

AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Saint Francis Hospital and Medical Center
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

Saint Francis Hospital and Medical Center
Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2009 and 2008

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Report of Independent Auditors

The Board of Directors
Saint Francis Hospital and Medical Center

We have audited the accompanying consolidated balance sheets of Saint Francis Hospital and Medical Center and Subsidiaries (the Hospital and Medical Center) as of September 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital and Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 Hospital and Medical Center's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital and Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Francis Hospital and Medical Center and Subsidiaries as of September 30, 2009 and 2008, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 1, 2009

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 87,719,548	\$ 35,036,907
Short-term investments	5,612,735	16,260,386
Assets whose use is limited for current liabilities	4,471,328	4,905,708
Accounts receivable – patients, less allowance (\$17,153,000 for 2009 and \$23,591,000 for 2008)	69,388,014	75,362,191
Accounts receivable – other	6,911,613	5,170,149
Inventories of supplies	4,353,054	3,910,132
Prepaid expenses	6,080,591	4,475,663
Total current assets	184,536,883	145,121,136
Assets whose use is limited:		
Board-designated	46,342,794	34,458,922
Donor restricted	6,597,530	6,576,262
Held under bond indenture	107,128,738	157,486,587
Held in trusts by others	42,603,103	43,969,246
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	4,552,636	3,804,349
	207,224,801	246,295,366
Assets whose use is limited for current liabilities	(4,471,328)	(4,905,708)
	202,753,473	241,389,658
Long-term investments	13,021,484	12,702,561
Property, plant, and equipment, net	360,997,772	304,578,489
Other assets:		
Bond issuance costs, less amortization	2,999,680	3,166,099
Due from affiliated entities	220,989	258,491
Other	2,499,403	2,285,374
	\$ 767,029,684	\$ 709,501,808

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 48,858,836	\$ 35,959,345
Salaries and wages, payroll taxes and amounts withheld from employees	23,032,952	28,590,086
Accrued expenses and interest payable	7,970,113	6,535,398
Due to third-party reimbursement agencies	6,588,921	4,428,417
Current portion of long-term debt	11,139,747	40,645,000
Due to affiliated entities	5,222,816	1,166,712
Total current liabilities	<u>102,813,385</u>	<u>117,324,958</u>
Pension and other accrued expenses	216,496,088	136,300,381
Long-term debt, less portion classified as a current liability	241,638,011	233,010,000
Net assets:		
Unrestricted	124,080,711	140,096,380
Temporarily restricted	35,112,873	34,533,696
Permanently restricted	46,888,616	48,236,393
	<u>206,082,200</u>	<u>222,866,469</u>
	<u>\$ 767,029,684</u>	<u>\$ 709,501,808</u>

See accompanying notes.

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2009	2008
Net patient service revenue	\$ 591,245,472	\$ 569,796,922
Other operating revenues	41,840,995	41,309,583
Net assets released from restrictions for operations	5,808,791	5,095,319
	638,895,258	616,201,824
Operating expenses:		
Salaries	244,581,935	244,674,239
Supplies and expenses	320,116,422	326,171,243
Bad debts	21,963,774	27,442,315
Interest	7,309,490	5,404,910
Depreciation and amortization	25,646,082	25,373,137
	619,617,703	629,065,844
	19,277,555	(12,864,020)
Net loss on investment activity	(1,330,148)	
Operating income (loss)	17,947,407	(12,864,020)
Loss on curtailment of retirement plan	(630,569)	
Interest rate swap activity:		
Interest (cost) savings on interest rate swaps	(131,461)	763,723
Change in fair market value of swaps	(2,614,226)	(17,756,832)
	(2,745,687)	(16,993,109)
Excess (deficiency) of revenues over expenses	14,571,151	(29,857,129)

(Continued on next page.)

Saint Francis Hospital and Medical Center and Subsidiaries

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

	Year Ended September 30	
	2009	2008
Unrestricted net assets:		
Excess (deficiency) of revenues over expenses (continued)	\$ 14,571,151	\$ (29,857,129)
Transfers to Saint Francis Hospital and Medical Center Foundation, Inc.	(1,079,923)	(1,600,780)
Transfer from parent	18,616,587	
Net assets released from restrictions used for capital purchases	786,512	128,511
Change in pension funding and postretirement obligations	(48,937,860)	(23,514,276)
Net unrealized loss on investments		(8,425,389)
Other	27,864	1,097,180
Decrease in unrestricted net assets	(16,015,669)	(62,171,883)
Temporarily restricted net assets:		
Income from investments	130,342	838,351
Gifts, contributions and donations	4,170,369	4,044,298
Net unrealized gain (loss) on investments	105,156	(2,253,488)
Net assets released from restrictions	(6,595,303)	(5,223,830)
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	2,020,326	2,214,658
Increase (decrease) in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	748,287	(1,813,222)
Increase (decrease) in temporarily restricted net assets	579,177	(2,193,233)
Permanently restricted net assets:		
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	18,366	
Decrease in assets held in trusts by others	(1,366,143)	(7,699,279)
Decrease in permanently restricted net assets	(1,347,777)	(7,699,279)
Decrease in net assets	(16,784,269)	(72,064,395)
Net assets at beginning of year	222,866,469	294,930,864
Net assets at end of year	\$ 206,082,200	\$ 222,866,469

See accompanying notes.

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	2008
Operating activities and other gains		
Decrease in net assets	\$ (16,784,269)	\$ (72,064,395)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and other gains:		
Depreciation and amortization	25,646,082	25,373,137
Bad debts	21,963,774	27,442,315
Net asset transfer from parent	(8,616,587)	
Change in pension funding and postretirement obligations	48,937,860	23,514,276
(Increase) decrease in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	(748,287)	1,813,222
Unrealized (gain) loss on investments	(105,156)	10,678,877
Decrease in assets held in trusts by others	1,366,143	7,699,279
Restricted contributions and investment income	(4,319,076)	(4,882,649)
Increase in pension and other accrued expenses	4,370,784	15,440,737
Change in working capital, other than cash and cash equivalents	(1,530,701)	(487,193)
Net cash provided by operating activities and other gains	70,180,567	34,527,606
Investing activities		
Purchase of property, plant, and equipment, net	(81,898,946)	(56,200,222)
Decrease (increase) in investments	10,433,884	(14,027,480)
Decrease in due from affiliated entities	37,502	28,700
Decrease (increase) in noncurrent assets whose use is limited	70,701,829	(114,486,393)
Increase in other assets	(214,029)	(301,378)
Net cash used in investing activities	(939,760)	(184,986,773)
Financing activities		
Restricted contributions and investment income	4,319,076	4,882,649
Issuance of long-term debt	12,234,683	214,745,000
Principal payments on long-term debt	(43,111,925)	(44,088,481)
Transfer from parent	10,000,000	
Net cash (used in) provided by financing activities	(16,558,166)	175,539,168
Net increase in cash and cash equivalents	52,682,641	25,080,001
Cash and cash equivalents at beginning of year	35,036,907	9,956,906
Cash and cash equivalents at end of year	\$ 87,719,548	\$ 35,036,907

See accompanying notes.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies

Organization

Saint Francis Hospital and Medical Center and subsidiaries (the Hospital and Medical Center) is a not-for-profit acute care hospital located in Hartford, Connecticut. The Hospital and Medical Center is an integrated health care delivery system providing inpatient, outpatient and emergency care services and is a wholly owned subsidiary of Saint Francis Care, Inc. Subsidiaries of the Hospital and Medical Center include: Collaborative Laboratory Services, One Thousand Corporation, Saint Francis Behavioral Health Group, P.C., Total Laundry Collaborative and Saint Francis Indemnity Company, LLC.

Basis of Presentation and Use of Estimates

The accompanying financial statements include the accounts of Saint Francis Hospital and Medical Center and subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related footnotes. Actual results could differ from those estimates.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital and Medical Center has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets consist primarily of contributions and grants restricted for certain health care services, medical research activities, and capital replacement. Permanently restricted net assets, which are primarily endowment gifts and assets held in trusts by others, have been restricted by donors and are to be maintained in perpetuity.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are unrestricted contributions in the accompanying financial statements.

Cash Equivalents

The Hospital and Medical Center considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents.

Investments

In 2009, the Hospital and Medical Center designated its investment portfolio (see Note 4) as a trading portfolio. Accordingly, unrealized gains and losses are included in the excess (deficiency) of revenues over expenses. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market prices. Alternative investments, which are investments with a non-readily determinable fair value, are stated at fair value as estimated in an unquoted market. Valuations of those investments and, therefore, the Hospital and Medical Center's holdings may be determined by the investment manager and are primarily based on the valuation of the underlying securities. Investment income or loss, including realized gains and losses on investments, interest, and dividends, is included in excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. The cost of securities sold is based on the specific identification method. Unrealized gains and losses were excluded from the deficiency of revenues over expenses in 2008 due to their nontrading nature.

The Hospital and Medical Center considers all investments with remaining maturities of more than three months but less than one year at the date of purchase to be short-term investments.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Assets Whose Use Is Limited

Assets whose use is limited include assets set aside by the Board of Directors for the established purpose of providing for future improvement, expansion, and replacement of property, plant and equipment, assets restricted by donors, assets held by trustees under bond indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA or the Authority), and assets held in trusts by others. The portion of these amounts required for funding current liabilities is included in current assets.

Long-Lived Assets

Property, plant, and equipment are recorded at cost. The Hospital and Medical Center provides for depreciation of property, plant, and equipment using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives.

Bond issuance costs are amortized over the life of the bonds using the straight-line method in the amount sufficient to amortize the cost over the term of the bonds.

General and Professional Liability Insurance

The Hospital and Medical Center purchases claims made general and professional liability insurance coverage from an affiliated insurance captive and effective July 1, 2009 from a wholly owned subsidiary. The insurance captive and subsidiary charge the Hospital and Medical Center a premium for general and professional liability insurance coverage. Such charges amounted to \$6,948,136 and \$3,402,782 in 2009 and 2008, respectively. The Hospital and Medical Center, in consultation with its actuary, records as a liability an estimate of incurred but not reported claims.

Prior to July 1, 2009, the Hospital and Medical Center purchased claims made general and professional liability insurance coverage from an affiliated insurance captive, Partners Interinsurance Exchange (PIE). Saint Francis Care, Inc., the Hospital and Medical Center's parent, had a 33% interest in PIE. Effective July 1, 2009, Saint Francis Care, Inc. withdrew from PIE and transferred its assets, liabilities and equity in PIE to a newly created insurance captive, Saint Francis Indemnity Company, LLC (SFICL), which is a wholly owned subsidiary of the Hospital and Medical Center. The transfer resulted in an increase in net assets to the Hospital and Medical Center of \$8,616,587.

The Hospital and Medical Center, in consultation with its actuary, records as a liability an estimate of incurred but not reported claims. Such liability, discounted at 4.5%, totaled \$3,947,771 and \$3,402,173 at September 30, 2009 and 2008, respectively.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Retirement Plans

The Hospital and Medical Center has certain noncontributory defined benefit and defined contribution pension plans in effect covering all employees who meet certain eligibility requirements. The Hospital and Medical Center's funding policy is to contribute amounts to the plans sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA).

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets, adjustments to the pension funding and postretirement obligation, and changes in the market value of interest rate swaps that qualify for hedge accounting treatment.

Interest in Saint Francis Hospital and Medical Center Foundation, Inc.

The interest in Saint Francis Hospital and Medical Center Foundation, Inc. represents the Hospital and Medical Center's interest in the net assets of Saint Francis Hospital and Medical Center Foundation, Inc. This interest is accounted for in accordance with Accounting Standards Codification (ASC) 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions to Others*.

Income Taxes

The Hospital and Medical Center and its principal subsidiaries are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Tax provisions and related liabilities for certain taxable subsidiaries are not material to the consolidated financial statements.

ASC 740-10, *Uncertain Tax Positions*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure requirements for uncertain tax positions. Management has evaluated the implications of ASC 740-10 and determined that its impact on the consolidated financial statements is not significant.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

The Saint Francis Hospital and Medical Center has net operating loss carry forwards resulting in a deferred tax asset of approximately \$600,000, which is offset by a corresponding valuation allowance of the same amount.

New Authoritative Pronouncements

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

Effective 2009, the Hospital and Medical Center adopted ASC 820-10, *Fair Value*, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosure about fair value measurements.

In 2009, the Hospital and Medical Center adopted ASC 825-10, *Fair Value Options*, which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. The Hospital and Medical Center did not elect fair value accounting for any asset or liability not currently required to be measured at fair value.

In June 2009, the Hospital and Medical Center adopted the provisions of ASC 855-10, *Subsequent Events*, which establishes the standards of accounting disclosure of events or transactions that occur after the balance sheet date, but before the financial statements are issued or available to be issued. ASC 855-10 is effective on a prospective basis for financial periods ended after June 15, 2009. The adoption of ASC 855-10 in 2009 did not impact the Hospital and Medical Center's consolidated financial position or results of operations. Management evaluated subsequent events through December 1, 2009, the date the consolidated financial statements were available to be issued.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue and Charity Care

Net patient service revenue for the years ended September 30, 2009 and 2008 consists of the following:

	September 30	
	2009	2008
Gross patient service revenue	\$ 1,364,559,180	\$ 1,254,659,428
Deductions:		
Allowances	759,768,652	670,960,654
Charity care	13,545,056	13,901,852
	773,313,708	684,862,506
	\$ 591,245,472	\$ 569,796,922

Patient accounts receivable and revenues are recorded when patient services are performed. Differences between amounts received from most third-party payors and the established billing rates of the Hospital and Medical Center are accounted for as allowances.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

During 2009 and 2008, approximately 44.5% and 44.2%, respectively, of net patient service revenue was received under the Medicare program; 10.1% and 10.5%, respectively, under the Medicaid program; and 17.1% and 16.6%, respectively, from Blue Cross. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital and Medical Center believes that it is in compliance with all applicable laws and regulations. The Hospital and Medical Center is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. In addition, changes in the Medicare and Medicaid programs, the reduction of funding levels, or changes in interpretations or estimates could have an adverse impact on the Hospital and Medical Center. During 2009 and 2008, the Hospital and Medical Center recorded a net change in estimate of approximately \$3,500,000 and \$3,700,000, respectively, related to better than previously estimated third-party payor settlements.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue and Charity Care (continued)

The Hospital and Medical Center accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Hospital and Medical Center. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital and Medical Center utilizes the generally recognized poverty income levels for the State of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes. In addition, all self-pay patients receive a 35% discount from charges which is not included in net patient service revenue for financial reporting purposes.

The significant concentrations of accounts receivable for services to patients include 24.4% from Medicare, 15.3% from Medicaid, and 36.0% from commercial insurance carriers and managed care companies at September 30, 2009 (18.9%, 15.4%, and 36.2%, respectively, at September 30, 2008).

3. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2009	2008
Health care services:		
Research and education	\$ 7,573,940	\$ 7,453,540
Capital replacement	10,590,188	9,589,162
Other health care services	16,948,745	17,490,994
	\$ 35,112,873	\$ 34,533,696

Permanently restricted net assets are restricted for the following purposes:

	September 30	
	2009	2008
Investments to be held in perpetuity, the income from which is expendable to support health care services	\$ 4,285,513	\$ 4,267,147
Restricted funds held in trusts by others, the income from which is expendable to support health care services	42,603,103	43,969,246
	\$ 46,888,616	\$ 48,236,393

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Assets Whose Use Is Limited

Assets whose use is limited consists of the following:

	September 30	
	2009	2008
Internally designated for capital acquisition and self-insurance:		
Short-term investments	\$ 263,623	\$ 1,479,550
Marketable equity securities	38,343,484	21,787,473
United States government securities	1,854,120	3,323,464
Corporate bonds	5,881,567	7,868,435
	46,342,794	34,458,922
Donor restricted:		
Short-term investments	2,531,069	2,528,167
Marketable equity securities	4,066,461	4,048,095
	6,597,530	6,576,262
Under bond indenture agreements – held by trustee	107,128,738	157,486,587
Assets held in trusts by others	42,603,103	43,969,246
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	4,552,636	3,804,349
Total assets whose use is limited	207,224,801	246,295,366
Less other assets that are required for current liabilities	4,471,328	4,905,708
	\$ 202,753,473	\$ 241,389,658

The assets underlying the trustee held and Foundation funds are principally marketable equity securities, fixed income securities, government securities, and cash equivalents.

5. Donor-Restricted Endowment Funds

In August 2008, the FASB issued ASC 958-205, *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for all Endowment Funds*, which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In October 2007, the State of Connecticut adopted UPMIFA.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Donor-Restricted Endowment Funds (continued)

The Hospital and Medical Center endowments include the donor-restricted endowment funds. Perpetual trust funds held by others and unrestricted endowment funds are not included under ASC 958-205. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Management of the Hospital and Medical Center has interpreted 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 Hospital and Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital and Medical Center considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

The Hospital and Medical Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Donor-Restricted Endowment Funds (continued)

Changes in endowment funds for the year ended September 30, 2009 consisted of the following:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of the year		\$ 4,048,095	\$ 4,048,095
Investment income	\$ 100,728		100,728
Contributions		18,366	18,366
Appropriation of endowment assets for expenditure	(100,728)		(100,728)
Net assets, end of year	<u>\$</u>	<u>\$ 4,066,461</u>	<u>\$ 4,066,461</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor of UPMIFA requires the Hospital and Medical Center to retain as a fund of perpetual duration. There were no significant deficiencies of this nature which are reported in unrestricted or permanently restricted net assets as of September 30, 2009.

6. Long-Term Investments and Investment Income

Long-term investments consist of the following:

	<u>September 30</u>	
	<u>2009</u>	<u>2008</u>
Marketable equity securities	\$ 4,001,315	\$ 2,144,958
United States government securities	1,162,704	527,399
Corporate bonds	3,058,700	925,921
Other	4,798,765	9,104,283
	<u>\$ 13,021,484</u>	<u>\$ 12,702,561</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Investments and Investment Income (continued)

Investment income, including income on funds held in trusts by others, and gains for the years ended September 30, 2009 and 2008 is comprised of the following:

	September 30	
	2009	2008
Income:		
Interest and dividend income	\$ 4,044,610	\$ 5,442,693
Realized and unrealized (losses) gains on sales of securities	(1,330,148)	1,384,275
	\$ 2,714,462	\$ 6,826,968
Investment income included in operations	\$ 2,584,120	\$ 5,988,617
Investment income included in the change in temporarily restricted net assets	130,342	838,351
	\$ 2,714,462	\$ 6,826,968

In 2008, due to the nontrading nature of the Hospital and Medical Center's investment portfolio, declines in fair value below cost that were deemed to be other than temporary were recognized as losses within other operating revenues. The Hospital and Medical Center recorded other than temporary impairment of \$2,456,330 for the year ended September 30, 2008.

7. Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	September 30	
	2009	2008
Land and land improvements	\$ 10,017,540	\$ 10,017,540
Buildings	318,016,018	312,479,516
Equipment	363,738,582	345,507,645
Construction-in-progress (estimated cost to complete of approximately \$105,812,000 as of 2009)	106,268,842	48,369,097
	798,040,982	716,373,798
Less accumulated depreciation	437,043,210	411,795,309
Total property, plant, and equipment, net	\$ 360,997,772	\$ 304,578,489

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2009	2008
State of Connecticut Health and Educational Facilities Authority revenue bonds:		
Series C	\$ 8,150,000	\$ 38,870,000
Series D	16,395,000	17,660,000
Series E	39,745,000	39,745,000
Series F	175,000,000	175,000,000
	239,290,000	271,275,000
 Mortgage note payable to bank in 84 monthly installments of principal of \$42,500 at a rate of LIBOR plus 1.25% (2.76% at September 30, 2009) with final balloon payment due May 29, 2010	1,870,000	2,380,000
 Borrowings under line of credit with bank at a rate of LIBOR plus 1.50% (1.75% at September 30, 2009) expiring March 2010	5,000,000	
 Obligations under capital leases	6,617,758	
	252,777,758	273,655,000
 Less current portion	11,139,747	40,645,000
	\$ 241,638,011	\$ 233,010,000

In November 1993, the Hospital and Medical Center entered into a financing arrangement with the Authority under a Master Indenture for the financing of a partial replacement facility and renovation of existing facilities. The Authority sold \$110,505,000 of Series C revenue bonds of which \$32,765,000 matured serially from 1997 to 2008, \$19,900,000 matures in the year 2013, and \$57,840,000 matures in the year 2023 with interest at a net average annual rate of approximately 4.8%.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

In May 2002, the Hospital and Medical Center entered into a financing arrangement with the Authority under a Master Indenture for the purpose of defeasing all outstanding Series B revenue bonds. The Authority sold \$25,250,000 of Series D revenue bonds of which \$11,385,000 matures serially from 2003 to 2011, \$2,525,000 matures in the year 2013, \$5,040,000 matures in the year 2017, and \$6,300,000 matures in the year 2022 with interest at a net average annual rate of approximately 4.9%.

During 2004, the Hospital and Medical Center entered into a synthetic refinancing of its existing Series C Fixed Rate Bonds. Through a series of transactions which involve a total return interest rate swap and a cash flow swap, the Hospital and Medical Center converted its old fixed rate debt to a lower fixed rate debt with substantial anticipated future savings.

In March 2008, a financial institution terminated its total return interest rate swap with the Hospital and Medical Center on the Series C Fixed Rate Bonds. As a result, the Hospital and Medical Center purchased the Series C Fixed Rate Bonds underlying the swap (\$38,870,000 out of a total of \$77,740,000). The Hospital and Medical Center financed the purchase of these bonds using a bridge loan with another financial institution. In May 2008, the Hospital and Medical Center entered into a financing arrangement with the Authority under a Master Indenture for the purpose of refinancing the bridge loan. The Authority sold \$39,745,000 of Series E revenue bonds through a private placement. The bonds mature serially from 2014 to 2027 and bear interest at a fixed rate of 6.105%. The Hospital and Medical Center subsequently entered into a synthetic refinancing of these bonds through a total return interest rate swap with a financial institution that lowers the fixed rate to 3.849% for the next five years.

In June 2008, the Hospital and Medical Center entered into a financing arrangement with the Authority under a Master Indenture for the financing of construction of a building containing a new emergency department, operating rooms and patient rooms and renovation of existing facilities. The Authority sold \$175,000,000 of Series F variable rate demand revenue bonds which mature serially from 2028 to 2047. The bonds bear interest at a weekly rate as determined by the remarketing agent. The Series F bonds are required to be supported by a letter of credit which has been executed with a financial institution. The letter of credit is scheduled to expire during 2013. Concurrent with the transaction, the Hospital and Medical Center entered into an interest rate swap to effectively fix the interest rate on \$130,000,000 of the Series F bonds at 3.535%.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

In November 2008, a financial institution terminated its total return swap with the Hospital and Medical Center on the remaining Series C Fixed Rate Bonds outstanding at September 30, 2008. As a result, the Hospital and Medical Center purchased \$38,870,000 of the remaining Series C Fixed Rate Bonds underlying the swap subsequent to its fiscal year end. Accordingly, these bonds have been classified as current liabilities in the consolidated balance sheet at September 30, 2008. In June 2009, a financial institution purchased \$8,150,000 of these bonds.

The Total Return Distribution Agreements and interest rate swaps between the Hospital and Medical Center and the financial institutions are considered derivative instruments and are marked to market in accordance with ASC 815. The fair market value of the swaps is included with other noncurrent accrued expenses in the accompanying consolidated balance sheets. Although the agreements and swaps represent economic hedges of the interest rate on the bonds, they do not qualify for hedge accounting treatment under ASC 815. The changes in the fair market value of the swaps and total return distribution agreements are reported in the accompanying consolidated statements of operations and changes in net assets as interest rate swap activity along with the net cash receipts on the swaps.

Under the terms of the financing arrangements, the proceeds of the revenue bonds were loaned to the Hospital and Medical Center by the Authority. Pursuant to the loan agreements, the Hospital and Medical Center is obligated to provide amounts which will be sufficient to enable the Authority to pay the principal and interest on the Series C, Series D, Series E and Series F bonds. The terms of the various financing arrangements between CHEFA, certain financial institutions and the Hospital and Medical Center also provide for financial covenants regarding the Hospital and Medical Center's debt service ratio, liquidity ratio, and debt to capitalization ratio, among others. During 2009, certain financial ratio requirements were amended in light of current economic conditions. As of September 30, 2009, the Hospital and Medical Center was in compliance with such covenants.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

Concurrent with the issuance and delivery of the Series C, Series D, Series E and Series F bonds, the Hospital and Medical Center and the trustee entered into a master indenture and supplemental master indentures which provide for the establishment and maintenance of various funds, a pledge of gross receipts and certain property, as defined, restrictions on incurrence of certain indebtedness, and financial covenants. The balances of the funds established pursuant to the master indenture and supplemental master indentures were as follows:

	September 30	
	2009	2008
Debt Service Reserve Funds	\$ 5,981,205	\$ 6,167,681
Debt Service Funds	7,800,255	16,192,978
Construction Fund	93,347,278	135,125,928
	\$ 107,128,738	\$ 157,486,587

In 2003, One Thousand Corporation entered into a note payable agreement with a bank in connection with the purchase of a parking garage on the Hospital and Medical Center's campus. In 2003, One Thousand Corporation entered into an interest rate swap agreement, which converts its variable-rate term note with the bank to a fixed-rate basis at a rate of 4.68% through May 2010. The interest rate swap agreement meets the definition of a derivative instrument under ASC 815 and qualifies for treatment as a cash flow hedge. Consequently, the fair value of the swap is recorded in the accompanying consolidated balance sheets in pension and other accrued expenses with the change in market value reflected in the statement of changes in unrestricted net assets.

The mortgage note payable provides for covenants regarding One Thousand Corporation's debt service coverage ratio and other covenants similar in financings of this type. The mortgage note payable is secured by the assets of One Thousand Corporation. Additional borrowing of up to \$2,500,000 is available under the note for the expansion of the parking garage.

The Hospital and Medical Center and One Thousand Corporation's swap agreements provide for interest rates at a level viewed as acceptable by the Hospital and Medical Center and One Thousand Corporation. Such agreements expose the Hospital and Medical Center and One Thousand Corporation to credit risk in the event of nonperformance by the counterparties.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

Annual maturities of long-term debt at September 30, 2009 are as follows:

2010	\$ 11,139,747
2011	4,371,137
2012	4,544,563
2013	4,727,815
2014	2,915,987
Thereafter	<u>225,078,509</u>
	<u>\$ 252,777,758</u>

Interest payments of \$11,010,633 and \$5,589,169 were made during 2009 and 2008, respectively. Interest of \$4,837,823 and \$1,051,386 was capitalized during the years ended September 30, 2009 and 2008, respectively.

9. Retirement Plan and Other Postretirement Benefits

The Hospital and Medical Center has noncontributory defined benefit pension plans in effect covering all employees who meet certain eligibility requirements. Benefits are based on years of service and the employee's compensation and include a cash balance account for each employee. The Hospital and Medical Center makes contributions in amounts sufficient to meet ERISA's minimum funding requirements.

Effective March 1, 2006, the Hospital and Medical Center amended its defined benefit pension plans to close the plan to new participants on September 30, 2006 and to freeze accruals as of October 1, 2006 for participants whose age plus years of service (minimum of ten years) total less than fifty-five. As of October 1, 2006, the Hospital and Medical Center established a defined contribution plan for all eligible non-grandfathered employees. Pension expense related to the defined contribution plan for the years ended September 30, 2009 and 2008 was \$80,574 and \$5,968,068, respectively. The Hospital and Medical Center suspended contributions to the plan in 2009. The defined benefit plan became fully frozen effective October 1, 2009. The curtailment of the defined benefit plan resulted in a loss of \$630,569 being recognized in the consolidated statements of operations and changes in net assets.

The Hospital and Medical Center provides health insurance to retirees and spouses who have met certain eligibility and length of service requirements. The Hospital and Medical Center's policy is to fund the cost of those postretirement benefits as incurred.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Other Postretirement Benefits (continued)

The following table sets forth the plan's funded status and amounts recognized in the consolidated balance sheets:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 300,693,829	\$ 295,895,660	\$ 11,452,207	\$ 12,589,353
Service cost	5,521,363	6,222,018		
Interest cost	19,308,383	18,404,486	798,891	718,328
Net benefits paid	(10,563,592)	(10,199,028)	(886,498)	(1,032,840)
Actuarial losses (gains)	47,904,944	(9,629,307)	3,666,317	(822,634)
Plan amendments	557,873			
Loss on curtailment	(12,839,834)			
Benefit obligation at end of year	<u>350,582,966</u>	<u>300,693,829</u>	<u>15,030,917</u>	<u>11,452,207</u>
Change in plan assets				
Fair value of plan assets at beginning of year	199,131,819	218,175,438		
Actual return on plan assets	4,624,897	(18,485,801)		
Contributions	9,758,279	9,641,210	886,498	1,032,840
Benefits paid	(10,563,592)	(10,199,028)	(886,498)	(1,032,840)
Fair value of plan assets at end of year	<u>202,951,403</u>	<u>199,131,819</u>		
Funded status of the plan	<u>(147,631,563)</u>	<u>(101,562,010)</u>	<u>(15,030,917)</u>	<u>(11,452,207)</u>
Accrued benefit cost recognized in the consolidated balance sheets	<u>\$ (147,631,563)</u>	<u>\$ (101,562,010)</u>	<u>\$ (15,030,917)</u>	<u>\$ (11,452,207)</u>

The accumulated benefit obligation for the plan was \$350,582,966 and \$287,179,808 at September 30, 2009 and 2008, respectively.

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Components of net periodic benefit cost				
Service cost	\$ 5,521,363	\$ 6,222,018		
Interest cost	19,308,383	18,404,486	\$ 798,891	\$ 718,328
Expected return on plan assets	(18,976,026)	(18,877,425)		
Net amortization and deferral	4,012,878	3,397,009	59,122	
Loss on curtailment	630,569			
Benefit cost	<u>\$ 10,497,167</u>	<u>\$ 9,146,088</u>	<u>\$ 858,013</u>	<u>\$ 718,328</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Other Postretirement Benefits (continued)

Assumptions

The weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Measurement date	9/30/2009	9/30/2008	9/30/2009	9/30/2008
Discount rate	5.50%	6.60%	5.50%	6.60%
Rate of compensation increase		4.10		

The weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Discount rate	6.60%	6.25%	5.50%	6.25%
Expected long-term rate of return on assets	8.25	8.25		
Rate of compensation increase	4.10	3.75		

The Hospital and Medical Center's expected long-term rate of return on assets assumption is derived from a study conducted by its actuaries and investment managers. The study includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on the most recent study, the expected long-term return assumption for the Saint Francis Hospital and Medical Center Pension Plan effective October 1, 2009 will be 8.25%.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Other Postretirement Benefits (continued)

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 10.50%, decreasing to 6.00% and remaining level thereafter. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the service and interest cost and accumulated postretirement benefit obligation by approximately \$81,000 and \$1,356,000, respectively, at September 30, 2009. A one percentage point decrease in the assumed health care cost trend rate would decrease the service and interest cost and accumulated postretirement benefit obligation by approximately \$71,000 and \$1,190,000, respectively, at September 30, 2009.

Plan Assets

The Hospital and Medical Center's pension plan asset allocations by asset category are as follows:

Asset category	September 30	
	2009	2008
Equity securities	56%	54%
Debt securities	43	44
Real estate	1	2
Total	<u>100%</u>	<u>100%</u>

The Hospital and Medical Center maintains target allocation percentages among various asset classes based on an investment policy established for the pension plan which is designed to achieve long-term objectives of return, while mitigating against downside risk and considering expected cash flows. The current weighted-average target asset allocation is as follows: equity securities 40-80%, debt securities 20-40%, and real estate 0-15%. The investment policy is reviewed from time to time to ensure consistency with the long term objective of funding the plan to a level sufficient to pay plan benefits as they become due.

Contributions

The Hospital and Medical Center expects to contribute \$8,312,000 to its pension plan and \$976,000 to its other postretirement benefit plan in 2010.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Retirement Plan and Other Postretirement Benefits (continued)

Estimated Future Benefit Payments

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

Fiscal year:	<u>Pension Benefits</u>	<u>Other Post- Retirement Benefits</u>
2010	\$ 12,208,000	\$ 976,000
2011	13,642,000	1,051,000
2012	15,582,000	1,122,000
2013	16,432,000	1,174,000
2014	17,858,000	1,200,000
2015-2019	106,230,000	6,005,000

10. Fair Values of Financial Instruments

On October 1, 2008, the Hospital and Medical Center adopted the methods of fair value as described in ASC 820-10 to value its financial assets and liabilities, when applicable. As defined in ASC 820-10, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase consistency and comparability in fair value measurements, ASC 820-10 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data are available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Hospital and Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In addition, the Hospital and Medical Center considers counterparty credit risk in its assessment of fair value.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 87,719,548			\$ 87,719,548
Short-term investments	5,612,735			5,612,735
Assets whose use is limited				
Board designated:				
Short-term investments	263,623			263,623
Marketable securities	38,343,484			38,343,484
U.S. Government securities	1,854,120			1,854,120
Corporate bonds	5,881,567			5,881,568
	46,342,794			46,342,795
Donor restricted:				
Short-term investments	2,531,069			2,531,069
Marketable securities	4,066,461			4,066,461
	6,597,530			6,597,530
Held under bond indenture	107,128,738			107,128,738
Held in trust by others		\$ 42,603,103		42,603,103
Long-term investments				
Marketable securities	4,001,315			4,001,315
U.S. Government securities	1,162,704			1,162,704
Corporate bonds	3,058,700			3,058,700
Other	513,632			4,798,765
	\$ 8,736,351		\$ 4,285,133	\$ 13,021,484
Liabilities				
Interest rate swap agreements		\$ 19,832,518		\$ 19,832,518

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Beginning balance	\$ 4,070,669
Total gains	214,464
Ending balance	\$ 4,285,133

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies

The Hospital and Medical Center has guaranteed the payment of a loan made by the City of Hartford to Mount Sinai Hospital Foundation, Inc. This loan matures on August 1, 2016. The balance of this loan at September 30, 2009 and 2008 was \$1,221,667 and \$1,353,333, respectively.

The Hospital and Medical Center is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on its consolidated financial position and results of operations.

In addition, in 2007, 2008 and 2009, a number of actions were filed against the Hospital and Medical Center claiming unspecified damages arising out of activities of a former employee. The Hospital and Medical Center is aware that additional claims may be asserted arising out of such activities. These claims may involve liability that cannot be estimated at this time.

12. Changes in Components of Working Capital Other Than Cash and Cash Equivalents

	Year Ended September 30	
	2009	2008
Changes in current assets:		
Assets whose use is limited required for current liabilities	\$ 434,380	\$ 1,041,649
Accounts receivable – patients, net	(15,989,597)	(28,529,079)
Accounts receivable – other	1,078,686	(1,458,113)
Inventories of supplies	(442,922)	(761,875)
Prepaid expenses	(1,604,928)	115,769
Due from affiliated entities		2,395,919
	<u>(16,524,381)</u>	<u>(27,195,730)</u>
Changes in current liabilities:		
Accounts payable	12,899,491	20,846,348
Salaries and wages, payroll taxes, and amounts withheld from employees	(5,557,134)	2,687,154
Accrued expenses and interest payable	1,434,715	1,699,073
Due to third-party reimbursement agencies	2,160,504	1,475,962
Due to affiliated entities	4,056,104	
	<u>14,993,680</u>	<u>26,708,537</u>
Change in working capital other than cash and cash equivalents	<u>\$ (1,530,701)</u>	<u>\$ (487,193)</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Functional Expenses

Functional expenses are as follows:

	Year Ended September 30	
	2009	2008
Health care services	\$ 559,715,622	\$ 567,604,581
General and administrative	59,902,081	61,461,263
	<u>\$ 619,617,703</u>	<u>\$ 629,065,844</u>

Other Financial Information

**Report of Independent Auditors on
Other Consolidating Financial Information**

Board of Directors
Saint Francis Hospital and Medical Center

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations and changes in net assets of the individual entities. The consolidating information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

December 1, 2009

Saint Francis Hospital and Medical Center

Consolidating Balance Sheet

September 30, 2009

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	St. Francis Indemnity Co.	Total Laundry Collaborative Health Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Assets										
Current assets:										
Cash and cash equivalents	\$ 80,252,361	\$ 595,395		\$ 80,847,756	\$ 1,510,108	\$ 4,105,359	\$ 971,123	\$ 285,202		\$ 87,719,548
Short-term investments	1,455,904	1,108,651		2,564,555	3,048,180					5,612,735
Assets whose use is limited for current liabilities	4,471,328			4,471,328						4,471,328
Accounts receivable, less allowance	68,529,326	102,430		68,529,326	604,016		254,672			69,388,014
Accounts receivable-other	2,391,101			2,493,531	1,523,935		57,843			4,353,054
Inventories of supplies	4,353,054	49,521		4,353,054	335,595		7,481			4,353,054
Prepaid expenses	5,682,994	3,642,901	(3,642,901)	5,732,515	379,378	5,000	343,828		(723,206)	6,080,591
Due from affiliated entities	0	5,498,898	(3,642,901)	168,992,065	7,401,212	7,648,145	597,717		(1,711,272)	184,536,883
Total current assets	167,136,068			175,750,180		31,474,621				207,224,801
Assets whose use is limited:										
Board - designated	14,868,173			14,868,173						46,342,794
Donor restricted	6,597,530			6,597,530						6,597,530
Held under bond indenture	107,128,738			107,128,738						107,128,738
Held in trusts by others	42,603,103			42,603,103						42,603,103
Investment in Foundation	4,552,636			4,552,636						4,552,636
	175,750,180			175,750,180		31,474,621				207,224,801
	(4,471,328)			(4,471,328)						(4,471,328)
Assets whose use is limited for current liabilities	171,278,852			171,278,852		31,474,621				202,753,473
Long-term investments	15,186,661			15,186,661					(2,165,177)	13,021,484
Property, plant and equipment, net	351,045,910	5,311,087		356,356,997	1,615,438		3,025,337			360,997,772
Other assets:										
Bond issuance costs, less amortization	2,982,182	17,498		2,999,680						2,999,680
Due from affiliated entities	(3,421,912)		3,642,901	220,989						220,989
Other	2,499,403			2,499,403						2,499,403
	\$ 706,707,164	\$ 10,827,483	\$ -	\$ 717,534,647	\$ 9,016,650	\$ 39,122,766	\$ 4,634,353	\$ 597,717	\$ (3,876,449)	\$ 767,029,684

Saint Francis Hospital and Medical Center

Consolidating Balance Sheet (continued)

September 30, 2009

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	St. Francis Indemnity Co.	Total Laundry Collaborative Health Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 46,792,624	\$ 13,498		\$ 46,806,122	\$ 1,661,582		\$ 363,758	\$ 26,980	\$ 394	\$ 48,858,836
Salaries and wages, payroll taxes and amounts withheld from employees	21,253,792			21,253,792	1,763,018		16,142			23,032,952
Accrued expenses and interest payable	5,321,057	23,539		5,344,596	2,625,517					7,970,113
Due to third-party reimbursement agencies	6,588,921			6,588,921						6,588,921
Due to affiliated entities	4,617,503			4,617,503			1,323,056	993,923	\$(1,711,666)	5,222,816
Current portion of long-term debt	9,269,747	1,870,000		11,139,747						11,139,747
Total current liabilities	93,843,644	1,907,037	0	95,750,681	6,050,117	0	1,686,814	1,037,045	(1,711,272)	102,813,385
Pension and other accrued expenses	186,899,040			186,899,040		28,571,606			1,025,442	216,496,088
Long-term debt, less portion classified as a current liability	241,638,011			241,638,011						241,638,011
Net assets:										
Unrestricted	102,324,980	8,920,446		111,245,426	2,966,533	10,551,160	2,947,539	(439,328)	(3,190,619)	124,080,711
Temporarily restricted	35,112,873			35,112,873						35,112,873
Permanently restricted	46,888,616			46,888,616						46,888,616
	184,326,469	8,920,446	0	193,246,915	2,966,533	10,551,160	2,947,539	(439,328)	(3,190,619)	206,082,200
	\$ 706,707,164	\$ 10,827,483	\$ -	\$ 717,534,647	\$ 9,016,650	\$ 39,122,766	\$ 4,634,353	\$ 597,717	\$ (3,876,449)	\$ 767,029,684

Saint Francis Hospital and Medical Center

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2009

	Saint Francis Hospital and Medical Center	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	St. Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Net patient service revenues	\$ 576,902,158			\$576,902,158	\$ 12,034,284		\$ 5,136,577	\$ 2,309,030		\$591,245,472
Other operating revenue	25,203,633	\$ 2,782,955	\$ (1,114,863)	26,871,725	36,186,311	\$ 2,371,233	\$ 5,136,577	606,710	\$ (29,331,561)	41,840,995
Net assets released from restrictions for operations	5,808,791	2,782,955	(1,114,863)	5,808,791	48,220,595	2,371,233	5,136,577	2,915,740	(29,331,561)	5,808,791
Operating expenses:	607,914,582	2,782,955	(1,114,863)	609,582,674	48,220,595	2,371,233	5,136,577	2,915,740	(29,331,561)	638,895,258
Salaries	233,026,961	143,838		233,170,899	16,817,334		5,136,577	2,371,023	(7,777,321)	244,581,935
Supplies and expenses	304,858,169	614,991	(1,114,863)	304,358,297	29,214,983	2,091,870	5,136,577	733,396	(21,418,701)	320,116,422
Bad debts	21,328,662			21,328,662	450,466			184,646		21,963,774
Interest	7,207,306	102,184		7,309,490	546,179		223,452			7,309,490
Depreciation and amortization	24,490,507	385,944		24,876,451	47,028,962	2,091,870	5,360,029	3,289,065	(29,196,022)	619,617,703
Net gain (loss) on investment activity	590,911,605	1,247,057	(1,114,863)	591,043,799		1,655,210				(1,330,148)
Operating income (loss)	(2,985,358)			(2,985,358)			(223,452)	(373,325)	(135,539)	17,947,407
Loss on curtailment of retirement plan	14,017,619	1,535,898	0	15,553,517	1,191,633	1,934,573	(223,452)	(373,325)		(630,569)
Interest savings on interest rate swaps	(630,569)			(630,569)						(131,461)
Change in fair market value of swap	(131,461)			(131,461)						(2,614,226)
Excess (deficiency) of revenues over expenses	(2,614,226)	1,535,898		12,177,261	1,191,633	1,934,573	(223,452)	(373,325)	(135,539)	14,571,151
	10,641,363			10,641,363						

Saint Francis Hospital and Medical Center

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

Year Ended September 30, 2009

	Saint Francis Hospital and Medical Center	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	St. Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Other changes in unrestricted net assets:										
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	\$ (1,079,923)			(1,079,923)						\$ (1,079,923)
Net assets released from restrictions used for capital purchases	786,512			786,512						786,512
Change in pension funding and postretirement obligations	(48,278,861)			(48,278,861)	(658,999)	\$ 8,616,587				(48,937,860)
Transfers from parent	10,000,000			10,000,000						18,616,587
Other	(750)	28,614		27,864						27,864
(Decrease) increase in unrestricted net assets	(27,931,659)	1,564,512	0	(26,367,147)	532,634	10,551,160	(223,452)	(373,325)	(135,539)	(16,015,669)
Temporarily restricted net assets:										
Income from investments	130,342			130,342						130,342
Gifts, contributions and donations	4,170,369			4,170,369						4,170,369
Net unrealized loss on investments	105,156			105,156						105,156
Net assets released from restriction	(6,595,303)			(6,595,303)						(6,595,303)
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	2,020,326			2,020,326						2,020,326
Increase in interest in Saint Francis Hospital and Medical Center Foundation	748,287			748,287						748,287
Increase (decrease) in temporarily restricted net assets	579,177			579,177						579,177
Permanently restricted net assets:										
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	18,366			18,366						18,366
Decrease in assets held in trusts by others	(1,366,143)			(1,366,143)						(1,366,143)
Decrease in permanently restricted net assets (Decrease) increase in net assets	(1,347,777)	0	0	(1,347,777)	0	0	0	0	0	(1,347,777)
	(28,700,259)	1,564,512	-	(27,135,747)	532,634	10,551,160	(223,452)	(373,325)	(135,539)	(16,784,269)
Net assets at beginning of year	213,026,728	7,355,934	-	220,382,662	2,433,899	10,551,160	3,170,991	(66,003)	(3,055,080)	222,866,469
Net assets at end of year	\$ 184,326,469	\$ 8,920,446	\$ -	\$ 193,246,915	\$ 2,966,533	\$ 10,551,160	\$ 2,947,539	\$ (439,328)	\$ (3,190,619)	\$ 206,082,700