# Consolidated Financial Statements and Other Financial Information

The St. Vincent's Medical Center
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

The St. Vincent's Medical Center

Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2009 and 2008

## Contents

Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, Connecticut 06103

Main tel: 1+ 860 247 3100
www.ey.com

# Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of St. Vincent's Medical Center and Subsidiary (the "Medical Center"), a member of Ascension Health, as of September 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of St. Vincent's College, Inc. (the "College"), a wholly-owned subsidiary of the Medical Center for the years ended September 30, 2009 and 2008, whose combined statements reflect total assets and revenues constituting 2% and 1%, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the College, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Medical Center's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of the auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of the Medical Center at September 30, 2009 and 2008, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 10, 2010

The St. Vincent's Medical Center

Consolidated Balance Sheets

*(Dollars in Thousands)*

| | September 30 2009 | 2008 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 10,792** | $ 11,180 |
| Investments in Health System Depository | **8,636** | 4,389 |
| Accounts receivable, less allowances for uncollectible accounts ($16,075 and $20,339 in 2009 and 2008, respectively) | **40,833** | 40,947 |
| Advances to parent and affiliated entities, net | **2,853** | 4,691 |
| Inventories and other | **8,649** | 10,012 |
| Total current assets | **71,763** | 71,219 |
| | | |
| Investments in Health System Depository | **38,480** | 55,588 |
| | | |
| Board-designated investments and assets limited as to use: | | |
| Investments in Health System Depository | **173,941** | 178,608 |
| Temporarily restricted | **241** | 258 |
| Temporarily restricted Interest in the St. Vincent's Medical Center Foundation, Inc. | **34,620** | 40,152 |
| Permanently restricted | **68** | 68 |
| Permanently restricted Interest in the St. Vincent's Medical Center Foundation, Inc. | **9,445** | 9,319 |
| Total board-designated investments and assets limited as to use | **218,315** | 228,405 |
| | | |
| Interest in The St. Vincent's Medical Center Foundation, Inc. | **390** | 1,341 |
| | | |
| Property and equipment: | | |
| Land and improvements | **8,428** | 5,008 |
| Buildings and equipment | **292,025** | 256,248 |
| Construction in progress | **68,279** | 33,959 |
| Less accumulated depreciation | **(163,170)** | (139,495) |
| Total property and equipment, net | **205,562** | 155,720 |
| | | |
| Other assets | **3,735** | 3,623 |
| Total assets | **$ 538,245** | $ 515,896 |

| | September 30 | |
|---|---|---|
| | **2009** | **2008** |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **$ 46,742** | $ 41,523 |
| Current portion of long-term debt | **1,162** | 1,084 |
| Current portion of note payable, affiliate | **404** | – |
| Estimated third-party payor settlements | **9,102** | 9,754 |
| Total current liabilities | **57,410** | 52,361 |
| | | |
| Noncurrent liabilities: | | |
| Long-term debt | **59,493** | 57,129 |
| Pension and other postretirement liabilities | **37,376** | 10,022 |
| Self-insurance liabilities | **2,936** | 3,647 |
| Note payable, affiliate | **11,596** | – |
| Other | **6,606** | 5,743 |
| Total noncurrent liabilities | **118,007** | 76,541 |
| Total liabilities | **175,417** | 128,902 |
| | | |
| Net assets: | | |
| Unrestricted | **318,454** | 337,196 |
| Temporarily restricted | **34,861** | 40,411 |
| Permanently restricted | **9,513** | 9,387 |
| Total net assets | **362,828** | 386,994 |
| | | |
| Total liabilities and net assets | **$ 538,245** | $ 515,896 |

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

The St. Vincent's Medical Center

## Consolidated Statements of Operations and Changes in Net Assets

*(Dollars in Thousands)*

| | Year Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Operating revenues: | | |
| Net patient service revenue | **$ 342,945** | $ 309,365 |
| Other revenue | **12,575** | 15,649 |
| Net assets released from restrictions for operations | **991** | 957 |
| Total operating revenues | **356,511** | 325,971 |
| | | |
| Operating expenses: | | |
| Salaries and wages | **153,471** | 133,649 |
| Employee benefits | **34,320** | 31,044 |
| Purchased services | **24,158** | 23,226 |
| Professional fees | **5,956** | 4,543 |
| Supplies | **60,745** | 55,822 |
| Insurance | **5,384** | 2,345 |
| Bad debts | **21,837** | 20,150 |
| Interest | **678** | 1,011 |
| Depreciation | **18,686** | 16,852 |
| Other | **21,107** | 18,200 |
| Total operating expenses | **346,342** | 306,842 |
| Income from operations | **10,169** | 19,129 |
| | | |
| Nonoperating (losses) gains: | | |
| Investment losses | **(3,134)** | (33,946) |
| Other | **316** | (279) |
| Total nonoperating losses, net | **(2,818)** | (34,225) |
| Excess (deficiency) of revenues and gains over expenses and losses | **7,351** | (15,096) |

*Continued on next page.*

The St. Vincent's Medical Center

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

*(Dollars in Thousands)*

| | Year Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Unrestricted net assets: | | |
| Excess (deficiency) of revenues and gains over expenses and losses | **$ 7,351** | $ (15,096) |
| Transfers (to) from sponsor and other affiliates, net | **(40,944)** | 7,566 |
| Net assets released from restrictions for property acquisitions | **16,927** | 313 |
| Pension and other post-retirement liability adjustments | **(1,134)** | 284 |
| Change in unrestricted interest in The St. Vincent's Medical Center Foundation, Inc. | **(942)** | 4 |
| Decrease in unrestricted net assets | **(18,742)** | (6,929) |
| | | |
| Temporarily restricted net assets: | | |
| Contributions | **17,897** | 1,270 |
| Investment income | **4** | 8 |
| Net assets released from restrictions | **(17,918)** | (1,270) |
| Change in temporarily restricted interest in The St. Vincent's Medical Center Foundation, Inc. | **(5,532)** | 7,711 |
| Other | **(1)** | 2 |
| (Decrease) increase in temporarily restricted net assets | **(5,550)** | 7,721 |
| | | |
| Permanently restricted net assets: | | |
| Change in permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc. | **126** | 126 |
| (Decrease) increase in net assets | **(24,166)** | 918 |
| | | |
| Net assets, beginning of the year | **386,994** | 386,076 |
| Net assets, end of the year | **$ 362,828** | $ 386,994 |

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

The St. Vincent's Medical Center

Consolidated Statements of Cash Flows

*(Dollars in Thousands)*

| | Year Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| **Cash flows from operating activities** | | |
| (Decrease) increase in net assets | **$ (24,166)** | $ 918 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | **18,686** | 16,852 |
| Loss on sale of property and equipment | **4** | 152 |
| Pension and other post-retirement liability adjustments | **1,134** | (284) |
| Restricted contributions and net investment income | **(17,901)** | (1,278) |
| Net change in unrealized (gains)/losses on investments | **(16,865)** | 42,057 |
| Increase (decrease) in interest in The St. Vincent's Medical Center Foundation, Inc. | **6,357** | (7,841) |
| Transfers to (from) sponsor and other affiliates, net | **40,944** | (7,566) |
| (Increase) decrease in: | | |
| Investments classified as trading | **34,393** | 24,626 |
| Accounts receivable, net | **114** | (2,846) |
| Advances to parent and affiliated entities, net | **(2,978)** | (2,396) |
| Inventories and other assets | **1,439** | (1,985) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | **4,779** | 6,273 |
| Estimated third-party payor settlements | **(652)** | (1,837) |
| Pension and other postretirement liabilities | **(1,863)** | (174) |
| Other noncurrent liabilities | **36** | 958 |
| Net cash provided by operating activities | **43,461** | 65,629 |
| | | |
| **Cash flows from investing activities** | | |
| Property and equipment additions, net | **(54,203)** | (54,455) |
| Proceeds from sale of property and equipment | **3** | 1 |
| Decrease (increase) in assets limited as to use – temporarily restricted | **17** | (11) |
| Increase in other assets | **(112)** | (370) |
| Net cash used in investing activities | **(54,295)** | (54,835) |

*Continued on next page.*

The St. Vincent's Medical Center

Consolidated Statements of Cash Flows (continued)

*(Dollars in Thousands)*

| | Year Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| **Cash flows from financing activities** | | |
| Transfers to sponsor and other affiliates, net | **$ (6,543)** | $ (3,437) |
| Restricted contributions and net investment income | **17,901** | 1,278 |
| Repayments of long-term debt | **(912)** | (994) |
| Net cash provided by (used in) financing activities | **10,446** | (3,153) |
| Net (decrease) increase in cash and cash equivalents | **(388)** | 7,641 |
| | | |
| Cash and cash equivalents, beginning of the year | **11,180** | 3,539 |
| Cash and cash equivalents, end of the year | **$ 10,792** | $ 11,180 |

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

## 1. Organization and Mission

### Organizational Structure

The St. Vincent's Medical Center (Medical Center), a subsidiary of St. Vincent's Health Services Corporation (Health Services), is a member of Ascension Health. Ascension Health is a Catholic, national health system, primarily consisting of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 20 of the United States and the District of Columbia. Ascension Health is sponsored by the Northeast, Southeast, East Central, and West Central Provinces of the Daughters of Charity of St. Vincent de Paul, the Congregation of St. Joseph and the Sisters of St. Joseph of Carondelet (CSJ).

The Medical Center is a nonprofit hospital system, consisting of an acute care hospital located in Bridgeport, Connecticut and a behavioral health hospital located in Westport, Connecticut. The Medical Center provides inpatient, outpatient, and emergency care services for residents of the Greater Bridgeport area and its neighboring towns. Admitting physicians are primarily practitioners in the local area. The St. Vincent's College, Inc. (College), a subsidiary of the Medical Center, is an institution of higher learning that offers associate degrees in nursing, radiography, medical assisting, and health care management, as well as certificate programs in multi-skilled assisting, health care management, and health promotion. The Medical Center is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services.

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

### Mission

Ascension Health 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 Ascension Health's mission of service to those who are poor and vulnerable, each Health Ministry accepts patients regardless of their ability to pay.

Ascension Health uses four categories to identify the resources utilized for the care of persons who are poor 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.

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

- Unpaid cost of public programs represents the unpaid cost of services provided to persons covered by public programs for the poor.

- Cost of other programs for the poor includes unreimbursed costs of programs intentionally designed to serve the poor and vulnerable 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 poor, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons who are poor and community benefit programs. The cost of providing care of persons who are poor and community benefit programs is estimated using internal cost data.

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately $3,146 and $2,411 for the years ended September 30, 2009 and 2008, respectively. The September 2008 amount has been adjusted to exclude the provision for bad debt expense from total costs of the cost-to-charge ratio in order to be consistent with the methodology used in 2009. The amount of unpaid cost of public programs, cost of other programs for the poor, and community benefit cost are reported in the accompanying other financial information.

**2. Significant Accounting Policies**

**Use of Estimates**

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

**Fair Value of Financial Instruments**

The carrying value of financial instruments classified as current assets and current liabilities approximates fair value. The fair values of other financial instruments are disclosed in their respective notes.

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

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and interest bearing deposits with maturities of three months or less and certain highly liquid interest bearing securities with maturities which may extend longer than three months but are convertible to cash within a one-month time period under the terms of the agreement with the investment manager.

**Adoption of New Accounting Standards**

In June 2009, the Financial Accounting Standards Board (FASB) issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles (GAAP). Pursuant to the provisions of ASC 105, the Medical Center has updated references to GAAP in its financial statements issued for the year ended September 30, 2009. The adoption of ASC 105 did not impact the Medical Center's consolidated financial position or results of operations.

Effective October 1, 2008, the Medical Center adopted ASC 820, *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The adoption of ASC 820 did not have a material effect on the Medical Center's consolidated financial statements. See Note 5 for related fair value disclosures.

ASC 820 delays the effective date for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, the Medical Center will apply the provisions of ASC 820 to nonfinancial assets and nonfinancial liabilities beginning with the fiscal year ending September 30, 2010.

Effective October 1, 2008, the Medical Center adopted ASC 825-10, *The Fair Value Option for Financial Assets and Liabilities* (ASC 825-10). ASC 825-10 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value under accounting principles generally accepted in the United States. The Medical Center chose not to elect the fair value option for any other financial assets and liabilities. Consequently, the adoption of ASC 825-10 did not have any impact on its consolidated financial statements.

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

On October 1, 2008, The Medical Center adopted ASC 958-205: *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (ASC 958-205), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The adoption of ASC 958-205 did not have a material effect on the Medical Center's consolidated financial statements.

For its fiscal year ended June 30, 2009, Ascension Health adopted the measurement date provisions of ASC 715-30, *Compensation - Retirement Benefits - Defined Benefit Plans* (ASC 715-30). ASC 715-30 requires the fair value of plan assets and benefit obligations to be measured as of the date of the employer's fiscal year-end in the statement of financial position. See Note 7 for the impact of adopting these provisions.

During 2009, the Medical Center adopted ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The Medical Center adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through February 10, 2010, representing the date at which the consolidated financial statements were issued. See Note 14 for a discussion of the Medical Center's material subsequent events related to the September 30, 2009 consolidated financial statements.

**Investments and Investment Return**

The Medical Center holds investments through the Health System Depository (HSD), an investment pool of funds in which a limited number of nonprofit healthcare providers participate for purposes of establishing investment goals and monitoring performance under agreed-upon socially responsible investment guidelines. The value of the Medical Center's investment in the HSD represents the Medical Center's pro rata share of the HSD's investments held for participants. At September 30, 2009 and 2008, the Medical Center's investment in the HSD was $221,057 and $238,585 respectively.

## 2. Significant Accounting Policies (continued)

The HSD's assets required to be recorded at fair value and comprise equity and various fixed income investments. The HSD also holds investments in hedge funds, private equity and real estate funds. In addition, the HSD participates 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.

Investment returns comprise dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. Investment return from all investments is reported as nonoperating (losses) gains in the consolidated statements of operations and changes in net assets unless the return is restricted by donor or law.

Ascension Health has designated all its investment portfolio as trading, with unrealized gains and losses included in excess (deficiency) of revenues and gains over expenses and losses.

### Inventories

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

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

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

### Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives by asset category are as follows: land improvements—10 to 15 years; buildings—15 to 40 years; and equipment—5 to 20 years. Depreciation expense in 2009 and 2008 was $18,686 and $16,852, respectively. Interest costs incurred as part of the related construction are capitalized during the period of construction. Net interest capitalized in 2009 and 2008 was $1,736 and $1,232.

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

The Medical Center accounts for the costs of computer software developed or obtained for internal use in accordance with ASC 350-40 *Internal Use Software*. Costs incurred in the development and installation of the Medical Center's internal use software for a new physician order entry system and upgrade to its financial and clinical information systems are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. Amounts capitalized are amortized over the useful life of the developed asset following project completion.

In addition, the Medical Center has entered into several agreements totaling $104,884 relating to the plans to renovate its facilities and equipment purchases, spanning over the next several years. As of September 30, 2008, approximately $72,643 has been incurred on these contracts and is included in property and equipment in the consolidated balance sheets.

The Medical Center accounts for conditional asset retirement obligations in accordance with ASC 410-20 *Asset Retirement Obligations* (ASC 410-20). ASC 410-20 provides guidance on accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. 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. ASC 410-20's guidance requires such conditional asset retirement obligations to be estimated and recognized. Application of these pronouncements primarily affects the Medical Center with respect to required future asbestos remediation.

Conditional asset retirement obligations exist relating to future asbestos remediation of physical plant and buildings constructed prior to 1975. Conditional asset retirement obligations of $609 and $575 as of September 30, 2009 and 2008, 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 2009 and 2008, no retirement obligations were incurred and settled. Accretion expense of $35 and $33 was recorded in 2009 and 2008, respectively.

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

**Temporarily and Permanently Restricted Net Assets**

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

**Contributions, Bequests, and Grants**

Unrestricted gifts and bequests 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 Medical Center's performance indicator is excess (deficiency) of revenues and gains over expenses and losses, which includes all changes in unrestricted net assets other than transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, pension and other postretirement liability adjustments, and changes in the unrestricted interest in the Foundation.

**Operating and Nonoperating Activities**

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

*(Dollars in Thousands)*

## 2. Significant Accounting Policies (continued)

### Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts

The following table summarizes net revenue from services to patients:

| | Year Ended September 30 2009 | Year Ended September 30 2008 |
|---|---|---|
| Gross patient service revenue | **$ 852,499** | $ 717,917 |
| Deductions: | | |
| Allowances | **500,721** | 402,767 |
| Charity care | **8,833** | 5,785 |
| Net patient service revenue | **$ 342,945** | $ 309,365 |

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

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided 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 revenues related to prior periods increased net patient service revenue by approximately $4,091 and $2,948 for the years ended September 30, 2009 and 2008, respectively.

During 2009 and 2008 respectively, approximately 43% and 46% of net patient service revenue were received under the Medicare program, 10% and 8% under the various state Medicaid programs, 31% and 30% from contracts with HMOs and PPOs, 12% and 12% from contracts with commercial carriers, and 4% and 9% from other payors.

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

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of gross patient accounts receivable at September 30, 2009 and 2008 respectively include Medicare (34% and 38%), Medicaid (22% and 19%), HMOs and PPOs (15% and 18%), commercial carriers (9% and 9%), and self-pay and other (20% and 16%).

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

**Income Taxes**

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

Effective October 1, 2007 the Medical Center adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income tax positions recognized in financial statements in accordance with ASC 740, *Income Taxes*. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of ASC 740-10 did not have a material impact on the Medical Center's financial position or results of operations.

**Regulatory Compliance**

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

*(Dollars in Thousands)*

## 3. Cash and Cash Equivalents and Investments

The Medical Center's investments are comprised of the Medical Center's pro rata share of the HSD funds held for participants and certain other investments. Board-designated investments represent investments designated by resolution of the Board of Directors to put amounts aside primarily for future capital expansion and improvements. Assets limited as to use primarily include investments restricted by donors. The Medical Center's investments are reported in the accompanying consolidated balance sheets as presented in the following table:

| | September 30, 2009 | September 30, 2008 |
|---|---|---|
| Cash and cash equivalents | **$ 10,792** | $ 11,180 |
| Short-term investments | **8,636** | 4,389 |
| Other investments | **38,480** | 55,588 |
| Board-designated investments | **173,941** | 178,608 |
| Assets limited as to use: | | |
| Temporarily or permanently restricted | **309** | 326 |
| Total | **$ 232,158** | $ 250,091 |

The composition of cash and investments classified as cash and cash equivalents, short-term investments, board-designated investments, assets limited as to use, and other investments is summarized as follows:

| | September 30, 2009 | September 30, 2008 |
|---|---|---|
| Cash and cash equivalents and short-term investments | **$ 11,101** | $ 11,506 |
| Pro rata share of HSD funds held for participants | **221,057** | 238,585 |
| | **$ 232,158** | $ 250,091 |

*(Dollars in Thousands)*

## 3. Cash and Cash Equivalents and Investments (continued)

As of September 30, 2009 and 2008, the composition of total HSD investments is as follows:

| | Year Ended September 30 2009 | 2008 |
|---|---|---|
| Cash and cash equivalents and short-term investments | **6.2%** | 3.8% |
| U.S. government, state, municipal and agency obligations | **18.7%** | 12.6% |
| Other fixed income securities | **39.7%** | 45.5% |
| Equity, private equity and other investments | **22.0%** | 22.9% |
| Equity method investments, including alternative investments | **13.4%** | 15.2 % |
| | **100.0%** | 100.0% |

Investment return is summarized as follows:

| | Year Ended September 30 2009 | 2008 |
|---|---|---|
| Investment losses in HSD | **$ (3,134)** | $ (33,946) |
| Interest and dividends | **4** | 8 |
| Total investment losses, net | **$ (3,130)** | $ (33,938) |
| | | |
| Included in nonoperating (losses) gains | **$ (3,134)** | $ (33,946) |
| Reported separately as increase in restricted net assets | **4** | 8 |
| Total investment losses, net | **$ (3,130)** | $ (33,938) |

## 4. Permanently Restricted Endowments

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

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

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

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

**Endowment Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Medical Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were ($1,043) and ($1,018) as of September 30, 2009 and 2008, respectively.

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

**Return Objectives and Risk Parameters**

The Foundation 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 Medical Center must hold in perpetuity or for a donor-specified period. Under these policies, endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs. Actual results in any given year may vary from this amount. The Medical Center expects its endowment funds, over time, to provide an average rate of return to exceed inflation and investment fees, by at least 2% to 5%, dependent on investment mix. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Medical Center 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 Medical Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

The Medical Center has a policy of evaluating the spending decisions for each endowment fund based upon the intentions of the donors and specific contractual agreements. In determining the annual amount to be spent, the Medical Center considers the long-term expected return on its endowment. Accordingly, over the long-term, the Medical Center expects the current spending policy to allow its endowment to grow at an average of 5 percent annually. This is consistent with the Medical Center's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**Endowment Net Asset Composition by Type of Fund as of September 30, 2009**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (1,043) | $ 860 | $ 9,513 | $ 9,330 |

*(Dollars in Thousands)*

## 4. Permanently Restricted Endowments (continued)

### Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning balance | $ (1,018) | $ 1,037 | $ 9,387 | $ 9,406 |
| Investment return: | | | | |
| Investment income | – | 497 | – | 497 |
| Net appreciation (depreciation) (realized and unrealized) | (25) | (605) | 5 | (625) |
| Total investment return | (25) | (108) | 5 | (128) |
| Contributions | – | – | 39 | 39 |
| Transfers | – | 7 | 82 | 89 |
| Appropriation of endowment assets for expenditure | – | (76) | – | (76) |
| Endowment net assets, ending balance | $ (1,043) | $ 860 | $ 9,513 | $ 9,330 |

*(Dollars in Thousands)*

## 4. Permanently Restricted Endowments (continued)

### Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2008

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning balance | $ – | $ 3,282 | $ 9,261 | $12,543 |
| Investment return: | | | | |
| Investment income | – | 493 | – | 493 |
| Net appreciation (depreciation) (realized and unrealized) | (1,018) | (2,505) | (84) | (3,607) |
| Total investment return | (1,018) | (2,012) | (84) | (3,114) |
| Contributions | – | – | 47 | 47 |
| Transfers | – | (88) | 163 | 75 |
| Appropriation of endowment assets for expenditure | – | (145) | – | (145) |
| Endowment net assets, ending balance | $ (1,018) | $ 1,037 | $ 9,387 | $ 9,406 |

## 5. Fair Value Measurements

As explained in Note 2, the Medical Center has adopted ASC 820. Assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable utilizing a three-level fair value hierarchy that prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs, as defined by ASC 820, are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Medical Center has the ability to access 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. 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 – Inputs that are unobservable for the asset or liability.

*(Dollars in Thousands)*

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

The fair values of Level 1 securities were determined through quoted market prices, while fair values of Level 2 securities were determined primarily through prices obtained from third party pricing sources, where quoted market prices for such securities are not available. The fair values of Level 3 securities were determined primarily through information obtained from the relevant counterparties for such investments. Consistent with FASB ASC 820's Level 3 designation criteria, information on which these securities' fair values are based is generally not readily available in the market.

As discussed in Note 3, the Medical Center has an investment in the HSD and certain other investments such as those investments held and managed by the Foundation. As of September 30, 2009, 25%, 68% and 7% of total HSD assets 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, 2009, 2%, 87% and 11% of total HSD 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, 2009, 90% and 10% of the total assets held by the Foundation on behalf of the Medical Center that are measured at fair value on a recurring basis were measured at such fair values based on level 1 and level 3 inputs, respectively.

The following table summarizes fair value measurements, by level, at September 30, 2009, for all other financial assets which are measured at fair value on a recurring basis in the consolidated financial statements:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets included in: | | | | |
| Cash and cash equivalents | $ 10,792 | $ – | $ – | $ 10,792 |
| Assets limited as to use: | | | | |
| Cash and cash equivalents and short term investments | 241 | 68 | – | 309 |
| Other noncurrent assets | 3,308 | – | 26 | 3,334 |

*(Dollars in Thousands)*

## 6. Long-Term Debt

Long-term debt consists of the following:

| | September 30 2009 | 2008 |
|---|---|---|
| State of Connecticut Health and Educational Facilities Authority (CHEFA), Variable Rate Demand Revenue Bonds (Ascension Health Credit Group), Series 1999B, subject to a seven-day put provision payable in installments through November 2029; interest (3.5% at September 30, 2009) set at prevailing market rates | **$ 23,600** | $ 24,329 |
| Intercompany debt with Ascension Health, payable in installments through November 2046; interest (2.8% at September 30, 2009) adjusted based on prevailing blended market interest rate of underlying debt obligations | **28,509** | 28,580 |
| Intercompany debt with Ascension Health, payable in installments from November 2030 through November 2046; interest (2.8% at September 30, 2009) adjusted based on prevailing blended market interest rate of underlying debt obligations | **8,546** | 5,304 |
| | **60,655** | 58,213 |
| Less current portion of long-term debt | **1,162** | 1,084 |
| | **$ 59,493** | $ 57,129 |

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

| | |
|---|---|
| Year Ending September 30: | |
| 2010 | $ 1,162 |
| 2011 | 1,175 |
| 2012 | 1,251 |
| 2013 | 1,266 |
| 2014 | 1,519 |
| Thereafter | 54,282 |
| Total | $ 60,655 |

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

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

In November 1999, the Credit Group issued $2,365,725 of Hospital Revenue Bonds Series 1999 Bonds (1999 Bonds) through eleven different issuing authorities in nine states. The Bonds of each Series were issued pursuant to separate Bond Indentures, each dated as of November 1, 1999, between the related issuer of such Series and the Bond Trustee for each Series. The proceeds of each Series of Bonds were loaned by the related Issuer to Ascension Health (or, solely with respect to the Connecticut Bonds, the Connecticut Borrowers, (the Medical Center and Hall-Brooke Behavioral Health Services, Inc. (Hall-Brooke)) pursuant to separate Loan Agreements, each dated as of November 1, 1999, between the related Issuer of such Series and Ascension Health (or, solely with respect to the Connecticut Bonds, a Connecticut Borrower). The proceeds of the Connecticut bonds were loaned to the Medical Center and Hall-Brooke and were used to refund the State of Connecticut Health and Educational Facilities Authority (CHEFA) Variable Rate Hospital Revenue Bonds (Charity Obligated Group) St. Vincent's Medical Center/Hall-Brooke Issue, Series 1999B.

Ascension Health, in its capacity of managing the system's debt program, has committed to making loans to the Medical Center through November 15, 2029 in amounts ranging from $187 to $626 annually, with repayment to occur in annual installments ranging from $110 to $1,278, from November 2030 through November 2046.

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

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 comprises subordinate obligated group members and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by Ascension Health. Though subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI, each subordinate limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health with stipulated repayment terms and conditions, each subject to the governing law of the limited designated affiliate's state of incorporation. The Medical Center is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper, and other obligations, the proceeds of which are in turn loaned to the Senior and Subordinate Credit Group members subject to a long-term amortization schedule of 1 to 37 years.

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. Members of Ascension Health may also periodically draw from the invested funds of other members of Ascension Health on a relatively short-term basis and subject to certain conditions.

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

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

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

As of September 30, 2009, the Senior Credit Group has a line of credit of $250,000 related to its commercial paper program toward which bank commitments totaling $250,000 extended to November 19, 2010. As of September 30, 2009 and 2008, there were no borrowings under the line of credit.

As of September 30, 2009, the Senior Credit Group has a line of credit of $500,000 for general corporate purposes, toward which bank commitments totaling $500,000 extend to April 2, 2010. As of September 30, 2009 there were no borrowings under the line of credit.

As of September 30, 2009, the Subordinate Credit Group has a $100,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $100,000 extends to December 31, 2009. As of September 30, 2009, $50,037 of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

The outstanding principal amount of all hospital revenue bonds is $4,079,310, which represents 51% of the combined unrestricted net assets of the Senior Subordinate Credit Group members at September 30, 2009.

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt which can be as short as 30 days or as long as 31 years. The maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under its guarantees, letters of credit and other commitments at September 30, 2009 is $206,460, which includes the $50,037 aforementioned letters of credit.

Associated with the transfer of inpatient operations on October 1, 2008, the Medical Center assumed the principal and interest obligations of Hall-Brooke's outstanding debt with CHEFA (See Note 11).

Interest paid on debt, net of amount capitalized during 2009 and 2008, was approximately $379 and $1,011, respectively.

**7. Pension Plans**

The Medical Center participates in the Ascension Health Pension Plan (Plan) which is a noncontributory defined benefit pension plan covering all eligible employees of certain Ascension Health entities. Benefits cover all eligible employees hired prior to January 1, 2006 and are based on each participant’s years of service and compensation. Plan assets are invested in a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. Contributions to the Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to Plan participants. Net periodic pension cost of $4,848 in 2009 and $5,859 in 2008 was charged to the Medical Center. The service cost component of net periodic pension cost charged to the Medical Center is actuarially determined while all other components are allocated based on the Medical Center’s pro rata share of Ascension Health’s overall projected benefit obligation.

As discussed in Note 2, Ascension Health adopted the measurement date provisions of ASC 715-30 as of June 30, 2009. As a result of moving the measurement date from March 31 to June 30, Ascension Health transferred an additional pension liability of $815 to the Medical Center, which is included in transfer (to) from sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets. Adopting ASC 715-30’s measurement date provision did not have an effect on the Medical Center’s consolidated financial position at September 30, 2008.

The assets of the Plan are available to pay the benefits of eligible employees of all participating entities. In the event entities participating in the Plan are unable to fulfill their financial obligations under the Plan, the other participating entities are obligated to do so. As of September 30, 2009, the Plan had a net unfunded liability of $613 million.

The Medical Center’s allocated share of the Plan’s net unfunded liability reflected in the accompanying consolidated balance sheets at September 30, 2009 and 2008 was $34,194 and $5,946, respectively. As a result of updating the funded status of the Plan, Ascension transferred an additional pension liability of $28,092 to the Medical Center during 2009, which is included in transfer (to) from sponsor and other affiliates net, in the accompanying consolidated statements of operations and changes in net assets.

**7. Pension Plans (continued)**

The Medical Center sponsors a noncontributory, defined contribution plan covering all eligible employees hired after January 1, 2006. Employer automatic contributions to the plan are determined as a percentage of a participant's salary and increases over specified periods of employee service and these benefits are funded annually. In addition, the Medical Center sponsors a defined contribution plan for all employees consisting of employer matching contributions. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period and these benefits are funded each payroll period.

Participants become fully vested in all employer contributions immediately. Defined contribution expense was $727 and $488 during 2009 and 2008, respectively.

The Medical Center has a noncontributory supplemental defined benefit retirement plan (SERP) for certain executive and professional employees. The amount recorded in other liabilities as of September 30, 2009 and 2008 was $2,663 and $2,370, respectively. In 2009, the discount rate was decreased from 8.30% to 5.75% and did not have a material effect on the net periodic benefit cost for the year ended September 30, 2009. The SERP is not funded.

**8. Other Postretirement Employee Benefits**

In addition to participation in Ascension Health's defined benefit pension plans, the Medical Center sponsors a defined benefit health care plan (Health Plan) for employees that provide postretirement medical benefits to those employees who reach the age of 65 and satisfy certain service requirements.

Effective September 30, 2009, the Health Plan was modified to limit benefits to only current beneficiaries and current active employees who were at least age 62 with at least 7 years of service as of September 30, 2009. The plan limits the Medical Center's contribution per employee to $1.2 per annum. The Health Plan is not funded.

*(Dollars in Thousands)*

## 8. Other Postretirement Employee Benefits (continued)

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

| | 2009 | 2008 |
|---|---|---|
| **Change in benefit obligation** | | |
| Benefit obligation, beginning of the year | **$ (4,240)** | $ (4,331) |
| Service cost | **(195)** | (213) |
| Interest cost | **(270)** | (250) |
| Actuarial (losses) gains | **(462)** | 249 |
| Benefits paid | **291** | 305 |
| Curtailment | **1,682** | – |
| Benefit obligation, end of the year | **$ (3,194)** | $ (4,240) |
| | | |
| **Change in plan assets** | | |
| Fair value of plan assets, beginning of the year | **$ –** | $ – |
| Employer contributions | **291** | 305 |
| Benefits paid | **(291)** | (305) |
| Fair value of plan assets, end of year | **$ –** | $ – |
| | | |
| **Funded status** | **$ (3,194)** | $ (4,240) |
| Unrecognized gain | **–** | – |
| Unrecognized prior service cost | **–** | – |
| Accrued benefit cost | **$ (3,194)** | $ (4,240) |
| | | |
| **Components of net periodic benefit** | | |
| Service cost | **$ 195** | $ 213 |
| Interest cost | **270** | 250 |
| Net amortization and deferral | **(486)** | (683) |
| Net periodic benefit | **$ (21)** | $ (220) |
| | | |
| **Assumption** | | |
| Discount rate | **5.65%** | 6.65% |

*(Dollars in Thousands)*

**8. Other Postretirement Employee Benefits (continued)**

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

| | September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Unrecognized prior service credit | **$ 30** | $ 1,443 |
| Unrecognized actuarial gains | **487** | 987 |
| | **$ 517** | $ 2,430 |

Changes in benefit obligations recognized in unrestricted net assets during 2009 include:

| | |
|---|---|
| Current year actuarial losses | $ (462) |
| Prior service cost due to curtailment | (965) |
| Amortization of actuarial losses | (38) |
| Amortization of prior service cost | (448) |
| | $ (1,913) |

The prior service credit and actuarial gains included in unrestricted net assets and expected to be recognized as a reduction of net periodic cost during the year ending September 30, 2010 are $11 and $53, respectively.

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

| | |
|---|---|
| 2010 | $ 323 |
| 2011 | 362 |
| 2012 | 381 |
| 2013 | 335 |
| 2014 | 314 |
| 2015-2018 | 1,309 |

## 9. Self-Insurance Programs

The Medical Center participates in self-insurance programs for 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 2009 and 2008.

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.

### General/Professional Liability Programs

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

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is general and professional liability expense of $4,753 and $1,900 for the years ended September 30, 2009 and 2008, respectively. At September 30, 2009 and 2008, the general and professional liability reserves included in self-insurance liabilities (current and long-term) in the accompanying consolidated balance sheets were approximately $4,979 and $5,517, respectively.

*(Dollars in Thousands)*

## 9. Self-Insurance Programs (continued)

### Workers' Compensation

The Medical Center participates in Ascension Health's workers' compensation self-insurance program which provides occurrence coverage through a grantor trust. The self-insured retention of the trust provides coverage up to $1,000 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members through self-insurance and excess insurance against catastrophic loss. 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 $1,294 and $549 for the years ended September 30, 2009 and 2008, respectively.

## 10. Lease Commitments

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

| | |
|---|---|
| Year ending September 30: | |
| 2010 | $ 2,016 |
| 2011 | 1,911 |
| 2012 | 1,666 |
| 2013 | 1,420 |
| 2014 | 1,285 |
| Thereafter | 3,187 |
| Total | $ 11,485 |

Rental expense under operating leases amounted to $3,112 and $2,791 in 2009 and 2008, respectively.

**11. Related Party Transactions**

The Medical Center utilized various centralized programs and overhead services of Ascension Health or its other sponsored organizations including risk management, retirement services, treasury, debt management, executive management support, administrative services, and information technology services. The charges allocated to the Medical Center for these services represent both allocations of common costs and specifically identified expenses that are incurred by Ascension Health on behalf of the Medical Center. Allocations are based on relevant metrics such as the Medical Center's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of Ascension Health. The amounts charged to the Medical Center for these services may not necessarily result in the net costs that would be incurred by the Medical Center on a stand-alone basis. The charges allocated to the Medical Center were approximately $2,235 and $1,761 for the years ended September 30, 2009 and 2008, respectively.

The Medical Center operates consolidated supportive functions, including information management, patient financial services, accounting, payroll, purchasing, dietary, human resources, security and medical record coding services. In 2009, the Medical Center entered into several business arrangements with Hall-Brooke Behavioral Health Services, Inc (Hall-Brooke), a subsidiary of Health Services, for administrative oversight, outpatient physician coverage and property leasing relating to the Seton Academy on the Westport Campus. In addition, the Medical Center has provided other affiliates of Health Services with supportive and administrative services and medical insurance coverage for its employees. For the years ended September 30, 2009 and 2008, the Medical Center charged affiliated entities $4,530 and $5,153 for these services, respectively, which have been reported as other operating revenues in the consolidated statement of operations and changes in net assets.

During 2008, Health Services transferred its cash and investments of $745 to the Medical Center. In addition, during 2008 Health Services transferred $2,178 of long-term debt it acquired from one of it subsidiaries to the Medical Center.

During 2009 and 2008, the Medical Center transferred $525 and $543 to its sponsor, Ascension Health, to fund the Medical Center's allocated portion of an unmet debt obligation of a former member of the obligated group. Ascension Health's current intentions are to allocate similar amounts to the Medical Center during the years 2009 through 2013. In addition, during 2009 and 2008, the Medical Center transferred $5,892 and $4,488, respectively, to Ascension Health for system initiatives.

*(Dollars in Thousands)*

**11. Related Party Transactions (continued)**

On October 1, 2008, Hall-Brooke terminated its operations of 86 license beds and transferred its inpatient operating license for 76 of these beds to the Medical Center. With the transfer the inpatient operating license, Hall-Brooke transferred all of its employees and operations of the inpatient and administrative services, along with the net assets relating to the inpatient services and all of the property and land associated with its Westport campus. In addition, the Medical Center's inter-company loans to Hall-Brooke were forgiven.

As additional consideration, the Medical Center entered into a long-term note agreement with Hall-Brooke; whereby the Medical center agreed to assume the principle and interest payments of Hall-Brooke's outstanding CHEFA Variable Rate Demand Revenue Bonds, Series 1999B (the Bonds) as of the date of the transfer. The terms of the note are consistent with the terms of the Bonds and bear no interest or administrative fees, other than the interest costs of the Bonds. The Bonds are subject to a seven-day put provision payable in installments through November 2029 and interest is set at the prevailing market rate (3.5% at September 30, 2009). Hall-Brooke is in the process of legally transferring its obligation under the Bonds directly to the Medical Center, however, Hall-Brooke remains the obligated party at September 30, 2009. The note will be considered fully satisfied when Hall-Brooke's legal obligation under the Bonds is successfully transferred to the Medical Center.

Scheduled principal payments on the note are as follows:

| | |
|---|---|
| Year ending September 30: | |
| 2010 | $ 404 |
| 2011 | 404 |
| 2012 | 438 |
| 2013 | 438 |
| 2014 | 438 |
| Thereafter | 9,878 |
| Total | $ 12,000 |

The net effect of the asset transfer the note payable and the loan forgiveness resulted in a $6,318 reduction in the Medical Center's net assets. Interest paid on the note payable was $298 in 2009.

*(Dollars in Thousands)*

## 12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

| | September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Health care services | **$ 2,316** | $ 2,520 |
| Education and training | **1,389** | 1,690 |
| Capital | **28,171** | 32,843 |
| Other | **2,985** | 3,358 |
| | **$ 34,861** | $ 40,411 |

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

| | September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Health care services | **$ 5,755** | $ 5,658 |
| Education | **1,893** | 1,872 |
| Capital | **1,046** | 1,041 |
| Other | **819** | 816 |
| | **$ 9,513** | $ 9,387 |

## 13. Commitments and Contingencies

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

In January 2006, the Medical Center, AHIL, and an insurance provider entered into an agreement to provide professional liability insurance for community physicians. The agreement stipulates that future actuarial gains and losses will be solely the responsibility of the Medical Center. As of September 30, 2009 and 2008, such gains and losses cannot be determined. Management expects any related adjustment will not have a material adverse effect on the Medical Center's consolidated financial position.

**14. Subsequent Events**

Hall-Brooke Behavioral Health Services, Inc. (Hall-Brooke), a subsidiary of Health Services, is in the process of obtaining regulatory approval to transfer its Connecticut operating license for its two outpatient psychiatric centers to the Medical Center. Hall-Brooke plans to staff and operate both centers and will negotiate a management agreement with the Medical Center.

# Other Financial Information

Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, Connecticut 06103

Main tel: 1+ 860 247 3100
www.ey.com

# Report of Independent Auditors on Other Financial Information

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

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Financial statements for St. Vincent's College, Inc. (College) were audited by other auditors. The basic consolidating information and the Schedule of Net Cost of Providing Care of Persons Who are Poor and Community Benefit Programs are presented for purposes of additional analysis of the basic consolidated financial statements, and are not required parts of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Ernst & Young LLP

February 10, 2010

## The St. Vincent's Medical Center

## Consolidating Balance Sheet

September 30, 2009
*(Dollars in Thousands)*

| | The St. Vincent's Medical Center | The St. Vincent's College, Inc. | Consolidated The St. Vincent's Medical Center |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 10,599 | $ 193 | $ 10,792 |
| Investments in Health System Depository | 7,793 | 843 | 8,636 |
| Accounts receivable, less allowances for uncollectible accounts of $16,075 | 40,833 | – | 40,833 |
| Advances to parent and affiliated entities, net | 2,905 | (52) | 2,853 |
| Inventories and other | 7,562 | 1,087 | 8,649 |
| Total current assets | 69,692 | 2,071 | 71,763 |
| | | | |
| Investments in Health System Depository | 35,060 | 3,420 | 38,480 |
| | | | |
| Board-designated investments and assets limited as to use: | | | |
| Investments in Health System Depository | 173,941 | – | 173,941 |
| Temporarily restricted | 172 | 69 | 241 |
| Temporarily restricted Interest in the St. Vincent's Medical Center Foundation, Inc. | 33,538 | 1,082 | 34,620 |
| Permanently restricted | 68 | – | 68 |
| Permanently restricted Interest in the St. Vincent's Medical Center Foundation, Inc. | 7,742 | 1,703 | 9,445 |
| Total board-designated investments and assets limited as to use | 215,461 | 2,854 | 218,315 |
| | | | |
| Interest in The St. Vincent's Medical Center Foundation, Inc. | 123 | 267 | 390 |
| | | | |
| Property and equipment: | | | |
| Land and improvements | 8,428 | – | 8,428 |
| Buildings and equipment | 291,084 | 941 | 292,025 |
| Construction in progress | 68,279 | – | 68,279 |
| Less accumulated depreciation | (162,502) | (668) | (163,170) |
| Total property and equipment, net | 205,289 | 273 | 205,562 |
| | | | |
| Other assets | 3,735 | – | 3,735 |
| Total assets | $ 529,360 | $ 8,885 | $ 538,245 |

# The St. Vincent's Medical Center

## Consolidating Balance Sheet (continued)

September 30, 2009
*(Dollars in Thousands)*

| | The St. Vincent's Medical Center | The St. Vincent's College, Inc. | Consolidated The St. Vincent's Medical Center |
|---|---|---|---|
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Current portion of long-term debt | $ 1,162 | $ – | $ 1,162 |
| Accounts payable and accrued liabilities | 44,457 | 2,285 | 46,742 |
| Current portion of note payable, affiliate | 404 | – | 404 |
| Estimated third-party payor settlements | 9,102 | – | 9,102 |
| Total current liabilities | 55,125 | 2,285 | 57,410 |
| | | | |
| Noncurrent liabilities: | | | |
| Long-term debt | 59,493 | – | 59,493 |
| Pension and other postretirement liabilities | 37,094 | 282 | 37,376 |
| Self-insurance liabilities | 2,936 | – | 2,936 |
| Note payable, affiliate | 11,596 | – | 11,596 |
| Other | 6,606 | – | 6,606 |
| Total noncurrent liabilities | 117,725 | 282 | 118,007 |
| Total liabilities | 172,850 | 2,567 | 175,417 |
| | | | |
| Net assets: | | | |
| Unrestricted | 314,991 | 3,463 | 318,454 |
| Temporarily restricted | 33,709 | 1,152 | 34,861 |
| Permanently restricted | 7,810 | 1,703 | 9,513 |
| Total net assets | 356,510 | 6,318 | 362,828 |
| | | | |
| Total liabilities and net assets | $ 529,360 | $ 8,885 | $ 538,245 |

# The St. Vincent's Medical Center

## Consolidating Statement of Operations and Changes in Unrestricted Net Assets

Year Ended September 30, 2009
*(Dollars in Thousands)*

| | The St. Vincent's Medical Center | The St. Vincent's College, Inc. | Consolidated The St. Vincent's Medical Center |
|---|---|---|---|
| Operating revenues: | | | |
| Net patient service revenue | $ 342,945 | $ – | $ 342,945 |
| Other revenue | 9,468 | 3,107 | 12,575 |
| Net assets released from restrictions for operations | 396 | 595 | 991 |
| Total operating revenues | 352,809 | 3,702 | 356,511 |
| | | | |
| Operating expenses: | | | |
| Salaries and wages | 150,764 | 2,707 | 153,471 |
| Employee benefits | 33,532 | 788 | 34,320 |
| Purchased services | 24,143 | 15 | 24,158 |
| Professional fees | 5,899 | 57 | 5,956 |
| Supplies | 60,651 | 94 | 60,745 |
| Insurance | 5,383 | 1 | 5,384 |
| Bad debts | 21,818 | 19 | 21,837 |
| Interest | 678 | – | 678 |
| Depreciation | 18,628 | 58 | 18,686 |
| Other | 20,491 | 616 | 21,107 |
| Total operating expenses | 341,987 | 4,355 | 346,342 |
| Income (loss) from operations | 10,822 | (653) | 10,169 |
| | | | |
| Nonoperating (losses) gains : | | | |
| Investment (losses) gains | (3,219) | 85 | (3,134) |
| Other | (596) | 912 | 316 |
| Total nonoperating (losses) gains, net | (3,815) | 997 | (2,818) |
| Excess of revenues and gains over expenses and losses | 7,007 | 344 | 7,351 |
| | | | |
| Transfers to sponsor and other affiliates, net | (40,944) | – | (40,944) |
| Net assets released from restrictions for property acquisitions | 16,927 | – | 16,927 |
| Pension and other post-retirement liability adjustments | (1,206) | 72 | (1,134) |
| Change in unrestricted interest in The St. Vincent's Medical Center Foundation, Inc. | (942) | – | (942) |
| (Decrease) increase in unrestricted net assets | (19,158) | 416 | (18,742) |
| | | | |
| Unrestricted net assets, beginning of the year | 334,148 | 3,048 | 337,196 |
| Unrestricted net assets, end of the year | $ 314,990 | $ 3,464 | $ 318,454 |

The St. Vincent's Medical Center
Schedule of Net Cost of Providing Care of Persons
Who are Poor and Community Benefit Programs
*(Dollars in Thousands)*

Year Ended September 30, 2009

The net cost to the Medical Center of providing care of persons who are poor and community benefit programs is as follows:

| | |
|---|---|
| Traditional charity care provided | $ 3,146 |
| Unpaid cost of public programs for the poor | 7,999 |
| Other programs for the poor | 2,991 |
| Community benefit programs | 6,444 |
| Care of persons who are poor and community benefit programs | $ 20,580 |