CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

St. Vincent's Health Services Corporation and Subsidiaries
Member of Ascension Health
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

St. Vincent’s Health Services Corporation and Subsidiaries

Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2010 and 2009

Contents

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of St. Vincent's Health Services Corporation and Subsidiaries (the "Corporation") as of September 30, 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 Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of St. Vincent's College, Inc. (the "College"), Hall-Brooke Behavioral Services, Inc. ("Hall-Brooke"), or The St. Vincent's Special Needs Center (the "Special Needs Center"), all wholly-owned subsidiaries of the Corporation for the years ended September 30, 2010 and 2009, whose combined statements reflect total assets and revenues constituting 10% and 9%, 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, Hall-Brooke and the Special Needs Center, is based solely on the report of the other auditors.

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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	September 30	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,535**	$ 12,274
Investments in Health System Depository	**20,955**	11,030
Accounts receivable, less allowance for uncollectible accounts ($20,807 and $22,070 in 2010 and 2009, respectively)	**45,741**	41,629
Inventories and other	**15,033**	11,199
Total current assets	**89,264**	76,132
Investments in Health System Depository	**76,973**	55,985
Board-designated investments and assets limited as to use:		
Investments in Health System Depository	**192,125**	173,941
Other board-designated investments	**13,329**	13,780
Temporarily or permanently restricted	**29,394**	46,972
Total board-designated investments and assets limited as to use	**234,848**	234,693
Property and equipment:		
Land and improvements	**13,595**	13,443
Buildings and equipment	**415,702**	324,464
Construction in progress	**7,882**	68,279
Less accumulated depreciation	**(198,130)**	(175,672)
Total property and equipment, net	**239,049**	230,514
Other assets	**5,296**	4,744
Total assets	**$ 645,430**	$ 602,068

	September 30 2010	2009
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 42,892**	$ 47,673
Current portion of long-term debt	**1,502**	1,667
Estimated third-party payor settlements	**12,291**	9,131
Other current liabilities	**2,473**	2,177
Total current liabilities	**59,158**	60,648
Noncurrent liabilities:		
Long-term debt	**78,227**	78,872
Self-insurance liabilities	**2,754**	2,936
Pension and other postretirement liabilities	**42,153**	40,599
Other liabilities	**8,516**	7,728
Total noncurrent liabilities	**131,650**	130,135
Total liabilities	**190,808**	190,783
Net assets:		
Unrestricted	**425,240**	364,490
Temporarily restricted	**18,588**	36,582
Permanently restricted	**10,794**	10,213
Total net assets	**454,622**	411,285
Total liabilities and net assets	**$ 645,430**	$ 602,068

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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended September 30	
	2010	**2009**
Operating revenues:		
Net patient service revenue	**$ 372,707**	$ 347,294
Other revenue	**36,795**	38,713
Net assets released from restrictions used for operations	**1,302**	1,045
Total operating revenues	**410,804**	387,052
Operating expenses:		
Salaries and wages	**176,188**	168,699
Employee benefits	**46,145**	38,973
Purchased services	**27,120**	24,370
Professional fees	**6,734**	6,340
Supplies	**61,785**	61,537
Insurance	**7,799**	5,840
Bad debts	**21,985**	22,118
Interest	**2,433**	924
Depreciation and amortization	**23,481**	20,021
Other	**26,545**	26,806
Total operating expenses	**400,215**	375,628
Income from operations	**10,589**	11,424
Nonoperating gains (losses):		
Investment gain (loss)	**32,144**	(5,153)
Other	**(1,004)**	(1,134)
Total nonoperating gains (losses), net	**31,140**	(6,287)
Excess of revenue and gains over expenses and losses	**41,729**	5,137

St. Vincent's Health Services Corporation and Subsidiaries

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

(Dollars in Thousands)

	Year Ended September 30	
	2010	**2009**
Unrestricted net assets:		
Excess of revenue and gains over expenses and losses	**$ 41,729**	$ 5,137
Transfers to sponsor, net	**(12,221)**	(37,088)
Net assets released from restrictions for property acquisitions	**27,123**	17,107
Pension and other postretirement liability adjustments	**2,816**	(889)
Transfer from (to) temporarily and permanently restricted net assets	**949**	(749)
Other	**354**	–
Increase (decrease) in unrestricted net assets	**60,750**	(16,482)
Temporarily restricted net assets:		
Contributions	**11,031**	12,141
Investment income, net	**(680)**	(181)
Net change in unrealized gains on investments	**2,220**	879
Net assets released from restrictions	**(28,425)**	(18,152)
Transfer (to) from unrestricted and permanently restricted net assets	**(1,034)**	715
Other	**(1,106)**	(1,211)
Decrease in temporarily restricted net assets	**(17,994)**	(5,809)
Permanently restricted net assets:		
Contributions	**1,487**	39
Transfer from unrestricted and temporarily restricted net assets	**85**	34
Other	**(991)**	5
Increase in permanently restricted net assets	**581**	78
Increase (decrease) in net assets	**43,337**	(22,213)
Net assets, beginning of the year	**411,285**	433,498
Net assets, end of the year	**$ 454,622**	$ 411,285

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

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended September 30	
	2010	**2009**
Cash flows from operating activities		
Increase in net assets	**$ 43,337**	$ (22,213)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**23,481**	20,021
(Gain) loss on sale of property and equipment	**(398)**	4
Pension and other post-retirement liability adjustments	**(2,816)**	889
Restricted contributions and investment income	**(11,838)**	(11,999)
Net change in unrealized gains on investments	**(17,833)**	(18,591)
Transfers to sponsor, net	**12,221**	37,088
(Increase) decrease in:		
Investments classified as trading	**(30,813)**	33,471
Accounts receivable, net	**(4,112)**	2,599
Inventories and other current assets	**(3,834)**	1,271
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(4,781)**	3,264
Estimated third-party payor settlements	**3,160**	(714)
Pension and other postretirement liabilities	**1,982**	(1,453)
Other current liabilities	**296**	342
Other liabilities	**606**	(148)
Net cash provided by operating activities	**8,658**	43,831
Cash flows from investing activities		
Property and equipment additions	**(32,562)**	(55,060)
Proceeds from sale of property and equipment	**943**	3
Decrease in assets limited as to use – restricted	**17,578**	5,771
Increase in other assets	**(552)**	(439)
Net cash used in investing activities	**(14,593)**	(49,725)
Cash flows from financing activities		
Transfers to sponsor, net	**(9,611)**	(6,687)
Repayment of long-term debt	**(1,031)**	(1,011)
Restricted contributions and investment income	**11,838**	11,999
Net cash provided by financing activities	**1,196**	4,301
Net decrease in cash and cash equivalents	**(4,739)**	(1,593)
Cash and cash equivalents at beginning of the year	**12,274**	13,867
Cash and cash equivalents at end of the year	**$ 7,535**	$ 12,274

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

1. Organization and Mission

Organizational Structure

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

St. Vincent's Health Services Corporation, located in Bridgeport, Connecticut, is a nonprofit integrated health care delivery system. Subsidiaries of the Corporation include:

The St. Vincent's Medical Center (Medical Center) is a nonprofit hospital system, consisting of an acute care hospital located in Bridgeport, Connecticut 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 nonprofit subsidiary of the Medical Center, is an institution of higher learning that offers associate degrees in nursing, radiography, medical assisting, and health care management, as well as certificate programs in multi-skilled assisting, health care management and health promotion.

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

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

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

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

1. Organization and Mission (continued)

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

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

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.

- 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.

1. Organization and Mission (continued)

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 $2,579 and $3,171 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.

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the Corporation or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. The Special Needs Center is the only consolidated corporation not on a September 30 fiscal year basis. The Special Needs Center is reported on a June 30 fiscal year end basis. Investments in entities where the Corporation does not have operating control are recorded under the equity or cost method of accounting. There are no entities recorded under the equity method of accounting as of September 30, 2010 and 2009, respectively.

2. Significant Accounting Policies

Use of Estimates

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

Fair Value of Financial Instruments

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

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.

Investments and Investment Income

The Corporation 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 investments are managed by external investment managers within established investment guidelines. The value of the Corporation's investment in the HSD represents the Corporation's pro rata share of the HSD's investments held for participants. At September 30, 2010 and 2009, the Corporation's investment in the HSD was $290,053 and $240,956, respectively. The Corporation also invests in equity, private equity and other investments that are locally managed. Primarily all of these funds are held by The St. Vincent's Medical Center Foundation Inc. (Foundation) where the Corporation has significant beneficial interest in Foundation assets. The Corporation reports both its investment in the HSD and in locally managed investments 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.

Investment returns are comprised dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. All of the Corporation'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.

2. Significant Accounting Policies (continued)

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.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair 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 $23,481 and $20,021, respectively. Estimated useful lives by asset category are as follows: land improvements – 10 to 15 years; buildings – 10 to 40 years; and equipment – 5 to 25 years. Interest costs incurred as part of the related construction are capitalized during the period of construction. Net interest capitalized in 2010 and 2009 was $168 and $1,736, respectively.

Costs incurred in the development and installation of internal use software are expensed or capitalized depending on the software development stage in which the cost is incurred. Generally, costs incurred in the preliminary stage and post implementation stage are expensed as incurred, while other costs incurred during the application development stage are generally capitalized. Amounts capitalized are amortized over the useful life of the developed asset following project completions.

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

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

2. Significant Accounting Policies (continued)

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

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 performance indicator is 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 sponsor and other affiliates, and net assets released from restrictions for property acquisitions.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Operating and Nonoperating Activities

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

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

The following table summarizes net revenue from services to patients:

	Year Ended September 30	
	2010	**2009**
Gross patient service revenue	**$ 940,977**	$ 862,620
Deductions:		
Allowances	**560,603**	506,426
Charity care	**7,667**	8,900
Net patient service revenue	**$ 372,707**	$ 347,294

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 Hall-Brooke, 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 reasonable 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 $1,788 and $4,341 for the years ended September 30, 2010 and 2009, respectively.

During 2010 and 2009, approximately 41% and 42%, respectively, of net patient service revenue were received under the Medicare program, 12% and 10%, respectively, under various state Medicaid programs, 34% and 31% from contracts with HMOs and PPOs, 10% and 12% from contracts with commercial carriers, and 3% and 5% from other payers.

The Medical Center and Hall-Brooke grant credit without collateral to their 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 (7% and 9%, respectively), and self-pay and other (21% and 20%, respectively).

The provision for bad debts is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad 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, both the Medical Center and Hall-Brooke follow established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Medical Center's and Hall-Brooke'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 3 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 Corporation's fiscal year ended September 30, 2012. The adoption of this guidance did not have a significant impact on the Corporation'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.

Income Taxes

The member health care entities of the Corporation, except for Pequot and Vincentures, are tax-exempt corporations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). No provision is necessary for Pequot as its activities are immaterial and Vincentures is inactive. The Multispecialty Group has applied for tax-exempt status under the Internal Revenue Code Section 501(c)(3). The Corporation accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

2. Significant Accounting Policies (continued)

Regulatory Compliance

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

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

Subsequent Events

The Corporation 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 Corporation 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

The Corporation's investments are comprised of the Corporation's pro rata share of the HSD 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 Corporation's investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	September 30, 2010	September 30, 2009
Cash and cash equivalents	**$ 7,535**	$ 12,274
Short-term investments	**20,955**	11,030
Other investments	**76,973**	55,985
Board-designated investments	**205,454**	187,721
Assets limited as to use:		
Temporarily or permanently restricted	**29,394**	46,972
Total	**$ 340,311**	$ 313,982

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	September 30, 2009
Cash and cash equivalents and short-term investments	**$ 21,676**	$ 33,364
U.S. government obligations	**1,773**	–
Corporate and foreign fixed income	**2,298**	–
Asset backed securities	**1,129**	–
Equity securities	**16,954**	27,047
Pledges receivable, net	**2,646**	8,049
Other investments	**3,782**	4,566
Pro rata share of HSD funds held for participants	**290,053**	240,956
	$ 340,311	$ 313,982

(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%

Investment return is summarized as follows:

	Year Ended September 30 2010	2009
Investment gains (losses) in HSD	**$ 29,986**	$ (5,101)
Interest and dividends	**4**	4
Net gains on investments reported at fair value	**3,694**	642
Total investment return, net	**$ 33,684**	$ (4,455)
Included in nonoperating gains (losses)	**$ 32,144**	$ (5,153)
Reported separately as increase in temporarily restricted net assets	**1,540**	698
Total investment return, net	**$ 33,684**	$ (4,455)

4. Fair Value Measurements

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

As of September 30, 2010 and 2009, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

Cash and cash equivalents and short-term investments

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

4. Fair Value Measurements (continued)

U.S. government obligations

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

Asset-backed securities

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

Corporate and foreign fixed income investments

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

Equity securities

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

Other investments

The fair value of other investments is determined by an independent third party.

Guaranteed pooled fund

The fair value of guaranteed pooled fund investments is based on cost plus guaranteed, annuity contract based, interest rates.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use note, the Corporation 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 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 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 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 based on Level 1, Level 2 and Level 3 inputs, respectively.

The following table summarizes fair value measurements, by level, at September 30, 2010, for all other financial assets and liabilities which are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 5,720	$ 4,001	$ –	$ 9,721
Short-term investments	–	3,995		3,995
U.S. Government Obligations	–	1,773	–	1,773
Corporate and foreign fixed income investments	–	2,298	–	2,298
Asset backed securities	–	1,129	–	1,129
Equity securities	16,954	–	–	16,954
Other investments	382	–	3,400	3,782
Assets not at fair value	–	–	–	10,606
Deferred compensation assets, included in other noncurrent assets, invested in:				
Mutual funds	4,094	–	–	4,094
Guaranteed pooled fund	–	–	7	7

(Dollars in Thousands)

4. Fair Value Measurements (continued)

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,190	$ –	$ –	$ 7,190
Short-term investments	–	13,364		13,364
Equity securities	27,047	–	–	27,047
Other investments	1,538	–	2,851	4,389
Assets not at fair value	–	–	–	21,036
Deferred compensation assets, included in other noncurrent assets, invested in:				
Mutual Funds	3,308	–	–	3,308
Guaranteed pooled fund	–	–	26	26

During the year ended September 30, 2010, the changes in the fair value of the foregoing financial assets measured using significant unobservable inputs (Level 3), were comprised of the following:

	For the Year Ended September 30, 2010	
	Other Investments	Guaranteed Pooled Fund
Beginning balance	$ 2,851	$ 26
Total realized and unrealized gains (losses):		
Included in income from operations	(28)	–
Included in nonoperating gains (losses)	414	–
Included in changes in net assets	(24)	–
Purchases, issuances and settlements	10	(27)
Transfers to Level 3	177	8
Ending balance	$ 3,400	$ 7

(Dollars in Thousands)

4. Fair Value Measurements (continued

During the year ended September 30, 2009, the changes in the fair value of the foregoing financial assets measured using significant unobservable inputs (Level 3), were comprised of the following:

	For the Year Ended September 30, 2009	
	Other Investments	**Guaranteed Pooled Fund**
Beginning balance	$ 6,888	$ 62
Total realized and unrealized gains (losses):		
Included in nonoperating gains (losses)	(565)	–
Included in changes in net assets	(596)	–
Purchases, issuances and settlements	(2,145)	(27)
Transfers out of Level 3	(731)	(9)
Ending balance	$ 2,851	$ 26

5. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2010	**2009**
State of Connecticut Health and Educational Facilities Authority, 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	**$ 34,400**	$ 35,600
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	**36,020**	36,393
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
	79,729	80,539
Less current portion of long-term debt	**1,502**	1,667
	$ 78,227	$ 78,872

(Dollars in Thousands)

5. Long-Term Debt (continued)

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

Year Ending September 30:	
2011	$ 1,502
2012	1,548
2013	1,550
2014	1,842
2015	1,966
Thereafter	71,321
Total	$ 79,729

Certain members of Ascension Health participate in 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 Corporation is a senior obligated group member under the terms of the Senior MTI.

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

5. Long-Term Debt (continued)

Ascension Health, in its capacity of managing the system's debt program, has committed to making loans to the Corporation through November 15, 2029 in amounts ranging from $282 to $944 annually, with repayment to occur in annual installments ranging from $167 to $1,927, from November 2030 through November 2047.

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

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

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

5. Long-Term Debt (continued)

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 Corporation's pro rata portion of intercompany debt to Ascension Health increased approximately $225, 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 the fair value based on a portfolio market valuation provided by a third party.

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

As of September 30, 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 Subordinate Credit Group members at September 30, 2010.

5. Long-Term Debt (continued)

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt which can be as short as 30 days or as long as 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.

During the years ended September 30, 2010 and 2009, interest paid was approximately $2,433 and $924, respectively. Capitalized interest was approximately $168 and $1,736, for the years ended September 30, 2010 and 2009, respectively.

6. Permanently Restricted Endowments

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

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

6. Permanently Restricted Endowments (continued)

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

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

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Corporation to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles, deficiencies of this nature that are reported in unrestricted net assets were $(462) and $(1,100) as of September 30, 2010 and 2009, respectively.

Return Objectives and Risk Parameters

The Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period. Under these policies, endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs. Actual results in any given year may vary from this amount. The Corporation expects its endowment funds, over time, to provide an average rate of return to exceed inflation and investment fees by at least 2% to 5%, dependent on investment mix. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

(Dollars in Thousands)

6. Permanently Restricted Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Endowment Net Asset Composition by Type of Fund as of September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds (deficit)	$ (462)	$ 1,888	$ 10,794	$ 12,220

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)	$ (1,100)	$ 1,429	$ 10,213	$ 10,542
Investment return:				
Investment income	–	451	–	451
Net appreciation (realized and unrealized)	638	115	–	753
Total investment return	638	566	–	1,204
Contributions	–	–	1,487	1,487
Transfers	–	2	(906)	(904)
Appropriation of endowment assets for expenditure	–	(109)	–	(109)
Endowment net assets, ending balance (deficit)	$ (462)	$ 1,888	$ 10,794	$ 12,220

(Dollars in Thousands)

6. Permanently Restricted Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,100)	$ 1,429	$ 10,213	$ 10,542

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)	$ (1,028)	$ 1,935	$ 10,135	$ 11,042
Investment return:				
Investment income	–	563	–	563
Net depreciation (realized and unrealized)	(72)	(1,047)	5	(1,114)
Total investment return	(72)	(484)	5	(551)
Contributions	–	–	39	39
Transfers	–	54	34	88
Appropriation of endowment assets for expenditure	–	(76)	–	(76)
Endowment net assets, ending balance (deficit)	$ (1,100)	$ 1,429	$ 10,213	$ 10,542

7. Pension Plans

The Corporation 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's Plan 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 $8,186 in 2010 and $5,481 in 2009 was charged to the Corporation. The service cost component of net periodic pension cost charged to the Corporation is actuarially determined while all other components are allocated based on the Corporation's pro-rata share of Ascension Health's overall projected benefit obligation.

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 Ascension Plan, the other participating entities are obligated to do so. As of September 30, 2010, the Ascension Plan had a net unfunded liability of $647,704. The Corporation'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 $38,980 and $37,417, respectively. As a result of updating the funded status of the Plan, Ascension transferred an additional pension liability of $2,388 and $30,376 to the Corporation during 2010 and 2009 respectively, which is included in transfer (to) from 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 $80 to the Corporation, which is included in transfers from to 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 Corporation, 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 Corporation sponsors a noncontributory, defined contribution plan covering all eligible associates hired after January 1, 2006. Employer automatic contributions are determined as a percentage of a participant’s salary and increases over specified periods of employee service. These benefits are funded annually. In addition the Corporation 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 are funded each payroll period.

Participants become fully vested in the employer matching contributions immediately and employer automatic contributions after five years. Defined contribution expense was $1,005 and $815 during 2010 and 2009, respectively. Amounts equal to defined contribution expense are funded annually.

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 the Corporation’s defined benefit pension plan (Health Plan), the Medical Center sponsors a defined benefit health care plan for employees that provides 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 per employee contribution to $1.2 per annum. The 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 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 the year	**$ –**	$ –
Funded status	**$ (3,173)**	$ (3,194)
Unrecognized prior service cost	**–**	–
Unrecognized net actuarial loss	**–**	–
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 Corporation 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 companies 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 Corporation participates in Ascension Health's professional and general liability self-insured program which provides claims-made coverage through a wholly owned on-shore trust and offshore captive insurance company. The Medical Center has a deductible of $100 per claim, and all others have no deductible. 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 $7,486 and $5,093 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 Corporation 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 losses. 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 $1,911 and $1,652 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:

Years Ending September 30:	
2011	$ 2,307
2012	2,235
2013	1,934
2014	1,904
2015	1,949
Thereafter	9,411
Total	$ 19,740

Rental expense under operating leases amounted to $4,699 and $4,774 in 2010 and 2009, respectively.

(Dollars in Thousands)

11. St. Vincent's Medical Center Foundation, Inc. (Foundation)

The following table shows the Foundation's unrestricted and restricted operations for the years ended September 30:

	2010		
	Unrestricted	**Temporarily and Permanently Restricted**	**Total**
Contributions	$ 299	$ 11,881	$ 12,180
Non-operating gains (losses):			
Other income	33	4	37
Net asset released from restriction	–	–	–
Changes in value of trusts	–	(991)	(991)
Investment income	2,125	1,536	3,661
Operating expenses:			
Salaries and wages	625	–	625
Employee benefits	170	–	170
Support activities	308	28,364	28,672
Fundraising	124	531	655
Other expenses	703	–	703
Depreciation	59	–	59
Total operating expenses	1,989	28,895	30,884
Net loss	$ 468	$ (16,465)	$ (15,997)

(Dollars in Thousands)

11. St. Vincent’s Medical Center Foundation, Inc. (Foundation) (continued)

	2009		
	Unrestricted	**Temporarily and Permanently Restricted**	**Total**
Contributions	$ 7	$ 11,812	$ 11,819
Non-operating gains (losses):			
Other income	34	5	39
Net asset released from restriction	–	–	–
Changes in value of trusts	–	(7)	(7)
Investment income	(86)	693	607
Operating expenses:			
Salaries and wages	607	–	607
Employee benefits	176	–	176
Support activities	168	18,445	18,613
Fundraising	153	464	617
Other expenses	547	–	547
Depreciation	50	–	50
Total operating expenses	1,701	18,909	20,610
Net loss	$ (1,746)	$ (6,406)	$ (8,152)

12. Related Party Transactions

The Corporation 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 Corporation for these services represent both allocations of common costs and specifically identified expenses that are incurred by Ascension Health on behalf of the Corporation. Allocations are based on relevant metrics such as the Corporation’s pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of Ascension Health. The amounts charged to the Corporation for these services may not necessarily result in the net costs that would be incurred by the Corporation on a stand-alone basis. The charges allocated to the Corporation were approximately $2,563 and $2,453 for the years ended September 30, 2010 and 2009, respectively.

(Dollars in Thousands)

12. Related Party Transactions (continued)

During 2010 and 2009, the Corporation transferred $519 and $525 to its sponsor, Ascension Health, to fund the Corporation'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 Corporation during the years 2011 through 2013. In addition, during 2010 and 2009, the Corporation transferred $8,444 and $6,162 to Ascension Health for system initiatives.

13. Temporarily and Permanently Restricted Net Assets

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Pledges receivable at September 30, 2010 and 2009 are comprised primarily of amounts contributed for the construction of the master facility plan at St. Vincent's Medical Center, including the Cancer Center, Emergency Department and Level 2 renovations.

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

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

	2010	2009
Due within one year	**$ 1,684**	$ 3,196
Due in one to five years	**1,609**	6,305
Thereafter	**371**	95
	3,664	9,596
Less allowance and discount to present value	**1,018**	1,547
Pledges receivable, net	**$ 2,646**	$ 8,049

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

(Dollars in Thousands)

13. Temporarily and Permanently Restricted Net Assets (continued)

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2010	**2009**
Health care services	**$ 2,668**	$ 2,511
Education and training	**1,855**	1,498
Capital	**10,856**	29,430
Other	**3,209**	3,143
	$ 18,588	$ 36,582

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

	September 30	
	2010	**2009**
Health care services	**$ 5,943**	$ 5,755
Education	**2,122**	2,093
Capital	**1,899**	1,546
Other	**830**	819
	$ 10,794	$ 10,213

14. Commitments and Contingencies

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

Other Financial Information

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Report of Independent Auditors on Other Financial Information

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

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), Hall-Brooke Behavioral Services, Inc. (Hall-Brooke), and The St. Vincent's Special Needs Center (Special Needs Center) for the year ended September 30, 2010 were audited by other auditors. The 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

St. Vincent’s Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

(Dollars in Thousands)

	St. Vincent’s Health Services Corporation	The St. Vincent’s Medical Center	The St. Vincent’s Medical Center Foundation	The St. Vincent’s Special Needs Center	St. Vincent’s Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Assets									
Current assets:									
Cash and cash equivalents	$ –	$ 6,328	$ 598	$ 448	$37	$ 124	$ –	$ –	$ 7,535
Investments in Health System Depository	–	17,194	–	2,723	209	829	–	–	20,955
Accounts receivable, less allowance for uncollectible accounts $______	–	45,726	–	–	–	15	–	–	45,741
Advances to (from) affiliated entities, net	–	5,348	(4,742)	(406)	(234)	(91)	(351)	476	–
Inventories and other	–	8,775	3,311	2,016	169	886	–	(124)	15,033
Current portion of note receivable, affiliate	–	–	–	–	–	404	–	(404)	–
Total current assets	–	83,371	(833)	4,781	181	2,167	(351)	(52)	89,264
Investments in Health System Depository	–	55,544	–	16,985	923	3,521	–	–	76,973
Note receivable, affiliate	–	–	–	–	–	11,191	–	(11,191)	–
Board-designated investments and assets limited as to use:									
Investments in Health System Depository	–	192,125	–	–	–	–	–	–	192,125
Other board-designated investments	–	–	13,329	–	–	–	–	–	13,329
Temporarily or permanently restricted	–	315	29,071	8	–	–	–	–	29,394
Temporarily or permanently restricted Interest in The St. Vincent’s Medical Center Foundation	–	26,304	–	2,338	–	179	–	(28,821)	–
Total board-designated investments and assets limited as to use	–	218,744	42,400	2,346	–	179	–	(28,821)	234,848
Interest in The St. Vincent’s Medical Center Foundation	3,978	312	–	673	–	3	–	(4,966)	–
Property and equipment:									
Land and improvements	–	7,802	138	446	4,397	812	–	–	13,595
Buildings and equipment	–	382,047	830	14,931	13,416	4,478	–	–	415,702
Construction in progress	–	7,882	–	–	–	–	–	–	7,882
Less accumulated depreciation	–	(184,549)	(271)	(6,976)	(4,389)	(1,945)	–	–	(198,130)
Total property and equipment, net	–	213,182	697	8,401	13,424	3,345	–	–	239,049
Other assets	–	4,445	808	19	24	–	–	–	5,296
Total assets	$ 3,978	$ 575,598	$ 43,072	$ 33,205	$ 14,552	$ 20,406	$ (351)	$ (45,030)	$ 645,430

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2010

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued liabilities	$ –	$ 40,407	$ 128	$ 1,450	$ 277	$ 630	$ 3	$ (3)	$ 42,892
Current portion of long-term debt	–	1,035	–	53	–	414	–	–	1,502
Current portion of note payable, affiliate	–	404	–	–	–	–	–	(404)	–
Estimated third-party payor settlements	–	12,219	–	–	–	72	–	–	12,291
Other current liabilities	–	1,889	15	323	–	246	–	–	2,473
Total current liabilities	–	55,954	143	1,826	277	1,362	3	(407)	59,158
Noncurrent liabilities:									
Long-term debt	–	59,295	–	6,502	–	12,430	–	–	78,227
Self-insurance liabilities	–	2,754	–	–	–	–	–	–	2,754
Note payable affiliate	–	11,191	–	–	–	–	–	(11,191)	–
Pension and other postretirement liabilities	–	38,847	–	2,645	–	661	–	–	42,153
Other liabilities	–	8,154	84	–	–	278	–	–	8,516
Total noncurrent liabilities	–	120,241	84	9,147	–	13,369	–	(11,191)	131,650
Total liabilities	–	176,195	227	10,973	277	14,731	3	(11,598)	190,808
Net assets:									
Unrestricted	3,978	372,784	13,786	19,886	14,275	5,496	(354)	(4,611)	425,240
Temporarily restricted	–	16,531	18,333	1,640	–	179	–	(18,095)	18,588
Permanently restricted	–	10,088	10,726	706	–	–	–	(10,726)	10,794
Total net assets	3,978	399,403	42,845	22,232	14,275	5,675	(354)	(33,432)	454,622
Total liabilities and net assets	$ 3,978	$ 575,598	$ 43,072	$ 33,205	$ 14,552	$ 20,406	$ (351)	$ (45,030)	$ 645,430

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2009

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Assets									
Current assets:									
Cash and cash equivalents	$ –	$ 10,792	$ 225	$ 968	$ 59	$ 230	$ –	$ –	$ 12,274
Investments in Health System Depository	–	8,636	–	1,422	152	820	–	–	11,030
Accounts receivable, less allowance for uncollectible accounts $22,070	–	40,833	–	–	–	796	–	–	41,629
Advances to (from) affiliated entities, net	–	2,853	(2,785)	37	(1)	13	(352)	235	–
Inventories and other	–	8,649	110	2,027	83	565	–	(235)	11,199
Current portion of note receivable, affiliate	–	–	–	–	–	404	–	(404)	–
Total current assets	–	71,763	(2,450)	4,454	293	2,828	(352)	(404)	76,132
Investments in Health System Depository	–	38,480	–	13,950	920	2,635	–	–	55,985
Note receivable, affiliate	–	–	–	–	–	11,596	–	(11,596)	–
Board-designated investments and assets limited as to use:									
Investments in Health System Depository	–	173,941	–	–	–	–	–	–	173,941
Other board-designated investments	–	–	13,780	–	–	–	–	–	13,780
Temporarily or permanently restricted	–	309	46,650	13	–	–	–	–	46,972
Temporarily or permanently restricted Interest in The St. Vincent's Medical Center Foundation	–	44,065	–	1,970	–	135	–	(46,170)	–
Total board-designated investments and assets limited as to use	–	218,315	60,430	1,983	–	135	–	(46,170)	234,693
Interest in The St. Vincent's Medical Center Foundation	3,263	390	–	524	–	2	–	(4,179)	–
Property and equipment:									
Land and improvements	–	8,428	138	446	3,771	660	–	–	13,443
Buildings and equipment	–	292,025	830	14,831	12,459	4,319	–	–	324,464
Construction in progress	–	68,279	–	–	–	–	–	–	68,279
Less accumulated depreciation	–	(163,170)	(212)	(6,429)	(3,878)	(1,983)	–	–	(175,672)
Total property and equipment, net	–	205,562	756	8,848	12,352	2,996	–	–	230,514
Other assets	–	3,735	966	19	24	–	–	–	4,744
Total assets	$ 3,263	$ 538,245	$ 59,702	$ 29,778	$ 13,589	$ 20,192	$ (352)	$ (62,349)	$ 602,068

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2009

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued liabilities	$ –	$ 45,128	$ 114	$ 1,269	$ 197	$ 963	$ 2	$ –	$ 47,673
Current portion of long-term debt	–	1,162	–	85	–	420	–	–	1,667
Current portion of note payable, affiliate	–	404	–	–	–	–	–	(404)	–
Estimated third-party payor settlements	–	9,102	–	–	–	29	–	–	9,131
Other current liabilities	–	1,614	66	323	–	174	–	–	2,177
Total current liabilities	–	57,410	180	1,677	197	1,586	2	(404)	60,648
Noncurrent liabilities:									
Long-term debt	–	59,493	–	6,537	–	12,842	–	–	78,872
Self-insurance liabilities	–	2,936	–	–	–	–	–	–	2,936
Note payable affiliate	–	11,596	–	–	–	–	–	(11,596)	–
Pension and other postretirement liabilities	–	37,376	–	2,784	–	439	–	–	40,599
Other liabilities	–	6,606	680	–	–	442	–	–	7,728
Total noncurrent liabilities	–	118,007	680	9,321	–	13,723	–	(11,596)	130,135
Total liabilities	–	175,417	860	10,998	197	15,309	2	(12,000)	190,783
Net assets:									
Unrestricted	3,263	318,454	12,369	16,797	13,392	4,748	(354)	(4,179)	364,490
Temporarily restricted	–	34,861	36,328	1,283	–	135	–	(36,025)	36,582
Permanently restricted	–	9,513	10,145	700	–	–	–	(10,145)	10,213
Total net assets	3,263	362,828	58,842	18,780	13,392	4,883	(354)	(50,349)	411,285
Total liabilities and net assets	$ 3,263	$538,245	$ 59,702	$ 29,778	$ 13,589	$ 20,192	$ (352)	$ (62,349)	$ 602,068

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2010

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Operating revenues:									
Net patient service revenue	$ –	$ 371,617	$ –	$ –	$ –	$ 1,090	$ –	$ –	$ 372,707
Other revenue	–	10,447	299	21,716	2,215	6,750	–	(4,632)	36,795
Net assets released from restrictions used for operations	–	1,243	–	38	–	21	–	–	1,302
Total operating revenues	–	383,307	299	21,754	2,215	7,861	–	(4,632)	410,804
Operating expenses:									
Salaries and wages	–	161,015	–	11,544	–	3,629	–	–	176,188
Employee benefits	–	40,839	–	3,876	–	1,430	–	–	46,145
Purchased services	–	29,089	–	120	307	222	–	(2,618)	27,120
Professional fees	–	6,121	–	238	291	84	–	–	6,734
Supplies	–	61,157	–	537	1	90	–	–	61,785
Insurance	–	7,333	–	429	8	29	–	–	7,799
Bad debts	–	21,780	–	5	33	167	–	–	21,985
Interest	–	2,186	–	204	2	41	–	–	2,433
Depreciation and amortization	–	22,170	–	629	511	171	–	–	23,481
Other	–	21,540	–	3,409	1,401	1,914	–	(1,719)	26,545
Total operating expenses	–	373,230	–	20,991	2,554	7,777	–	(4,337)	400,215
Income (loss) from operations	–	10,077	299	763	(339)	84	–	(295)	10,589
Nonoperating gains (losses):									
Investment income (loss)	–	27,367	2,158	2,114	109	396	–	–	32,144
Other	–	133	(1,989)	17	–	540	–	295	(1,004)
Total nonoperating gains (losses), net	–	27,500	169	2,131	109	936	–	295	31,140
Excess (deficiency) of revenue and gains over expenses	–	37,577	468	2,894	(230)	1,020	–	–	41,729

St. Vincent's Health Services Corporation and Subsidiaries

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

Year Ended September 30, 2010

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Unrestricted net assets:									
Excess (deficiency) of revenue and gains over expenses	$ –	$ 37,577	$ 468	$ 2,894	$ (230)	$ 1,020	$ –	$ –	$ 41,729
Transfers (to) from sponsor, net	–	(12,773)	–	(205)	1,113	(299)	–	(57)	(12,221)
Net assets released from restrictions for property acquisitions	–	27,123	–	–	–	–	–	–	27,123
Pension and other postretirement liability adjustments	–	2,481	–	308	–	27	–	–	2,816
Transfer from (to) temporarily and permanently restricted net assets	–	–	949	–	–	–	–	–	949
Change in interest in Foundation	715	(78)	–	92	–	–	–	(729)	–
Other	–	–	–	–	–	–	–	354	354
Increase (decrease) in unrestricted net assets	715	54,330	1,417	3,089	883	748	–	(432)	60,750
Temporarily restricted net assets:									
Contributions	–	28,367	10,396	33	–	26	–	(27,791)	11,031
Investment income, net	–	5	(685)	–	–	–	–	–	(680)
Net change in unrealized gains on investments	–	–	2,220	–	–	–	–	–	2,220
Net assets released from restrictions	–	(28,366)	(27,791)	(33)	–	(26)	–	27,791	(28,425)
Transfer (to) from unrestricted and permanently restricted net assets	–	–	(1,034)	–	–	–	–	–	(1,034)
Change in interest in Foundation	–	(18,336)	–	362	–	44	–	17,930	–
Other	–	–	(1,101)	(5)	–	–	–	–	(1,106)
(Decrease) increase in temporarily restricted net assets	–	(18,330)	(17,995)	357	–	44	–	17,930	(17,994)
Permanently restricted net assets:									
Contributions	–	–	1,487	–	–	–	–	–	1,487
Transfer from unrestricted and temporarily restricted net assets	–	–	85	–	–	–	–	–	85
Change in interest in Foundation	–	575	–	6	–	–	–	(581)	–
Other	–	–	(991)	–	–	–	–	–	(991)
Increase (decrease) in permanently restricted net assets	–	575	581	6	–	–	–	(581)	581
Increase (decrease) in net assets	715	36,575	(15,997)	3,452	883	792	–	16,917	43,337
Net assets, beginning of the year	3,263	362,828	58,842	18,780	13,392	4,883	(354)	(50,349)	411,285
Net assets, end of the year	$ 3,978	$ 399,403	$ 42,845	$ 22,232	$ 14,275	$ 5,675	$ (354)	$ (33,432)	$ 454,622

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2009

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Operating revenues:									
Net patient service revenue	$–	$ 342,945	$ –	$ –	$ –	$ 4,349	$ –	$ –	$ 347,294
Other revenue	–	12,575	7	20,752	2,175	4,713	10	(1,519)	38,713
Net assets released from restrictions used for operations	–	991	–	28	–	26	–	–	1,045
Total operating revenues	–	356,511	7	20,780	2,175	9,088	10	(1,519)	387,052
Operating expenses:									
Salaries and wages	–	153,471	–	11,181	–	4,047	–	–	168,699
Employee benefits	–	34,320	–	3,219	–	1,434	–	–	38,973
Purchased services	–	24,158	–	106	–	103	3	–	24,370
Professional fees	–	5,956	–	239	92	53	–	–	6,340
Supplies	–	60,745	–	667	2	123	–	–	61,537
Insurance	–	5,384	–	427	3	28	(2)	–	5,840
Bad debts	–	21,837	–	1	33	247	–	–	22,118
Interest	–	678	–	213	1	29	3	–	924
Depreciation and amortization	–	18,686	–	657	512	166	–	–	20,021
Other	–	21,107	–	3,230	1,347	2,369	–	(1,247)	26,806
Total operating expenses	–	346,342	–	19,940	1,990	8,599	4	(1,247)	375,628
Income (loss) from operations	–	10,169	7	840	185	489	6	(272)	11,424
Nonoperating (losses) gains:									
Investment (loss) income	–	(3,134)	(52)	(2,306)	38	301	–	–	(5,153)
Other	(217)	316	(1,701)	(18)	–	(9)	–	495	(1,134)
Total nonoperating (losses) gains, net	(217)	(2,818)	(1,753)	(2,324)	38	292	–	495	(6,287)
(Deficiency) excess of revenue and gains over expenses	(217)	7,351	(1,746)	(1,484)	223	781	6	223	5,137

St. Vincent's Health Services Corporation and Subsidiaries

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

Year Ended September 30, 2009

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Unrestricted net assets:									
(Deficiency) excess of revenue and gains over expenses	$ (217)	$ 7,351	$ (1,746)	$ (1,484)	$ 223	$ 781	$ 6	$ 223	$ 5,137
Transfers from (to) sponsor, net	–	(40,944)	(1)	(2,402)	(96)	6,298	–	57	(37,088)
Net assets released from restrictions for property acquisitions	–	16,927	–	170	–	10	–	–	17,107
Pension and other postretirement liability adjustments	–	(1,134)	–	245	–	–	–	–	(889)
Transfer (to) from temporarily and permanently restricted net assets	–	–	(749)	–	–	–	–	–	(749)
Change in interest in Foundation	(498)	(942)	–	(180)	–	–	–	1,620	–
Other	–	–	–	–	–	–	–	–	–
(Decrease) increase in unrestricted net assets	(715)	(18,742)	(2,496)	(3,651)	127	7,089	6	1,900	(16,482)
Temporarily restricted net assets:									
Contributions	–	17,897	11,773	198	–	35	–	(17,762)	12,141
Investment income, net	–	4	(185)	–	–	–	–	–	(181)
Net change in unrealized gains (losses) on investments	–	–	879	–	–	–	–	–	879
Net assets released from restrictions	–	(17,918)	(17,763)	(198)	–	(35)	–	17,762	(18,152)
Transfer from (to) unrestricted and permanently restricted net assets	–	–	715	–	–	–	–	–	715
Change in interest in Foundation	(306)	(5,532)	–	(604)	–	79	–	6,363	–
Other	–	(1)	(1,210)	–	–	–	–	–	(1,211)
(Decrease) increase in temporarily restricted net assets	(306)	(5,550)	(5,791)	(604)	–	79	–	6,363	(5,809)
Permanently restricted net assets:									
Contributions	–	–	39	–	–	–	–	–	39
Transfer from unrestricted and temporarily restricted net assets	–	–	34	–	–	–	–	–	34
Change in interest in Foundation	–	126	–	–	–	(48)	–	(78)	–
Other	–	–	5	–	–	–	–	–	5
(Decrease) increase in permanently restricted net assets	–	126	78	–	–	(48)	–	(78)	78
(Decrease) increase in net assets	(1,021)	(24,166)	(8,209)	(4,255)	127	7,120	6	8,185	(22,213)
Net assets, beginning of the year	4,284	386,994	67,051	23,035	13,265	(2,237)	(360)	(58,534)	433,498
Net assets, end of the year	$ 3,263	$ 362,828	$ 58,842	$ 18,780	$ 13,392	$ 4,883	$ (354)	$ (50,349)	$ 411,285

St. Vincent's Health Services Corporation and Subsidiaries

Schedule of Net Cost of Providing Care of Persons Who are Poor and Community Benefit Programs

Year Ended September 30, 2010

(Dollars in Thousands)

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

Traditional charity care provided	$ 3,920
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	$ 18,732