Consolidated Financial Statements and Other Financial Information

The St. Vincent's Medical Center
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

The St. Vincent's Medical Center

Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2010 and 2009

Contents

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

Tel: +1 860 247 3100
Fax: +1 860 725 6040
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 Subsidiaries (the "Medical Center") as of September 30, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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

January 28, 2011

The St. Vincent's Medical Center

Consolidated Balance Sheets

(Dollars in Thousands)

	September 30 2010	September 30 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,328**	$ 10,792
Investments in Health System Depository	**17,194**	8,636
Accounts receivable, less allowances for uncollectible accounts ($20,716 and $16,075 in 2010 and 2009, respectively)	**45,726**	40,833
Advances to parent and affiliated entities, net	**5,348**	2,853
Inventories and other	**8,775**	8,649
Total current assets	**83,371**	71,763
Investments in Health System Depository	**55,544**	38,480
Board-designated investments and assets limited as to use:		
Investments in Health System Depository	**192,125**	173,941
Temporarily restricted	**247**	241
Temporarily restricted Interest in the St. Vincent's Medical Center Foundation, Inc.	**16,284**	34,620
Permanently restricted	**68**	68
Permanently restricted Interest in the St. Vincent's Medical Center Foundation, Inc.	**10,020**	9,445
Total board-designated investments and assets limited as to use	**218,744**	218,315
Unrestricted interest in The St. Vincent's Medical Center Foundation, Inc.	**312**	390
Property and equipment:		
Land and improvements	**7,802**	8,428
Buildings and equipment	**382,047**	292,025
Construction in progress	**7,882**	68,279
Less accumulated depreciation	**(184,549)**	(163,170)
Total property and equipment, net	**213,182**	205,562
Other assets	**4,445**	3,735
Total assets	**$ 575,598**	$ 538,245

	September 30	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 42,296**	$ 46,742
Current portion of long-term debt	**1,035**	1,162
Current portion of note payable, affiliate	**404**	404
Estimated third-party payor settlements	**12,219**	9,102
Total current liabilities	**55,954**	57,410
Noncurrent liabilities:		
Long-term debt	**59,295**	59,493
Pension and other postretirement liabilities	**38,847**	37,376
Self-insurance liabilities	**2,754**	2,936
Note payable, affiliate	**11,191**	11,596
Other	**8,154**	6,606
Total noncurrent liabilities	**120,241**	118,007
Total liabilities	**176,195**	175,417
Net assets:		
Unrestricted	**372,784**	318,454
Temporarily restricted	**16,531**	34,861
Permanently restricted	**10,088**	9,513
Total net assets	**399,403**	362,828
Total liabilities and net assets	**$ 575,598**	$ 538,245

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	
	2010	**2009**
Operating revenues:		
Net patient service revenue	**$ 371,617**	$ 342,945
Other revenue	**10,447**	12,575
Net assets released from restrictions for operations	**1,243**	991
Total operating revenues	**383,307**	356,511
Operating expenses:		
Salaries and wages	**161,015**	153,471
Employee benefits	**40,839**	34,320
Purchased services	**29,089**	24,158
Professional fees	**6,121**	5,956
Supplies	**61,157**	60,745
Insurance	**7,333**	5,384
Bad debts	**21,780**	21,837
Interest	**2,186**	678
Depreciation	**22,170**	18,686
Other	**21,540**	21,107
Total operating expenses	**373,230**	346,342
Income from operations	**10,077**	10,169
Nonoperating gains (losses):		
Investment gains (losses)	**27,367**	(3,134)
Other	**133**	316
Total nonoperating gains (losses), net	**27,500**	(2,818)
Excess of revenues and gains over expenses and losses	**37,577**	7,351

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	
	2010	2009
Unrestricted net assets:		
Excess of revenues and gains over expenses and losses	**$ 37,577**	$ 7,351
Transfers to sponsor and other affiliates, net	**(12,773)**	(40,944)
Net assets released from restrictions for property acquisitions	**27,123**	16,927
Pension and other post-retirement liability adjustments	**2,481**	(1,134)
Change in unrestricted interest in The St. Vincent's Medical Center Foundation, Inc.	**(78)**	(942)
Increase (decrease) in unrestricted net assets	**54,330**	(18,742)
Temporarily restricted net assets:		
Contributions	**28,367**	17,897
Investment income	**5**	4
Net assets released from restrictions	**(28,366)**	(17,918)
Change in temporarily restricted interest in The St. Vincent's Medical Center Foundation, Inc.	**(18,336)**	(5,532)
Other	**–**	(1)
Decrease in temporarily restricted net assets	**(18,330)**	(5,550)
Permanently restricted net assets:		
Change in permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	**575**	126
Increase (decrease) increase in net assets	**36,575**	(24,166)
Net assets, beginning of the year	**362,828**	386,994
Net assets, end of the year	**$ 399,403**	$ 362,828

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	
	2010	**2009**
Cash flows from operating activities		
Increase (decrease) in net assets	**$ 36,575**	$ (24,166)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**22,170**	18,686
Loss on sale of property and equipment	**136**	4
Pension and other post-retirement liability adjustments	**(2,481)**	1,134
Restricted contributions and net investment income	**(28,372)**	(17,901)
Net change in unrealized gains on investments	**(11,245)**	(16,865)
Increase in interest in The St. Vincent's Medical Center Foundation, Inc.	**17,839**	6,357
Transfers to sponsor and other affiliates, net	**12,773**	40,944
(Increase) decrease in:		
Investments classified as trading	**(32,561)**	34,393
Accounts receivable, net	**(4,893)**	114
Advances to parent and affiliated entities, net	**(2,495)**	(2,978)
Inventories and other assets	**(126)**	1,439
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(4,446)**	4,779
Estimated third-party payor settlements	**3,117**	(652)
Pension and other postretirement liabilities	**2,025**	(1,863)
Other noncurrent liabilities	**1,367**	36
Net cash provided by operating activities	**9,383**	43,461
Cash flows from investing activities		
Property and equipment additions, net	**(31,462)**	(54,203)
Proceeds from sale of property and equipment	**43**	3
(Increase) decrease in assets limited as to use – temporarily restricted	**(6)**	17
Increase in other assets	**(710)**	(112)
Net cash used in investing activities	**(32,135)**	(54,295)

Continued on next page.

The St. Vincent's Medical Center

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	Year Ended September 30	
	2010	**2009**
Cash flows from financing activities		
Transfers to sponsor and other affiliates, net	**$ (9,151)**	$ (6,543)
Restricted contributions and net investment income	**28,372**	17,901
Repayments of long-term debt	**(933)**	(912)
Net cash provided by financing activities	**18,288**	10,446
Net decrease in cash and cash equivalents	**(4,464)**	(388)
Cash and cash equivalents, beginning of the year	**10,792**	11,180
Cash and cash equivalents, end of the year	**$ 6,328**	$ 10,792

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.

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 Multispecialty Group, Inc. (Multispecialty Group) is a subsidiary of the Medical Center. 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, Multispecialty Group 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 and is calculated in compliance with guidelines established by both the Catholic Health Association (CHA) and the Internal Revenue Service (IRS).

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately $2,578 and $3,146 for the years ended September 30, 2010 and 2009, respectively. 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

Principles of Consolidation

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

Use of Estimates

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

2. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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 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 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.

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. Investments are managed by external investment managers within established 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, 2010 and 2009, the Medical Center's investment in the HSD was $264,863 and $221,057, respectively.

The Medical Center also invests in equity and fixed income investments which are locally managed. Primarily all of these funds are held by The St. Vincent's Medical Center Foundation, Inc. (Foundation) where the Medical Center has significant beneficial interest in Foundation assets. The Medical Center reports both its investment in the HSD and at the Foundation in the accompanying consolidated balance sheets based upon the long or short term nature of its investment and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of Ascension Health.

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 which are recorded under the equity method of accounting. 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.

2. Significant Accounting Policies (continued)

Investment returns comprise dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. All of the Medical Center's investments, including its investment in the HSD, are designated as trading investments. Accordingly, all investment returns, including unrealized gains and losses, are reported as nonoperating gains or losses in the consolidated statements of operations and changes in net assets, except for returns restricted by donor or law.

Inventories

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

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

The interest in the Foundation represents the Medical Center's interest in the net assets of the Foundation. This investment is accounted for in accordance with 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 the gift is received.

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2010 and 2009 was $22,170 and $18,686, respectively.

Estimated useful lives by asset category are as follows: land improvements—10 to 15 years; buildings—15 to 40 years; and equipment—5 to 20 years. Interest costs incurred as part of the related construction are capitalized during the period of construction. Net interest capitalized in 2010 and 2009 was $168 and $1,736, respectively.

Several capital projects have remaining construction and related equipment purchase commitments of approximately $12,045 as of September 30, 2010.

2. Significant Accounting Policies (continued)

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

The Medical Center's most significant asset retirement obligation relates to required future asbestos remediation of physical plant and buildings constructed prior to 1975. Asset retirement obligations of $409 and $609 as of September 30, 2010 and 2009, 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 2010, $231 of retirement obligations were incurred and settled. During 2009, no retirement obligations were incurred and settled. Accretion expense of $30 and $35 was recorded in 2010 and 2009, respectively.

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.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Performance Indicator

The performance indicator is the excess or deficit 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, and net assets released from restrictions for property acquisitions.

Operating and Nonoperating Activities

The Medical Center's primary mission is to meet the healthcare 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, consisting primarily of losses on invested funds, losses on sale of property and equipment, unrestricted gifts and bequests and gains or losses on other investments.

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	
	2010	**2009**
Gross patient service revenue	**$ 938,000**	$ 852,499
Deductions:		
Allowances	**558,721**	500,721
Charity care	**7,662**	8,833
Net patient service revenue	**$ 371,617**	$ 342,945

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.

2. Significant Accounting Policies (continued)

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 $1,710 and $4,091 for the years ended September 30, 2010 and 2009, respectively.

During 2010 and 2009, approximately 41% and 43%, respectively, of net patient service revenue were received under the Medicare program, 12% and 10% under the various state Medicaid programs, 33% and 31% from contracts with HMOs and PPOs, 10% and 12% from contracts with commercial carriers, and 4% and 4% from other payors.

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable at September 30, 2010 and 2009 include Medicare (33% and 34%, respectively), Medicaid (19% and 22%, respectively), HMOs and PPOs (20% and 15%, respectively), commercial carriers (6% and 9%, respectively), and self-pay and other (22% and 20%, respectively).

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.

2. Significant Accounting Policies (continued)

Adoption of New Accounting Standards

In January 2010, the FASB issued ASC Accounting Standards Update (ASU) No. 2010-06 (ASU 2010-06), which guidance clarifies certain existing fair value measurement disclosure requirements of ASC Topic 820 (formerly SFAS 157) and also requires additional fair value measurement disclosures. Specifically, ASU 2010-06 clarifies that assets and liabilities must be leveled by major class of asset or liability, and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques, for those assets or liabilities designated as level 2 or level instruments. Disclosures regarding transfers between level 1 and level 2 assets and liabilities are required, as well as a deeper level of disaggregation of activity within existing rollforwards of the fair value of level 3 assets and liabilities. See the Fair Value Measurements note for these additional fair value measurement disclosure requirements for the year ended September 30, 2010, excluding the additional requirements related to level 3 rollforward activity, which are not required to be adopted until the Medical Center's fiscal year ended September 30, 2012. The adoption of this guidance did not have a significant impact on the Medical Center's consolidated financial statements for the year ended September 30, 2010.

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in ASC Topic 715 (formerly FSP FAS 132(R)-1. This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See the Retirement Plans note for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Medical Center's consolidated financial statements for the year ended September 30, 2010.

In September 2006, the FASB issued authoritative guidance on fair value measurements, currently included in ASC Topic 820 (formerly SFAS 157), which was adopted by the Medical Center for the year ended September 30, 2009. This guidance provides a definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements impacting certain assets and liabilities. See the Fair Value Measurements note for fair value measurement disclosures for the years ended September 30, 2010 and 2009.

2. Significant Accounting Policies (continued)

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). The Multispecialty Group has applied for tax-exempt status under Internal Revenue Code Section 501(c) (3).

The Medical Center accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Regulatory Compliance

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

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

Subsequent Events

The Medical Center evaluates the impact of subsequent events, 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 or disclosure in the notes to the consolidated financial statements. The Medical Center evaluated events occurring subsequent to September 30, 2010 through January 28, 2011, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Additionally, there were no nonrecognized subsequent events that required disclosure.

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments and Other Assets Limited as to Use

The Medical Center's investments are comprised of the Medical Center's pro rata share of the HSD's funds held for participants and certain other investments such as those investments held and managed by the Foundation. 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,	
	2010	**2009**
Cash and cash equivalents	**$ 6,328**	$ 10,792
Short-term investments	**17,194**	8,636
Other investments	**55,544**	38,480
Board-designated investments	**192,125**	173,941
Assets limited as to use:		
Temporarily or permanently restricted	**315**	309
Total	**$ 271,506**	$ 232,158

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,	
	2010	**2009**
Cash, cash equivalents and short-term investments	**$ 6,643**	$ 11,101
Pro rata share of HSD funds held for participants	**264,863**	221,057
Cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments	**$ 271,506**	$ 232,158

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments (continued)

As of September 30, 2010 and 2009, the composition of total HSD investments is as follows:

	Year Ended September 30	
	2010	**2009**
Cash and cash equivalents and short-term investments	**5.8%**	6.2%
U.S. government, state, municipal and agency obligations	**20.9%**	18.7%
Other fixed income securities	**16.0%**	39.7%
Equity, private equity and other investments	**17.5%**	22.0%
Equity method investments, including alternative investments	**39.8%**	13.4%
	100.0%	100.0%

In order to evaluate the realizable value of its investments, Foundation management evaluates the available facts and circumstances. This evaluation requires significant judgment, including determinations involving the estimation of the outcome of future events, and also consists of an accumulation of factors about general market conditions which reflect prospects for the economy as a whole, the specific industries, and/or the specific securities under consideration. These factors are considered by management in determining whether the security still has earnings potential in the near future, and whether the security has an anticipated recovery in market value.

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

	Year Ended September 30	
	2010	**2009**
Investment return in HSD	**$ 27,367**	$ (3,134)
Interest and dividends	**5**	4
Total investment return	**$ 27,372**	$ (3,130)
Investment return included in nonoperating gains (losses)	**$ 27,367**	$ (3,134)
Increase in restricted net assets	**5**	4
Total investment return	**$ 27,372**	$ (3,130)

4. Fair Value Measurements

The Medical Center adopted the FASB's authoritative accounting guidance on fair value measurements for the fiscal year ended September 30, 2009, as well as updated fair value measurement guidance for the fiscal year ended September 30, 2010. In accordance with this guidance, 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. The Medical Center follows the three-level fair value hierarchy to categorize these assets and liabilities which prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets 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. 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.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Medical Center 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).

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use notes, 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, 2010, 25%, 66% and 9% 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, while, 31%, 34% and 35% 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, 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, while, 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.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

As of September 30, 2010, 61%, 29% and 0% 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, 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.

5. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2010	**2009**
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, 2010) set at prevailing market rates	**$ 22,805**	$ 23,600
Intercompany debt with Ascension Health, payable in installments through November 2047; interest (3.8% at September 30, 2010) adjusted based on prevailing blended market interest rate of underlying debt obligations	**28,216**	28,509
Intercompany debt with Ascension Health, payable in installments from November 2030 through November 2047; interest (3.8% at September 30, 2010) adjusted based on prevailing blended market interest rate of underlying debt obligations	**9,309**	8,546
	60,330	60,655
Less current portion of long-term debt	**1,035**	1,162
	$ 59,295	$ 59,493

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

Year Ending September 30:	
2011	$ 1,035
2012	1,060
2013	1,062
2014	1,290
2015	1,376
Thereafter	54,507
Total	$ 60,330

5. 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 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.

5. Long-Term Debt (continued)

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.

During 2010, Ascension Health completed multiple debt transactions which ultimately resulted in an increase of $16,000 to the total debt of Ascension Health. As a result of these transactions, the Medical Center's pro rata portion of intercompany debt to Ascension Health increased approximately $203, reflected as a transfer from sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets for the year ended September 30, 2010.

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.

5. 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, 2010, 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 18, 2010. As of September 30, 2010 and 2009, there were no borrowings under the line of credit.

As of September 30, 2010, 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, 2012. As of September 30, 2010 there were no borrowings under the line of credit.

As of September 30, 2010, the Subordinate Credit Group has a $50,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $50,000 extends to December 29, 2010. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. As of September 30, 2010, $36,925 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 $4,130,280, which represents 45% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at September 30, 2010.

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 29 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, 2010 is $132,000.

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).

During the years ended September 30, 2010 and 2009, interest paid was approximately $2,186 and $678, respectively. Capitalized interest was approximately $168 and $1,736, for the years ended September 30, 2010 and 2009, respectively.

6. Permanently Restricted Endowments

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

The Medical Center's Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable (c) accumulations to the permanent endowment made in accordance with the related 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 the Medical Center and the donor-restricted endowment fund.
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Medical Center
(7) The investment policies of the Foundation

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Medical Center to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles, deficiencies of this nature that are reported in unrestricted net assets were $(436) and $(1,043) as of September 30, 2010 and 2009, respectively.

6. 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, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds (deficit)	$ (436)	$ 1,149	$ 10,088	$10,801

(Dollars in Thousands)

6. Permanently Restricted Endowments (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance (deficit)	$ (1,043)	$ 860	$ 9,513	$ 9,330
Investment return:				
Investment income	–	386	–	386
Net appreciation (realized and unrealized)	607	10	–	617
Total investment return	607	396	–	1,003
Contributions	–	–	1,481	1,481
Transfers	–	2	(906)	(904)
Appropriation of endowment assets for expenditure	–	(109)	–	(109)
Endowment net assets, ending balance (deficit)	$ (436)	$ 1,149	$ 10,088	$ 10,801

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance (deficit)	$ (1,018)	$ 1,037	$ 9,387	$ 9,406
Investment return:				
Investment income	–	497	–	497
Net (depreciation) appreciation (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 (deficit)	$ (1,043)	$ 860	$ 9,513	$ 9,330

(Dollars in Thousands)

7. Pension Plans

The Medical Center participates in the Ascension Health Pension Plan (the Ascension Plan), a noncontributory defined benefit pension plan sponsored by Ascension Health, which covers 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. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust (the Trust), a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to Plan participants. Net periodic pension cost of $7,350 in 2010 and $4,848 in 2009 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.

The assets of the Ascension 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, 2010, the Plan had a net unfunded liability of $647,704.

The Medical Center's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at September 30, 2010 and 2009 was $35,674 and $34,194, respectively. As a result of updating the funded status of the Plan, Ascension transferred an additional pension liability of $1,927 to the Medical Center during 2010, which is included in transfer to sponsor and other affiliates net, in the accompanying consolidated statements of operations and changes in net assets.

Ascension Health adopted the measurement date provision of existing authoritative guidance on employers' accounting for defined-benefit pension and other postretirement plans as of June 30, 2009. As a result, Ascension Health transferred an additional pension liability of $815 to the Medical Center, which is included in transfers from (to) sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets for the year ended September 30, 2009.

7. Pension Plans (continued)

As of September 30, 2010 and 2009, the fair value of the Ascension Plan's assets available for benefits was $647,704 and $612,768, respectively. As discussed in the Fair Value Measurements note, the Medical Center, as well as Ascension Health, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of September 30, 2010, 31%, 42% and 27% 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 investments, respectively. With respect to the Ascension Plan's liabilities measured at fair value on a recurring basis, 9%, 17% and 74% were categorized as Level 1, Level 2 and Level 3, respectively, as of September 30, 2010.

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 $911 and $727 during 2010 and 2009, 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, 2010 and 2009 was $3,644 and $2,663, respectively. In 2010, the discount rate was decreased from 5.75% to 5% and did not have a material effect on the net periodic benefit cost for the year ended September 30, 2010. 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:

	2010	2009
Change in benefit obligation		
Benefit obligation, beginning of the year	**$ (3,194)**	$ (4,240)
Service cost	**(19)**	(195)
Interest cost	**(171)**	(270)
Actuarial losses	**(53)**	(462)
Benefits paid	**264**	291
Curtailment	**–**	1,682
Benefit obligation, end of the year	**$ (3,173)**	$ (3,194)
Change in plan assets		
Fair value of plan assets, beginning of the year	**$ –**	$ –
Employer contributions	**264**	291
Benefits paid	**(264)**	(291)
Fair value of plan assets, end of year	**$ –**	$ –
Funded status	**$ (3,173)**	$ (3,194)
Unrecognized gain	**–**	–
Unrecognized prior service cost	**–**	–
Accrued benefit cost	**$ (3,173)**	$ (3,194)
Components of net periodic benefit		
Service cost	**$ 19**	$ 195
Interest cost	**171**	270
Net amortization and deferral	**(65)**	(486)
Net periodic cost (benefit)	**$ 125**	$ (21)
Assumption		
Discount rate	**5.05%**	5.65%

(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 2010	2009
Unrecognized prior service credit	**$ 18**	$ 30
Unrecognized actuarial gains	**381**	487
	$ 399	$ 517

Changes in benefit obligations recognized in unrestricted net assets during 2010 include:

Current year actuarial losses	$ (53)
Amortization of actuarial losses	(53)
Amortization of prior service cost	(12)
	$ (118)

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, 2011 are $10 and $27, respectively.

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

2011	$ 376
2012	347
2013	319
2014	303
2015	282
2016-2019	1,167

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 2010 and 2009.

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 $7,143 and $4,753 for the years ended September 30, 2010 and 2009, respectively. At September 30, 2010 and 2009, the general and professional liability reserves included in self-insurance liabilities (current and long-term) in the accompanying consolidated balance sheets were approximately $4,814 and $4,979, 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 $1,543 and $1,294 for the years ended September 30, 2010 and 2009, respectively.

10. Lease Commitments

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

Year ending September 30:	
2011	$ 1,824
2012	1,704
2013	1,425
2014	1,392
2015	1,283
Thereafter	3,052
Total	$ 10,680

Rental expense under operating leases amounted to $3,082 and $3,112 in 2010 and 2009, 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 $2,378 and $2,235 for the years ended September 30, 2010 and 2009, respectively.

11. Related Party Transactions (continued)

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, 2010 and 2009, the Medical Center charged affiliated entities $3,372 and $4,530 for these services, respectively, which have been reported as other operating revenues in the consolidated statement of operations and changes in net assets.

During 2010 and 2009, the Medical Center transferred $519 and $525 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 2010 and 2009, the Medical Center transferred $8,169 and $5,892, respectively, to Ascension Health for system initiatives.

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, 2010). 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, 2010. The note will be considered fully satisfied when Hall-Brooke's legal obligation under the Bonds is successfully transferred to the Medical Center.

(Dollars in Thousands)

11. Related Party Transactions (continued)

Scheduled principal payments on the note are as follows:

Year ending September 30:	
2011	$ 404
2012	438
2013	438
2014	438
2015	471
Thereafter	9,406
Total	$ 11,595

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 $358 and $398 in 2010 and 2009, respectively.

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2010	**2009**
Health care services	**$ 2,462**	$ 2,316
Education and training	**1,738**	1,389
Capital	**9,322**	28,171
Other	**3,009**	2,985
	$ 16,531	$ 34,861

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	
	2010	**2009**
Health care services	**$ 5,943**	$ 5,755
Education	**1,922**	1,893
Capital	**1,393**	1,046
Other	**830**	819
	$ 10,088	$ 9,513

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, 2010 and 2009, 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.

Other Financial Information

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

Tel: +1 860 247 3100
Fax: +1 860 725 6040
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

January 28, 2011

The St. Vincent's Medical Center

Consolidating Balance Sheet

September 30, 2010
(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Consolidated The St. Vincent's Medical Center
Assets				
Current assets:				
Cash and cash equivalents	$ 6,014	$ 198	$ 116	$ 6,328
Investments in Health System Depository	15,056	855	1,283	17,194
Accounts receivable, less allowances for uncollectible accounts of $20,716	44,277	1,449	–	45,726
Advances to parent and affiliated entities, net	11,057	(5,640)	(69)	5,348
Inventories and other	7,730	–	1,045	8,775
Total current assets	84,134	(3,138)	2,375	83,371
Investments in Health System Depository	50,474	–	5,070	55,544
Board-designated investments and assets limited as to use:				
Investments in Health System Depository	192,125	–	–	192,125
Temporarily restricted	176	–	71	247
Temporarily restricted Interest in the St. Vincent's Medical Center Foundation, Inc.	14,930	–	1,354	16,284
Permanently restricted	68	–	–	68
Permanently restricted Interest in the St. Vincent's Medical Center Foundation, Inc.	8,288	–	1,732	10,020
Total board-designated investments and assets limited as to use	215,587	–	3,157	218,744
Interest in The St. Vincent's Medical Center Foundation, Inc.	–	–	312	312
Property and equipment:				
Land and improvements	7,802	–	–	7,802
Buildings and equipment	381,106	–	941	382,047
Construction in progress	7,882	–	–	7,882
Less accumulated depreciation	(183,826)	–	(723)	(184,549)
Total property and equipment, net	212,964	–	218	213,182
Other assets	4,445	–	–	4,445
Total assets	$ 567,604	$ (3,138)	$ 11,132	$ 575,598

The St. Vincent's Medical Center

Consolidating Balance Sheet (continued)

September 30, 2010
(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Consolidated The St. Vincent's Medical Center
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	$ 38,012	$ 1,576	$ 2,708	$ 42,296
Current portion of long-term debt	1,035	–	–	1,035
Current portion of note payable, affiliate	404	–	–	404
Estimated third-party payor settlements	12,219	–	–	12,219
Total current liabilities	51,670	1,576	2,708	55,954
Noncurrent liabilities:				
Long-term debt	59,295	–	–	59,295
Pension and other postretirement liabilities	37,854	10	983	38,847
Self-insurance liabilities	2,714	40	–	2,754
Note payable, affiliate	11,191	–	–	11,191
Other	8,154	–	–	8,154
Total noncurrent liabilities	119,208	50	983	120,241
Total liabilities	170,878	1,626	3,691	176,195
Net assets:				
Unrestricted	373,265	(4,764)	4,283	372,784
Temporarily restricted	15,105	–	1,426	16,531
Permanently restricted	8,356	–	1,732	10,088
Total net assets	396,636	(4,764)	7,441	399,403
Total liabilities and net assets	$ 567,604	$ (3,138)	$ 11,132	$ 575,598

The St. Vincent's Medical Center

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

Year Ended September 30, 2010
(Dollars in Thousands)

	The St. Vincent's Medical Center	The St. Vincent's Multispecialty Group, Inc.	The St. Vincent's College, Inc.	Eliminations	Consolidated The St. Vincent's Medical Center
Operating revenues:					
Net patient service revenue	$ 358,676	$ 12,941	$ –	$ –	$ 371,617
Other revenue	7,452	15	4,524	(1,544)	10,447
Net assets released from restrictions for operations	446	–	797	–	1,243
Total operating revenues	366,574	12,956	5,321	(1,544)	383,307
Operating expenses:					
Salaries and wages	143,891	13,918	3,206	–	161,015
Employee benefits	38,478	1,381	980	–	40,839
Purchased services	28,705	1,631	112	(1,359)	29,089
Professional fees	6,029	23	69	–	6,121
Supplies	61,025	15	117	–	61,157
Insurance	7,169	162	2	–	7,333
Bad debts	21,127	636	17	–	21,780
Interest	2,186	–	–	–	2,186
Depreciation	22,115	–	55	–	22,170
Other	21,088	36	601	(185)	21,540
Total operating expenses	351,813	17,802	5,159	(1,544)	373,230
Income (loss) from operations	14,761	(4,846)	162	–	10,077
Nonoperating gains (losses):					
Investment gains (losses)	26,784	9	574	–	27,367
Other	(780)	–	913	–	133
Total nonoperating gains (losses), net	26,004	9	1,487	–	27,500
Excess of revenues and gains over expenses and losses	40,765	(4,837)	1,649		37,577
Transfers to sponsor and other affiliates, net	(11,779)	–	(994)	–	(12,773)
Net assets released from restrictions for property acquisitions	27,123	–		–	27,123
Pension and other post-retirement liability adjustments	2,287	73	121	–	2,481
Change in unrestricted interest in The St. Vincent's Medical Center Foundation, Inc.	(123)	–	45	–	(78)
Increase (decrease) in unrestricted net assets	58,273	(4,764)	821	–	54,330
Unrestricted net assets, beginning of the year	314,992	–	3,462	–	318,454
Unrestricted net assets, end of the year	$ 373,265	$ (4,764)	$ 4,283	$ –	$ 372,784

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, 2010

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	$ 2,578
Unpaid cost of public programs for the poor	4,256
Other programs for the poor	2,868
Community benefit programs	7,328
Care of persons who are poor and community benefit programs	$ 17,030