

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Saint Francis Hospital and Medical Center and Subsidiaries  
Years Ended September 30, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Financial Statements  
and Supplementary Information

Years Ended September 30, 2013 and 2012

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## Report of Independent Auditors

The Board of Directors  
Saint Francis Hospital and Medical Center and Subsidiaries

We have audited the accompanying consolidated financial statements of Saint Francis Hospital and Medical Center and Subsidiaries (the Hospital and Medical Center), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## 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 at September 30, 2013 and 2012, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## Change in Presentation of the Provision for Bad Debts

As discussed in Note 1 to the consolidated financial statements, in 2013 the Hospital and Medical Center adopted the provisions of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which resulted in a change to the presentation of the provision for bad debts on the consolidated statements of operations and changes in net assets effective October 1, 2012. Our opinion is not modified with respect to this matter.

## Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

February 7, 2014

# Saint Francis Hospital and Medical Center and Subsidiaries

## Consolidated Balance Sheets

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 93,987	\$ 84,277
Short-term investments	37,397	41,197
Assets whose use is limited for current liabilities	4,883	5,076
Accounts receivable – patients, less allowance (\$10,516 for 2013 and \$10,546 for 2012)	61,740	61,368
Accounts receivable – other	3,517	3,307
Inventories of supplies	7,209	7,162
Prepaid expenses and deposits	5,801	6,892
Due from affiliated entities	4,374	5,388
Total current assets	<u>218,908</u>	<u>214,667</u>
Assets whose use is limited:		
Board-designated	51,522	42,302
Donor restricted	4,286	4,286
Held under bond indenture	4,764	5,993
Held in trusts by others	51,164	48,538
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	10,952	12,789
	<u>122,688</u>	<u>113,908</u>
Assets whose use is limited for current liabilities	<u>(4,883)</u>	<u>(5,076)</u>
	<u>117,805</u>	<u>108,832</u>
Long-term investments	15,014	14,832
Property, plant, and equipment, net	461,365	452,217
Other assets:		
Bond issuance costs, less amortization	2,053	2,247
Other	6,128	6,248
	<u>\$ 821,273</u>	<u>\$ 799,043</u>

*See accompanying notes.*

\$	821,273	\$	799,043
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# Saint Francis Hospital and Medical Center and Subsidiaries

## Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Net patient service revenue	\$ <b>671,123</b>	\$ 660,780
Less: provision for bad debts	<b>(20,788)</b>	(19,173)
Net patient service revenue less provision for bad debts	<b>650,335</b>	641,607
Other operating revenues	<b>36,278</b>	41,258
Net assets released from restrictions for operations	<b>4,400</b>	5,354
Total revenues	<b>691,013</b>	688,219
Operating expenses:		
Salaries	<b>263,094</b>	253,689
Supplies and other	<b>371,840</b>	370,370
Interest	<b>11,601</b>	11,965
Depreciation and amortization	<b>35,854</b>	35,606
Total operating expenses	<b>682,389</b>	671,630
	<b>8,624</b>	16,589
Net gain on investment activity	<b>2,296</b>	328
Operating income	<b>10,920</b>	16,917
Interest rate swap activity:		
Interest cost on interest rate swaps	<b>(305)</b>	(807)
Change in fair value of interest rate swaps	<b>22,523</b>	(10,315)
	<b>22,218</b>	(11,122)
Excess of revenues over expenses	<b>33,138</b>	5,795

*(Continued on next page.)*

# Saint Francis Hospital and Medical Center and Subsidiaries

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

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenues over expenses (continued)	\$ 33,138	\$ 5,795
Transfers from (to) Saint Francis Hospital and Medical Center Foundation, Inc.	1,165	(1,210)
Net assets released from restrictions used for capital purchases	3,204	(575)
Change in pension funding and postretirement obligations	84,068	(26,209)
Equity transfer to affiliated entity	(6,000)	—
Change in minority interest in subsidiary	(148)	(450)
Increase (decrease) in unrestricted net assets	115,427	(22,649)
Temporarily restricted net assets:		
Income from investments	162	551
Gifts, contributions, and donations	6,027	4,342
Net unrealized gain on investments	43	80
Grants released from restrictions for renovations	(3,447)	(2,352)
Net assets released from restrictions for operations and capital purchases	(7,604)	(4,779)
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	1,897	3,394
Decrease in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	(1,837)	(1,669)
Decrease in temporarily restricted net assets	(4,759)	(433)
Permanently restricted net assets:		
Increase in assets held in trusts by others	2,626	5,305
Increase in permanently restricted net assets	2,626	5,305
Increase (decrease) in net assets	113,294	(17,777)
Net assets at beginning of year	129,973	147,750
Net assets at end of year	\$ 243,267	\$ 129,973

*See accompanying notes.*

# Saint Francis Hospital and Medical Center and Subsidiaries

## Consolidated Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Operating activities and other gains</b>		
Increase (decrease) in net assets	\$ 113,294	\$ (17,777)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities and other gains:		
Depreciation and amortization	35,854	35,606
Bad debts	20,788	19,173
Change in pension funding and postretirement obligations	(84,068)	26,209
Equity transfer to affiliate	6,000	—
Net transfer from Saint Francis Hospital and Medical Center Foundation, Inc.	3,062	2,184
Decrease in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	1,837	1,669
Unrealized gain on investments	(2,033)	(1,989)
Increase in assets held in trusts by others	(2,626)	(5,305)
Restricted contributions and investment income	(6,189)	(4,893)
Decrease in pension and other accrued expenses	(19,477)	(2,597)
Change in working capital, other than cash and cash equivalents	(8,179)	(23,629)
Net cash provided by operating activities and other gains	<u>58,263</u>	<u>28,651</u>
<b>Investing activities</b>		
Purchase of property, plant, and equipment, net	(33,481)	(26,367)
Decrease (increase) in investments	5,651	(22,511)
(Increase) decrease in noncurrent assets whose use is limited	(8,184)	8,339
Decrease (increase) in other assets	120	(481)
Net cash used in investing activities	<u>(35,894)</u>	<u>(41,020)</u>
<b>Financing activities</b>		
Principal payments on long-term debt and capital leases	(9,786)	(6,230)
Equity transfer to affiliate	(6,000)	—
Net transfer from Saint Francis Hospital and Medical Center Foundation, Inc.	(3,062)	(2,184)
Restricted contributions and investment income	6,189	4,893
Net cash used in financing activities	<u>(12,659)</u>	<u>(3,521)</u>
Net increase (decrease) in cash and cash equivalents	9,710	(15,890)
Cash and cash equivalents at beginning of year	84,277	100,167
Cash and cash equivalents at end of year	<u>\$ 93,987</u>	<u>\$ 84,277</u>
<b>Supplemental information</b>		
Non-cash financing:		
Capital lease obligations	<u>\$ 11,327</u>	<u>\$ —</u>

See accompanying notes.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2013  
(Amounts In Thousands)

### **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 consolidated 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 requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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)

*(Amounts In Thousands)*

### **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 consolidated financial statements.

#### **Interest Rate Swap Agreements**

The Hospital and Medical Center utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Hospital and Medical Center does not hold or issue derivative financial instruments for trading purposes. The Hospital and Medical Center is exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap agreements. Interest rate swap agreements are reported at fair value. Changes in fair value are recognized in the performance indicator in the consolidated statements of operations and changes in net assets.

#### **Cash and 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.

#### **Patient Accounts Receivable**

Patient accounts receivable result from health care services provided by the Hospital and Medical Center. The amount of the allowance for uncollectible accounts is based on management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### **1. Significant Accounting Policies (continued)**

#### **Inventories**

Inventories are stated at the lower of cost or market. The Hospital and Medical Center values its inventories using the first-in, first-out method.

#### **Investments**

Unrealized gains and losses on unrestricted investments are included in the excess 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 based on, as a practical expedient, net asset values derived from the application of the equity method of accounting. 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 and unrealized gains and losses on investments, interest, and dividends, is included in the excess 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.

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.

#### **Assets Whose Use Is Limited**

Assets whose use is limited include assets set aside by the Board of Directors, 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. Assets set aside by the Board of Directors are established for the purpose of providing for future improvement, expansion, and replacement of property, plant, and equipment and for certain insurance liabilities.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### **1. Significant Accounting Policies (continued)**

#### **Long-Lived Assets**

Property, plant, and equipment are stated at cost and those acquired by gifts are carried at fair value established at the date of acquisition. The Hospital and Medical Center provides for depreciation of property, plant, and equipment using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives or the lesser of the estimated useful life of the asset or lease term.

Bond issuance costs are amortized over the life of the bonds using the effective interest method.

#### **General and Professional Liability Insurance**

The Hospital and Medical Center purchases claims made general and professional liability insurance coverage from a wholly owned insurance captive subsidiary, Saint Francis Indemnity Company, LLC (Saint Francis Indemnity Company). The subsidiary charges the Hospital and Medical Center a premium for general and professional liability insurance coverage. Such charges amounted to \$10,302 and \$9,351 in 2013 and 2012, respectively.

The Hospital and Medical Center, in consultation with its independent actuary, records as a liability an estimate of incurred but not reported claims. Such liability, discounted at 4.0%, totaled \$6,730 and \$6,183 at September 30, 2013 and 2012, respectively.

Reserves for losses and loss adjustment expenses are based on management's best estimate determined in consultation with independent consulting actuaries and represent the ultimate net cost of all reported and unreported losses incurred and unpaid through September 30, 2013. These liabilities include estimates of future trends in loss severity and frequency and other factors, which could vary as the losses are ultimately settled. However, there is an absence of a significant amount of experience as to whether the Saint Francis Indemnity Company's actual incurred losses and loss adjustment expenses will conform to the assumptions inherent in the determination of the estimated liability. Accordingly, the ultimate settlement of losses and loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying consolidated financial statements. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and loss adjustment expenses in the accompanying consolidated financial statements are adequate. The method of making such estimates and for establishing reserves is continuously reviewed and updated and adjustments are reflected in operations in the period the need for such adjustments becomes known.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### **1. Significant Accounting Policies (continued)**

#### **Workers' Compensation Insurance**

The Hospital and Medical Center purchases a large deductible policy, which effectively self-insures the first portion of the workers' compensation and employers' liability risk. Under the policy, the Hospital and Medical Center is responsible for the first \$1,500 of every loss event (first \$500 for employers' liability). The accrued workers' compensation self-insurance liabilities of \$5,300 and \$5,709 at September 30, 2013 and 2012, respectively, have been discounted by 4%. The current portion of the accrued workers' compensation liabilities included in accrued expenses and interest payable is \$1,349 and \$1,237 at September 30, 2013 and 2012, respectively, and the long-term portion included in pension and other accrued expenses is \$3,951 and \$4,472 at September 30, 2013 and 2012, respectively.

#### **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. For plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), the Hospital and Medical Center's funding policy is to contribute amounts to the plans sufficient to meet the applicable minimum funding requirements set forth in ERISA.

The Hospital and Medical Center sponsors a 409(a) deferred compensation plan for certain senior executives. Senior executives are allowed to contribute to the plan up to an annual maximum amount in accordance with Section 457(b) of the Internal Revenue Code. The assets of the plan remain in a trust, which is subject to the claims of the Hospital and Medical Center's creditors. As of September 30, 2013 and 2012, the plan had \$1,411 and \$1,026, respectively, included in other assets with a corresponding liability, included in pension and other accrued expenses, payable upon retirement, death or disability.

#### **Other Operating Revenue**

Other operating revenue includes services to other institutions, rental income, pharmacy income, investment income, unrestricted contributions, group purchasing discount revenue and electronic health record program revenue.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### **1. Significant Accounting Policies (continued)**

#### **Excess of Revenues over Expenses**

The consolidated statements of operations and changes in net assets include excess of revenues over expenses, which is the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, 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 obligations, and purchases of minority interest in subsidiaries.

#### **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 exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and exempt from state and local income taxes. Tax provisions and related liabilities for certain taxable subsidiaries are not material to the consolidated financial statements.

The Hospital and Medical Center has net operating loss carryforwards resulting in the amount of \$2,144. These net operating loss carryforwards result in a deferred tax asset of \$858, which is offset by a corresponding valuation allowance of the same amount.

Saint Francis Behavioral Health Group, P.C. has net operating loss carryforwards in the amount of \$4,328. These net operating loss carryforwards result in a deferred tax asset of \$1,731, which is offset by a corresponding valuation allowance of the same amount.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

(Amounts In Thousands)

### 1. Significant Accounting Policies (continued)

#### Recently Issued Accounting Standard

In July 2011, Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. The guidance requires certain health care entities to present the bad debt expense associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense with enhanced footnote disclosure on the policies for recognizing patient revenue and assessing bad debts. The guidance became effective for the Hospital and Medical Center on October 1, 2012, and is included in the accompanying consolidated financial statements for all periods presented.

#### Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 presentation. Such reclassifications had no effect on the consolidated statements of operations and changes in net assets.

### 2. Correction of Errors

The Hospital and Medical Center has revised its previously reported consolidated financial statements for the year ended September 30, 2012, presented herein, including the net assets, at the beginning of fiscal year 2012 in order to correct certain previously reported amounts. The Hospital and Medical Center determined that the effects of the corrections in each of the periods in which the related misstatements originated, as further described below, were not material. The Hospital and Medical has concluded that the amounts, if corrected in 2013, would have been material to the consolidated financial statements for the year ended September 30, 2013.

During 2013, the Hospital and Medical Center determined that certain balances within temporarily restricted net assets should have been released from restriction in prior years. Certain of these balances related to donations with a specified purpose, either for use in operations or related to the acquisition or expansion of capital related projects and others pertained to revenues earned for services rendered to patients for specified care. As a result, the Hospital and Medical Center increased unrestricted net assets by \$14.2 million to correct amounts that had been

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **2. Correction of Errors (continued)**

previously recorded as a component of temporarily restricted net assets as of September 30, 2012. Approximately \$6.7 million related to net assets that should have been released for operations and \$7.5 million related to net assets that should have been released for capital related purposes. The Hospital and Medical Center determined that the effects of these corrections in each of the periods in which the related misstatements originated were not material. In addition, the Hospital and Medical Center identified certain reclassification errors for \$1.5 million in 2012 related to amounts originally recorded as a component of net assets released from restriction for operations which should have been included as component of other operating revenues. The impact of correcting these items did not have a material impact on operating income, excess of revenue over expenses and net assets.

As described in Note 1, the Hospital and Medical Center purchases a large deductible policy which effectively self-insures the first portion of the workers' compensation and employers' liability risk. For the self-insured component, the Hospital and Medical Center has entered into a pre-funded self-insured deductible program with a certain commercial insurance carrier. In fiscal 2013, the Hospital and Medical Center concluded that its accrued workers' compensation liabilities were understated in prior years. Additionally, the Hospital and Medical Center concluded the related amounts funded to the commercial carrier as part of the pre-funded self-insured deductible program were not properly recorded. Prior to fiscal 2013, the Hospital and Medical Center had incorrectly recorded the accrued workers' compensation liabilities net of amounts funded to the commercial insurance carrier. The Hospital and Medical Center determined that accumulated projected losses exceeded amounts funded by \$2,100 and \$2,000 in 2012 and 2011, respectively. The change in the estimated projected losses for the year ended September 30, 2012 was \$81. The impact of correcting these items did not have a material impact on operating income or excess of revenue over expenses. The impact of correcting these items in 2012 resulted in an adjustment to net assets at the beginning of the year for \$2,005.

In addition, the Hospital and Medical Center chose to correct certain other individually immaterial items which are also reflected in the table below.

As shown in the table below, the net effect of all of the corrections noted above increased operating income and excess of revenues over expenses for the year ended September 30, 2012 by \$893. The net effect of these corrections to net assets at the beginning of the year in 2012 was a decrease of \$1,174.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 2. Correction of Errors (continued)

The following table summarizes the corrections by financial statement item as of and for the year ended September 30, 2012:

	As Previously Reported	Corrections	As Presented Herein
<b>Consolidated Balance Sheet:</b>			
Prepaid expenses and deposits	\$ 6,060	\$ 832	\$ 6,892
Property, plant, and equipment, net	451,835	382	452,217
Other assets	3,231	3,017	6,248
Accounts payable	35,277	(1,266)	34,011
Accrued payroll and other related expenses	34,946	(2,004)	32,942
Accrued expenses and interest payable	6,831	438	7,269
Pension and other accrued expenses	318,826	7,505	326,331
Unrestricted net assets	32,989	13,787	46,776
Temporarily restricted net assets	44,602	(14,229)	30,373
<b>Consolidated statement of operations and changes in net assets:</b>			
Other operating revenues	39,639	1,619	41,258
Net assets released from restrictions for operations	6,814	(1,460)	5,354
Supplies and other	370,907	(537)	370,370
Depreciation and amortization	35,802	(196)	35,606
Excess of revenue over expenses	4,902	893	5,795
Net assets released from restrictions for capital purchases	1,079	(1,654)	(575)
Decrease in unrestricted net assets	(21,888)	(761)	(22,649)
Income from investments	582	(31)	551
Gifts, contributions and donations	5,932	(1,590)	4,342
Net assets released from restrictions for operations and capital purchases	(7,893)	3,114	(4,779)
Decrease in temporarily restricted net assets	(1,926)	1,493	(433)
Decrease in net assets	(18,509)	732	(17,777)
Net assets at beginning of year	148,924	(1,174)	147,750
Net assets at end of year	130,415	(442)	129,973
<b>Consolidated statement of cash flows:</b>			
Decrease in net assets	(18,509)	732	(17,777)
Depreciation and amortization	35,802	(196)	35,606
Restricted contributions and investment income	(6,514)	1,621	(4,893)
Decrease in pension and other accrued expenses	(5,412)	2,815	(2,597)
Change in working capital, other than cash and cash equivalents	(19,893)	(3,736)	(23,629)
Net cash provided by operating activities and other gains	25,231	3,420	28,651
Purchase of property, plant, and equipment, net	(26,505)	138	(26,367)
Increase in other assets	(728)	247	(481)
Net cash used in investing activities	(41,405)	385	(41,020)
Restricted contributions and investment income	6,514	(1,621)	4,893
Net cash used by financing activities	284	(3,805)	(3,521)

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 3. Net Patient Service Revenue and Charity Care

Net patient service revenue consists of the following for the years ended:

	September 30	
	2013	2012
Gross patient service revenue	\$ 1,990,675	\$ 1,815,295
Deductions:		
Contractual allowances and discounts	1,300,189	1,135,565
Charity care at charges	19,363	18,950
	<u>1,319,552</u>	<u>1,154,515</u>
Net patient service revenue	671,123	660,780
Less: provision for bad debts	(20,788)	(19,173)
Net patient service revenue less provision for bad debts	<u>\$ 650,335</u>	<u>\$ 641,607</u>

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 2013 and 2012, 39.4% and 41.3%, respectively, of net patient service revenue was received under the Medicare program; 14.0% and 14.3%, respectively, under the Medicaid program; and 18.3% and 18.0%, 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, except for one matter that the Hospital and Medical Center has voluntarily disclosed to the applicable government agency. At this time, management does not believe the amount of the liability will be material to the consolidated financial statements. The Hospital and Medical Center is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on the consolidated financial statements. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 3. Net Patient Service Revenue and Charity Care (continued)

to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital and Medical Center has agreements with third-party payors that provide for payments to the Hospital and Medical Center at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges, and per diem payments. Net patient service revenue is affected by the state of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. 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 2013 and 2012, the Hospital and Medical Center recorded a net change in estimate of \$1,000, decrease to operating revenue; and \$10,000, increase to operating revenue; respectively, related to changes in previously estimated third-party payor settlements.

The Hospital and Medical Center has established estimates based on information presently available, of amounts due to or from Medicare, Medicaid and third-party payors for adjustments to current- and prior-year payment rates, based on industry-wide and the Hospital and Medical Center specific data. Such amounts are included in the accompanying consolidated balance sheets.

Patient service revenue, net of contractual allowances and discounts and before the provision for bad debts, recognized in the period from major payor sources for the year ended September 30, 2013, is as follows:

Third-party payors	\$ 654,837
Self-pay patients	35,649
	<u>\$ 690,486</u>

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### 3. Net Patient Service Revenue and Charity Care (continued)

Deductibles and copayments under third-party payment programs within the self-pay patient's amounts above are the patient's responsibility, and the Hospital and Medical Center considers these amounts in its determination of the provision for bad debts based on collection experience.

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 45% discount from charges, which is not included in net patient service revenue for financial reporting purposes.

The estimated cost of charity care provided was \$6,309 and \$6,614 for the years ended September 30, 2013 and 2012, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

The significant concentrations of accounts receivable for services to patients include 26.6% from Medicare, 14.0% from Medicaid, and 35.6% from commercial insurance carriers and managed care companies at September 30, 2013 (25.0%, 13.1%, and 37.7%, respectively, at September 30, 2012).

#### 4. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2013	2012
Health care services:		
Research and education	\$ 3,090	\$ 3,087
Capital replacement	10,929	13,093
Other health care services	11,595	14,193
	<u>\$ 25,614</u>	<u>\$ 30,373</u>

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 4. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are restricted for the following purposes:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Investments to be held in perpetuity, the income from which is expendable to support health care services	\$ 4,286	\$ 4,286
Restricted funds held in trusts by others, the income from which is expendable to support health care services	51,164	48,538
	<u>\$ 55,450</u>	<u>\$ 52,824</u>

### 5. Assets Whose Use Is Limited

Assets whose use is limited consist of the following:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Board designated:		
Short-term investments	\$ 430	\$ 481
Marketable equity securities	36,469	29,478
United States government securities	9,186	7,133
Corporate bonds	5,437	5,210
	<u>51,522</u>	<u>42,302</u>
Donor restricted:		
Marketable equity securities	4,286	4,286
	<u>4,286</u>	<u>4,286</u>
Held under bond indenture	4,764	5,993
Held in trusts by others	51,164	48,538
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	10,952	12,789
Total assets whose use is limited	<u>122,688</u>	<u>113,908</u>
Assets whose use is limited for current liabilities	(4,883)	(5,076)
	<u>\$ 117,805</u>	<u>\$ 108,832</u>

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

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **6. Donor-Restricted Endowment Funds**

The Hospital and Medical Center endowments include the donor-restricted endowment funds. Perpetual trust funds held by others are not included under Accounting Standards Codification (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 the 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 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 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)

*(Amounts In Thousands)*

### 6. Donor-Restricted Endowment Funds (continued)

Changes in endowment funds for the years ended September 30, 2013 and 2012, consisted of the following:

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of the year	\$ —	\$ 4,286	\$ 4,286
Investment income	30	—	30
Appropriation of endowment assets for expenditure	(30)	—	(30)
Net assets, end of year	<u>\$ —</u>	<u>\$ 4,286</u>	<u>\$ 4,286</u>

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of the year	\$ —	\$ 4,286	\$ 4,286
Investment income	94	—	94
Appropriation of endowment assets for expenditure	(94)	—	(94)
Net assets, end of year	<u>\$ —</u>	<u>\$ 4,286</u>	<u>\$ 4,286</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 deficiencies of this nature that are reported as of September 30, 2013 and 2012.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 7. Long-Term Investments and Investment Income

Long-term investments consist of the following:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Money market funds	\$ 772	\$ 776
Marketable equity securities	7,778	6,458
United States government securities	1,035	882
Corporate bonds	3,081	3,558
Other	2,348	3,158
	<b>\$ 15,014</b>	<b>\$ 14,832</b>

The composition and presentation of net gain on investment activity, which is included in operating income in the consolidated statements of operations and changes in net assets, are as follows:

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Realized gain on investments	\$ 306	\$ 769
Unrealized gain on investments	1,990	1,909
Other	—	(2,350)
	<b>\$ 2,296</b>	<b>\$ 328</b>

For the years ended September 30, 2013 and 2012, interest and dividend income of \$4,564 and \$6,941, respectively, and realized gain on investments of \$395 and \$3,557, respectively, are included in other operating revenues in the consolidated statements of operations and changes in net assets.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 8. Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Land and land improvements	\$ 7,896	\$ 7,906
Buildings	477,094	467,412
Equipment	304,843	375,627
Construction-in-progress (estimated cost to complete of approximately \$19,447 as of 2013)	40,032	15,636
	<b>829,865</b>	<b>866,581</b>
Less accumulated depreciation	368,500	414,364
Total property, plant, and equipment, net	<b>\$ 461,365</b>	<b>\$ 452,217</b>

During the years ended September 30, 2013 and 2012, there were \$81,523 and \$112,936, respectively, of asset retirements related to obsolete property, plant, and equipment.

Included in construction in progress at September 30, 2013 is \$24,186 of computer software development costs related to new patient accounting software. The system is expected to be complete and functional in April 2014, at which time the cost will be amortized over its estimated useful life.

### 9. Other Operating Revenues

#### Electronic Health Record (EHR) Program

Certain health care providers can earn incentive payments between 2011 and 2016 from Medicare and Medicaid for establishing an EHR system and maintaining its meaningful use. The Hospital and Medical Center recognizes income when it is reasonably assured that it is in compliance with the program criteria. The Hospital and Medical Center has included \$3,728 and \$4,711 in other operating revenue related to the program for fiscal years 2013 and 2012, respectively. Included in the amounts are \$920 and \$1,282 received from Medicaid for the fiscal years 2013 and 2012, respectively. The estimate for the Medicare program is based on cost

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### 9. Other Operating Revenues (continued)

report data, which is subject to audit and the amounts recognized are subject to change. The Hospital and Medical Center attestation of compliance with the meaningful use criteria is subject to audit by the federal or state government or its designee.

Other operating revenues consist of the following:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
EHR income	\$ 3,728	\$ 4,711
Rental income	6,655	5,843
Investment income	4,959	10,498
Unrestricted contributions	2,451	1,643
Pharmacy	2,165	2,123
Group purchase discount	1,721	1,730
Services to other institutions	4,734	3,461
Other income	9,865	11,249
Total other operating revenues	<u>\$ 36,278</u>	<u>\$ 41,258</u>

#### 10. Professional and General Liability Insurance

During 2009, the Hospital and Medical Center established the Saint Francis Indemnity Company as a successor to the Hospital and Medical Center's financial interest in Partners Interinsurance Exchange (PIE). On July 1, 2009, the Hospital and Medical Center's account in PIE was transferred to the Saint Francis Indemnity Company. The Hospital and Medical Center and certain affiliates continue to purchase limits of professional and general liability from the Saint Francis Indemnity Company at levels previously purchased from PIE. Actuarially determined premiums are paid in order to set aside assets to cover the reasonable value of ultimate expected losses. Hospital and Medical Center's management, with assistance from its consulting actuaries, accrued its best estimate of professional and general liabilities.

Malpractice claims that fall within the Hospital and Medical Center's adopted policy of self-insurance have been asserted against the Hospital and Medical Center by various claimants. The claims are in various stages of assessment and resolution. There are also known and unknown incidents that have occurred through September 30, 2013, that may result in the assertion of

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 10. Professional and General Liability Insurance (continued)

additional claims. The Hospital and Medical Center's management believes that the ultimate settlement of these claims will not have a material impact on the Hospital and Medical Center's consolidated financial position or results of their operations, as adequate self-insurance reserves, assets and reinsurance are in place.

The Saint Francis Indemnity Company entered into a loss portfolio transfer (LPT) on July 1, 2009 with PIE. The losses associated with this transaction did not transfer insurance risk to the Saint Francis Indemnity Company. As such, this LPT is accounted for using deposit accounting, which requires offsetting assets and liabilities.

Activity in the reserves for losses and loss adjustment expenses for the years ended September 30 is summarized as follows:

	2013	2012
Balance at beginning of year, net	\$ 21,873	\$ 22,743
Incurred related to:		
Current period	9,619	9,207
Prior periods	(1,190)	(644)
Total incurred	8,429	8,563
Paid related to:		
Current period	174	325
Prior periods	3,920	9,108
Total paid	4,094	9,433
Balance at end of year, net of reinsurance recoverable	26,208	21,873
Plus reinsurance recoverable on unpaid losses and loss adjustment expenses	1,650	1,510
Gross balance, included in pension and other accrued expenses in the consolidated balance sheets, at end of year	\$ 27,858	\$ 23,383

As described in Note 1, the estimate of losses and loss adjustment expenses may vary significantly from the amounts reported in the Saint Francis Indemnity Company's financial statements and could result in adverse deviation from the recorded reserve amounts. The 2013 and 2012 prior year loss development was slightly favorable due to increased focus on claims being addressed and closed more quickly.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 11. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2013	2012
State of Connecticut Health and Educational Facilities Authority (the Authority) revenue bonds :		
Series C	\$ —	\$ 2,190
Series D	11,340	12,600
Series E	39,745	39,745
Series F	175,000	175,000
Series G	28,240	29,045
	<u>254,325</u>	<u>258,580</u>
 Obligations under capital leases	 <u>13,131</u>	 <u>7,335</u>
	<u>267,456</u>	<u>265,915</u>
 Less current portion:		
Scheduled maturities	8,819	6,950
	<u>\$ 258,637</u>	<u>\$ 258,965</u>

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 of Series D revenue bonds of which \$11,385 matured serially from 2003 to 2011, \$2,525 matured in the year 2013, \$5,040 matures in the year 2017, and \$6,300 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 out of a total of \$77,740). The Hospital and Medical Center financed the purchase of these bonds using a

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### **11. Long-Term Debt (continued)**

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 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 6.11%. 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 3.85% through July 2014. Subsequent to fiscal year 2013, the Hospital and Medical Center extended the total return interest rate swap through July 2018.

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, patient rooms, and renovation of existing facilities. The Authority sold \$175,000 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. In the event that the bonds cannot be remarketed, the underlying terms of the letter of credit agreement require that all amounts borrowed under the agreement be repaid ratably, over a 60-month period. Accordingly, that portion of the bonds that would be due within one year, should the bonds fail to be remarketed, is classified as a current liability. The letter of credit is scheduled to expire during 2014. Concurrent with the transaction, the Hospital and Medical Center entered into an interest rate swap to effectively fix the interest rate on \$130,000 of the Series F bonds at 3.54%.

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 of the remaining Series C Fixed Rate Bonds underlying the swap subsequent to its fiscal year-end. In June 2009, a financial institution purchased \$8,150 of these bonds.

In September 2010, the Hospital and Medical Center entered into a financing arrangement with the Authority for the purpose of retiring the remaining Series C Fixed Rate Bonds, which it purchased in 2008. The Authority sold \$29,870 of Series G Bond Qualified Tax Exempt Bonds, which mature serially from 2011 to 2027 through a private placement. The bonds bear interest at a rate of 68% of one-month London Interbank Offered Rate (LIBOR) plus 2.75% (1.99% at September 30, 2013). The 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 in 2015.

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **11. Long-Term Debt (continued)**

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 value of the swaps is included with other noncurrent accrued expenses in the accompanying consolidated balance sheets. The Series C swap liability at September 30, 2013 and 2012 was \$3,023 and \$4,409, respectively. The Series E swap liability at September 2013 and 2012 was \$262 and \$2,609, respectively. The Series F swap liability at September 30, 2013 and 2012 was \$24,553 and \$43,343, respectively. 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 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.

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

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 that will be sufficient to enable the Authority to pay the principal and interest on the Series C, Series D, Series E, Series F and Series G bonds. A significant portion of property, building, and equipment have been collateralized under various debt agreements. The terms of the various financing arrangements between the Authority, certain financial institutions, and the Hospital and Medical Center also provide for financial covenants. As of September 30, 2013, the Hospital and Medical Center was in compliance with such covenants.

The Hospital and Medical Center has a line of credit with a bank with a total line available of \$5,000. The rate is LIBOR plus 1.5% expiring March 2014. There were no amounts outstanding as of September 30, 2013 and 2012.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 11. Long-Term Debt (continued)

Concurrent with the issuance and delivery of the Series C, Series D, Series E, Series F, and Series G 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:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Debt service reserve funds	\$ 3,604	\$ 4,246
Debt service funds	1,160	1,747
	<u>\$ 4,764</u>	<u>\$ 5,993</u>

Scheduled principal payments of long-term debt, including capital lease obligations, at September 30, 2013, are as follows:

	<b>Debt</b>	<b>Capital Lease Obligations</b>
2014	\$ 4,120	\$ 5,121
2015	4,325	4,253
2016	4,520	2,720
2017	4,760	1,763
2018	5,010	—
Thereafter	231,590	—
Less: interest	—	(726)
	<u>\$ 254,325</u>	<u>\$ 13,131</u>

The fair value of the Hospital and Medical Center long-term debt as determined by the Hospital and Medical Center's investment advisor, using a discounted cash flow analysis, was \$257,256 and \$263,399 at September 30, 2013 and 2012, respectively.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### **11. Long-Term Debt (continued)**

Interest payments of \$8,883 and \$9,153 were made during 2013 and 2012, respectively. Interest of \$216 was capitalized during the year ended September 30, 2013. No interest was capitalized during the year ended September 30, 2012.

Subsequent to September 30, 2013, the Hospital and Medical Center entered into a financing arrangement with the Authority for the purpose of advance refunding and defeasing the Series D, F, and G Revenue bonds. The Authority sold \$214,580 of Series H-N Bond Qualified Tax Exempt Bonds, which mature serially from 2018 to 2021 through private placement. Principal payments will be made based on a redemption schedule as defined in the bond documents. The Series H bonds bear interest at a fixed rate of 3.05%. The Series I-N bonds bear interest at various rates ranging from 68% to 72% of one-month LIBOR plus 1.7% to 2.3%. The advance refunding will not impact any of the terms related to the interest rate swap agreements currently in place at the Hospital and Medical Center. For the bonds that were included in the advance refunding and defeasance transactions, funds were placed in escrow with a trustee to pay bondholders at future redemption dates. The principal payments for the year ending September 30, 2014, are approximately \$3,015.

### **12. 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. For plans subject to ERISA, 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 55. 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, 2013 and 2012, was \$8,908 and \$9,220, respectively. The defined benefit plan became fully frozen effective October 1, 2009.

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

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

(Amounts In Thousands)

### 12. Retirement Plan and Other Postretirement Benefits (continued)

is to fund the cost of those postretirement benefits as incurred. Effective September 30, 2013, a plan amendment for the Hospital and Medical Center permanently capped the subsidy for the grandfathered participants to the 2013 funding level.

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Unrecognized actuarial (loss) gain	<b>\$ (139,688)</b>	\$ (217,461)	<b>\$ 3,602</b>	\$ (2,693)

The actuarial (loss) gain included in unrestricted net assets expected to be recognized in net periodic benefit cost during the year ending September 30, 2014, is \$3,774.

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

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 458,611	\$ 404,786	\$ 13,833	\$ 14,086
Interest cost	19,085	19,937	546	679
Benefits paid	(14,984)	(13,517)	(934)	(886)
Actuarial (gains) losses	(59,621)	47,405	(1,624)	(46)
Plan amendments	—	—	(4,597)	—
Benefit obligation at end of year	<b>403,091</b>	458,611	<b>7,224</b>	13,833
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	241,281	213,082	—	—
Actual return on plan assets	28,392	33,963	—	—
Contributions	9,279	7,753	934	886
Benefits paid	(14,984)	(13,517)	(934)	(886)
Fair value of plan assets at end of year	<b>263,968</b>	241,281	—	—
Funded status of the plan	<b>(139,123)</b>	(217,330)	<b>(7,224)</b>	(13,833)
Accrued benefit cost recognized in pension and other accrued expenses in the consolidated balance sheets	<b>\$ (139,123)</b>	\$ (217,330)	<b>\$ (7,224)</b>	\$ (13,833)

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 12. Retirement Plan and Other Postretirement Benefits (continued)

The accumulated benefit obligations for the plans were \$410,315 and \$472,444 at September 30, 2013 and 2012, respectively.

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
<b>Components of net periodic benefit cost</b>				
Interest cost	\$ 19,085	\$ 19,937	\$ 546	\$ 679
Expected return on plan assets	(16,520)	(17,563)	—	—
Net amortization and deferral	6,280	4,595	74	155
Benefit cost	<u>\$ 8,845</u>	<u>\$ 6,969</u>	<u>\$ 620</u>	<u>\$ 834</u>

### Assumptions

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

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Discount rate	5.35%	4.25%	5.35%	4.25%

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	
	2013	2012	2013	2012
Discount rate	4.25%	5.00%	4.25%	5.00%
Expected long-term rate of return on assets	7.00%	7.50%	N/A	N/A

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

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 12. Retirement Plan and Other Postretirement Benefits (continued)

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.

As of September 30, 2013, the health care cost trend rate no longer applies due to a plan change. Effective as of this date, a plan amendment permanently capped the Hospital and Medical Center's subsidy for the grandfathered participants to the 2013 level.

#### Plan Assets

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

Asset category	September 30	
	2013	2012
Equity securities:		
Domestic	35%	31%
International	17	22
Debt securities	38	38
Commodities	3	4
Real estate	3	5
Cash	4	—
Total	100%	100%

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%, commodities 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.

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### 12. Retirement Plan and Other Postretirement Benefits (continued)

##### Contributions

The Hospital and Medical Center expects to contribute \$8,720 to its pension plan and \$902 to its other postretirement benefit plan in 2014.

##### Estimated Future Benefit Payments

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

Fiscal year:	Pension	Other
	Benefits	Postretirement Benefits
2014	\$ 18,147	\$ 902
2015	19,880	862
2016	21,639	818
2017	23,204	772
2018	24,102	725
2019-2023	136,769	2,922

#### 13. Fair Values of Financial Instruments

The Hospital and Medical Center measures fair value 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. Fair value measurements are applied based on the unit of account from the Hospital and Medical Center's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **13. Fair Values of Financial Instruments (continued)**

The Hospital and Medical Center follows a valuation hierarchy that is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined 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.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital and Medical Center uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 13. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2013, are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 93,987	\$ –	\$ –	\$ 93,987
Short-term investments	6,995	30,402	–	37,397
<b>Assets whose use is limited</b>				
Board designated:				
Short-term investments	430	–	–	430
Corporate equity securities	10,834	972	–	11,806
Mutual funds:				
Equities	9,399	–	–	9,399
Fixed income	–	10,588	–	10,588
International	2,658	–	–	2,658
Emerging markets	796	–	–	796
Real estate	849	–	–	849
Commodities	373	–	–	373
U.S. government securities	–	9,186	–	9,186
Corporate bonds	–	5,437	–	5,437
	<u>25,339</u>	<u>26,183</u>	<u>–</u>	<u>51,522</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

**13. Fair Values of Financial Instruments (continued)**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Donor restricted</b>				
Short-term investments	\$ 31	\$ –	\$ –	\$ 31
Mutual funds:				
Equities	2,713	–	–	2,713
International	420	–	–	420
Emerging markets	357	–	–	357
Fixed income	–	175	–	175
Real estate	273	–	–	273
Commodities	317	–	–	317
	<b>4,111</b>	<b>175</b>	<b>–</b>	<b>4,286</b>
<b>Held under bond indenture</b>	<b>4,764</b>	<b>–</b>	<b>–</b>	<b>4,764</b>
<b>Held in trust by others</b>	<b>–</b>	<b>48,420</b>	<b>2,744</b>	<b>51,164</b>

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

(Amounts In Thousands)

### 13. Fair Values of Financial Instruments (continued)

	Level 1	Level 2	Level 3	Total
<b>Long-term investments</b>				
Short-term investments	\$ 772	\$ —	\$ —	\$ 772
Mutual funds:				
Equities	4,959	—	—	4,959
International	767	—	—	767
Emerging markets	652	—	—	652
Fixed income	—	321	—	321
Real estate	499	—	—	499
Commodities	580	—	—	580
U.S. government securities	—	1,035	—	1,035
Corporate bonds	—	3,081	—	3,081
Other	—	—	2,348	2,348
	<u>8,229</u>	<u>4,437</u>	<u>2,348</u>	<u>15,014</u>
<b>Liabilities</b>				
Interest rate swap agreements	—	27,838	—	27,838
<b>Pension assets</b>				
Short-term investments	9,463	—	—	9,463
Mutual funds:				
Equities	91,955	—	—	91,955
International	18,647	—	—	18,647
Emerging markets	25,763	—	—	25,763
Real estate	9,102	—	—	9,102
Commodities	8,326	—	—	8,326
Corporate bonds	—	100,712	—	100,712
	<u>163,256</u>	<u>100,712</u>	<u>—</u>	<u>263,968</u>

#### Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Beginning balance	\$ 5,385
Net loss	(293)
Ending balance	<u>\$ 5,092</u>

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

### 13. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2012, are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 84,277	\$ —	\$ —	\$ 84,277
Short-term investments	18	41,179	—	41,197
<b>Assets whose use is limited</b>				
Board designated:				
Short-term investments	481	—	—	481
Corporate equity securities	10,455	995	—	11,450
Mutual funds:				
Equities	5,705	—	—	5,705
Fixed income	—	8,478	—	8,478
International	1,955	—	—	1,955
Emerging markets	804	—	—	804
Real estate	759	—	—	759
Commodities	327	—	—	327
U.S. government securities	—	7,133	—	7,133
Corporate bonds	—	5,210	—	5,210
	20,486	21,816	—	42,302

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

**13. Fair Values of Financial Instruments (continued)**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Donor restricted</b>				
Short-term investments	\$ 220	\$ —	\$ —	\$ 220
Mutual funds:				
Equities	2,556	—	—	2,556
International	366	—	—	366
Emerging markets	298	—	—	298
Fixed income	—	318	—	318
Real estate	228	—	—	228
Commodities	300	—	—	300
	<u>3,968</u>	<u>318</u>	<u>—</u>	<u>4,286</u>
<b>Held under bond indenture</b>	5,993	—	—	5,993
<b>Held in trust by others</b>	—	46,311	2,227	48,538

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

(Amounts In Thousands)

### 13. Fair Values of Financial Instruments (continued)

Short-term investments	\$	776	\$	—	\$	—	\$	776
Mutual funds:								
Equities		4,060		—		—		4,060
International		581		—		—		581
Emerging markets		473		—		—		473
Fixed income		—		505		—		505
Real estate		362		—		—		362
Commodities		477		—		—		477
U.S. government securities		—		882		—		882
Corporate bonds		—		3,558		—		3,558
Other		—		—		3,158		3,158
		6,729		4,945		3,158		14,832

#### Liabilities

Interest rate swap agreements		—		50,361		—		50,361
-------------------------------	--	---	--	--------	--	---	--	--------

#### Pension assets

Short-term investments		1,438		—		—		1,438
Mutual funds:								
Equities		74,137		—		—		74,137
International		37,483		—		—		37,483
Emerging markets		14,964		—		—		14,964
Real estate		11,510		—		—		11,510
Commodities		10,128		—		—		10,128
Corporate bonds		—		91,621		—		91,621
		149,660		91,621		—		241,281

#### Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Beginning balance	\$	4,123
Net gain		1,262
Ending balance	\$	5,385

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **14. Related Party Transactions**

On July 12, 2012, Johnson Memorial Medical Center entered into an affiliation agreement with Saint Francis Care, Inc., designed to establish a long-term relationship between the two systems. Included in the affiliation agreement, the Hospital and Medical Center obtained a minority voting interest on the Board of Directors of Johnson Memorial Medical Center. The Hospital and Medical Center provides certain management and other services to Johnson Memorial Medical Center for which the Hospital and Medical Center is reimbursed. For the year ended September 30, 2013, the Hospital and Medical Center was reimbursed \$375 for services provided to Johnson Memorial Medical Center. Related accounts receivable was \$362 for the year ended September 30, 2013. No such services were provided in fiscal year 2012.

#### **15. 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, 2013 and 2012 was \$578 and \$756, 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.

Beginning in 2007 and through September 30, 2013, approximately 160 plaintiffs filed claims against the Hospital and Medical Center asserting unspecified damages resulting from the activities of a former employee that occurred over a number of years and ended no later than 1993. During the year ended September 30, 2013, one claim was asserted against the Hospital and Medical Center out of court and was resolved, and another claim or suit was threatened. As of the year ended September 30, 2013, there is one claim outstanding and one other threatened, and post-trial and post-appeal proceeding remains pending in one other case.

Based on settlement experience through September 30, 2013, management estimated and accrued a liability at September 30, 2013, for unsettled claims, net of applicable insurance coverage. The expense related to settled and unsettled claims is included in supplies and other expense for the years ended September 30, 2013 and 2012, and the estimated liability for outstanding claims is reflected in pension and other liabilities at September 30, 2013 and 2012, in the accompanying consolidated financial statements included in pension and other accrued expenses.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

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

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Changes in current assets:		
Assets whose use is limited for current liabilities	\$ 193	\$ (573)
Accounts receivable – patients, net	(21,160)	(19,399)
Accounts receivable – other	(210)	5,111
Inventories of supplies	(47)	(1,243)
Prepaid expenses	1,091	(450)
Due from affiliated entities	1,014	(5,239)
	<u>(19,119)</u>	<u>(21,793)</u>
Changes in current liabilities:		
Accounts payable	414	1,266
Accrued payroll and other related expenses	1,641	530
Accrued expenses and interest payable	(987)	1,407
Due to third-party reimbursement agencies	9,872	(2,504)
Due to affiliated entities	–	(2,535)
	<u>10,940</u>	<u>(1,836)</u>
Change in working capital other than cash and cash equivalents	<u>\$ (8,179)</u>	<u>\$ (23,629)</u>

### 17. Functional Expenses

Functional expenses are as follows:

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Health care services	\$ 616,107	\$ 600,194
General and administrative	66,282	71,436
	<u>\$ 682,389</u>	<u>\$ 671,630</u>

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **18. Subsequent Events**

The Hospital and Medical Center evaluated subsequent events through February 7, 2014, which is the date the consolidated financial statements were issued. The Hospital and Medical Center evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date for the year ended September 30, 2013.

No events occurred that require adjustment to the consolidated financial statements except as disclosed in Note 11 related to the advance refunding and defeasing of the Series D, F, and G revenue bonds.

## Supplementary Information

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidating Balance Sheet

September 30, 2013  
(In Thousands)

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	Saint Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Saint Francis Hospital and Medical Center
<b>Assets</b>										
Current assets:										
Cash and cash equivalents	\$ 80,260	\$ 9,454	\$ —	\$ 89,714	\$ 2,384	\$ 510	\$ 1,114	\$ 265	\$ —	\$ 93,987
Short-term investments	30,428	—	—	30,428	—	6,969	—	—	—	37,397
Assets whose use is limited for current liabilities	4,883	—	—	4,883	—	—	—	—	—	4,883
Accounts receivable – patients, less allowance	60,969	—	—	60,969	390	—	—	381	—	61,740
Accounts receivable – other	1,245	60	—	1,305	—	1,911	241	60	—	3,517
Inventories of supplies	7,188	—	—	7,188	—	—	21	—	—	7,209
Prepaid expenses and deposits	5,740	—	—	5,740	26	19	16	—	—	5,801
Due from affiliated entities	(2,789)	3,038	(3,038)	(2,789)	3,122	9,272	(1,016)	(4,246)	31	4,374
Total current assets	187,924	12,552	(3,038)	197,438	5,922	18,681	376	(3,540)	31	218,908
Assets whose use is limited:										
Board – designated	21,396	—	—	21,396	—	30,126	—	—	—	51,522
Donor restricted	4,286	—	—	4,286	—	—	—	—	—	4,286
Held under bond indenture	4,764	—	—	4,764	—	0	—	—	—	4,764
Held in trusts by others	51,164	—	—	51,164	—	0	—	—	—	51,164
Interest in SFHMC Foundation, Inc.	10,952	—	—	10,952	—	—	—	—	—	10,952
	92,562	—	—	92,562	—	30,126	—	—	—	122,688
Assets whose use is limited for current liabilities	(4,883)	—	—	(4,883)	—	—	—	—	—	(4,883)
	87,679	—	—	87,679	—	30,126	—	—	—	117,805
Long-term investments	16,916	—	—	16,916	—	—	—	—	(1,902)	15,014
Property, plant, and equipment, net	453,524	3,875	—	457,399	1,691	—	2,236	39	—	461,365
Other assets:										
Bond issuance costs, less amortization	2,053	—	—	2,053	—	—	—	—	—	2,053
Due from affiliated entities	(3,038)	—	3,038	—	—	—	—	—	0	—
Other	6,128	—	—	6,128	—	—	—	—	—	6,128
	\$ 751,186	\$ 16,427	\$ —	\$ 767,613	\$ 7,613	\$ 48,807	\$ 2,612	\$ (3,501)	\$ (1,871)	\$ 821,273

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2013

(In Thousands)

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	Saint Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
<b>Liabilities and net assets</b>										
Current liabilities:										
Accounts payable	\$ 32,109	\$ 13	\$ –	\$ 32,122	\$ 1,269	\$ 161	\$ 636	\$ –	\$ 237	\$ 34,425
Accrued payroll and other related expenses	32,532	–	–	32,532	1,571	–	–	480	–	34,583
Accrued expenses and interest payable	6,283	22	–	6,305	4	–	–	7	(34)	6,282
Due to third-party reimbursement agencies	12,474	–	–	12,474	–	–	–	–	–	12,474
Current portion of long-term debt	8,819	–	–	8,819	–	–	–	–	–	8,819
Total current liabilities	92,217	35	–	92,252	2,844	161	636	487	203	96,583
Pension and other accrued expenses	191,376	–	–	191,376	1,357	30,087	–	–	(34)	222,786
Long-term debt, less portion classified as a current liability	258,637	–	–	258,637	–	–	–	–	–	258,637
Net assets:										
Unrestricted	127,892	16,392	–	144,284	3,412	18,559	1,976	(3,988)	(2,040)	162,203
Temporarily restricted	25,614	–	–	25,614	–	–	–	–	–	25,614
Permanently restricted	55,450	–	–	55,450	–	–	–	–	–	55,450
	208,956	16,392	–	225,348	3,412	18,559	1,976	(3,988)	(2,040)	243,267
	\$ 751,186	\$ 16,427	\$ –	\$ 767,613	\$ 7,613	\$ 48,807	\$ 2,612	\$ (3,501)	\$ (1,871)	\$ 821,273

Saint Francis Hospital and Medical Center and Subsidiaries  
Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2013

(In Thousands)

	Saint Francis Hospital and Medical Center	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	Saint Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Net patient service revenue	\$ 655,372	\$ –	\$ –	\$ 655,372	\$ 12,852	\$ –	\$ –	\$ 2,899	\$ –	\$ 671,123
Less: provision for bad debts	(20,254)	–	–	(20,254)	(384)	–	–	(150)	–	(20,788)
Net patient service revenue less provision for bad debts	635,118	–	–	635,118	12,468	–	–	2,749	–	650,335
Other operating revenues	30,928	2,866	(1,340)	32,454	26,276	12,092	5,067	3,129	(42,740)	36,278
Net assets released from restrictions for operations	4,400	–	–	4,400	–	–	–	–	–	4,400
Total revenue	670,446	2,866	(1,340)	671,972	38,744	12,092	5,067	5,878	(42,740)	691,013
Operating expenses:										
Salaries	252,560	132	–	252,692	13,469	–	–	5,023	(8,090)	263,094
Supplies and other	367,228	338	(1,340)	366,226	24,489	9,251	5,067	1,491	(34,684)	371,840
Interest	11,601	–	–	11,601	–	–	–	–	–	11,601
Depreciation and amortization	34,870	358	–	35,228	378	–	239	9	–	35,854
	666,259	828	(1,340)	665,747	38,336	9,251	5,306	6,523	(42,774)	682,389
	4,187	2,038	–	6,225	408	2,841	(239)	(645)	34	8,624
Net gain on investment activity	2,296	–	–	2,296	–	–	–	–	–	2,296
Operating income (loss)	6,483	2,038	–	8,521	408	2,841	(239)	(645)	34	10,920
Interest rate swap activity:										
Interest cost on interest rate swaps	(305)	–	–	(305)	–	–	–	–	–	(305)
Change in fair value of interest rate swaps	22,523	–	–	22,523	–	–	–	–	–	22,523
	22,218	–	–	22,218	–	–	–	–	–	22,218
Excess (deficiency) of revenues over expenses	28,701	2,038	–	30,739	408	2,841	(239)	(645)	34	33,138

Saint Francis Hospital and Medical Center and Subsidiaries

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

Year Ended September 30, 2013

(In Thousands)

	Saint Francis Hospital and Medical Center	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	Saint Francis Indemnity Co.	Total Laundry Collaborative Health Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Unrestricted net assets:										
Excess (deficiency) of revenues over expenses (continued)	\$ 28,701	\$ 2,038	\$ —	\$ 30,739	\$ 408	\$ 2,841	\$ (239)	\$ (645)	\$ 34	\$ 33,138
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	1,165	—	—	1,165	—	—	—	—	—	1,165
Net assets released from restrictions used for capital purchases	3,204	—	—	3,204	—	—	—	—	—	3,204
Change in pension funding and postretirement obligations	81,090	—	—	81,090	2,978	—	—	—	—	84,068
Equity transfer to affiliated entity	(6,000)	—	—	(6,000)	—	—	—	—	—	(6,000)
Change in minority interest in subsidiary	—	—	—	—	—	—	—	—	(148)	(148)
Increase (decrease) in unrestricted net assets	108,160	2,038	—	110,198	3,386	2,841	(239)	(645)	(114)	115,427
Temporarily restricted net assets:										
Income from investments	162	—	—	162	—	—	—	—	—	162
Gifts, contributions, and donations	6,027	—	—	6,027	—	—	—	—	—	6,027
Net unrealized gain on investments	43	—	—	43	—	—	—	—	—	43
Grants released from restrictions for renovations	(3,447)	—	—	(3,447)	—	—	—	—	—	(3,447)
Net assets released from restrictions for operations and capital purchases	(7,604)	—	—	(7,604)	—	—	—	—	—	(7,604)
Transfers from SFHMC Foundation, Inc.	1,897	—	—	1,897	—	—	—	—	—	1,897
Decrease in interest in SFHMC Foundation, Inc.	(1,837)	—	—	(1,837)	—	—	—	—	—	(1,837)
Decrease in temporarily restricted net assets	(4,759)	—	—	(4,759)	—	—	—	—	—	(4,759)
Permanently restricted net assets:										
Increase in assets held in trusts by others	2,626	—	—	2,626	—	—	—	—	—	2,626
Increase in permanently restricted net assets	2,626	—	—	2,626	—	—	—	—	—	2,626
Increase (decrease) in net assets	106,027	2,038	—	108,065	3,386	2,841	(239)	(645)	(114)	113,294
Net assets at beginning of year	102,929	14,354	—	117,283	26	15,718	2,215	(3,343)	(1,926)	129,973
Net assets at end of year	\$ 208,956	\$ 16,392	\$ —	\$ 225,348	\$ 3,412	\$ 18,559	\$ 1,976	\$ (3,988)	\$ (2,040)	\$ 243,267

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