Consolidated Financial Statements and Other Financial Information

St. Vincent's Health Services Corporation and Subsidiaries
Member of Ascension Health
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

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St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2011 and 2010

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

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

Report of Independent Auditors

The Board of Directors
St. Vincent's 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, 2011 and 2010, 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"), St. Vincent's Development Corporation ("Development") or The St. Vincent's Special Needs Center (the "Special Needs Center"), all wholly-owned subsidiaries, which statements reflect total assets of 10% as of September 30, 2011 and 2010, and revenues of 8% and 9%, respectively, for the years then ended. 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, Development 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 other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of the Corporation at September 30, 2011 and 2010, 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

March 19, 2012

St. Vincent's Health Services Corporation and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands)

	September 30 2011	2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 8,155**	$ 7,535
Investments in Health System Depository	**4,548**	20,955
Accounts receivable, less allowance for uncollectible accounts ($28,663 in 2011 and $20,807 in 2010)	**47,626**	45,741
Inventories and other	**13,983**	15,033
Total current assets	**74,312**	89,264
Investments in Health System Depository	**108,053**	76,973
Board-designated investments and assets limited as to use:		
Investments in Health System Depository	**184,050**	192,125
Other board-designated investments	**16,148**	13,434
Temporarily or permanently restricted	**24,161**	29,394
Total board-designated investments and assets limited as to use	**224,359**	234,953
Property and equipment, net:		
Land and improvements	**14,040**	13,595
Buildings and equipment	**426,272**	405,210
Construction in progress	**8,014**	7,882
Less accumulated depreciation	**(212,078)**	(192,289)
Total property and equipment, net	**236,248**	234,398
Other assets	**13,706**	9,842
Total assets	**$ 656,678**	$ 645,430

	September 30	
	2011	**2010**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 52,506**	$ 42,892
Current portion of long-term debt	**1,427**	1,502
Estimated third-party payor settlements	**10,883**	12,291
Other current liabilities	**459**	2,473
Total current liabilities	**65,275**	59,158
Noncurrent liabilities:		
Long-term debt	**57,659**	78,227
Self-insurance liabilities	**2,963**	2,754
Pension and other postretirement liabilities	**13,962**	42,153
Other liabilities	**10,458**	8,516
Total noncurrent liabilities	**85,042**	131,650
Total liabilities	**150,317**	190,808
Net assets:		
Unrestricted	**482,267**	425,240
Temporarily restricted	**13,250**	18,588
Permanently restricted	**10,844**	10,794
Total net assets	**506,361**	454,622
Total liabilities and net assets	**$ 656,678**	$ 645,430

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	
	2011	**2010**
Operating revenues:		
Net patient service revenue	**$ 400,348**	$ 372,707
Other revenue	**37,202**	36,795
Net assets released from restrictions for operations	**1,356**	1,302
Total operating revenues	**438,906**	410,804
Operating expenses:		
Salaries and wages	**185,064**	176,188
Employee benefits	**48,538**	46,145
Purchased services	**29,978**	27,120
Professional fees	**8,730**	6,734
Supplies	**60,040**	61,785
Insurance	**5,559**	7,799
Bad debts	**33,993**	21,985
Interest	**2,776**	2,433
Depreciation and amortization	**24,213**	23,481
Other	**27,704**	26,545
Total operating expenses	**426,595**	400,215
Income from operations	**12,311**	10,589
Non-operating gains (losses):		
Investment gain	**11,660**	32,144
Other	**(1,229)**	(1,004)
Total non-operating gains, net	**10,431**	31,140
Excess of revenue and gains over expenses	**22,742**	41,729

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 (continued)

(Dollars in Thousands)

	Year Ended September 30	
	2011	**2010**
Unrestricted net assets:		
Excess of revenue and gains over expenses	**$ 22,742**	$ 41,729
Transfers from (to) sponsor and other affiliates, net	**19,705**	(12,221)
Net assets released from restrictions for property acquisitions	**8,131**	27,123
Pension and other postretirement liability adjustments	**5,712**	2,816
Transfer from temporarily and permanently restricted net assets	**71**	949
Other	**666**	354
Increase in unrestricted net assets	**57,027**	60,750
Temporarily restricted net assets:		
Contributions	**5,619**	11,031
Investment income, net	**621**	(680)
Net change in unrealized (losses) gains on investments	**(795)**	2,220
Net assets released from restrictions	**(9,487)**	(28,425)
Transfer to unrestricted and permanently restricted net assets	**(97)**	(1,034)
Other	**(1,199)**	(1,106)
Decrease in temporarily restricted net assets	**(5,338)**	(17,994)
Permanently restricted net assets:		
Contributions	**24**	1,487
Transfer from unrestricted and temporarily restricted net assets	**26**	85
Other	**–**	(991)
Increase in permanently restricted net assets	**50**	581
Increase in net assets	**51,739**	43,337
Net assets, beginning of the year	**454,622**	411,285
Net assets, end of the year	**$ 506,361**	$ 454,622

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 2011	Year Ended September 30 2010
Cash flows from operating activities		
Increase in net assets	**$ 51,739**	$ 43,337
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**24,213**	23,481
Donated property	**(762)**	–
Loss (gain) on sale of property and equipment	**762**	(398)
Pension and other post-retirement liability adjustments	**(5,712)**	(2,816)
Restricted contributions and investment income	**(6,264)**	(11,838)
Net change in unrealized gains and (losses) on investments	**8,425**	(17,833)
Transfers (from) to sponsor, net	**(19,705)**	12,221
(Increase) decrease in:		
Investments classified as trading	**(17,737)**	(30,813)
Accounts receivable, net	**(1,885)**	(4,112)
Inventories and other current assets	**1,050**	(3,834)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**9,614**	(4,781)
Estimated third-party payor settlements	**(1,408)**	3,160
Pension and other postretirement liabilities	**5,839**	1,982
Other current liabilities	**(2,014)**	296
Other liabilities	**2,151**	606
Net cash provided by operating activities	**48,306**	8,658
Cash flows from investing activities		
Property and equipment additions, net	**(26,243)**	(27,911)
Proceeds from sale of property and equipment	**180**	943
Decrease in assets limited as to use – restricted	**5,233**	17,578
Increase in other assets	**(3,864)**	(5,203)
Net cash used in investing activities	**(24,694)**	(14,593)
Cash flows from financing activities		
Transfers to sponsor, net	**(8,613)**	(9,611)
Repayment of long-term debt	**(20,643)**	(1,031)
Restricted contributions and investment income	**6,264**	11,838
Net cash (used in) provided by financing activities	**(22,992)**	1,196
Net increase (decrease) in cash and cash equivalents	**620**	(4,739)
Cash and cash equivalents, beginning of the year	**7,535**	12,274
Cash and cash equivalents, end of the year	**$ 8,155**	$ 7,535

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, consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 20 states throughout 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, a behavioral health hospital located in Westport, Connecticut and several nonprofit subsidiaries. The Medical Center provides inpatient, outpatient, and emergency care services for residents of the Greater Bridgeport area and its neighboring towns. Admitting physicians are primarily practitioners in the local area. The St. Vincent's Multispecialty Group, Inc. ("Multispecialty Group"), a nonprofit subsidiary of the Medical Center, is a consolidated group of primary care and specialty physicians and allied health professionals providing service to the Medical Center and the community. The St. Vincent's College, Inc. ("College"), a nonprofit subsidiary of the Medical Center, is an institution 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 Fairfield county, Connecticut, is principally engaged in the operation of a special education school in Westport, Connecticut and residential services for residents of Fairfield County.

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.

1. Organization and Mission (continued)

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

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. Pequot filed for dissolution in August 2011.

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 persons living in poverty and other vulnerable persons, 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 living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for the persons living in poverty and other vulnerable persons.

- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.

1. Organization and Mission (continued)

- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons who are living in poverty and community benefit programs. The cost of providing care of persons who are living in poverty and community benefit programs is estimated using internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association ("CHA") and the Internal Revenue Service ("IRS").

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense was approximately $3,553 and $2,579 for the years ended September 30, 2011 and 2010, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying 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, 2011 and 2010, 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.

2. Significant Accounting Policies (continued)

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.

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. Investments are managed primarily 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, 2011 and 2010, the Corporation's investment in the HSD was $296,651 and $290,053, respectively. The Corporation also invests in equity and fixed income investments which are locally managed. All of these funds are held by the Foundation. The Corporation reports both its investment in the HSD and at the Foundation in the accompanying consolidated balance sheets based upon the long or short term nature of its investment and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of Ascension Health.

The HSD and Foundation's assets required to be recorded at fair value are comprised of equity and various fixed income investments. The HSD and Foundation also hold 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.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Investment returns are comprised of 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 non-operating gains (losses) in the consolidated statements of operations and changes in net assets, unless the return is restricted by donor or law.

Inventories

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

Other Assets

Other assets primarily consist of goodwill and capitalized computer software costs, including software internally developed. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage or post-implementation stage. Other assets are comprised of the following:

	September 30	
	2011	**2010**
Goodwill	**$ 375**	$ –
Capitalized computer software costs	**7,122**	4,650
Other	**6,209**	5,192
	$ 13,706	$ 9,842

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets in 2011 and 2010 was $1,332 and $1,157, respectively.

Property and Equipment, Net

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

2. Significant Accounting Policies (continued)

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2011 and 2010 was $22,881 and $22,324, 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. During 2010, the Corporation capitalized net interest of $168. No interest was capitalized during 2011.

Several capital projects have remaining construction and related equipment purchase commitments of approximately $11,272 as of September 30, 2011.

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.

The Corporation's most significant retirement obligation relates to required future asbestos remediation of physical plant and buildings constructed prior to 1975. Asset retirement obligations of $392 and $409 as of September 30, 2011 and 2010, 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 2011 and 2010, $17 and $231, respectively, of retirement obligations were incurred and settled. Accretion expense of $30 was recorded in 2010. No accretion expense was recorded during 2011.

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.

2. Significant Accounting Policies (continued)

Contributions, Bequests, and Grants

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

Performance Indicator

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

Operating and Non-operating Activities

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

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

The following table summarizes net revenue from services to patients:

	Year Ended September 30	
	2011	**2010**
Gross patient service revenue	**$ 1,025,861**	$ 940,977
Deductions:		
Allowances	**616,487**	560,603
Charity care	**9,026**	7,667
Net patient service revenue	**$ 400,348**	$ 372,707

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.

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided excluding the provision for bad debt expense and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenues related to prior periods increased net patient service revenue by approximately $1,638 and $1,675 for the years ended September 30, 2011 and 2010, respectively.

During 2011 and 2010, approximately 39% and 41%, respectively, of net patient service revenue were received under the Medicare program, 13% and 12%, respectively, under various state Medicaid programs, 31% and 34% from contracts with HMOs and PPOs, 9% and 10% from contracts with commercial carriers, and 8% and 3% from other payers.

2. Significant Accounting Policies (continued)

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 (39% and 33%, respectively), Medicaid (17% and 19%, respectively), HMOs and PPOs (14% and 20%, respectively), commercial carriers (10% and 7%, respectively), and self-pay and other (20% and 21%, respectively).

The provision for bad debt expenses 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 debt expenses to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Medical Center and Hall-Brooke follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Medical Center's and Hall-Brooke's policies.

Adoption of New Accounting Standards

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amended Accounting Standards Codification ("ASC 820"), *Fair Value Measurements and Disclosure*, to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009. Adoption of ASU 2010-06 did not have a material effect on the Corporation's consolidated financial statements.

2. Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure*. ASU 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Corporation is evaluating the impact of ASU 2010-23 on its consolidated financial statement disclosures.

In August 2010, the FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Corporation is evaluating the impact of ASU 2010-24 on its consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. Under ASU 2011-07, certain health care entities that recognize significant amounts of patient service revenue at the time the services are rendered without assessing the patient's ability to pay will be required to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities will be required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Corporation is evaluating the impact of ASU 2011-07 on its consolidated financial statements.

Income Taxes

The member health care entities of the Corporation, except for Pequot and Vincentures, are tax-exempt organizations 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 it filed for dissolution in August 2011 and Vincentures is inactive. 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.

Reclassifications

Certain reclassifications were made to the 2010 consolidated financial statements to conform to the 2011 presentation.

Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30.2011, the Corporation evaluated events occurring subsequent to September 30, 2011 through March 19, 2012, representing the date on which the accompanying audited consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Except as disclosed in Note 7, there were no other nonrecognized subsequent events that required disclosure.

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.

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments (continued)

The Corporation's investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	September 30, 2011	September 30, 2010
Cash and cash equivalents	**$ 8,155**	$ 7,535
Short-term investments	**4,548**	20,955
Other investments	**108,053**	76,973
Board-designated investments	**200,198**	205,559
Temporarily or permanently restricted	**24,161**	29,394
Total	**$ 345,115**	$ 340,416

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, 2011	September 30, 2010
Cash and cash equivalents and short-term investments	**$ 16,042**	$ 21,676
U.S. government obligations	**2,227**	1,773
Corporate and foreign fixed income	**2,032**	2,298
Asset backed securities	**1,077**	1,129
Equity securities	**19,307**	16,954
Pledges receivable, net	**1,955**	2,751
Other investments	**5,824**	3,782
Pro rata share of HSD funds held for participants	**296,651**	290,053
	$ 345,115	$ 340,416

(Dollars in Thousands)

3. Cash and Cash Equivalents and Investments (continued)

As of September 30, 2011 and 2010, the composition of total HSD investments is as follows:

	Year Ended September 30	
	2011	**2010**
Cash and cash equivalents and short-term investments	**2.6%**	5.8%
U.S. government obligations	**35.4%**	20.9%
Asset-backed securities	**15.6%**	16.0%
Corporate and foreign fixed income investments	**9.3%**	17.5%
Equity, private equity and other	**37.1%**	39.8%
	100.0%	100.0%

Investment return is summarized as follows:

	Year Ended September 30	
	2011	**2010**
Investment gains in HSD	**$ 11,479**	$ 29,986
Interest and dividends	**654**	4
Net (losses) gains on investments reported at fair value	**(647)**	3,694
Total investment return, net	**$ 11,486**	$ 33,684
Included in non-operating gains	**$ 11,660**	$ 32,144
Reported separately as (decrease) increase in temporarily restricted net assets	**(174)**	1,540
Total investment return, net	**$ 11,486**	$ 33,684

4. Fair Value Measurements

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

4. Fair Value Measurements (continued)

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

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments classified in this level generally include exchange traded equity securities, futures, real estate investment trusts, pooled short-term investment funds, options and exchange traded mutual funds.

- 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. Investments classified in this level generally include fixed income securities, including fixed income government obligations, asset-backed securities, certificates of deposit, and derivatives.

- Level 3 – Inputs that are unobservable for the asset or liability. Investments classified in this level generally include alternative investments, private equity investments, limited partnerships, and certain fixed income securities, including fixed income government obligations, and derivatives.

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).

4. Fair Value Measurements (continued)

As of September 30, 2011 and 2010, 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.

Derivative assets and liabilities

The fair value of derivative contracts is primarily determined using techniques consistent with the market approach. Derivative contracts include interest rate, credit default, and total return swaps. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

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.

4. Fair Value Measurements (continued)

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.

Investments sold, not yet settled

The fair value of investments sold, not yet settled 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.

Guaranteed pooled fund

The fair value of guaranteed pooled fund investments is based on cost plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying the annuity contract, the contract value, and the annualized weighted average yield to maturity of the underlying investment portfolio.

4. Fair Value Measurements (continued)

Private equity investments

The fair value of private equity investments is primarily determined using techniques consistent with both the market and income approaches, based on the Corporation estimates and assumptions in absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Investments, and Other Assets Limited as to Use notes, 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, 2011, 21%, 77% and 2% 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%, 59% and 39% of total HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2 and Level 3 inputs, respectively. As of September 30, 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 at such fair values based on Level 1, Level 2 and Level 3 inputs, respectively.

(Dollars in Thousands)

4. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at September 30, 2011, 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	$ 5,979	$ –	$ –	$ 5,979
Short-term investments	–	1,253	–	1,253
U.S. Government Obligations	–	2,227	–	2,227
Corporate and foreign fixed income investments	–	2,032	–	2,032
Asset backed securities	–	1,077	–	1,077
Equity securities	19,307	–	–	19,307
Other investments	78	–	5,557	5,635
Assets not at fair value	–	–	–	10,952
Deferred compensation assets, included in other noncurrent assets, invested in:				
Mutual funds	5,083	–	–	5,083
Guaranteed pooled fund	–	–	3	3

(Dollars in Thousands)

4. Fair Value Measurements (continued)

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 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	–	–	–	10,710
Deferred compensation assets, included in other noncurrent assets, invested in:				
Mutual funds	4,084	–	–	4,084
Guaranteed pooled fund	–	–	7	7

During the year ended September 30, 2011, 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, 2011	
	Other Investments	Guaranteed Pooled Fund
Beginning balance	$ 3,400	$ 7
Total realized and unrealized gains (losses):		
Included in non-operating gains	243	–
Included in changes in net assets	(86)	–
Purchases, issuances and settlements	2,000	(1)
Transfers from Level 3	–	(3)
Ending balance	$ 5,557	$ 3

(Dollars in Thousands)

4. Fair Value Measurements (continued)

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 non-operating 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)

5. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2011	**2010**
State of Connecticut Health and Educational Facilities Authority ("CHEFA"), Variable Rate Demand Revenue Bonds (Ascension Health Credit Group), Series 1999B payable through November 2029; subject to a fixed rate of interest through February 1, 2012; interest (3.5% at September 30, 2011) set at prevailing market rates	**$ 33,200**	$ 34,400
Intercompany debt with Ascension Health, payable in installments through November 2047; interest (3.7% at September 30, 2011) adjusted based on prevailing blended market interest rate of underlying debt obligations	**15,719**	36,020
Intercompany debt with Ascension Health, payable in installments from November 2030 through November 2047; interest (3.7% at September 30, 2011) adjusted based on prevailing blended market interest rate of underlying debt obligations	**10,167**	9,309
	59,086	79,729
Less current portion of long-term debt	**1,427**	1,502
	$ 57,659	$ 78,227

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

Year Ending September 30:	
2012	$ 1,427
2013	1,425
2014	1,555
2015	1,666
2016	1,644
Thereafter	51,369
Total	$ 59,086

5. Long-Term Debt (continued)

Certain members of Ascension Health formed the Ascension Health Credit Group ("Senior Credit Group"). Each Senior Credit Group member is identified as either a senior obligated group member or senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture ("Senior MTI") to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by Ascension Health. Though senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health with stipulated repayment terms and conditions, each subject to the governing law of the senior 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 Behavioral Health Services, Inc. ("Hall-Brooke")) pursuant to separate Loan Agreements, each dated as of November 1, 1999, between the related issuer of such series and Ascension Health (or, solely with respect to the Connecticut Bonds, a Connecticut Borrower). The proceeds of the Connecticut bonds were loaned to the Medical Center and Hall-Brooke and were used to refund the CHEFA Variable Rate Demand Revenue Bonds ("Charity Obligated Group") St. Vincent's Medical Center/Hall-Brooke Issue, Series 1999B.

Ascension Health, in its capacity of managing the system's debt program, has committed to making loans to the Corporation through November 15, 2029 in amounts ranging from $187 to $626 annually, with repayment to occur in annual installments ranging from $110 to $1,278, from November 2030 through November 2047.

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

5. Long-Term Debt (continued)

A Subordinate Credit Group, which is comprised of 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.

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

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

5. Long-Term Debt (continued)

As of September 30, 2011, 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, 2013. As of September 30, 2011 and 2010, there were no borrowings under the line of credit.

As of September 30, 2011, 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, 2011 and 2010, there were no borrowings under the line of credit.

As of September 30, 2011, 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 28, 2011. As of September 30, 2011, $37,370 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 $4,100,240, which represents 39% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at September 30, 2011.

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, and other commitments at September 30, 2011 is approximately $175,000.

On April 1, 2011, the Medical Center participated with several other subsidiaries of SVHS in redeeming its intercompany debt with Ascension as part of a $20,000 debt redemption. The Medical Center's portion of the debt redemption was $12,258. The Special Need's portion of the debt redemption was $6,503. Hall-Brooke's portion of the debt redemption was $1,239.

During the years ended September 30, 2011 and 2010, interest paid was approximately $2,776 and $2,433, respectively. Capitalized interest was approximately $168, for the year ended September 30, 2010. There was no capitalized interest in 2011.

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.

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 $502 and $462 as of September 30, 2011 and 2010, respectively.

6. Permanently Restricted Endowments (continued)

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.

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.

(Dollars in Thousands)

6. Permanently Restricted Endowments (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2011

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning balance (deficit)	**$ (462)**	**$ 1,888**	**$ 10,794**	**$ 12,220**
Investment return:				
Investment income	**–**	**253**	**–**	**253**
Net depreciation (realized and unrealized)	**(40)**	**(229)**	**–**	**(269)**
Total investment return	**(40)**	**24**	**–**	**(16)**
Contributions	**–**	**–**	**24**	**24**
Transfers	**–**	**(526)**	**26**	**(500)**
Appropriation of endowment assets for expenditure	**–**	**(54)**	**–**	**(54)**
Endowment net assets, ending balance (deficit)	**$ (502)**	**$ 1,332**	**$ 10,844**	**$ 11,674**

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

7. Pension Plans

The Corporation participates in the Ascension Health Pension Plan ("the Ascension Plan"), the Ascension Health Defined Contribution Plan ("the Defined Contribution Plan"), and the Supplemental Defined Benefit Retirement Plan ("SERP"). Details of these plans are as follows.

Ascension Health Pension Plan

The Corporation participates in the Ascension Plan, a noncontributory defined benefit pension plan sponsored by Ascension Health, which covers all eligible employees of certain Ascension Health entities. Benefits cover all eligible employees hired prior to January 1, 2006 and are based on each participant's years of service and compensation. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust ("the Trust"), a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates.

Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to Ascension Plan participants. Net periodic pension cost of $9,599 and $8,186 in 2011 and 2010, respectively, 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 participating entities are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so. As of September 30, 2011 and 2010, the Ascension Plan had a net unfunded liability of $253,377. The Corporation's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at September 30, 2011 and 2010 was $11,238 and $38,980, respectively. As a result of updating the funded status of the Ascension Plan, the Corporation's allocated share of the Ascension Plan's net funded liability was decreased by $29,456 during 2011 and increased $2,388 during 2010. These transfers are included in transfer from (to) sponsor and other affiliates net, in the accompanying consolidated statements of operations and changes in net assets.

7. Pension Plans (continued)

As of September 30, 2011 and 2010, the fair value of the Ascension Plan's assets available for benefits was $3,794,392 and $3,420,351, 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, 2011, 17%, 48% and 35% 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, 5%, 19% and 76% were categorized as Level 1, Level 2 and Level 3, respectively, as of September 30, 2011. Additionally, 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.

In December 2011, the Corporation notified all Ascension Plan participants that the Ascension Plan will be frozen as of January 1, 2013, at which time all eligible associates will join the Defined Contribution Plan. The Corporation is currently evaluating the impact this change will have on the Corporation's financial statements.

Ascension Health Defined Contribution Plan

The Corporation participates in the Defined Contribution Plan, a contributory, defined contribution plan sponsored by Ascension Health which covers all eligible associates hired after January 1, 2006. There are three primary types of contributions to the Defined Contribution Plan: employer automatic contributions, employee contributions and employers matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and increases over specified periods of employee service. These benefits are funded annually and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period and participants become fully vested in all employer contributions immediately. Defined contribution expense, representing both employer automatic contributions and employer matching contributions, was $3,017 and $3,017 for the years ended September 30, 2011 and 2010, respectively.

(Dollars in Thousands)

7. Pension Plans (continued)

Supplemental Defined Benefit Retirement Plan

The Medical Center has a noncontributory SERP for certain executive and professional employees. The amount recorded in other liabilities as of September 30, 2011 and 2010 was $4,663 and $3,644, respectively. In 2011 and 2010, the discount rate used was 5%. The SERP is not funded.

8. Other Postretirement Employee Benefits

In addition to participation in Ascension Health's defined benefit pension plan and defined contribution pension plans, the Medical Center sponsors a defined benefit health care plan ("Health Plan") for certain employees that provides postretirement medical benefits to those employees who reach the age of 65 and satisfy certain service requirements. The Health Plan limits benefits to only current beneficiaries and current active employees who were at least age 62 with at least 7 years of service as of September 30, 2009. The plan limits the Medical Center's contribution per employee to $1.2 per annum. The Plan is not funded.

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

	2011	2010
Change in benefit obligation		
Benefit obligation, beginning of the year	**$ (3,173)**	$ (3,194)
Service cost	**(19)**	(19)
Interest cost	**(151)**	(171)
Actuarial losses	**374**	(53)
Benefits paid	**271**	264
Benefit obligation, end of year	**$ (2,698)**	$ (3,173)
Change in plan assets		
Fair value of plan assets, beginning of the year	**$ –**	$ –
Employer contributions	**271**	264
Benefits paid	**(271)**	(264)
Fair value of plan assets, end of the year	**$ –**	$ –
Funded status	**$ (2,698)**	$ (3,173)
Unrecognized prior service cost	**–**	–
Unrecognized net actuarial loss	**–**	–
Accrued benefit cost	**$ (2,698)**	$ (3,173)

(Dollars in Thousands)

8. Other Postretirement Employee Benefits (continued)

	2011	2010
Components of net periodic benefit		
Service cost	**$ 19**	$ 19
Interest cost	**151**	171
Net amortization and deferral	**(37)**	(65)
Net periodic cost (benefit)	**$ 133**	$ 125
Assumption		
Discount rate	**4.64%**	5.05%

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

	September 30 2011	2010
Unrecognized prior service credit	**$ 8**	$ 18
Unrecognized actuarial gains	**728**	381
	$ 736	$ 399

Changes in benefit obligations recognized in unrestricted net assets during 2011 include:

Current year actuarial gains	$ 374
Amortization of actuarial losses	(27)
Amortization of prior service cost	(10)
	$ 337

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, 2012 are $8 and $267, respectively.

(Dollars in Thousands)

8. Other Postretirement Employee Benefits (continued)

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

2012	$ 275
2013	281
2014	273
2015	266
2016	252
2017 – 2020	1,065

9. Self-Insurance Programs

The Corporation participates in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2011 and 2010. In the event that sufficient funds are not available from the self-insurance programs, each participating entity may be assessed its pro rata share of the deficiency. If contributions exceed the losses paid, the excess may be returned to participating entities.

Professional and General Liability Programs

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

(Dollars in Thousands)

9. Self-Insurance Programs (continued)

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense of $4,879 and $7,498 for the years ended September 30, 2011 and 2010, respectively. Included in current and long-term self-insurance liabilities on the accompanying consolidated balance sheets are professional and general liability loss reserves of approximately $4,426 and $4,814, respectively.

Workers' Compensation

The Corporation participates in Ascension Health's workers' compensation program which provides occurrence coverage through a grantor trust. The trust provides coverage up to $1,000 per occurrence with no aggregate.

On July 1, 2011 the Corporation implemented a $100 deductible, thereby assuming responsibility for indemnity and expense for each and every claim occurring and reported after that date, up to the deductible amount. The trust provides a mechanism for funding the workers' compensation obligations of its member. Excess insurance against catastrophic loss is obtained through commercial insurers. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of $1,673 and $1,911 for the years ended September 30, 2011 and 2010, respectively.

10. Lease Commitments

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

Years Ending September 30:	
2012	$ 2,726
2013	2,631
2014	2,252
2015	1,821
2016	1,529
Thereafter	6,685
Total	$ 17,644

Rental expense under operating leases amounted to $4,529 and $4,748 in 2011 and 2010, respectively.

11. 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 $2,693 and $2,563 for the years ended September 30, 2011 and 2010, respectively.

In addition to the charges discussed above, The Corporation made payments to Ascension Health of $6,963 and $4,494 for the years ended September 30, 2011 and 2010, respectively, representing The Corporation's share of costs to fund an Ascension Health system-wide information technology and process standardization project that is expected to continue through December 2014. These payments are included in transfers to sponsor and other affiliates, net, in the accompanying statement of operations and changes in net assets.

During 2011 and 2010, the Corporation transferred $511 and $519 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, the Corporation transferred $3,950 to Ascension Health for system initiatives.

12. 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, 2011 and 2010 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.

(Dollars in Thousands)

12. Temporarily and Permanently Restricted Net Assets (continued)

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

	2011	2010
Due within one year	**$ 2,235**	$ 1,684
Due in one to five years	**2,040**	1,609
Thereafter	**251**	371
	4,526	3,664
Less allowance and discount to present value	**835**	1,018
Pledges receivable, net	**$ 3,691**	$ 2,646

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

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2011	2010
Health care services	**$ 2,486**	$ 2,668
Education and training	**1,821**	1,855
Capital	**6,217**	10,856
Other	**2,726**	3,209
	$ 13,250	$ 18,588

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	
	2011	2010
Health care services	**$ 5,976**	$ 5,943
Education	**2,128**	2,122
Capital	**1,904**	1,899
Other	**836**	830
	$ 10,844	$ 10,794

13. 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 of September 30, 2011 and 2010, such gains and losses cannot be determined. Management expects any related adjustment will not have a material adverse effect on the Corporation's consolidated financial position.

In 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, 2011 and 2010, 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

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

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

Report of Independent Auditors on Other Financial Information

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"), St. Vincent's Development Corporation ("Development") and The St. Vincent's Special Needs Center ("Special Needs Center") for the year ended September 30, 2011 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

March 19, 2012

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Assets									
Current assets:									
Cash and cash equivalents	$ –	$ 6,932	$ 575	$ 267	$ 278	$ 103	$ –	$ –	$ 8,155
Investments in Health System Depository	–	1,463	–	2,339	86	660	–	–	4,548
Accounts receivable, less allowance for uncollectible accounts $28,663	–	47,626	–	–	–	–	–	–	47,626
Advances to (from) affiliated entities, net	–	8,469	(7,203)	(93)	(641)	(145)	(351)	(36)	–
Inventories and other	–	8,850	2,007	2,104	173	461	–	388	13,983
Current portion of note receivable, affiliate	–	–	–	–	–	438	–	(438)	–
Total current assets	–	73,340	(4,621)	4,617	(104)	1,517	(351)	(86)	74,312
Investments in Health System Depository	–	89,464	–	14,523	769	3,297	–	–	108,053
Note receivable, affiliate, less current portion	–	–	–	–	–	10,753	–	(10,753)	–
Board-designated investments and assets limited as to use:									
Investments in Health System Depository	–	184,050	–	–	–	–	–	–	184,050
Other board-designated investments	–	–	16,148	–	–	–	–	–	16,148
Temporarily or permanently restricted	–	345	23,808	8	–	–	–	–	24,161
Temporarily or permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	–	21,325	–	2,894	–	136	–	(24,355)	–
Total board-designated investments and assets limited as to use	–	205,720	39,956	2,902	–	136	–	(24,355)	224,359
Interest in The St. Vincent's Medical Center Foundation, Inc.	3,763	312	–	761	–	3	–	(4,839)	–
Property and equipment, net:									
Land and improvements	–	7,808	105	871	4,444	812	–	–	14,040
Buildings and equipment	–	393,394	617	14,758	13,349	4,154	–	–	426,272
Construction in progress	–	7,870	–	95	49	–	–	–	8,014
Less accumulated depreciation	–	(198,169)	(152)	(7,003)	(4,914)	(1,840)	–	–	(212,078)
Total property and equipment, net	–	210,903	570	8,721	12,928	3,126	–	–	236,248
Other assets	–	12,899	768	15	24	–	–	–	13,706
Total assets	$ 3,763	$ 592,638	$ 36,673	$ 31,539	$ 13,617	$ 18,832	$ (351)	$ (40,033)	$ 656,678

St. Vincent's Health Services Corporation and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2011

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued liabilities	$ –	$ 50,154	$ 223	$ 1,452	$ 277	$ 400	$ 3	$ (3)	$ 52,506
Current portion of long-term debt	–	989	–	–	–	438	–	–	1,427
Current portion of note payable, affiliate	–	438	–	–	–	–	–	(438)	–
Estimated third-party payor settlements	–	10,883	–	–	–	–	–	–	10,883
Other current liabilities	–	–	22	322	–	115	–	–	459
Total current liabilities	–	62,464	245	1,774	277	953	3	(441)	65,275
Noncurrent liabilities:									
Long-term debt	–	46,906	–	–	–	10,753	–	–	57,659
Self-insurance liabilities	–	2,963	–	–	–	–	–	–	2,963
Note payable, affiliate	–	10,753	–	–	–	–	–	(10,753)	–
Pension and other postretirement liabilities	–	11,907	–	1,586	–	469	–	–	13,962
Other liabilities	–	10,140	155	–	–	163	–	–	10,458
Total noncurrent liabilities	–	82,669	155	1,586	–	11,385	–	(10,753)	85,042
Total liabilities	–	145,133	400	3,360	277	12,338	3	(11,194)	150,317
Net assets:									
Unrestricted	3,763	425,835	12,533	25,276	13,340	6,358	(354)	(4,484)	482,267
Temporarily restricted	–	11,536	12,964	2,197	–	136	–	(13,583)	13,250
Permanently restricted	–	10,134	10,776	706	–	–	–	(10,772)	10,844
Total net assets	3,763	447,505	36,273	28,179	13,340	6,494	(354)	(28,839)	506,361
Total liabilities and net assets	$ 3,763	$ 592,638	$ 36,673	$ 31,539	$ 13,617	$ 18,832	$ (351)	$ (40,033)	$ 656,678

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, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Assets									
Current assets:									
Cash and cash equivalents	$ –	$ 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 $20,807	–	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, less current portion	–	–	–	–	–	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	–	–	13,434	–	–	–	–	–	13,434
Temporarily or permanently restricted	–	315	29,071	8	–	–	–	–	29,394
Temporarily or permanently restricted interest in The St. Vincent's Medical Center Foundation, Inc.	–	26,304	–	2,338	–	179	–	(28,821)	–
Total board-designated investments and assets limited as to use	–	218,744	42,505	2,346	–	179	–	(28,821)	234,953
Interest in The St. Vincent's Medical Center Foundation, Inc.	3,978	312	–	673	–	3	–	(4,966)	–
Property and equipment, net:									
Land and improvements	–	7,802	138	446	4,397	812	–	–	13,595
Buildings and equipment	–	371,638	747	14,931	13,416	4,478	–	–	405,210
Construction in progress	–	7,882	–	–	–	–	–	–	7,882
Less accumulated depreciation	–	(178,755)	(224)	(6,976)	(4,389)	(1,945)	–	–	(192,289)
Total property and equipment, net	–	208,567	661	8,401	13,424	3,345	–	–	234,398
Other assets	–	9,060	739	19	24	–	–	–	9,842
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, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued liabilities	$ –	$ 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 Statement of Operations and Changes in Net Assets

Year Ended September 30, 2011

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Operating revenues:									
Net patient service revenue	$ –	$ 400,189	$ –	$ –	$ –	$ 159	$ –	$ –	$ 400,348
Other revenue	–	11,968	381	21,151	2,772	6,584	–	(5,654)	37,202
Net assets released from restrictions used for operations	–	1,200	–	101	–	55	–	–	1,356
Total operating revenues	–	413,357	381	21,252	2,772	6,798	–	(5,654)	438,906
Operating expenses:									
Salaries and wages	–	170,718	43	11,579	–	2,724	–	–	185,064
Employee benefits	–	43,075	9	4,178	–	1,276	–	–	48,538
Purchased services	–	32,005	–	980	1,175	452	–	(4,634)	29,978
Professional fees	–	8,082	–	228	296	124	–	–	8,730
Supplies	–	59,384	–	564	10	82	–	–	60,040
Insurance	–	5,166	–	424	11	(42)	–	–	5,559
Bad debts	–	33,855	–	(1)	120	19	–	–	33,993
Interest	–	2,562	–	191	–	23	–	–	2,776
Depreciation and amortization	–	22,954	2	577	526	154	–	–	24,213
Other	–	23,271	186	2,304	1,299	1,412	–	(768)	27,704
Total operating expenses	–	401,072	240	21,024	3,437	6,224	–	(5,402)	426,595
Income (loss) from operations		12,285	141	228	(665)	574	–	(252)	12,311
Non-operating gains (losses):									
Investment income	–	7,962	181	3,314	48	155	–	–	11,660
Other	–	81	(1,567)	4	–	1	–	252	(1,229)
Total non-operating gains (losses), net	–	8,043	(1,386)	3,318	48	156	–	252	10,431
Excess (deficiency) of revenue and gains over expenses	–	20,328	(1,245)	3,546	(617)	730	–	–	22,742

St. Vincent's Health Services Corporation and Subsidiaries

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

Year Ended September 30, 2011

(Dollars in Thousands)

	St. Vincent's Health Services Corporation	The St. Vincent's Medical Center	The St. Vincent's Medical Center Foundation, Inc.	The St. Vincent's Special Needs Center	St. Vincent's Development Corporation	Hall-Brooke Behavioral Health Services, Inc.	Pequot Medical Associates, P.C.	Eliminations	Total
Unrestricted net assets:									
Excess (deficiency) of revenue and gains over expenses	$ –	$ 20,328	$ (1,245)	$ 3,546	$ (617)	$ 730	$ –	$ –	$ 22,742
Transfers from (to) sponsor, net	–	20,098	(283)	(182)	(18)	90	–	–	19,705
Net assets released from restrictions for property acquisitions	–	8,092	–	39	–	–	–	–	8,131
Pension and other postretirement liability adjustments	–	4,533	–	1,137	–	42	–	–	5,712
Transfer from temporarily and permanently restricted net assets	–	–	71	–	–	–	–	–	71
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	(215)	–	–	88	–	–	–	127	–
Other	–	–	204	762	(300)	–	–	–	666
Increase (decrease) in unrestricted net assets	(215)	53,051	(1,253)	5,390	(935)	862	–	127	57,027
Temporarily restricted net assets:									
Contributions	–	9,304	5,460	141	–	55	–	(9,341)	5,619
Investment income, net	–	18	603	–	–	–	–	–	621
Net change in unrealized (losses) on investments	–	–	(795)	–	–	–	–	–	(795)
Net assets released from restrictions	–	(9,292)	(9,341)	(140)	–	(55)	–	9,341	(9,487)
Transfer (to) from unrestricted and permanently restricted net assets	–	–	(97)	–	–	–	–	–	(97)
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	–	(5,025)	–	556	–	(43)	–	4,512	–
Other	–	–	(1,199)	–	–	–	–	–	(1,199)
(Decrease) increase in temporarily restricted net assets	–	(4,995)	(5,369)	557	–	(43)	–	4,512	(5,338)
Permanently restricted net assets:									
Contributions	–	–	24	–	–	–	–	–	24
Transfer from unrestricted and temporarily restricted net assets	–	–	26	–	–	–	–	–	26
Change in interest in The St. Vincent's Medical Center Foundation, Inc.	–	46	–	–	–	–	–	(46)	–
Increase (decrease) in permanently restricted net assets	–	46	50	–	–	–	–	(46)	50
Increase (decrease) in net assets	(215)	48,102	(6,572)	5,947	(935)	819	–	4,593	51,739
Net assets, beginning of the year	3,978	399,403	42,845	22,232	14,275	5,675	(354)	(33,432)	454,622
Net assets, end of the year	$ 3,763	$ 447,505	$ 36,273	$ 28,179	$ 13,340	$ 6,494	$ (354)	$ (28,839)	$ 506,361

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, Inc.**	**The St. Vincent's Special Needs Center**	**St. Vincent's Development Corporation**	**Hall-Brooke Behavioral Health Services, Inc.**	**Pequot Medical Associates, P.C.**	**Eliminations**	**Total**
Operating revenues:									
Net patient service revenue	$ –	$ 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
Non-operating gains (losses):									
Investment income	–	27,367	2,158	2,114	109	396	–	–	32,144
Other	–	133	(1,989)	17	–	540	–	295	(1,004)
Total non-operating gains, 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, Inc.**	**The St. Vincent's Special Needs Center**	**St. Vincent's Development Corporation**	**Hall-Brooke Behavioral Health Services, Inc.**	**Pequot Medical Associates, P.C.**	**Eliminations**	**Total**
Unrestricted net assets:									
Excess (deficiency) of revenue and gains over expenses	$ –	$ 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 temporarily and permanently restricted net assets	–	–	949	–	–	–	–	–	949
Change in interest in Foundation The St. Vincent's Medical Center Foundation, Inc.	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 The St. Vincent's Medical Center Foundation, Inc.	–	(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 The St. Vincent's Medical Center Foundation, Inc.	–	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

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

Year Ended September 30, 2011

(Dollars in Thousands)

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

Traditional charity care provided	$ 3,553
Unpaid cost of public programs for the poor	4,924
Other programs for the poor	4,566
Community benefit programs	7,609
Care of persons who are poor and community benefit programs	$ 20,652

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