

AUDITED CONSOLIDATED FINANCIAL  
STATEMENTS AND OTHER FINANCIAL  
INFORMATION

Saint Francis Care, Inc. and Subsidiaries  
Years Ended September 30, 2010 and 2009  
With Report of Independent Auditors

Saint Francis Care, Inc. and Subsidiaries  
Audited Consolidated Financial Statements  
and Other Financial Information

Years Ended September 30, 2010 and 2009

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## Report of Independent Auditors

The Board of Directors  
Saint Francis Care, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Saint Francis Care, Inc. and Subsidiaries (Saint Francis Care) as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Saint Francis Care's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Francis Care, Inc. and Subsidiaries as of September 30, 2010 and 2009, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

December 2, 2010

# Saint Francis Care, Inc. and Subsidiaries

## Consolidated Balance Sheets

	September 30	
	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 122,056,032	\$ 91,550,980
Short-term investments	12,991,665	7,714,222
Assets whose use is limited for current liabilities	4,616,162	4,471,328
Accounts receivable – patients, less allowance (\$15,057,000 for 2010 and \$18,887,000 for 2009)	65,990,123	75,159,184
Accounts receivable – other	10,110,648	8,669,286
Due from third-party reimbursement agencies	1,678,915	–
Inventories of supplies	5,011,137	4,353,054
Prepaid expenses	7,128,119	6,300,284
Due from affiliated entities	1,875,664	784,773
Total current assets	231,458,465	199,003,111
Assets whose use is limited:		
Board-designated	51,320,356	46,342,795
Donor restricted	6,597,530	6,597,530
Held under bond indenture	34,987,876	107,128,738
Held in trusts by others	44,595,433	42,603,103
	137,501,195	202,672,166
Assets whose use is limited for current liabilities	(4,616,162)	(4,471,328)
	132,885,033	198,200,838
Long-term investments	14,003,539	13,021,484
Property, plant, and equipment, net	432,994,652	366,070,245
Other assets:		
Bond issuance costs, less amortization	2,733,811	2,999,680
Goodwill and intangible assets, net	242,182	274,494
Due from affiliated entities, net	185,781	220,989
Other	22,277,562	15,722,088
	\$ 836,781,025	\$ 795,512,929

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 46,491,003	\$ 49,763,042
Salaries and wages, payroll taxes and amounts withheld from employees	36,622,214	29,436,600
Accrued expenses and interest payable	6,393,421	8,149,677
Due to third-party reimbursement agencies	–	6,723,479
Current portion of long-term debt:		
Scheduled maturities	10,907,171	11,139,747
Debt subject to remarketing agreements	35,000,000	35,000,000
Total current liabilities	<u>135,413,809</u>	<u>140,212,545</u>
Pension and other accrued expenses	236,478,626	216,536,341
Long-term debt, less portion classified as a current liability	236,199,465	206,638,011
Net assets:		
Unrestricted	142,347,421	149,366,510
Temporarily restricted	37,460,758	35,870,906
Permanently restricted	48,880,946	46,888,616
	<u>228,689,125</u>	<u>232,126,032</u>
	<u><u>\$ 836,781,025</u></u>	<u><u>\$ 795,512,929</u></u>

*See accompanying notes.*

Saint Francis Care, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Net patient service revenue	\$ <b>644,300,190</b>	\$ 633,637,706
Other operating revenues	<b>59,684,924</b>	54,851,822
Net assets released from restrictions for operations	<b>9,011,532</b>	9,688,960
	<b>712,996,646</b>	698,178,488
Operating expenses:		
Salaries	<b>302,268,856</b>	293,771,452
Supplies and expenses	<b>339,137,588</b>	316,965,115
Bad debts	<b>21,112,191</b>	23,711,918
Interest	<b>8,965,622</b>	7,309,490
Depreciation and amortization	<b>26,999,709</b>	26,234,513
	<b>698,483,966</b>	667,992,488
	<b>14,512,680</b>	30,186,000
Net gain (loss) on investment activity	<b>1,670,003</b>	(10,066,019)
Operating income	<b>16,182,683</b>	20,119,981
Loss on curtailment of retirement plan	–	(630,569)
Interest rate swap activity:		
Interest cost on interest rate swaps	<b>(1,311,310)</b>	(131,461)
Change in fair market value of swaps	<b>(9,538,756)</b>	(2,614,226)
	<b>(10,850,066)</b>	(2,745,687)
Excess of revenues over expenses	<b>5,332,617</b>	16,743,725

*(Continued on next page.)*

## Saint Francis Care, Inc. and Subsidiaries

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

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Unrestricted net assets:		
Excess of revenues over expenses (continued)	\$ 5,332,617	\$ 16,743,725
Net assets released from restrictions used for capital purchases	513,026	786,512
Net asset transfer	(2,305,517)	-
Change in pension funding and postretirement obligations	(10,509,172)	(48,937,860)
Other	(50,043)	27,864
Decrease in unrestricted net assets	(7,019,089)	(31,379,759)
Temporarily restricted net assets:		
Income from investments	287,069	130,342
Gifts, contributions, and donations	8,366,743	8,239,787
Net unrealized gain on investments	155,081	105,156
Net assets released from restrictions	(9,524,558)	(10,475,472)
Net asset transfer	2,305,517	-
Increase (decrease) in temporarily restricted net assets	1,589,852	(2,000,187)
Permanently restricted net assets:		
Increase (decrease) in assets held in trusts by others	1,992,330	(1,366,143)
Increase (decrease) in permanently restricted net assets	1,992,330	(1,366,143)
Decrease in net assets	(3,436,907)	(34,746,089)
Net assets at beginning of year	232,126,032	266,872,121
Net assets at end of year	\$ 228,689,125	\$ 232,126,032

*See accompanying notes.*

Saint Francis Care, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities and other gains</b>		
Decrease in net assets	\$ (3,436,907)	\$ (34,746,089)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and other gains:		
Depreciation and amortization	26,999,709	26,234,513
Bad debts	21,112,191	23,711,918
Change in pension funding and postretirement obligations	10,509,172	48,937,860
Unrealized gain on investments	(155,081)	(105,156)
(Increase) decrease in assets held in trusts by others	(1,992,330)	1,366,143
Restricted contributions and investment income	(8,653,811)	(8,370,129)
Increase in pension and other accrued expenses	9,447,081	4,366,258
Change in working capital, other than cash and cash equivalents	(22,365,179)	(5,218,074)
Net cash provided by operating activities and other gains	31,464,845	56,177,244
<b>Investing activities</b>		
Purchase of property, plant, and equipment, net	(93,625,935)	(82,183,831)
(Decrease) increase in investments	(6,122,783)	36,993,716
Decrease in noncurrent assets whose use is limited	67,326,500	70,701,829
Increase in other assets	(6,555,472)	(6,745,260)
Net asset transfer from dissolution of affiliate	-	(8,616,587)
Decrease in due from affiliated entities	35,208	37,502
Net cash (used in) provided by investing activities	(38,942,482)	10,187,369
<b>Financing activities</b>		
Principal payments on long-term debt	(6,263,159)	(33,111,925)
Issuance of long-term debt	35,592,037	12,234,683
Restricted contributions and investment income	8,653,811	8,370,129
Net cash provided by (used in) financing activities	37,982,689	(12,507,113)
Net increase in cash and cash equivalents	30,505,052	53,857,500
Cash and cash equivalents at beginning of year	91,550,980	37,693,480
Cash and cash equivalents at end of year	\$ 122,056,032	\$ 91,550,980

*See accompanying notes.*

Saint Francis Care, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements

September 30, 2010

**1. Significant Accounting Policies**

**Organization**

Saint Francis Care, Inc. and Subsidiaries (Saint Francis Care) is a not-for-profit integrated health care delivery system. Subsidiaries of Saint Francis Care include: Consolidated Saint Francis Hospital and Medical Center (the Hospital and Medical Center), Mount Sinai Rehabilitation Hospital, Inc., Saint Francis Medical Group, Inc., Asylum Hill Family Medicine Center, Inc., Saint Francis Care Medical Group, P.C. and Saint Francis Hospital and Medical Center Foundation, Inc.

**Basis of Presentation and Use of Estimates**

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

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

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by Saint Francis Care 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 Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Donor Restricted Gifts**

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

##### **Cash Equivalents**

Saint Francis Care considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents.

##### **Investments**

Unrealized gains and losses are included in the excess (deficiency) of revenues over expenses. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market prices. Alternative investments, which are investments with a non-readily determinable fair value, are stated at fair value as estimated in an unquoted market. Valuations of those investments and, therefore, Saint Francis Care's holdings may be determined by the investment manager and are primarily based on the valuation of the underlying securities. Investment income or loss, including realized gains and losses on investments, interest, and dividends, is included in excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. The cost of securities sold is based on the specific identification method.

Saint Francis Care considers all investments with remaining maturities of more than three months but less than one year at the date of purchase to be short-term investments.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

Goodwill and intangible assets are amortized over periods ranging from five to twenty years using the straight-line method. Saint Francis Care periodically assesses the recoverability of the carrying value of its goodwill and intangible assets based on a review of projected undiscounted cash flows of the related operating entities.

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

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

Saint Francis Care purchased claims made general and professional liability insurance coverage for the benefit of certain of its subsidiaries from a captive insurance affiliate through June 30, 2009. Effective July 1, 2009, claims made general and professional liability coverage was provided by Saint Francis Hospital and Medical Center's wholly-owned professional captive. Saint Francis Care, in consultation with its actuary, records as a liability an estimate of incurred but not reported claims. Such liability, discounted at 4.0% and 4.5% at September 30, 2010 and 2009, respectively, totaled \$4,643,171 and \$3,947,771 at September 30, 2010 and 2009, respectively.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Retirement Plans

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

##### Excess of Revenues over Expenses

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

##### Income Taxes

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

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

Saint Francis Care Medical Group has net operating loss carryforwards resulting in a deferred tax asset of approximately \$10,600,000, which is offset by a corresponding valuation allowance of the same amount.

Saint Francis Hospital and Medical Center has net operating loss carryforwards resulting in a deferred tax asset of approximately \$700,000, which is offset by a corresponding valuation allowance of the same amount.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Recently Issued Accounting Standards**

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the consolidated financial statements.

##### **Reclassifications**

Certain 2009 amounts have been reclassified to conform to the 2010 presentation. Such reclassifications had no effect on the statements of operations and changes in net assets.

##### **Subsequent Events**

Saint Francis Care evaluated subsequent events through December 2, 2010 which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the consolidated financial statements. Saint Francis Care evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date for the year ended September 30, 2010.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Net patient service revenue for the years ended September 30, 2010 and 2009 consists of the following:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Gross patient service revenue	<b>\$ 1,551,367,657</b>	\$ 1,451,944,385
Deductions:		
Allowances	<b>893,144,762</b>	804,495,703
Charity care	<b>13,922,705</b>	13,810,976
	<b>907,067,467</b>	818,306,679
	<b>\$ 644,300,190</b>	\$ 633,637,706

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 Saint Francis Care 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 2010 and 2009, approximately 42.8% and 44.5%, respectively, of net patient service revenue was received under the Medicare program; 10.7% and 10.1%, respectively, under the Medicaid program; and 18.0% and 17.1%, respectively, from Blue Cross. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Saint Francis Care believes that it is in compliance with all applicable laws and regulations. Saint Francis Care is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse affect on the consolidated financial statements. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. In addition, changes in the Medicaid and Medicare programs, the reduction of funding levels, or changes in interpretations or estimates could have an adverse impact on Saint Francis Care. During 2010 and 2009, Saint Francis Care recorded a net change in estimate of approximately \$2,000,000 and \$3,500,000, respectively, related to better than previously estimated third-party payor settlements.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

The significant concentrations of accounts receivable for services to patients include 22.8% from Medicare, 14.0% from Medicaid, and 40.7% from commercial insurance carriers and managed care companies at September 30, 2010 (24.4%, 15.3%, and 36.0%, respectively, at September 30, 2009).

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

Temporarily restricted net assets are available for the following purposes:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Health care services:		
Research and education	\$ 7,433,942	\$ 7,573,940
Capital replacement	10,499,464	10,590,188
Other health care services	19,527,352	17,706,778
	<b>\$ 37,460,758</b>	<b>\$ 35,870,906</b>

Permanently restricted net assets are restricted for the following purposes:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Investments to be held in perpetuity, the income from which is expendable to support health care services	\$ 4,285,513	\$ 4,285,513
Restricted funds held in trusts by others, the income from which is expendable to support health care services	44,595,433	42,603,103
	<b>\$ 48,880,946</b>	<b>\$ 46,888,616</b>

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 4. Assets Whose Use Is Limited

Assets whose use is limited consists of the following:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Internally designated for capital acquisition and self-insurance:		
Short-term investments	\$ 461,687	\$ 263,623
Marketable equity securities	42,131,987	38,343,484
United States government securities	4,822,048	1,854,120
Corporate bonds	3,904,634	5,881,568
	<b>51,320,356</b>	46,342,795
Donor restricted:		
Short-term investments	2,531,069	2,531,069
Marketable equity securities	4,066,461	4,066,461
	<b>6,597,530</b>	6,597,530
Under bond indenture agreements – held by trustee	<b>34,987,876</b>	107,128,738
Assets held in trusts by others	<b>44,595,433</b>	42,603,103
Total assets whose use is limited	<b>137,501,195</b>	202,672,166
Less other assets that are required for current liabilities	<b>4,616,162</b>	4,471,328
	<b>\$ 132,885,033</b>	\$ 198,200,838

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

#### 5. Donor-Restricted Endowment Funds

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

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

Management of Saint Francis Care has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Saint Francis Care classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Saint Francis Care 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 Saint Francis Care 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 Saint Francis Care
- 7) The investment policies of Saint Francis Care

Saint Francis Care 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 Care, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Changes in endowment funds for the year ended September 30, 2010 and 2009 consisted of the following:

	<b>2010</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets, beginning of the year	\$	\$ 4,066,461	\$ 4,066,461
Investment income	77,022		77,022
Appropriation of endowment assets for expenditure	(77,022)		(77,022)
Net assets, end of year	<u>\$</u>	<u>\$ 4,066,461</u>	<u>\$ 4,066,461</u>

	<b>2009</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Net assets, beginning of the year	\$	\$ 4,048,095	\$ 4,048,095
Investment income	100,728		100,728
Contributions		18,366	18,366
Appropriation of endowment assets for expenditure	(100,728)		(100,728)
Net assets, end of year	<u>\$ -</u>	<u>\$ 4,066,461</u>	<u>\$ 4,066,461</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor of UPMIFA requires Saint Francis Care to retain as a fund of perpetual duration. There were no significant deficiencies of this nature which are reported in unrestricted or permanently restricted net assets as of September 30, 2010 and 2009.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Long-term investments consist of the following:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Marketable equity securities	\$ 5,828,775	\$ 4,514,947
United States government securities	772,045	1,162,704
Corporate bonds	3,331,387	3,058,700
Other	4,071,332	4,285,133
	<b>\$ 14,003,539</b>	<b>\$ 13,021,484</b>

Investment income, including income on funds held in trusts by others and gains (losses) for the years ended September 30, 2010 and 2009 is comprised of the following:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Income:		
Interest and dividend income	\$ 6,349,050	\$ 4,144,195
Realized and unrealized gains (losses) on sales of securities	4,326,939	(6,755,599)
	<b>\$ 10,675,989</b>	<b>\$ (2,611,404)</b>
Investment income included in operations	\$ 10,388,920	\$ (2,741,746)
Investment income included in the change in temporarily restricted net assets	287,069	130,342
	<b>\$ 10,675,989</b>	<b>\$ (2,611,404)</b>

Saint Francis Care, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Property, plant, and equipment consist of the following:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Land and land improvements	<b>\$ 10,329,420</b>	\$ 10,349,027
Buildings	<b>332,160,635</b>	326,896,292
Equipment	<b>382,131,117</b>	368,396,992
Construction-in-progress (estimated cost to complete of approximately \$39,600,000 as of 2010)	<b>180,084,830</b>	106,273,858
	<b>904,706,002</b>	811,916,169
Less accumulated depreciation	<b>471,711,350</b>	445,845,924
Total property, plant, and equipment, net	<b>\$ 432,994,652</b>	\$ 366,070,245

Saint Francis Care, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Long-Term Debt**

Long-term debt consists of the following:

	September 30	
	2010	2009
State of Connecticut Health and Educational Facilities Authority revenue bonds:		
Series C	\$ 6,260,000	\$ 8,150,000
Series D	15,130,000	16,395,000
Series E	39,745,000	39,745,000
Series F	175,000,000	175,000,000
Series G	29,870,000	—
	<b>266,005,000</b>	239,290,000
Mortgage note payable to bank in 84 monthly installments of principal of \$42,500 at a rate of LIBOR plus 1.25% with final balloon payment due May 29, 2010	—	1,870,000
Borrowings under line of credit with bank at a rate of LIBOR plus 1.50% (1.76% at September 30, 2010) expiring March 2011	<b>5,000,000</b>	5,000,000
Obligations under capital leases	<b>11,101,636</b>	6,617,758
	<b>282,106,636</b>	252,777,758
Less current portions:		
Scheduled maturities	10,907,171	11,139,747
Amounts subjected to remarketing agreements	35,000,000	35,000,000
	<b>\$ 236,199,465</b>	\$ 206,638,011

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

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

In May 2002, the Hospital and Medical Center entered into a financing arrangement with the Authority under a Master Indenture for the purpose of defeasing all outstanding Series B revenue bonds. The Authority sold \$25,250,000 of Series D revenue bonds of which \$11,385,000 matures serially from 2003 to 2011, \$2,525,000 matures in the year 2013, \$5,040,000 mature in the year 2017, and \$6,300,000 mature 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. As a result, the Hospital and Medical Center purchased the Series C Fixed Rate Bonds underlying the swap (\$38,870,000 out of a total of \$77,740,000). The Hospital and Medical Center financed the purchase of these bonds using a bridge loan with another financial institution. In May 2008, the Hospital and Medical Center entered into a financing arrangement with the Authority under a Master Indenture for the purpose of refinancing the bridge loan. The Authority sold \$39,745,000 of Series E revenue bonds through a private placement. The bonds mature serially from 2014 to 2027 and bear interest at a fixed rate of 6.105%. The Hospital and Medical Center subsequently entered into a synthetic refinancing of these bonds through a total return interest rate swap with a financial institution that lowers the fixed rate to 3.849% for the next five years.

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

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

In November 2008, a financial institution terminated its total return swap with the Hospital and Medical Center on the remaining Series C Fixed Rate Bonds outstanding at September 30, 2008. As a result, the Hospital and Medical Center purchased \$38,870,000 of the remaining Series C Fixed Rate Bonds underlying the swap subsequent to its fiscal year end. In June 2009, a financial institution purchased \$8,150,000 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 \$29,870,000 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 LIBOR plus 2.75% (2.04% at September 30, 2010). 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.

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

Under terms of the financing arrangements, the proceeds of the revenue bonds were loaned to the Hospital and Medical Center by the Authority. Pursuant to the loan agreements, the Hospital and Medical Center is obligated to provide amounts which will be sufficient to enable the Authority to pay the principal and interest on the Series C, Series D, Series E and Series F bonds. The terms of the various financing arrangements between CHEFA, certain financial institutions and the Hospital and Medical Center also provide for financial covenants. As of September 30, 2009 and 2010, the Hospital and Medical Center was in compliance with such covenants.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Concurrent with the issuance and delivery of the Series C, Series D, Series E and Series F bonds, the Hospital and Medical Center and the trustee entered into a master indenture and supplemental master indentures which provide for the establishment and maintenance of various funds, a pledge of gross receipts, 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>2010</b>	<b>2009</b>
Debt Service Reserve Funds	<b>\$ 4,374,830</b>	\$ 5,981,205
Debt Service Funds	<b>4,284,976</b>	7,800,255
Construction Fund	<b>26,328,070</b>	93,347,278
	<b>\$ 34,987,876</b>	\$ 107,128,738

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

The mortgage note payable provides for covenants regarding One Thousand Corporation's debt service coverage ratio and other covenants similar in financings of this type. The mortgage note payable is secured by the assets of One Thousand Corporation. Additional borrowings of up to \$2,500,000 are available under the note for the expansion of the parking garage. In May 2010, the mortgage note was paid in full.

The Hospital and Medical Center's swap agreements provide for the 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.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Annual maturities of long-term debt at September 30, 2010 are as follows:

	<b>Scheduled Maturities</b>	<b>Debt Subject to Remarketing Agreements</b>
2011	\$ 10,907,171	\$ 35,000,000
2012	6,013,459	35,000,000
2013	6,375,563	35,000,000
2014	6,277,174	35,000,000
2015	5,761,896	35,000,000
Thereafter	71,771,373	—
	<b>\$ 107,106,636</b>	<b>\$ 175,000,000</b>

Interest payments of \$10,740,324 and \$11,010,633 were made during 2010 and 2009, respectively. Interest of \$4,513,494 and \$4,837,823 was capitalized during the years ended September 30, 2010 and 2009, respectively.

#### 9. Retirement Plan and Other Postretirement Benefits

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

Effective March 1, 2006, The Hospital and Medical Center amended its defined benefit pension plans to close the plans to new participants on September 30, 2006 and to freeze accruals as of October 1, 2006 for participants whose age plus years of service (minimum of ten years) total less than fifty-five. As of October 1, 2006, The Hospital and Medical Center established a defined contribution plan for all eligible non-grandfathered employees. Pension expense related to the defined contribution plan for the years ended September 30, 2010 and 2009 was \$8,731,676 and \$80,574, respectively. The Hospital and Medical Center suspended contributions to the plan in 2009 and resumed contributions in 2010. The defined benefit plan became fully frozen effective October 1, 2009. The curtailment of the defined benefit plan resulted in a loss of \$630,569 being recognized in the consolidated statements of operations and changes in net assets.

Saint Francis Care, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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.

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

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 350,582,966	\$ 300,693,829	\$ 15,030,917	\$ 11,452,207
Service cost	—	5,521,363	—	—
Interest cost	19,006,248	19,308,383	724,552	798,891
Net benefits paid	(11,079,932)	(10,563,592)	(821,775)	(886,498)
Actuarial losses (gains)	18,205,782	47,904,944	(660,931)	3,666,317
Plan amendments	—	557,873	—	—
Loss on curtailment	—	(12,839,834)	—	—
Benefit obligation at end of year	<u>376,715,064</u>	<u>350,582,966</u>	<u>14,272,763</u>	<u>15,030,917</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	202,951,403	199,131,819	—	—
Actual return on plan assets	24,107,705	4,624,897	—	—
Contributions	5,510,994	9,758,279	821,775	886,498
Benefits paid	(11,079,932)	(10,563,592)	(821,775)	(886,498)
Fair value of plan assets at end of year	<u>221,490,170</u>	<u>202,951,403</u>	<u>—</u>	<u>—</u>
Funded status of the plan	<u>(155,224,894)</u>	<u>(147,631,563)</u>	<u>(14,272,763)</u>	<u>(15,030,917)</u>
Accrued benefit cost recognized in the consolidated balance sheets	<u>\$ (155,224,894)</u>	<u>\$ (147,631,563)</u>	<u>\$ (14,272,763)</u>	<u>\$ (15,030,917)</u>

The accumulated benefit obligation for the plan was \$376,715,064 and \$350,582,966 at September 30, 2010 and 2009, respectively.

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
<b>Components of net periodic benefit cost</b>				
Service cost		\$ 5,521,363		
Interest cost	\$ 19,006,248	19,308,383	\$ 724,552	\$ 798,891
Expected return on plan assets	(19,673,066)	(18,976,026)	—	—
Net amortization and deferral	2,504,230	4,012,878	99,951	59,122
Loss on curtailment	—	630,569	—	—
Benefit cost	<u>\$ 1,837,412</u>	<u>\$ 10,497,167</u>	<u>\$ 824,503</u>	<u>\$ 858,013</u>

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Assumptions

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

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Measurement date	9/30/2010	9/30/2009	9/30/2010	9/30/2009
Discount rate	5.40%	5.50%	5.40%	5.50%

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	
	2010	2009	2010	2009
Discount rate	5.50%	6.60%	5.50%	5.50%
Expected long-term rate of return on assets	8.25	8.25	-	-
Rate of compensation increase	-	4.10	-	-

The Hospital and Medical Center's expected long-term rate of return on assets assumption is derived from a study conducted by its actuaries and investment managers. The study includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on the most recent study the expected long-term return assumption for the Saint Francis Hospital and Medical Center Pension Plan effective October 1, 2010 will be 8.0%.

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 9.60% decreasing to 6.00% and remaining level thereafter. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the service and interest cost and accumulated postretirement benefit obligation by approximately \$71,000 and \$1,320,000, respectively, at September 30, 2010. A one percentage point decrease in the assumed health care cost trend rate would decrease the service and interest cost and accumulated postretirement benefit obligation by approximately \$63,000 and \$1,164,000, respectively, at September 30, 2010.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Plan Assets

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

Asset category	September 30	
	2010	2009
Equity securities	54%	56%
Debt securities	43	43
Real estate	3	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%, 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 \$4,300,000 to its pension plan and \$964,502 to its other postretirement benefit plan in 2011.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Estimated Future Benefit Payments

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

Fiscal year:	Pension Benefits	Other Post- Retirement Benefits
2011	\$ 13,505,851	\$ 964,502
2012	15,552,037	1,030,866
2013	16,784,057	1,077,338
2014	18,296,983	1,106,837
2015	19,549,933	1,120,254
2016-2020	116,146,984	5,454,193

#### 10. Fair Values of Financial Instruments

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

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

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

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

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

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

For the year ended September 30, 2010, Saint Francis Care adopted ASC 715-20, *Retirement Benefits*, which requires additional disclosures relating to defined pension plans, including additional fair value disclosures for pension assets.

Financial assets and liabilities carried at fair value as of September 30, 2010 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	\$122,056,032			\$122,056,032
Short-term investments	12,991,665			12,991,665
<b>Assets whose use is limited</b>				
Board designated:				
Short-term investments	461,687			461,687
Marketable securities	42,131,987			42,131,987
U.S. Government securities	4,822,048			4,822,048
Corporate bonds	3,904,634			3,904,634
	51,320,356			51,320,356
Donor restricted:				
Short-term investments	2,531,069			2,531,069
Marketable securities	4,066,461			4,066,461
	6,597,530			6,597,530
Held under bond indenture	34,987,876			34,987,876
Held in trust by others:				
Short-term investments		\$ 2,082,437		2,082,437
Marketable securities		24,991,054		24,991,054
Corporate bonds		7,559,605		7,559,605
Government bonds		7,045,743		7,045,743
International bonds		1,134,240		1,134,240
Other		1,782,354		1,782,354
		44,595,433		44,595,433

Saint Francis Care, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

	Level 1	Level 2	Level 3	Total
<b>Long-term investments</b>				
Marketable securities	\$ 5,828,775			\$ 5,828,775
U.S. Government securities	772,045			772,045
Corporate bonds	3,331,387			3,331,387
Other	—		\$ 4,071,332	4,071,332
	9,932,207		4,071,332	14,003,539
<b>Liabilities</b>				
Interest rate swap agreements		\$ 29,371,274		29,371,274
<b>Pension Assets</b>				
Short-term investments	1,560,822			
Marketable securities	131,226,468			
Corporate bonds	88,702,880			
	221,490,170			
			<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>	
Beginning balance			\$ 4,285,133	
Total loss			(213,802)	
Ending balance			\$ 4,071,331	

Saint Francis Care, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 91,550,980			\$ 91,550,980
Short-term investments	7,714,222			7,714,222
<b>Assets whose use is limited</b>				
Board designated:				
Short-term investments	263,623			263,623
Marketable securities	38,343,484			38,343,484
U.S. Government securities	1,854,120			1,854,120
Corporate bonds	5,881,568			5,881,568
	<u>46,342,795</u>			<u>46,342,795</u>
Donor restricted:				
Short-term investments	2,531,069			2,531,069
Marketable securities	4,066,461			4,066,461
	<u>6,597,530</u>			<u>6,597,530</u>
Held under bond indenture	107,128,738			107,128,738
Held in trust by others:				
Short-term investments		\$ 1,375,402		1,375,402
Marketable securities		21,848,931		21,848,931
Corporate bonds		7,621,401		7,621,401
Government bonds		8,443,515		8,443,515
International bonds		1,095,268		1,095,268
Other		2,218,586		2,218,586
		<u>42,603,103</u>		<u>42,603,103</u>

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

	Level 1	Level 2	Level 3	Total
<b>Long-term investments</b>				
Marketable securities	\$ 4,514,947			\$ 4,514,947
U.S. Government securities	1,162,704			1,162,704
Corporate bonds	3,058,700			3,058,700
Other	—		\$ 4,285,133	4,285,133
	8,736,351		4,285,133	13,021,484
<b>Liabilities</b>				
Interest rate swap agreements		\$ 19,832,518		19,832,518

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

#### 11. Commitments and Contingencies

The Hospital and Medical Center has guaranteed the payment of a loan made by the City of Hartford to Mount Sinai Hospital Foundation, Inc. This loan matures on August 1, 2016. The balance of this loan at September 30, 2010 and 2009 was \$1,079,167 and \$1,221,667, respectively.

Saint Francis Care 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.

## Saint Francis Care, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 11. Commitments and Contingencies (continued)

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

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

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Changes in current assets:		
Assets whose use is limited required for current liabilities	\$ (144,834)	\$ 434,380
Accounts receivable – patients, net	(11,943,130)	(17,083,306)
Accounts receivable – other	(1,441,362)	1,102,399
Inventories of supplies	(658,083)	(442,922)
Prepaid expenses	(827,835)	(1,607,230)
Due from third-party reimbursement agencies	(1,678,915)	–
Due from affiliated entities	(1,090,891)	1,123,258
	(17,785,050)	(16,473,421)
Changes in current liabilities:		
Accounts payable	(3,272,039)	12,762,239
Salaries and wages, payroll taxes, and amounts withheld from employees	7,185,614	(5,161,796)
Accrued expenses and interest payable	(1,770,225)	1,490,414
Due to third-party reimbursement agencies	(6,723,479)	2,164,490
	(4,580,129)	11,255,347
Changes in working capital other than cash and cash equivalents	\$ (22,365,179)	\$ (5,218,074)

Saint Francis Care, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**13. Functional Expenses**

Functional expenses are as follows:

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Health care services	<b>\$ 615,008,165</b>	\$ 599,154,934
General, administrative, and teaching	<b>80,382,774</b>	66,420,408
Fundraising	<b>3,093,027</b>	2,417,146
	<b><u>\$ 698,483,966</u></b>	<u>\$ 667,992,488</u>

## Other Financial Information

## Report of Independent Auditors on Other Financial Information

The Board of Directors  
Saint Francis Care, Inc.

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

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

December 2, 2010

Saint Francis Care, Inc.  
Consolidating Balance Sheet  
September 30, 2010

	Saint Francis Care, Inc.	Saint Francis Hospital and Medical Center	Mount Sinai Rehabilitation Hospital, Inc.	Saint Francis Hospital and Medical Center Foundation, Inc.	Saint Francis Care Medical Group, P.C.	Saint Francis Medical Group, Inc.	Asylum Hill Family Medicine Center, Inc.	Total Prior to Elimination	Intercompany Elimination	Consolidated Saint Francis Care, Inc.
<b>Assets</b>										
Current assets:										
Cash and cash equivalents		\$ 117,550,202	\$ 1,240,998	\$ 334	\$ 57,255	\$ 1,709,416	\$ 1,497,827	\$ 122,056,032		\$ 122,056,032
Short-term investments		6,416,973	6,519,569	55,123				12,991,665		12,991,665
Assets whose use is limited for current liabilities		4,616,162						4,616,162		4,616,162
Accounts receivable, less allowance		58,962,373	3,292,109		75,897	3,256,513	403,231	65,990,123		65,990,123
Accounts receivable – other		7,546,839		2,396,888		170,600	478	10,114,805	\$ (4,157)	10,110,648
Due from third-party reimbursement agencies		1,950,767						1,950,767	(271,852)	1,678,915
Inventories of supplies		5,011,137						5,011,137		5,011,137
Prepaid expenses		6,794,254	195,899			136,667	1,299	7,128,119		7,128,119
Due from affiliated entities		325,866	2,416,365			173,789		2,916,020	(1,040,356)	1,875,664
Total current assets		209,174,573	13,664,940	2,452,345	133,152	5,446,985	1,902,835	232,774,830	(1,316,365)	231,458,465
Assets whose use is limited:										
Board-designated		51,320,356						51,320,356		51,320,356
Donor restricted		6,597,530						6,597,530		6,597,530
Held under bond indenture		34,987,876						34,987,876		34,987,876
Held in trusts by others		44,595,433						44,595,433		44,595,433
Investment in Foundation		4,395,605						4,395,605	(4,395,605)	-
		141,896,800						141,896,800	(4,395,605)	137,501,195
Assets whose use is limited for current liabilities		(4,616,162)						(4,616,162)		(4,616,162)
		137,280,638						137,280,638	(4,395,605)	132,885,033
Long-term investments	\$ 15,847,219	14,003,539						29,850,758	(15,847,219)	14,003,539
Property, plant, and equipment, net		427,878,498	4,746,410	2,104	32,781	196,371	138,488	432,994,652		432,994,652
Other assets:										
Bond issuance costs, less amortization		2,733,811						2,733,811		2,733,811
Goodwill and intangible assets, net					242,182			242,182		242,182
Due from affiliated entities, net		185,781						185,781		185,781
Other		2,447,289		19,807,962	22,311			22,277,562		22,277,562
	\$ 15,847,219	\$ 793,704,129	\$ 18,411,350	\$ 22,262,411	\$ 430,426	\$ 5,643,356	\$ 2,041,323	\$ 858,340,214	\$ (21,559,189)	\$ 836,781,025

Saint Francis Care, Inc.

Consolidating Balance Sheet (continued)

September 30, 2010

	Saint Francis Care, Inc.	Saint Francis Hospital and Medical Center	Mount Sinai Rehabilitation Hospital, Inc.	Saint Francis Hospital and Medical Center Foundation, Inc.	Saint Francis Care Medical Group, P.C.	Saint Francis Medical Group, Inc.	Asylum Hill Family Medicine Center, Inc.	Total Prior to Elimination	Intercompany Elimination	Consolidated Saint Francis Care, Inc.
<b>Liabilities and net assets</b>										
Current liabilities:										
Accounts payable		\$ 44,303,595	\$ 78,668	\$ 138,615	\$ 23,970	\$ 392,828	\$ 1,614,873	\$46,552,549	\$ (61,546)	\$46,491,003
Salaries and wages, payroll taxes and amounts withheld from employees		29,361,967	1,185,565		10,031	5,915,420	149,231	36,622,214		36,622,214
Accrued expenses and interest payable		6,253,947			53,072	86,402		6,393,421		6,393,421
Due to third-party reimbursement agencies			271,852					271,852	(271,852)	-
Due to affiliated entities					816,249		166,718	982,967	(982,967)	-
Current portion of long-term debt:										
Scheduled maturities		10,907,171						10,907,171		10,907,171
Debt subject to remarketing agreements		35,000,000						35,000,000		35,000,000
Total current liabilities		125,826,680	1,536,085	138,615	903,322	6,394,650	1,930,822	90,823,003	(1,316,365)	\$135,413,809
Pension and other accrued expenses		236,442,898		35,728				236,478,626		236,478,626
Long-term debt, less portion classified as a current liability		236,199,465						236,199,465		236,199,465
Net assets:										
Unrestricted	15,847,219	109,959,180	15,809,467	17,692,463	(472,896)	(751,294)	110,501	158,194,640	(15,847,219)	142,347,421
Temporarily restricted		36,394,960	1,065,798	4,182,153				41,642,911	(4,182,153)	37,460,758
Permanently restricted		48,880,946		213,452				49,094,398	(213,452)	48,880,946
	15,847,219	195,235,086	16,875,265	22,088,068	(472,896)	(751,294)	110,501	248,931,949	(20,242,824)	228,689,125
	\$ 15,847,219	\$ 793,704,129	\$ 18,411,350	\$ 22,262,411	\$ 430,426	\$ 5,643,356	\$ 2,041,323	\$ 812,433,043	\$ (21,559,189)	\$ 836,781,025

Saint Francis Care, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2010

	Saint Francis Care, Inc.	Saint Francis Hospital and Medical Center	Mount Sinai Rehabilitation Hospital, Inc.	Saint Francis Hospital and Medical Center Foundation, Inc.	Saint Francis Care Medical Group, P.C.	Saint Francis Medical Group, Inc.	Asylum Hill Family Medicine Center, Inc.	Total Prior to Elimination	Intercompany Elimination	Consolidated Saint Francis Care, Inc.
Net patient service revenues	\$ 598,146,639	\$ 16,459,401		\$ 8,328,054	\$ 420,971	\$ 26,210,354	\$ 3,062,825	\$644,300,190		\$644,300,190
Other operating revenue	49,092,294	221,295		8,328,054	3,244	27,231,928	1,228,402	86,105,217	\$ (26,420,293)	59,684,924
Net assets released from restrictions for operations	4,693,884	397,152		3,920,496				9,011,532		9,011,532
	651,932,817	17,077,848		12,248,550	424,215	53,442,282	4,291,227	739,416,939	(26,420,293)	712,996,646
Operating expenses:										
Salaries	251,774,484	8,945,742		1,087,472	461,684	37,283,845	2,715,629	302,268,856		302,268,856
Supplies and expenses	339,520,797	6,918,324		1,702,776	441,937	15,433,222	1,540,825	365,557,881	(26,420,293)	339,137,588
Bad debts	19,462,433	43,258		302,534	28,700	1,121,150	154,116	21,112,191		21,112,191
Interest	8,965,622							8,965,622		8,965,622
Depreciation and amortization	26,375,320	544,177		245	33,826	25,246	20,895	26,999,709		26,999,709
	646,098,656	16,451,501		3,093,027	966,147	53,863,463	4,431,465	724,904,259	(26,420,293)	698,483,966
	5,834,161	626,347		9,155,523	(541,932)	(421,181)	(140,238)	14,512,680	-	14,512,680
Net gain on investment activity	1,622,470	46,613		920				1,670,003		1,670,003
Operating income (loss)	7,456,631	672,960		9,156,443	(541,932)	(421,181)	(140,238)	16,182,683	-	16,182,683
Interest savings on interest rate swaps	(1,311,310)							(1,311,310)		(1,311,310)
Change in fair market value of swap	(9,538,756)							(9,538,756)		(9,538,756)
Excess (deficiency) of revenues over expenses	(3,393,435)	672,960		9,156,443	(541,932)	(421,181)	(140,238)	5,332,617	-	5,332,617

Saint Francis Care, Inc.

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

Year Ended September 30, 2010

	Saint Francis Care, Inc.	Saint Francis Hospital and Medical Center	Mount Sinai Rehabilitation Hospital, Inc.	Saint Francis Hospital and Medical Center Foundation, Inc.	Saint Francis Care Medical Group, P.C.	Saint Francis Medical Group, Inc.	Asylum Hill Family Medicine Center, Inc.	Total Prior to Elimination	Intercompany Elimination	Consolidated Saint Francis Care, Inc.
Other changes in unrestricted net assets:										
Net assets released from restrictions used for capital purchases		\$ 513,026						\$ 513,026		\$ 513,026
Net asset transfer		(681,907)		\$ (1,623,610)				(2,305,517)		(2,305,517)
Change in pension funding and postretirement obligations		(10,509,172)						(10,509,172)		(10,509,172)
Other		(50,043)						(50,043)		(50,043)
(Decrease) increase in unrestricted net assets	-	(14,121,531)	\$ 672,960	7,532,833	\$ (541,932)	\$ (421,181)	\$ (140,238)	(7,019,089)		(7,019,089)
Temporarily restricted net assets:										
Income from investments		287,069						287,069		287,069
Gifts, contributions, and donations		4,565,111	38,167	3,763,465				8,366,743		8,366,743
Net unrealized gain on investments		155,081						155,081		155,081
Net assets released from restriction		(5,206,910)	(397,152)	(3,920,496)				(9,524,558)		(9,524,558)
Net asset transfer		1,638,767	666,750					2,305,517		2,305,517
Increase in interest in Saint Francis Hospital and Medical Center Foundation		(157,031)						(157,031)	\$ 157,031	-
Increase (decrease) in temporarily restricted net assets		1,282,087	307,765	(157,031)				1,432,821	157,031	1,589,852
Permanently restricted net assets:										
Increase in assets held in trusts by others		1,992,330						1,992,330		1,992,330
Increase in permanently restricted net assets		1,992,330						1,992,330		1,992,330
(Decrease) increase in net assets		(10,847,114)	980,725	7,375,802	(541,932)	(421,181)	(140,238)	(3,593,938)	157,031	(3,436,907)
Net assets at beginning of year	\$ 15,847,219	206,082,200	15,894,541	14,712,266	69,036	(330,112)	250,739	252,525,889	(20,399,857)	232,126,032
Net assets at end of year	\$ 15,847,219	\$ 195,235,086	\$ 16,875,266	\$ 22,088,068	\$ (472,896)	\$ (751,293)	\$ 110,501	\$ 248,931,951	\$ (20,242,826)	\$ 228,689,125