

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Saint Francis Hospital and Medical Center and Subsidiaries  
Years Ended September 30, 2015 and 2014  
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, 2015 and 2014

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Ernst & Young LLP  
20 Church Street  
Hartford, CT 06103

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

## 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, which comprise the consolidated balance sheets as of September 30, 2015 and 2014, 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 did not audit the financial statements of Saint Francis Indemnity Company, LLC (SFICL), a wholly owned subsidiary, which statements reflect total assets of \$62.4 million as of September 30, 2015 and \$50.2 million as of September 30, 2014, and total revenues of \$12.3 million and \$13.4 million for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for SFICL, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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, based on our audits and the report of the other auditors, 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, 2015 and 2014, 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.

### **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, based on our audits, the procedures performed as described above and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst + Young LLP*

January 29, 2016

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Balance Sheets

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 93,016	\$ 84,700
Short-term investments	23,167	33,920
Assets whose use is limited for current liabilities	1,521	1,459
Accounts receivable – patients, less allowance for doubtful accounts (\$15,264 for 2015 and \$13,431 for 2014)	67,076	72,591
Accounts receivable – other	4,566	3,686
Inventories of supplies	9,701	8,855
Prepaid expenses and deposits	7,718	6,724
Due from affiliated entities	7,245	14,831
Total current assets	214,010	226,766
Assets whose use is limited:		
Board-designated	64,100	57,787
Donor restricted	4,286	4,286
Held under bond indenture	817	957
Held in trusts by others	48,893	53,033
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	9,394	10,789
	127,490	126,852
Assets whose use is limited for current liabilities	(1,521)	(1,459)
	125,969	125,393
Long-term investments	24,057	18,962
Property, plant, and equipment, net	461,286	469,060
Other assets:		
Bond issuance costs, less amortization	1,261	1,346
Other	5,858	11,116
	\$ 832,441	\$ 852,643

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 37,798	\$ 34,587
Accrued payroll and other related expenses	36,078	35,966
Accrued expenses and interest payable	7,380	7,378
Due to third-party reimbursement agencies	12,528	14,939
Current portion of long-term debt	7,298	8,760
Total current liabilities	<b>101,082</b>	101,630
Pension and other accrued expenses	<b>319,203</b>	284,381
Long-term debt, less portion classified as a current liability	<b>244,154</b>	251,476
Total liabilities	<b>664,439</b>	637,487
Net assets:		
Unrestricted	<b>90,406</b>	133,482
Temporarily restricted	24,417	24,355
Permanently restricted	53,179	57,319
	<b>168,002</b>	215,156
	<b>\$ 832,441</b>	<b>\$ 852,643</b>

*See accompanying notes.*

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
Net patient service revenue	\$ <b>691,884</b>	\$ 687,135
Less: provision for bad debts	<b>(22,456)</b>	(22,553)
Net patient service revenue less provision for bad debts	<b>669,428</b>	664,582
Other operating revenue	<b>35,294</b>	34,500
Net assets released from restrictions for operations	<b>4,156</b>	3,927
Total revenues	<b>708,878</b>	703,009
Operating expenses:		
Salaries	<b>273,953</b>	265,515
Supplies and other	<b>377,521</b>	369,639
Interest	<b>11,152</b>	11,620
Depreciation and amortization	<b>38,728</b>	36,822
Total operating expenses	<b>701,354</b>	683,596
	<b>7,524</b>	19,413
Net (loss) gain on investment activity	<b>(2,528)</b>	3,623
Operating income	<b>4,996</b>	23,036
Non-operating gains and losses:		
Loss on refunding and refinancing of debt	-	(1,719)
Net loss on termination of interest rate swaps	<b>(2,739)</b>	-
Interest savings (cost) on interest rate swaps	<b>41</b>	(102)
Change in fair value of interest rate swaps	<b>(14,835)</b>	(603)
	<b>(17,533)</b>	(2,424)
(Deficiency) excess of revenues and gains and losses over expenses	<b>(12,537)</b>	20,612

*(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>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
Unrestricted net assets:		
(Deficiency) excess of revenues and gains and losses over expenses (continued)	\$ (12,537)	\$ 20,612
Transfers (to) from Saint Francis Hospital and Medical Center Foundation, Inc.	(667)	532
Net assets released from restrictions used for property, plant, and equipment	1,539	3,313
Change in pension funding and postretirement obligations	(19,192)	(53,442)
Equity transfer to affiliated entity	(13,000)	-
Transfers of net assets to Saint Francis Care, Inc.	(280)	-
Donated property	857	-
Change in minority interest in subsidiary	204	264
Decrease in unrestricted net assets	(43,076)	(28,721)
Temporarily restricted net assets:		
Income from investments	125	109
Gifts, contributions, and donations	2,077	3,068
Net unrealized (loss) gain on investments	(178)	44
Net assets released from restrictions for operations	(4,156)	(3,927)
Net assets released from restrictions used for property, plant, and equipment	(1,686)	(3,680)
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	5,275	3,290
Decrease in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	(1,395)	(163)
Increase (decrease) in temporarily restricted net assets	62	(1,259)
Permanently restricted net assets:		
(Decrease) increase in assets held in trusts by others	(4,140)	1,869
(Decrease) increase in permanently restricted net assets	(4,140)	1,869
Decrease in net assets	(47,154)	(28,111)
Net assets at beginning of year	215,156	243,267
Net assets at end of year	\$ 168,002	\$ 215,156

*See accompanying notes.*



# Saint Francis Hospital and Medical Center and Subsidiaries

## Consolidated Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
<b>Operating activities and other gains</b>		
Decrease in net assets	\$ (47,154)	\$ (28,111)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and other gains:		
Depreciation and amortization	38,728	35,103
Bad debts	22,456	22,553
Change in pension funding and postretirement obligations	19,192	53,442
Equity transfer to affiliate	13,000	–
Change in fair value of interest rate swaps	14,835	603
Net loss on termination of interest rate swaps	2,739	–
Net transfer from Saint Francis Hospital and Medical Center Foundation, Inc.	4,608	(3,821)
Loss on refunding and refinancing of debt	–	1,719
Decrease in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	1,395	163
Net unrealized loss (gain) on investments	3,065	(1,427)
Decrease (increase) in assets held in trusts by others	4,140	(1,869)
Restricted contributions and investment income	(2,202)	(3,177)
Increase in pension and other accrued expenses	795	7,550
Change in working capital other than cash and cash equivalents	(11,223)	(38,069)
Net cash provided by operating activities and other gains	<u>64,374</u>	<u>44,659</u>
<b>Investing activities</b>		
Purchase of property, plant, and equipment, net	(30,869)	(42,512)
(Increase) decrease in investments	(146)	3,920
Equity transfer to affiliate	(13,000)	–
Increase in noncurrent assets whose use is limited	(6,111)	(7,642)
Decrease (increase) in other assets	5,258	(4,988)
Net cash used in investing activities	<u>(44,868)</u>	<u>(51,222)</u>
<b>Financing activities</b>		
Principal payments on long-term debt and capital leases	(8,784)	(221,810)
Proceeds from issuance of bonds	–	213,215
Payment of bond issuance costs	–	(1,127)
Net transfer from Saint Francis Hospital and Medical Center Foundation, Inc.	(4,608)	3,821
Restricted contributions and investment income	2,202	3,177
Net cash used in financing activities	<u>(11,190)</u>	<u>(2,724)</u>
Net increase (decrease) in cash and cash equivalents	<u>8,316</u>	<u>(9,287)</u>
Cash and cash equivalents at beginning of year	<u>84,700</u>	<u>93,987</u>
Cash and cash equivalents at end of year	<u>\$ 93,016</u>	<u>\$ 84,700</u>
<b>Supplemental information</b>		
Capital lease obligations - Non-cash financing	\$ –	\$ 1,298
Donated property - Non-cash investing	(857)	–
	<u>\$ (857)</u>	<u>\$ 1,298</u>

See accompanying notes.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (Amounts In Thousands)

September 30, 2015

### **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 Care Medical Group, P.C., 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 the 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 of Supplies**

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 (deficiency) 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 (deficiency) excess of revenues and gains and losses 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 recorded 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.

#### **Other Assets**

Other assets include bond issuance costs, assets related to deferred compensation and workers compensation programs and interest rate swap agreements.

#### **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 \$12,081 and \$11,323 in 2015 and 2014, 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%, totaled \$7,474 and \$7,257 at September 30, 2015 and 2014, respectively and are included in pension and other accrued expenses.

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, 2015. 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

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

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

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.

#### **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 \$6,755 and \$6,806 at September 30, 2015 and 2014, respectively, have been discounted at 4%. The current portion of the accrued workers' compensation liabilities included in accrued expenses and interest payable is \$1,591 and \$1,634 at September 30, 2015 and 2014, respectively, and the long-term portion included in pension and other accrued expenses is \$5,164 and \$5,172 at September 30, 2015 and 2014, 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, 2015 and 2014, the plan had \$1,841 and \$1,758, respectively, included in other assets with a corresponding liability, included in pension and other accrued expenses, payable upon retirement, death or disability.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Amounts In Thousands)

### 1. Significant Accounting Policies (continued)

#### Other Operating Revenue

Other operating revenue includes services to other institutions, rental income, pharmacy income, investment income, unrestricted contributions, equity earnings in group purchasing organizations and joint ventures, cafeteria sales, vendor rebates and electronic health record program revenue.

#### (Deficiency) Excess of Revenues and Gains and Losses over Expenses

The consolidated statements of operations and changes in net assets include (deficiency) excess of revenues and gains and losses over expenses, which is the performance indicator. Changes in unrestricted net assets, which are excluded from the (deficiency) excess of revenues and gains and losses over expenses, include adjustments to the pension funding and postretirement obligations, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets, and changes in 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 are 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 \$2,554. These net operating loss carryforwards result in a deferred tax asset of \$1,022, which is offset by a corresponding valuation allowance of the same amount. These expire between September 30, 2027 and September 30, 2034.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

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

Saint Francis Care Medical Group has net operating loss carryforwards in the amount of \$23,331. The net operating loss carryforwards result in a deferred tax asset of \$9,332, which is offset by a corresponding valuation allowance of the same amount. These expire between September 30, 2018 and September 30, 2031.

Saint Francis Behavioral Health Group, P.C. has net operating loss carryforwards in the amount of \$5,707. These net operating loss carryforwards result in a deferred tax asset of \$2,283, which is offset by a corresponding valuation allowance of the same amount. These net operating loss carryforwards expire between June 30, 2023 and June 30, 2034.

### **Reclassifications**

Certain 2014 amounts have been reclassified to conform to the 2015 presentation. Such reclassifications had no effect on the consolidated statements of operations and changes in net assets.

### **New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 is required on October 1, 2018, and the Hospital and Medical Center is currently evaluating the effect of this guidance on its consolidated financial statements.



## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Amounts In Thousands)

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

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

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Gross patient service revenue	<b>\$ 2,180,066</b>	\$ 2,048,856
Deductions:		
Contractual allowances and discounts	<b>1,474,062</b>	1,342,803
Charity care at charges	<b>14,120</b>	18,918
	<b>1,488,182</b>	1,361,721
Net patient service revenue	<b>691,884</b>	687,135
Less: provision for bad debts	<b>(22,456)</b>	(22,553)
Net patient service revenue less provision for bad debts	<b>\$ 669,428</b>	\$ 664,582

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 2015 and 2014, 39.1% and 40.8%, respectively, of net patient service revenue was received under the Medicare program; 12.7% and 15.4%, respectively, under the Medicaid program; and 19.4% and 17.9%, 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 that could have a material adverse effect on the consolidated financial statements. While no such regulatory inquiries are outstanding,

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

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

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.

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 2015 and 2014, the Hospital and Medical Center recorded a net change in estimate of \$9,069 and \$8,553, respectively, increasing operating revenue 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.

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Amounts In Thousands)

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

Patient service revenue, net of contractual allowances and discounts (not including the reduction for charity care) and before the provision for bad debts, recognized in the period from major payor sources for the years ended September 30, 2015 and 2014, is as follows:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Third-party payors	<b>\$ 669,766</b>	\$ 669,747
Self-pay patients	<b>36,238</b>	36,306
	<b>\$ 706,004</b>	\$ 706,053

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 are recorded as contractual allowances in net patient service revenue for financial reporting purposes.

The estimated cost of charity care provided was \$4,296 and \$6,020 for the years ended September 30, 2015 and 2014, 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 31.0% from Medicare, 8.3% from Medicaid, and 49.8% from commercial insurance carriers and managed care companies at September 30, 2015 (34.0%, 10.1%, and 42.8%, respectively, at September 30, 2014).

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts In Thousands)

**3. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Health care services:		
Research and education	\$ 3,664	\$ 3,112
Capital replacement	10,387	10,753
Other health care services	10,366	10,490
	<u>\$ 24,417</u>	<u>\$ 24,355</u>

Permanently restricted net assets are restricted for the following purposes:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</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	48,893	53,033
	<u>\$ 53,179</u>	<u>\$ 57,319</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

**4. Assets Whose Use Is Limited**

Assets whose use is limited consist of the following:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Board designated:		
Short-term investments	\$ 21,809	\$ 956
Marketable equity securities and mutual funds	14,506	33,012
United States government securities	4,633	11,185
Corporate bonds and other fixed income	23,152	12,634
	<b>64,100</b>	<b>57,787</b>
Donor restricted:		
Marketable equity securities	4,286	4,286
	<b>4,286</b>	<b>4,286</b>
Held under bond indenture:		
Cash and cash equivalents	817	594
United States government securities	–	216
Short-term investments	–	147
	<b>817</b>	<b>957</b>
Held in trusts by others:		
Short-term investments	1,278	2,086
Marketable equity securities	7,900	15,866
Mutual funds	21,484	8,637
United States government securities	1,114	2,558
Corporate bonds and other fixed income	2,041	7,054
Collective trust fund	12,605	14,693
Alternative investment	2,471	2,139
	<b>48,893</b>	<b>53,033</b>
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	<b>9,394</b>	<b>10,789</b>
Total assets whose use is limited	<b>127,490</b>	<b>126,852</b>
Assets whose use is limited for current liabilities	<b>(1,521)</b>	<b>(1,459)</b>
	<b>\$ 125,969</b>	<b>\$ 125,393</b>

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

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

The Hospital and Medical Center endowments include the donor-restricted endowment funds. 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

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

**5. Donor-Restricted Endowment Funds (continued)**

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.

Changes in endowment funds for the years ended September 30, 2015 and 2014, consisted of the following:

	<b>2015</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets, beginning of the year	\$ –	\$ 4,286	\$ 4,286
Investment income	36	–	36
Appropriation of endowment assets for expenditure	(36)	–	(36)
Net assets, end of year	\$ –	\$ 4,286	\$ 4,286
	<b>2014</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets, beginning of the year	\$ –	\$ 4,286	\$ 4,286
Investment income	32	–	32
Appropriation of endowment assets for expenditure	(32)	–	(32)
Net assets, end of year	\$ –	\$ 4,286	\$ 4,286

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, 2015 and 2014.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Amounts In Thousands)*

**6. Long-Term Investments and Investment Income**

Long-term investments consist of the following:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Money market funds	\$ 832	\$ 1,033
Marketable equity securities	13,638	9,140
United States government securities	-	778
Corporate bonds and other fixed income	3,141	2,653
Equity method investments	6,446	5,358
	<b>\$ 24,057</b>	<b>\$ 18,962</b>

The composition and presentation of net (loss) 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>2015</b>	<b>2014</b>
Realized gain on investments	\$ 359	\$ 2,240
Unrealized (loss) gain on investments	(2,887)	1,383
	<b>\$ (2,528)</b>	<b>\$ 3,623</b>



Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

**7. Property, Plant, and Equipment**

Property, plant, and equipment consist of the following:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
Land and land improvements	\$ 8,454	\$ 7,896
Buildings	<b>505,486</b>	494,313
Equipment	<b>380,915</b>	357,871
Construction-in-progress (estimated cost to complete of approximately \$7,529 as of 2015)	<b>8,411</b>	13,587
	<b>903,266</b>	873,667
Less accumulated depreciation	<b>441,980</b>	404,607
Total property, plant, and equipment, net	<b>\$ 461,286</b>	\$ 469,060

During the years ended September 30, 2015 and 2014, there were \$1,097 and \$956, respectively, of asset retirements related to obsolete and fully depreciated property, plant, and equipment.

Equipment includes gross capitalized leases aggregating approximately \$23,863 and \$26,640 at September 30, 2015 and 2014, respectively. Accumulated amortization on capital lease assets is approximately \$8,066 and \$7,891 at September 30, 2015 and 2014, respectively.

At September 30, 2015 and 2014, construction-in-progress included \$2,999 and \$4,666, respectively, of computer software costs relating to projects which were in development and were therefore not yet being amortized.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

**8. Other Operating Revenue**

**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 \$923 and \$2,327 in other operating revenue related to the program for fiscal years 2015 and 2014, respectively. Included in the amounts are zero and \$613 received from Medicaid and \$923 and \$1,714 from Medicare for the fiscal years 2015 and 2014, respectively. The estimate for the Medicare program is based on cost report data, which is subject to audit and the amounts recognized are subject to change. The Hospital and Medical Center's attestation of compliance with the meaningful use criteria is subject to audit by the federal or state government or its designee.

Other operating revenue consist of the following for the years ended:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
EHR income	\$ 923	\$ 2,327
Rental income	7,045	6,663
Investment income	4,581	5,868
Unrestricted contributions	1,748	2,004
Pharmacy	2,458	2,679
Equity earnings in group purchasing organization	953	849
Services to other institutions	5,878	4,933
Equity earnings from joint ventures	1,750	1,225
Cafeteria sales	1,805	-
Vendor rebates	902	523
Other income	7,251	7,429
<b>Total other operating revenues</b>	<b>\$ 35,294</b>	<b>\$ 34,500</b>

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **9. 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, 2015, that may result in the assertion of 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 novation agreement with the Hospital and Medical Center and PIE to assume the existing liabilities effective July 1, 2009. This transaction did not transfer significant insurance underwriting risk to the Saint Francis Indemnity Company, so accordingly, this transaction is accounted for using deposit accounting in accordance with ASC 340-30, *Insurance Contracts that do not Transfer Insurance Risk*. Under deposit accounting, an insurance deposit liability is initially measured based upon the premium received on the insurance contract. At the end of the period, the insurance deposit liability is adjusted to the estimated future cash flows for payments of outstanding losses and loss adjustment expenses. All risk taken on by adverse development on liabilities transferred as part of the novation agreement is guaranteed by the Hospital and Medical Center.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

**9. Professional and General Liability Insurance (continued)**

Activity in the reserves for losses (discounted at 4%) and loss adjustment expenses for the years ended September 30 is summarized as follows:

	<b>2015</b>	<b>2014</b>
Balance at beginning of year, net	\$ <b>30,184</b>	\$ 26,208
Incurred related to:		
Current period	<b>8,755</b>	8,843
Prior periods	<b>(3,206)</b>	174
Total incurred	<b>5,549</b>	9,017
Paid related to:		
Current period	<b>35</b>	19
Prior periods	<b>336</b>	5,022
Total paid	<b>371</b>	5,041
Balance at end of year, net of reinsurance recoverable	<b>35,362</b>	30,184
 Plus reinsurance recoverable on unpaid losses and loss adjustment expenses	 <b>1,685</b>	 1,690
Gross balance, included in pension and other accrued expenses in the consolidated balance sheets, at end of year	<b>\$ 37,047</b>	\$ 31,874

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 2015 prior year loss development was favorable due to better than actuarial expected results of \$3,206. The 2014 prior year loss development was unfavorable due to worse than actuarial expected results related to the attending physician program by \$174.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

**10. Long-Term Debt**

Long-term debt consists of the following:

	<b>September 30</b>	
	<b>2015</b>	<b>2014</b>
State of Connecticut Health and Educational Facilities Authority (the Authority) revenue bonds:		
Series E (interest rate at September 30, 2015 of 6.11%)	\$ 38,085	\$ 38,950
Series H (interest rate at September 30, 2015 of 3.04%)	48,785	49,597
Series I (interest rate at September 30, 2015 of 1.37%)	58,543	59,518
Series J (interest rate at September 30, 2015 of 1.84%)	39,027	39,677
Series K (interest rate at September 30, 2015 of 1.55%)	34,148	34,718
Series L (interest rate at September 30, 2015 of 1.72%)	19,515	19,920
Series M (interest rate at September 30, 2015 of 1.43%)	8,017	8,150
	<b>246,120</b>	250,530
 Obligations under capital leases, due in quarterly and monthly installments, at varying rates of interest from 3% to 6.75%	 5,332	 9,706
	<b>251,452</b>	260,236
 Less current portion: Scheduled maturities	 7,298	 8,760
	<b>\$ 244,154</b>	\$ 251,476

In January 2014, the Hospital and Medical Center entered into a financing arrangement with the Authority for the purpose of refunding and refinancing the Series D, F, and G revenue bonds. The Authority sold \$213,215 of Series H-M 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 3.04%. The Series I-M bonds bear interest at various rates ranging from 68% to 72% of one-month LIBOR plus 1.7% to 2.3%. The refunding and refinancing did not impact any of the terms related to the interest rate swap agreements that were in place in 2014 at the Hospital and Medical Center.

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

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

For the year ended September 30, 2014, non-operating gains and losses included \$1.7 million of extinguishment loss resulting from the refunding and refinancing of the Series D, F, and G revenue bonds. The Series D, F, and G revenue bonds were fully redeemed in fiscal 2014.

During 2004, the Hospital and Medical Center entered into a synthetic refinancing of its then existing Series C Fixed Rate Bonds. Through a series of transactions, which involved 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, but the cash flow swap remained.

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 a 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 2018.

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. 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.

In September 2015, the Hospital and Medical Center terminated the Series C fixed rate swap, Series E fixed rate swap and the Series E total return swap.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

**10. Long-Term Debt (continued)**

At September 30, 2015 and 2014, the swaps in a liability position are reported in pension and other accrued expenses and the swap in an asset position is reported in other assets are summarized as follows:

Notional Amount	Maturity Date	Fixed Payment Rate	2015 Fair Value Liability
\$ 130,000	July 1, 2047	3.535%	\$ 43,991
Notional Amount	Maturity Date	Fixed Payment Rate	2014 Fair Value Liability (Asset)
\$ 130,000	July 1, 2047	3.535%	\$ 29,156
26,620	July 1, 2023	3.349	2,487
26,620	July 1, 2023	3.349	2,487
38,950	July 1, 2018	6.150	(5,689)
			\$ 28,441

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 E 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, 2015, 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) (Amounts In Thousands)

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

Concurrent with the issuance and delivery of the Series D, Series E, Series F, Series G, and Series H 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 are included in assets whose use is limited.

The Hospital and Medical Center has a line of credit with a bank with a total line available of \$5,000 which expires in March 2016. The rate is LIBOR plus 1.5%. There were no amounts outstanding as of September 30, 2015 and 2014. The Hospital and Medical Center entered into a letter of credit arrangement with Johnson Memorial Medical Center (JMMC) for \$2,250 that expires on June 27, 2016. As of September 30, 2015, JMMC has not drawn any amounts. Due to this arrangement the available line of credit to the Hospital and Medical Center is \$2,750.

Scheduled principal payments of long-term debt, including capital lease obligations, at September 30, 2015, are as follows:

	<b>Debt</b>	<b>Capital Lease Obligations</b>
2016	\$ 4,517	\$ 2,902
2017	4,707	2,044
2018	4,945	281
2019	3,913	281
2020	5,408	–
Thereafter	222,630	–
Less: interest	–	(176)
	\$ 246,120	\$ 5,332

Interest payments of \$11,378 and \$10,448 were made during 2015 and 2014, respectively.

On October 1, 2015, the Hospital and Medical Center defeased the Series E through Series M bonds utilizing proceeds from an intercompany loan with Trinity Health Corporation (Trinity Health). The Series F Fixed Pay LIBOR Swap was novated to Trinity Health as part of the asset purchase agreement on October 1, 2015 (see Note 17 for further information).



Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Amounts In Thousands)*

**11. 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, 2015 and 2014, was \$9,329 and \$9,340, 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 is to fund the cost of those postretirement benefits as incurred. During 2014, a plan amendment for the Hospital and Medical Center permanently capped the subsidy for the grandfathered participants to the 2014 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>Other Postretirement Benefits</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Unrecognized actuarial (loss) gain	<b>\$ (210,866)</b>	<b>\$ (192,089)</b>	<b>\$ 2,145</b>	<b>\$ 2,561</b>

The actuarial (loss) gain and transition assets included in unrestricted net assets expected to be recognized in net periodic benefit cost during the year ending September 30, 2016, is \$5,288.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

**11. 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	
	2015	2014	2015	2014
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 464,343	\$ 403,091	\$ 7,326	\$ 7,224
Interest cost	21,243	21,148	324	363
Benefits paid	(18,928)	(18,113)	(871)	(892)
Actuarial losses	439	58,217	62	631
Benefit obligation at end of year	<u>467,097</u>	464,343	<u>6,841</u>	7,326
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	273,471	263,968	-	-
Actual return on plan assets	(5,915)	18,723	-	-
Contributions	8,869	8,893	871	892
Benefits paid	(18,928)	(18,113)	(871)	(892)
Fair value of plan assets at end of year	<u>257,497</u>	273,471	-	-
Funded status of the plan	<u>(209,600)</u>	(190,872)	<u>(6,841)</u>	(7,326)
Accrued benefit cost recognized in pension and other accrued expenses in the consolidated balance sheets	<u>\$ (209,600)</u>	<u>\$ (190,872)</u>	<u>\$ (6,841)</u>	<u>\$ (7,326)</u>

The accumulated benefit obligations for the plans were \$473,938 and \$471,669 at September 30, 2015 and 2014, respectively.

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
<b>Components of net periodic benefit cost (credit)</b>				
Interest cost	\$ 21,243	\$ 21,148	\$ 324	\$ 363
Expected return on plan assets	(17,940)	(17,194)	-	-
Net amortization and deferral	5,517	4,287	82	26
Transition asset	-	-	(436)	(436)
Benefit cost (credit)	<u>\$ 8,820</u>	<u>\$ 8,241</u>	<u>\$ (30)</u>	<u>\$ (47)</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Amounts In Thousands)*

**11. Retirement Plan and Other Postretirement Benefits (continued)**

**Assumptions**

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

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Discount rate	<b>4.78%</b>	4.70%	<b>4.78%</b>	4.70%

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

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Discount rate	<b>4.70%</b>	5.35%	<b>4.70%</b>	5.35%
Expected long-term rate of return on assets	<b>7.00</b>	7.00	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 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, 2014, 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 2014 level.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Amounts In Thousands)

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

The actuarial loss in 2015 and 2014 primarily relates to changes in the discount rate and mortality improvement scale to measure the benefit obligation.

#### Plan Assets

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

Asset category	September 30	
	2015	2014
Equity securities:		
Domestic	35%	37%
International	15	16
Debt securities	41	40
Commodities	3	3
Real estate	4	3
Cash	2	1
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.

#### Contributions

The Hospital and Medical Center expects to contribute \$9,600 to its defined benefit plan and \$827 to its other postretirement benefits plan in 2016.

# Saint Francis Hospital and Medical Center and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Amounts In Thousands)

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

#### Estimated Future Benefit Payments

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

Fiscal year:	Pension Benefits	Other Postretirement Benefits
2016	\$ 21,434	\$ 827
2017	23,153	785
2018	24,077	742
2019	25,677	698
2020	26,681	654
2021–2025	146,651	2,645

### 12. 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.

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.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

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

*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.

Financial assets and liabilities carried at fair value as of September 30, 2015, 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	\$ 93,016	\$ –	\$ –	\$ 93,016
Short-term investments	23,167	–	–	23,167
<b>Other assets</b>				
Deferred compensation assets:				
Marketable equity securities and mutual funds	1,831	–	–	1,831
<b>Assets whose use is limited</b>				
Board designated:				
Short-term investments	21,809	–	–	21,809
Marketable equity securities and mutual funds	14,506	–	–	14,506
United States government securities	4,633	–	–	4,633
Corporate bonds and other fixed income	23,125	27	–	23,152
	<b>64,073</b>	<b>27</b>	<b>–</b>	<b>64,100</b>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

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

	Level 1	Level 2	Level 3	Total
<b>Donor restricted</b>				
Short-term investments	\$ 31	\$ –	\$ –	\$ 31
Mutual funds:				
Emerging markets	357	–	–	357
Equities	2,713	–	–	2,713
Fixed income	175	–	–	175
Real estate	273	–	–	273
Commodities	317	–	–	317
International	420	–	–	420
	<u>4,286</u>	–	–	<u>4,286</u>
<b>Held under bond indenture</b>				
Cash and cash equivalents	817	–	–	817
<b>Held in trust by others</b>				
Short-term investments	–	1,278	–	1,278
Marketable equity securities	–	7,900	–	7,900
Mutual funds	–	21,484	–	21,484
United States				
government securities	–	1,114	–	1,114
Corporate bonds and other				
fixed income	–	2,041	–	2,041
Collective trust fund	–	12,605	–	12,605
Alternative investment	–	2,471	–	2,471
		<u>48,893</u>		<u>48,893</u>
<b>Long-term investments</b>				
Money market funds	832	–	–	832
Marketable equity securities				
and mutual funds	13,638	–	–	13,638
Corporate bonds and other				
fixed income	3,141	–	–	3,141
	<u>17,611</u>	–	–	<u>17,611</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Amounts In Thousands)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Liabilities</b>				
Interest rate swap agreements	\$ —	\$ 43,991	\$ —	\$ 43,991
<b>Pension assets</b>				
Cash and short-term investments	8,337	—	—	8,337
Fixed income	167,071	—	—	167,071
Mutual funds	82,089	—	—	82,089
	<u>257,497</u>	<u>—</u>	<u>—</u>	<u>257,497</u>

Financial assets and liabilities carried at fair value as of September 30, 2014, are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 84,700	\$ —	\$ —	\$ 84,700
Short-term investments	33,920	—	—	33,920
<b>Other assets</b>				
Interest rate swap agreements	—	5,689	—	5,689
Deferred compensation assets:				
Marketable equity securities and mutual funds	1,758	—	—	1,758
	<u>1,758</u>	<u>5,689</u>	<u>—</u>	<u>7,627</u>
<b>Assets whose use is limited</b>				
Board designated:				
Short-term investments	956	—	—	956
Marketable equity securities and mutual funds	33,012	—	—	33,012
United States government securities	11,185	—	—	11,185
Corporate bonds and other fixed income	12,594	40	—	12,634
	<u>57,747</u>	<u>40</u>	<u>—</u>	<u>57,787</u>



Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

**12. 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:				
Emerging markets	357	–	–	357
Equities	2,713	–	–	2,713
Fixed income	175	–	–	175
Real estate	273	–	–	273
Commodities	317	–	–	317
International	420	–	–	420
	<u>4,286</u>	<u>–</u>	<u>–</u>	<u>4,286</u>
<b>Held under bond indenture</b>				
Cash and cash equivalents	594	–	–	594
United States government securities	216	–	–	216
Short-term investments	147	–	–	147
	<u>957</u>	<u>–</u>	<u>–</u>	<u>957</u>
<b>Held in trust by others</b>				
Short-term investments	–	2,086	–	2,086
Marketable equity securities	–	15,866	–	15,866
Mutual funds	–	8,637	–	8,637
United States government securities	–	2,558	–	2,558
Corporate bonds and other fixed income	–	7,054	–	7,054
Collective trust fund	–	14,693	–	14,693
Alternative investment	–	2,139	–	2,139
	<u>–</u>	<u>53,033</u>	<u>–</u>	<u>53,033</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Amounts In Thousands)

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

	Level 1	Level 2	Level 3	Total
<b>Long-term investments</b>				
Money market funds	\$ 1,033	\$ –	\$ –	\$ 1,033
Mutual funds:				
Emerging markets	4,929	–	–	4,929
Equities	4,194	–	–	4,194
United States				
government securities	778	–	–	778
Corporate bonds and other				
fixed income	2,611	42	–	2,653
	13,545	42	–	13,587
<b>Liabilities</b>				
Interest rate swap agreements	–	34,130	–	34,130
<b>Pension assets</b>				
Cash and short-term				
investments	2,233	–	–	2,233
Fixed income	76,294	1,214	–	77,508
Mutual funds:				
Other assets	94,310	–	–	94,310
Equities	99,420	–	–	99,420
	272,257	1,214	–	273,471

The Hospital and Medical Center long-term debt was defeased at October 1, 2015 for \$246,121.

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 \$254,580 at September 30, 2014, and is classified as Level 2.

The amounts reported in the previous tables exclude investments reported under the equity method of accounting in the amounts of \$6,446 and \$5,375 at September 30, 2015 and 2014, respectively.

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **13. Related-Party Transactions**

The Hospital and Medical Center provides services to various Saint Francis Care, Inc. affiliated entities and is reimbursed for the cost of these services. Fees charged to affiliated entities for the years ended September 30, 2015 and 2014, which are included in other operating revenue in the consolidated statements of operations and changes in net assets, were \$1,844 and \$1,836, respectively. This operating revenue consists of rental income from affiliates.

The Hospital and Medical Center receives services from various Saint Francis Care, Inc. affiliated entities and is charged for the cost of these services. Expenses incurred from physician and management services provided by other affiliated entities for the years ended September 30, 2015 and 2014, which are included in supplies and other expenses, were \$40,232 and \$38,849, respectively.

During 2015, the Hospital and Medical Center transferred approximately \$13,000 of unrestricted net assets to Saint Francis Care, Inc. primarily to provide additional funding to Saint Francis Medical Group and Subsidiary.

On July 12, 2012, JMMC 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 JMMC. The Hospital and Medical Center provides certain management and other services to JMMC for which the Hospital and Medical Center is reimbursed. For the years ended September 30, 2015 and 2014, the Hospital and Medical Center was reimbursed \$1,764 and \$1,594, respectively, for services provided to JMMC. Related accounts receivable was \$1,028 and \$391 for the years ended September 30, 2015 and 2014, respectively.

On January 14, 2015, Saint Francis Care, Inc. entered into an asset purchase agreement with JMMC and certain subsidiaries and provided a deposit of \$750 towards this purchase that is included in prepaid expenses and deposits. Final regulatory approval was received in November 2015 and the transaction was effective on January 1, 2016.

On January 16, 2015, Saint Francis Care, Inc. entered into a Participation Agreement with a lender and agreed to purchase up to \$1,200 in subordinate, last-out participation interests in a revolving loan between the lender and JMMC and certain subsidiaries. The Hospital and Medical Center has funded \$250 as of September 30, 2015.

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Amounts In Thousands)

#### 14. 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, 2015 and 2014, was \$187 and \$386, 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.

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

	<b>Year Ended September 30</b>	
	<b>2015</b>	<b>2014</b>
Changes in current assets:		
Assets whose use is limited for current liabilities	\$ (62)	\$ 3,424
Accounts receivable – patients, net	(16,941)	(33,404)
Accounts receivable – other	(880)	(169)
Inventories of supplies	(846)	(1,646)
Prepaid expenses and deposits	(994)	(923)
Due from affiliated entities	7,586	(10,457)
	(12,137)	(43,175)
Changes in current liabilities:		
Accounts payable	3,211	162
Accrued payroll and other related expenses	112	1,383
Accrued expenses and interest payable	2	1,096
Due to third-party reimbursement agencies	(2,411)	2,465
	914	5,106
Change in working capital other than cash and cash equivalents	\$ (11,223)	\$ (38,069)

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Amounts In Thousands)

#### 16. Functional Expenses

Functional expenses are as follows:

	Year Ended September 30	
	2015	2014
Health care services	\$ 639,238	\$ 620,896
General and administrative	62,116	62,700
	<u>\$ 701,354</u>	<u>\$ 683,596</u>

#### 17. Subsequent Events

The Hospital and Medical Center evaluated subsequent events through January 29, 2016, 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 and for the year ended September 30, 2015.

Effective October 1, 2015, Trinity Health became the sole member of Saint Francis Care, Inc. and Saint Francis Care, Inc. became the new Trinity Health Regional Health Ministry in New England. Saint Francis Care, Inc. continues to be the sole member of the Hospital and Medical Center, Mount Sinai Rehabilitation Hospital, Inc. and other entities that were subsidiaries of Saint Francis Care, Inc. as of September 30, 2015. Effective November 17, 2015, Saint Francis Care, Inc. changed its name to Trinity Health – New England, Inc.

Trinity Health is one of the largest multi-institutional Catholic health care delivery systems in the nation. It serves people and communities in 21 states from coast to coast with 88 hospitals, and 126 continuing care facilities, home health and hospice programs, and PACE center (Program of All Inclusive Care for the Elderly) locations that provide more than 2.5 million visits annually. Trinity Health has annual operating revenues of approximately \$15.8 billion and assets of approximately \$20.4 billion and returns approximately \$1 billion to its communities annually in the form of charity care and other community benefit programs. As part of this transaction, certain outstanding debt was defeased and an intercompany loan was established between the Hospital and Medical Center and Trinity Health on October 1, 2015 (see Note 10).

## Saint Francis Hospital and Medical Center and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Amounts In Thousands)*

#### **17. Subsequent Events (continued)**

On September 18, 2015, Saint Francis Care, Inc. entered into a Transfer Agreement with Saint Mary's Health System, Inc. and Saint Mary's Hospital, Inc. located in Waterbury, Connecticut. This agreement is contingent upon state and regulatory approval. If approved, Saint Francis Care, Inc. will become the sole corporate member of Saint Mary's Health System and certain of its subsidiaries. This transaction is expected to close during fiscal year 2016. Saint Mary's Health System is a leading regional healthcare provider anchored by Saint Mary's Hospital, a Catholic, not-for-profit, acute care, community teaching hospital that has served Greater Waterbury since 1907.

Effective January 1, 2016, Trinity Health-New England, Inc. acquired certain assets and liabilities through an asset purchase agreement of Johnson Memorial Medical Center, Inc., Johnson Memorial Hospital, Inc., Home & Community Health Services, Inc. and Johnson Health Care, Inc.

## Supplementary Information

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidating Balance Sheet

September 30, 2015

(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 Care Medical Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
<b>Assets</b>											
<b>Current assets:</b>											
Cash and cash equivalents	\$ 76,694	\$ 14,392	\$ -	\$ 91,086	\$ 276	\$ 30	\$ 943	\$ 305	\$ 376	\$ -	\$ 93,016
Short-term investments	9,418	-	-	9,418	-	13,749	-	-	-	-	23,167
Assets whose use is limited for current liabilities	1,521	-	-	1,521	-	-	-	-	-	-	1,521
Accounts receivable – patients, less allowance for doubtful accou	65,284	-	-	65,284	817	-	-	536	439	-	67,076
Accounts receivable – other	2,211	7	-	2,218	-	2,074	219	-	55	-	4,566
Inventories of supplies	9,701	-	-	9,701	-	-	-	-	-	-	9,701
Prepaid expenses and deposits	8,457	-	-	8,457	159	108	-	13	9	(1,028)	7,718
Due from affiliated entities	4,864	2,868	-	7,732	3,611	4,034	(924)	(397)	(6,599)	(212)	7,245
<b>Total current assets</b>	<b>178,150</b>	<b>17,267</b>	<b>-</b>	<b>195,417</b>	<b>4,863</b>	<b>19,995</b>	<b>238</b>	<b>457</b>	<b>(5,720)</b>	<b>(1,240)</b>	<b>214,010</b>
<b>Assets whose use is limited:</b>											
Board – designated	21,784	-	-	21,784	-	42,316	-	-	-	-	64,100
Donor restricted	4,286	-	-	4,286	-	-	-	-	-	-	4,286
Held under bond indenture	817	-	-	817	-	-	-	-	-	-	817
Held in trusts by others	48,893	-	-	48,893	-	-	-	-	-	-	48,893
Interest in SFHMC Foundation, Inc.	9,394	-	-	9,394	-	-	-	-	-	-	9,394
	85,174	-	-	85,174	-	42,316	-	-	-	-	127,490
Assets whose use is limited for current liabilities	(1,521)	-	-	(1,521)	-	-	-	-	-	-	(1,521)
	83,653	-	-	83,653	-	42,316	-	-	-	-	125,969
Long-term investments	25,350	-	-	25,350	-	-	-	-	-	(1,293)	24,057
Property, plant, and equipment, net	454,763	3,289	-	458,052	1,305	99	1,765	37	28	-	461,286
<b>Other assets:</b>											
Bond issuance costs, less amortization	1,261	-	-	1,261	-	-	-	-	-	-	1,261
Other	5,856	-	-	5,856	-	-	-	2	-	-	5,858
<b>\$</b>	<b>749,033</b>	<b>\$ 20,556</b>	<b>\$ -</b>	<b>\$ 769,589</b>	<b>\$ 6,168</b>	<b>\$ 62,410</b>	<b>\$ 2,003</b>	<b>\$ 496</b>	<b>\$ (5,692)</b>	<b>\$ (2,533)</b>	<b>\$ 832,441</b>



Saint Francis Hospital and Medical Center and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2015

(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 Care Medical Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
<b>Liabilities and net assets</b>											
Current liabilities:											
Accounts payable	\$ 36,361	\$ 2	\$ -	\$ 36,363	\$ 805	\$ 1,093	\$ 498	\$ 54	\$ 13	\$ (1,028)	\$ 37,798
Accrued payroll and other related expenses	33,492	-	-	33,492	1,644	-	-	416	526	-	36,078
Accrued expenses and interest payable	6,680	57	-	6,737	604	-	-	27	12	-	7,380
Due to third-party reimbursement agencies	12,528	-	-	12,528	-	-	-	-	-	-	12,528
Current portion of long-term debt	7,298	-	-	7,298	-	-	-	-	-	-	7,298
Total current liabilities	96,359	59	-	96,418	3,053	1,093	498	497	551	(1,028)	101,082
Pension and other accrued expenses	278,582	-	-	278,582	3,556	37,065	-	-	-	-	319,203
Long-term debt, less portion classified as a current liability	244,154	-	-	244,154	-	-	-	-	-	-	244,154
Total liabilities:	619,095	59	-	619,154	6,609	38,158	498	497	551	(1,028)	664,439
Net assets:											
Unrestricted	52,342	20,497	-	72,839	(441)	24,252	1,505	(1)	(6,243)	(1,505)	90,406
Temporarily restricted	24,417	-	-	24,417	-	-	-	-	-	-	24,417
Permanently restricted	53,179	-	-	53,179	-	-	-	-	-	-	53,179
	129,938	20,497	-	150,435	(441)	24,252	1,505	(1)	(6,243)	(1,505)	168,002
	\$ 749,033	\$ 20,556	\$ -	\$ 769,589	\$ 6,168	\$ 62,410	\$ 2,003	\$ 496	\$ (5,692)	\$ (2,533)	\$ 832,441

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2015

(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 Care Medical Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Net patient service revenue	\$ 670,213	\$ –	\$ –	\$ 670,213	\$ 13,307	\$ –	\$ –	\$ 5,007	\$ 3,357	\$ –	\$ 691,884
Less: provision for bad debts	(20,980)	–	–	(20,980)	(582)	–	–	(700)	(194)	–	(22,456)
Net patient service revenue less provision for bad debts	649,233	–	–	649,233	12,725	–	–	4,307	3,163	–	669,428
Other operating revenues	31,282	2,990	(1,480)	32,792	21,709	12,378	5,573	864	2,962	(40,984)	35,294
Net assets released from restrictions for operations	4,156	–	–	4,156	–	–	–	–	–	–	4,156
Total revenue	684,671	2,990	(1,480)	686,181	34,434	12,378	5,573	5,171	6,125	(40,984)	708,878
Operating expenses:											
Salaries	257,621	147	–	257,768	13,839	–	–	4,091	5,937	(7,682)	273,953
Supplies and other	375,127	363	(1,480)	374,010	21,340	6,362	5,573	1,797	1,775	(33,336)	377,521
Interest	11,152	–	–	11,152	–	–	–	–	–	–	11,152
Depreciation and amortization	37,714	356	–	38,070	400	–	238	9	11	–	38,728
	681,614	866	(1,480)	681,000	35,579	6,362	5,811	5,897	7,723	(41,018)	701,354
	3,057	2,124	–	5,181	(1,145)	6,016	(238)	(726)	(1,598)	34	7,524
Net gain on investment activity	(2,528)	–	–	(2,528)	–	–	–	–	–	–	(2,528)
Operating income (loss)	529	2,124	–	2,653	(1,145)	6,016	(238)	(726)	(1,598)	34	4,996
Non-operating gains and losses:											
Net loss on termination of interest rate swaps	(2,739)	–	–	(2,739)	–	–	–	–	–	–	(2,739)
Interest savings on interest rate swaps	41	–	–	41	–	–	–	–	–	–	41
Change in fair value of interest rate swaps	(14,835)	–	–	(14,835)	–	–	–	–	–	–	(14,835)
	(17,533)	–	–	(17,533)	–	–	–	–	–	–	(17,533)
(Deficiency) excess of revenues and gains and losses over expenses	(17,004)	2,124	–	(14,880)	(1,145)	6,016	(238)	(726)	(1,598)	34	(12,537)

Saint Francis Hospital and Medical Center and Subsidiaries

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

Year Ended September 30, 2015

(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 Care Medical Group	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Unrestricted net assets:											
(Deficiency) excess of revenues and gains and losses over expenses (continued)	\$ (17,004)	\$ 2,124	\$ —	\$ (14,880)	\$ (1,145)	\$ 6,016	\$ (238)	\$ (726)	\$ (1,598)	\$ 34	\$ (12,537)
Transfers to Saint Francis Hospital and Medical Center Foundation, Inc.	(667)	—	—	(667)	—	—	—	—	—	—	(667)
Net assets released from restrictions used for property, plant, and equipment	1,539	—	—	1,539	—	—	—	—	—	—	1,539
Change in pension funding and postretirement obligations	(18,398)	—	—	(18,398)	(794)	—	—	—	—	—	(19,192)
Equity transfer to affiliated entity	(13,000)	—	—	(13,000)	—	—	—	—	—	—	(13,000)
Transfer of net assets (to) from St Francis Care, Inc.	(1,005)	—	—	(1,005)	—	—	—	725	—	—	(280)
Donated property	857	—	—	857	—	—	—	—	—	—	857
Change in minority interest in subsidiary	—	—	—	—	—	—	—	—	—	204	204
(Decrease) increase in unrestricted net assets	(47,678)	2,124	—	(45,554)	(1,939)	6,016	(238)	(1)	(1,598)	238	(43,076)
Temporarily restricted net assets:											
Income from investments	125	—	—	125	—	—	—	—	—	—	125
Gifts, contributions, and donations	2,077	—	—	2,077	—	—	—	—	—	—	2,077
Net unrealized loss on investments	(178)	—	—	(178)	—	—	—	—	—	—	(178)
Net assets released from restrictions for operations	(4,156)	—	—	(4,156)	—	—	—	—	—	—	(4,156)
Net assets released from restrictions used for property, plant, and equipment	(1,686)	—	—	(1,686)	—	—	—	—	—	—	(1,686)
Transfers from SFHMC Foundation, Inc.	5,275	—	—	5,275	—	—	—	—	—	—	5,275
Decrease in interest in SFHMC Foundation, Inc.	(1,395)	—	—	(1,395)	—	—	—	—	—	—	(1,395)
Increase in temporarily restricted net assets	62	—	—	62	—	—	—	—	—	—	62
Permanently restricted net assets:											
Decrease in assets held in trusts by others	(4,140)	—	—	(4,140)	—	—	—	—	—	—	(4,140)
Decrease in permanently restricted net assets	(4,140)	—	—	(4,140)	—	—	—	—	—	—	(4,140)
(Decrease) increase in net assets	(51,756)	2,124	—	(49,632)	(1,939)	6,016	(238)	(1)	(1,598)	238	(47,154)
Net assets at beginning of year	181,694	18,373	—	200,067	1,498	18,236	1,743	—	(4,645)	(1,743)	215,156
Net assets at end of year	\$ 129,938	\$ 20,497	\$ —	\$ 150,435	\$ (441)	\$ 24,252	\$ 1,505	\$ (1)	\$ (6,243)	\$ (1,505)	\$ 168,002

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