

## Ascension Health

### Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following information should be read with Ascension Health's unaudited consolidated financial statements and related notes to the consolidated financial statements.*

#### **Volume Trends and Net Patient Service Revenue**

For the three months ended September 30, 2011, Ascension Health experienced a 1.3% increase in equivalent discharges as compared to the three months ended September 30, 2010 due to growth in certain existing markets. Outpatient revenue as a percentage of total gross patient service revenue continues to increase and was 47.8% for the three months ended September 30, 2011 compared to 46.6% for the three months ended September 30, 2010. Both observation days and outpatient visits increased 8.3% and 1.4%, respectively, as compared to the same period of the prior fiscal year. The increase in outpatient visits was primarily driven by an 11.6% increase in physician office visits, a result of the continued focus on physician alignment activities across the System.

	<b>Volume Trends</b>	
	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Equivalent Discharges	325,734	321,624
Total Admissions	169,844	171,527
Case Mix Index	1.48	1.47
Acute Average Length of Stay (days)	4.38	4.44
Observation Days	52,660	48,614
Emergency Room Visits	610,448	608,140
Surgical Visits (IP & OP)	131,164	133,676
Physician Office Visits	1,661,376	1,488,131

# Ascension Health

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### **Income from Operations before Self-Insurance Trust Fund Investment Return and Impairment, Restructuring, and Nonrecurring Expenses**

For the three months ended September 30, 2011, income from operations before self-insurance trust fund investment return and impairment, restructuring, and nonrecurring expenses was \$144 million compared to \$90 million for the three months ended September 30, 2010. This change is attributable to the following:

- \$165 million or 4.6% increase in net patient service revenue as a result of the following:
  - 1.3% increase in equivalent discharges over the same period in the prior year primarily due to growth for existing facilities as well as increases in physician office visits.
  - 3.3% increase in net patient service revenue per equivalent discharge due to favorable managed care and commercial rate adjustments in certain markets.
- Other revenue increased \$36 million or 20.2% primarily due to \$13 million in American Recovery and Reinvestment Act (ARRA) meaningful use incentive revenue as well as increases in state sponsored provider tax revenue programs.
- \$147 million or 4.0% increase in total operating expenses as a result of the following:
  - \$64 million increase in salaries and wages due to moderate merit increases, transitioning of support for Information Systems to internal resources from a third party provider resulting in a \$33 million decrease in purchased services, a 1.2% increase in FTEs driven by physician alignment activities, and the acquisition of Smithville Hospital, a 36 bed hospital in Smithville, Texas.
  - \$37 million increase in professional fees primarily due to physician and consulting fees.
  - \$43 million increase in other expense primarily due to increased repairs and maintenance, equipment rental, and utilities expenses.

# Ascension Health

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### Income from Operations

For the three months ended September 30, 2011, income from operations was \$102 million compared to \$125 million for the three months ended September 30, 2010. This change is attributable to the following:

- \$69 million decrease in self-insurance trust fund investment returns due to the lower investment returns.
- Impairment, restructuring, and nonrecurring expenses increased \$8 million from the prior year primarily due to increased expense related to the System-wide enterprise resource planning initiative.

The unpaid cost of providing care to persons living in poverty and community benefit programs was \$369 million, a \$35 million or 10.5% increase over the three months ended September 30, 2010. This increase is primarily attributable to increases in charity care costs as a result of economic conditions in certain markets as well as increased unreimbursed costs of emergency and trauma programs, medical education and community clinics.

### Investment Return

For the three months ended September 30, 2011, the Health System Depository recorded investment losses of 6.2%. As discussed in the notes to the financial statements, investment return recognized by Ascension Health is summarized as follows:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(in thousands)</i>	
Investment return in the Health System Depository	\$ (497,965)	\$ 473,459
Interest and dividends	3,226	2,763
Net (losses) gains on investments reported at fair value	(41,677)	24,724
Restricted investment return	(1,156)	984
Total investment return	<u>\$ (537,572)</u>	<u>\$ 501,930</u>

## Ascension Health

### Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Investment return is recognized in the consolidated statements of operations and changes in net assets as follows:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<i>(in thousands)</i>	
<u>Included in operating income</u>		
Realized investment return	\$ 6,210	\$ 12,360
Net change in unrealized gains/losses on investments	(34,213)	29,060
	(28,003)	41,420
<u>Included in nonoperating income</u>		
Realized investment return	(3,378)	143,443
Net change in unrealized gains/losses on investments	(491,336)	310,116
	(494,714)	453,559
<u>Included in the change in restricted net assets</u>		
Realized investment return	(1,058)	1,549
Net change in unrealized gains/losses on investments	(13,797)	5,402
	(14,855)	6,951
 Total investment return	 \$ (537,572)	 \$ 501,930

#### **Deficit of Revenues and Gains over Expenses and Losses Attributable to Controlling Interest**

The deficit of revenues and gains over expenses and losses attributable to controlling interest for the three months ended September 30, 2011 was \$485 million. This represents a \$1.0 billion decline compared to the three months ended September 30, 2010. This decrease is primarily due to the \$948 million decrease in nonoperating investment return.

# Ascension Health

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### Balance Sheet Ratios

Ascension Health has 196 days of cash and investments on hand at September 30, 2011, which represents a decrease of 19 days from June 30, 2011.

Cash-to-senior debt and cash-to-total debt was 216.4% and 185.6%, respectively, at September 30, 2011 as indicated in the following table, representing slight decreases compared to those at June 30, 2011. Debt to capitalization remains moderate. Ascension Health continues to focus significant efforts on maintaining a strong balance sheet.

<b>Balance Sheet Ratios</b>		
	<b>September 30, 2011</b>	<b>June 30, 2011</b>
Days Cash on Hand	196	215
Net Days in Accounts Receivable	46	44
Cash-to-Senior Debt	216.4%	234.8%
Cash-to-Total Debt (Senior and Subordinated)	185.6%	201.6%
Senior Debt to Capitalization	25.0%	24.2%
Debt to Capitalization	28.0%	27.1%