asbestos remediation of physical plant and buildings constructed prior to 1975. Asset retirement obligations of $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 Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes, primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

Contributions, Bequests, and Grants

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

Performance Indicator

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Operating and Non-Operating Activities

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

Net Patient Service Revenue, Accounts Receivable, and Allowances 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**	720,908
Charity care	**14,991**	15,330
Net patient service revenue	**$ 461,036**	$ 442,096

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
HMOs	**31**	30
Commercial	**9**	9
Self-pay and other	**3**	10
	100%	100%

The Corporation 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
HMOs	**25**	29
Commercial	**16**	15
Self-pay and other	**11**	10
	100%	100%

St. Vincent's Health Services Corporation and Subsidiaries

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 Corporation follow established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Corporation'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 Corporation 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.

2. Significant Accounting Policies (continued)

The Corporation accounts for HITECH incentive payments as a gain contingency. Income from Medicare incentive payments is recognized as revenue after the Corporation 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 Corporation 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 Corporation'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 Corporation 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 Corporation 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 this implementation was comprised primarily of additional temporary resources and consultants.

2. Significant Accounting Policies (continued)

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

Health Ministry Income Taxes

The member health care entities of the Corporation, except for Vincentures, are tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(25), and their related income is exempt from federal income tax under Section 501(a). Vincentures is an inactive taxable corporation. Therefore, no provision for income taxes is necessary. The Corporation accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Regulatory Compliance

The Corporation 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 Corporation. 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 Corporation.

Reclassifications

Certain reclassifications were made to the 2012 consolidated financial statements to conform to the 2013 presentation.

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2013, the Corporation 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.

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 Corporation recognizes a significant amount of patient service revenue at the time services are rendered in certain settings, such as the Medical Center's emergency room, even though the patient's ability to pay is not initially assessed. The Corporation assessed the significance of adopting this accounting standards update at the consolidated level. The Corporation 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 Corporation's provision for doubtful accounts for the year ended September 30, 2012, decreasing total operating revenue and total operating expenses before nonrecurring losses and curtailment gain, net by $29,349.

(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 Corporation'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 Corporation'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	**$ 5,001**	$ 7,416
Interest in investments held by Ascension, current	–	20,274
Interest in investments held by Ascension	**375,348**	341,371
Pledges receivable, net	**1,231**	1,838
Board-designated investments	**13,380**	10,589
Temporarily or permanently restricted	**27,068**	27,139
	$ 422,028	$ 408,627

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.

(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)

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

	September 30	
	2013	**2012**
Cash and cash equivalents	**$ 7,049**	$ 10,129
U.S. government obligations	**1,678**	1,834
Corporate and foreign fixed income investments	**2,493**	2,245
Asset-backed securities	**1,301**	1,488
Equity securities	**25,535**	22,236
Pledges receivable, net	**1,231**	1,838
Other investments	**7,393**	7,212
Interest in investments held by Ascension	**375,348**	361,645
	$ 422,028	$ 408,627

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

	Year Ended September 30	
	2013	**2012**
Cash and 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%

(Dollars in Thousands)

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

Investment return recognized by the Corporation is summarized as follows:

	Year Ended September 30 2013	2012
Return on interest in investments held by Ascension and Ascension legacy portfolio	**$ 26,486**	$ 24,513
Interest and dividends	**1,137**	799
Net gains on investments reported at fair value	**3,144**	3,680
Total investment return	**$ 30,767**	$ 28,992
Investment return included in non-operating gains	**$ 28,742**	$ 26,921
Investment return reported separately as increase in temporarily restricted net assets	**2,025**	2,071
Total investment return	**$ 30,767**	$ 28,992

4. Fair Value Measurements

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

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

4. Fair Value Measurements (continued)

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

- Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.

- Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar investments in active markets or exchanges or prices quoted for identical or similar investments in markets that are not active. If the asset or liability has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

As of September 30, 2013 and 2012, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

Cash and Cash Equivalents and Short-Term Investments

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

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.

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 the 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, Assets Limited as to Use and Other Long-Term Investments notes, the Corporation 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 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 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 were measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at September 30, 2013 for all other financial assets and liabilities which are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,306	$ –	$ –	$ 1,306
U.S. government obligations	–	1,678	–	1,678
Corporate and foreign fixed income investments	–	2,493	–	2,493
Asset backed securities	–	1,301	–	1,301
Equity investments	25,535	–	–	25,535
Private equity and other investments	–	–	6,891	6,891
Assets not at fair value	–	–	–	7,476
Deferred compensation assets, included in other noncurrent assets, invested in:				
Mutual funds	7,279	–	–	7,279
Guaranteed pooled fund	–	–	17	17

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

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

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

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

(Dollars in Thousands)

4. Fair Value Measurements (continued)

During the year ended September 30, 2013, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	For the Year Ended September 30, 2013	
	Other Investments	**Guaranteed Pooled Fund**
Balance – beginning	**$ 6,725**	$ 6
Total realized and unrealized gains (losses):		
Included in non-operating gains	**288**	–
Included in changes in net assets	**145**	–
Purchases	**150**	34
Sales	**(417)**	(63)
Transfers into Level 3	–	52
Transfers out of Level 3	–	(12)
Balance – ending	**$ 6,891**	$ 17

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

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

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Value Measurements (continued)

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

5. Long-Term Debt

Long-term debt consists of the following:

	September 30 2013	September 30 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**	$ 31,900
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	58,662
Less current portion of long-term debt	**737**	1,436
	$ **57,489**	$ 57,226

St. Vincent's Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Long-Term Debt (continued)

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

Year ending September 30:	
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 Corporation is a senior obligated group member under the terms of the Senior MTI.

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

5. Long-Term Debt (continued)

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 Corporation through November 15, 2029 in amounts ranging from $187 to $626 annually, with repayment to occur in annual installments ranging from $110 to $1,278, from November 2030 through November 2047.

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

A Subordinate Credit Group, which is comprised of subordinate obligated group members, 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 Corporation is a subordinate obligated group member under the terms of the Subordinate MTI.

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

(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.

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.

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

In 2012, the Corporation 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 Corporation's endowments consist of funds established for a variety of purposes. These endowments consist of donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowment funds are held by the Foundation and investment decisions are made by the Foundation, with the Corporation determining the amount of endowment assets to be appropriated for spending.

The Corporation's Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable, (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent

7. Endowments (continued)

with the standard for expenditure as prescribed by Connecticut UPMIFA. In accordance with Connecticut UPMIFA, the Corporation considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

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

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Connecticut UPMIFA requires the Corporation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $0 and $11 as of September 30, 2013 and 2012, respectively.

Return Objectives and Risk Parameters

The Corporation's Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period. Under these policies, endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs. Actual results in any given year may vary from this amount. The Corporation expects its endowment funds, over time, to provide an average 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.

St. Vincent's Health Services Corporation and Subsidiaries

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 Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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)	$ 2,143	$ 11,980	$ 14,112
Investment return:				
Investment income	–	240	–	240
Net appreciation (realized and unrealized), net	11	1,240	–	1,251
Total investment return, net	11	1,480	–	1,491
Contributions	–	–	95	95
Transfers	–	(430)	149	(281)
Appropriation of endowment assets for expenditure	–	(465)	–	(465)
Endowment net assets, ending	$ –	$ 2,728	$ 12,224	$ 14,952

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

8. Pension Plans

The Corporation 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 Corporation 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.

8. Pension Plans (continued)

The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Net periodic pension income of $5,641 in 2013 and $3,724 in 2012 was charged to the Corporation. The service cost component of net periodic pension cost charged to the Corporation is actuarially determined while all other components are allocated based on the Corporation's pro rata share of Ascension Health's overall projected benefit obligation.

During the year ended September 30, 2012, the System approved and communicated to employees a redesign of associate retirement benefits, which affects the Ascension Plan, as well as provides an enhanced comprehensive defined contribution plan. These changes became effective January 1, 2013. These changes resulted in the Corporation's recognition of a nonrecurring curtailment gain of $24,179 during the year ended September 30, 2012. These changes also resulted in one-time decreases to the projected benefit obligation of $14,662 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 Corporation'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 $3,042 and $10,821, respectively. As a result of updating the funded status of the Ascension Plan, the Corporation's allocated share of the Ascension Plan's net funded liability was reduced by $906 during the year ended September 30, 2013 and an additional pension liability of $16,712 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.

8. Pension Plans (continued)

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 Corporation, as well as the System, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of September 30, 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. 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 Corporation 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 \$7,743 and \$3,816 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.

(Dollars in Thousands)

8. Pension Plans (continued)

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.

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 prior service cost	**–**	–
Unrecognized gain	**–**	–
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:

	September 30 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.

(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 Corporation participates in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 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 Corporation participates in Ascension Health's professional and general liability self-insured program which provides claims-made coverage through a wholly owned on-shore trust and offshore captive insurance company, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of $10,000 per occurrence with no aggregate. The Corporation has a deductible of $100 per claim. Excess coverage is provided through AHIL, with limits up to $185,000. AHIL retains $5,000 per occurrence and $5,000 annual aggregate for professional liability. AHIL also

10. Self-Insurance Programs (continued)

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 $4,640 and $5,471 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 Corporation participates in Ascension Health's workers' compensation program which provides occurrence coverage through a grantor trust. The trust provides coverage up to $1,000 per occurrence with no aggregate.On July 1, 2011, the Corporation 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 member. Excess insurance against catastrophic loss is obtained through commercial insurers. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of $1,668 and $1,884 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 $1,179 and $972 at September 30, 2013 and 2012, respectively.

(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	$ 3,719
2015	3,081
2016	2,227
2017	1,539
2018	1,110
Thereafter	7,172
	$ 18,848

Rental expense under operating leases amounted to $7,208 and $5,781 in 2013 and 2012, respectively.

12. Related-Party Transactions

The Corporation utilized various centralized programs and overhead services of the System or its other sponsored organizations including risk management, retirement services, treasury, debt management, executive management support, administrative services, and information technology services. The charges allocated to the Corporation for these services represent both allocations of common costs and specifically identified expenses that are incurred by the System on behalf of the Corporation. Allocations are based on relevant metrics such as the Corporation's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of the System. The amounts charged to the Corporation for these services may not necessarily result in the net costs that would be incurred by the Corporation on a stand-alone basis. The charges allocated to the Corporation were approximately $3,097 and $3,091 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. The Corporation's implementation was completed in September 2013. The Corporation has been and will continue to be allocated its share of the costs to fund this project. The Corporation made payments to the System of $6,625 and $6,377 for the years ended September 30, 2013 and 2012, respectively. These payments are included in transfers to System, net in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

12. Related-Party Transactions (continued)

During 2013 and 2012, the Corporation transferred \$513 and \$505, respectively, to the System to fund the Corporation's allocated portion of an unmet debt obligation of a former member of the obligated group. These transfers are included in transfers to System, net, in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

During 2013 and 2012, the Corporation 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, net, in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

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

13. Temporarily and Permanently Restricted Net Assets

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Pledges receivable at September 30, 2013 and 2012 are comprised primarily of amounts contributed for the construction of the master facility plan at the Medical Center, including the Cancer Center, Emergency Department, and Level 2 renovations and the expansion of the College.

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

(Dollars in Thousands)

13. Temporarily and Permanently Restricted Net Assets (continued)

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

	2013	2012
Due within one year	$ **886**	$ 1,010
Due in one to five years	**1,360**	2,053
	2,246	3,063
Less allowance and discount to present value	**311**	403
	1,935	2,660
Less pledges receivable, net – current portion	**704**	822
Pledges receivable, net	$ **1,231**	$ 1,838

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

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2013	2012
Health care services	$ **3,889**	$ 3,164
Education and training	**2,400**	2,549
Capital	**5,248**	6,264
Other	**3,307**	3,182
	$ **14,844**	$ 15,159

(Dollars in Thousands)

13. Temporarily and Permanently Restricted Net Assets (continued)

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

	September 30 2013	September 30 2012
Health care services	**$ 6,248**	$ 6,077
Education	**2,135**	2,130
Capital	**1,904**	1,904
Other	**1,937**	1,869
	$ 12,224	$ 11,980

14. Commitments and Contingencies

In addition to professional liability claims, the Corporation is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without a material adverse effect on the Corporation's consolidated balance sheets.

In January 2006, the Corporation, 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 Corporation. 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 Corporation'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 Corporation's consolidated financial statements is not determinable.

14. Commitments and Contingencies (continued)

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICDs) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, the Corporation will be reviewing applicable medical records for response to the DOJ. The DOJ's investigation spans a time frame beginning in 2004 and extending through the present time. Through February 21, 2014, the DOJ has not asserted any claims against the Corporation. Ascension Health and the Corporation continue to fully cooperate with the DOJ in its investigation.

Supplementary Information

Building a better working world

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Report of Independent Auditors on Supplementary Information

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

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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2013
(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	$ –	$ 3,775	$ 567	$ 531	$ 128	$ –	$ –	$ 5,001
Accounts receivable, less allowance for uncollectible accounts; $26,326	–	56,043	–	–	–	–	–	56,043
Advances to (from) affiliated entities, net	–	1,545	(5,261)	51	501	–	3,164	–
Inventories and other current assets	–	20,298	857	1,605	126	–	(3,164)	19,722
Total current assets	–	81,661	(3,837)	2,187	755	–	–	80,766
Interest in investments held by Ascension	–	353,820	–	20,247	1,281	–	–	375,348
Board-designated investments and assets limited as to use:								
Noncurrent pledges receivable, net	–	–	1,231	–	–	–	–	1,231
Other board-designated investments	–	–	13,380	–	–	–	–	13,380
Temporarily or permanently restricted	–	363	26,697	8	–	–	–	27,068
Temporarily or permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	–	23,929	–	2,833	–	–	(26,762)	–
Total board-designated investments and assets limited as to use	–	24,292	41,308	2,841	–	–	(26,762)	41,679
Interest in The St. Vincent's Medical Center Foundation, Inc.	1,563	312	–	494	–	–	(2,369)	–
Property and equipment:								
Land and improvements	–	8,923	105	871	4,685	–	–	14,584
Buildings and equipment	–	423,481	617	16,131	15,864	–	–	456,093
Construction in progress	–	2,567	–	256	349	–	–	3,172
Less accumulated depreciation	–	(238,875)	(232)	(8,159)	(5,828)	–	–	(253,094)
Total property and equipment, net	–	196,096	490	9,099	15,070	–	–	220,755
Other assets	–	23,386	810	15	24	–	–	24,235
Total assets	$ 1,563	$ 679,567	$ 38,771	$ 34,883	$ 17,130	$ –	$ (29,131)	$ 742,783

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2013
(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Eliminations	Total
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued liabilities	$ –	$ 57,554	$ 204	$ 2,053	$ 605	$ –	$ –	$ 60,416
Current portion of long-term debt	–	737	–	–	–	–	–	737
Current portion of note payable	–	1,075	–	–	–	–	–	1,075
Estimated third-party payor settlements	–	5,681	–	–	–	–	–	5,681
Other current liabilities	–	–	7	323	10	–	–	340
Total current liabilities	–	65,047	211	2,376	615	–	–	68,249
Noncurrent liabilities:								
Long-term debt	–	57,489	–	–	–	–	–	57,489
Self-insurance liabilities	–	3,499	–	–	–	–	–	3,499
Pension and other postretirement liabilities	–	7,062	–	1,469	–	–	–	8,531
Other liabilities	–	8,702	29	–	161	–	–	8,892
Total noncurrent liabilities	–	76,752	29	1,469	161	–	–	78,411
Total liabilities	–	141,799	240	3,845	776	–	–	146,660
Net assets:								
Unrestricted	1,563	513,476	11,834	28,197	16,354	–	(2,369)	569,055
Temporarily restricted	–	12,778	14,541	2,131	–	–	(14,606)	14,844
Permanently restricted	–	11,514	12,156	710	–	–	(12,156)	12,224
Total net assets	1,563	537,768	38,531	31,038	16,354	–	(29,131)	596,123
Total liabilities and net assets	$ 1,563	$ 679,567	$ 38,771	$ 34,883	$ 17,130	$ –	$ (29,131)	$ 742,783

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St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2012
(Dollars in Thousands)

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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2012
(Dollars in Thousands)

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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2013
(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Eliminations	Total
Operating revenues:								
Net patient service revenue	$ –	$ 461,036	$ –	$ –	$ –	$ –	$ –	$ 461,036
Less provision for doubtful accounts	–	27,679	–	–	–	–	–	27,679
Net patient service revenue, less provision for doubtful accounts	–	433,357	–	–	–	–	–	433,357
Other revenue	–	15,292	554	21,800	3,306	3,069	(4,446)	39,575
Net assets released from restrictions for operations	–	1,419	–	174	–	92	–	1,685
Total operating revenues	–	450,068	554	21,974	3,306	3,161	(4,446)	474,617
Operating expenses:								
Salaries and wages	–	199,026	73	11,973	–	1,275	–	212,347
Employee benefits	–	50,785	8	3,901	–	448	–	55,142
Purchased services	–	37,389	–	1,336	1,284	395	(3,259)	37,145
Professional fees	–	19,054	–	247	154	64	–	19,519
Supplies	–	56,503	8	528	3	16	–	57,058
Insurance	–	4,873	–	452	14	10	–	5,349
Interest	–	1,954	–	–	–	–	–	1,954
Depreciation and amortization	–	25,145	3	623	546	100	–	26,417
Other	–	28,859	260	2,210	1,576	892	(1,048)	32,749
Total operating expenses before non-recurring (losses) and curtailment gain, net	–	423,588	352	21,270	3,577	3,200	(4,307)	447,680
Income (loss) from operations before non-recurring (losses) and curtailment gain, net	–	26,480	202	704	(271)	(39)	(139)	26,937
Non-recurring (losses) and curtailment gain, net	–	(8,727)	–	–	–	(294)	–	(9,021)
Income (loss) from operations	–	17,753	202	704	(271)	(333)	(139)	17,916
Non-operating gains (losses):								
Investment return, net	–	24,905	2,256	1,383	54	144	–	28,742
Other	–	(51)	(1,651)	–	–	–	139	(1,563)
Total non-operating gains, net	–	24,854	605	1,383	54	144	139	27,179
Excess (deficiency) of revenue and gains over expenses and losses	–	42,607	807	2,087	(217)	(189)	–	45,095

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2013
(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Eliminations	Total
Unrestricted net assets:								
Excess (deficiency) of revenue and gains over expenses and losses	$ –	$ 42,607	$ 807	$ 2,087	$ (217)	$ (189)	$ –	$ 45,095
Transfers (to) from System, net	–	(17,910)	(170)	(353)	(177)	83	–	(18,527)
Transfers (to) from affiliates, net	–	4,030	(2,200)	–	4,200	(6,030)	–	–
Net assets released from restrictions for property acquisitions	–	3,831	–	379	–	–	–	4,210
Pension and other postretirement liability adjustments	–	989	–	93	–	–	–	1,082
Transfer from temporarily and permanently restricted net assets	–	–	8	–	–	–	–	8
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	(2,200)	–	–	–	–	(3)	2,203	–
Increase (decrease) in unrestricted net assets	(2,200)	33,547	(1,555)	2,206	3,806	(6,139)	2,203	31,868
Temporarily restricted net assets:								
Contributions	–	5,237	2,882	553	–	92	(3,629)	5,135
Investment return	–	–	821	–	–	–	–	821
Net change in unrealized gains on investments	–	–	1,204	–	–	–	–	1,204
Net assets released from restrictions	–	(5,250)	(3,629)	(553)	–	(92)	3,629	(5,895)
Transfer to unrestricted and permanently restricted net assets	–	–	(157)	–	–	–	–	(157)
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	–	22	–	87	–	(77)	(32)	–
Other	–	–	(1,423)	–	–	(117)	117	(1,423)
(Decrease) increase in temporarily restricted net assets	–	9	(302)	87	–	(194)	85	(315)
Permanently restricted net assets:								
Contributions	–	–	95	–	–	–	–	95
Transfer from unrestricted and temporarily restricted net assets	–	–	149	–	–	–	–	149
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	–	245	–	–	–	–	(245)	–
Increase in permanently restricted net assets	–	245	244	–	–	–	(245)	244
Increase (decrease) in net assets	(2,200)	33,801	(1,613)	2,293	3,806	(6,333)	2,043	31,797
Net assets, beginning	3,763	503,967	40,144	28,745	12,548	6,333	(31,174)	564,326
Net assets, ending	$ 1,563	$ 537,768	$ 38,531	$ 31,038	$ 16,354	$ –	$ (29,131)	$ 596,123

ST. VINCENTS MEDICAL CENTER
DOCKET № 13-035AR
PAGE

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2012
(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Operating revenues:									
Net patient service revenue	$ –	$ 442,092	$ –	$ –	$ –	$ 4	$ –	$ –	$ 442,096
Less provision for doubtful accounts	–	29,349	–	–	–	–	–	–	29,349
Net patient service revenue, less provision for doubtful accounts	–	412,743	–	–	–	4	–	–	412,747
Other revenue	–	17,580	538	21,866	2,991	3,715	–	(4,046)	42,644
Net assets released from restrictions for operations	–	1,281	–	54	–	43	–	–	1,378
Total operating revenues	–	431,604	538	21,920	2,991	3,762	–	(4,046)	456,769
Operating expenses:									
Salaries and wages	–	189,479	66	11,755	–	1,581	–	–	202,881
Employee benefits	–	45,369	10	4,070	–	648	–	–	50,097
Purchased services	–	36,738	–	1,238	1,179	423	–	(2,965)	36,613
Professional fees	–	11,045	–	233	179	70	–	–	11,527
Supplies	–	55,529	11	598	14	32	–	–	56,184
Insurance	–	5,639	–	431	13	9	–	–	6,092
Interest	–	2,149	–	–	–	–	–	–	2,149
Depreciation and amortization	–	22,972	3	557	514	130	–	–	24,176
Other	–	26,133	357	2,352	1,504	1,218	(354)	(968)	30,242
Total operating expenses before non-recurring (losses) and curtailment gain, net	–	395,053	447	21,234	3,403	4,111	(354)	(3,933)	419,961
Income (loss) from operations before non-recurring (losses) and curtailment gain, net	–	36,551	91	686	(412)	(349)	354	(113)	36,808
Non-recurring (losses) and curtailment gain, net	–	24,163	–	389	(209)	164	–	–	24,507
Income (loss) from operations	–	60,714	91	1,075	(621)	(185)	354	(113)	61,315
Non-operating gains (losses):									
Investment return, net	–	24,513	2,407	(346)	49	298	–	–	26,921
Other	–	31	(1,500)	–	–	–	–	113	(1,356)
Total non-operating gains (losses), net	–	24,544	907	(346)	49	298	–	113	25,565
Excess (deficiency) of revenue and gains over expenses and losses	–	85,258	998	729	(572)	113	354	–	86,880

ST. VINCENT'S MEDICAL CENTER
DOCKET № 13-035AR
PAGE

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2012
(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Unrestricted net assets:									
Excess (deficiency) of revenue and gains over expenses and losses	$ –	$ 85,258	$ 998	$ 729	$ (572)	$ 113	$ 354	$ –	$ 86,880
Transfers (to) from System, net	–	(12,848)	(199)	(148)	(220)	(157)	–	–	(13,572)
Transfers (to) from affiliates, net	–	–	(267)	267	–	–	–	–	–
Net assets released from restrictions for property acquisitions	–	3,869	–	507	–	–	–	–	4,376
Pension and other postretirement liability adjustments	–	(22,185)	–	(373)	–	(175)	–	–	(22,733)
Transfer from temporarily and permanently restricted net assets	–	–	324	–	–	–	–	–	324
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	–	–	–	(267)	–	–	–	267	–
Other	–	–	–	–	–	–	–	(355)	(355)
Increase (decrease) in unrestricted net assets	–	54,094	856	715	(792)	(219)	354	(88)	54,920
Temporarily restricted net assets:									
Contributions	–	5,127	6,136	560	–	43	–	(4,340)	7,526
Investment return	–	21	320	–	–	–	–	–	341
Net change in unrealized gains on investments	–	–	1,730	–	–	–	–	–	1,730
Net assets released from restrictions	–	(5,150)	(4,340)	(560)	–	(43)	–	4,339	(5,754)
Transfer to unrestricted and permanently restricted net assets	–	–	(421)	–	–	–	–	–	(421)
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	–	1,202	–	(153)	–	58	–	(1,107)	–
Other	–	33	(1,546)	–	–	–	–	–	(1,513)
Increase (decrease) in temporarily restricted net assets	–	1,233	1,879	(153)	–	58	–	(1,108)	1,909
Permanently restricted net assets:									
Contributions	–	–	1,039	–	–	–	–	–	1,039
Transfer from unrestricted and temporarily restricted net assets	–	–	97	–	–	–	–	–	97
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	–	1,135	–	4	–	–	–	(1,139)	–
Increase in permanently restricted net assets	–	1,135	1,136	4	–	–	–	(1,139)	1,136
Increase (decrease) in net assets	–	56,462	3,871	566	(792)	(161)	354	(2,335)	57,965
Net assets, beginning	3,763	447,505	36,273	28,179	13,340	6,494	(354)	(28,839)	506,361
Net assets, ending	$ 3,763	$ 503,967	$ 40,144	$ 28,745	$ 12,548	$ 6,333	$ –	$ (31,174)	$ 564,326

St. Vincent's Health Services Corporation and Subsidiaries

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

Years Ended September 30, 2013
(Dollars in Thousands)

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

Traditional charity care provided	$	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

ST. VINCENTS
MEDICAL CENTER
DOCKET № 13-035AR
PAGE

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