



AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND SUPPLEMENTARY
INFORMATION

Saint Francis Hospital and Medical Center and Subsidiaries
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Saint Francis Hospital and Medical Center and Subsidiaries

Audited Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Saint Francis Hospital and Medical Center and Subsidiaries (the Hospital and Medical Center) as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital and Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Francis Hospital and Medical Center and Subsidiaries as of September 30, 2012 and 2011, 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.

As discussed in Note 1 to the consolidated financial statements, the 2011 financial statements have been restated to properly account for certain promises to give, properly classify certain restricted assets, and record other items as described in Note 1.

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

February 25, 2013

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2012	2011
	Restated	
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 84,277	\$ 100,167
Short-term investments	41,197	18,582
Assets whose use is limited for current liabilities	5,076	4,503
Accounts receivable – patients, less allowance (\$10,546 for 2012 and \$9,752 for 2011)	61,368	61,142
Accounts receivable – other	3,307	8,418
Inventories of supplies	7,162	5,919
Prepaid expenses	6,060	7,021
Due from affiliated entities	5,388	149
Total current assets	213,835	205,901
Assets whose use is limited:		
Board-designated	42,302	49,904
Donor restricted	4,286	4,286
Held under bond indenture	5,993	6,157
Held in trusts by others	48,538	43,233
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	12,789	14,458
	113,908	118,038
Assets whose use is limited for current liabilities	(5,076)	(4,503)
	108,832	113,535
Long-term investments	14,832	12,947
Property, plant, and equipment, net	451,835	460,874
Other assets:		
Bond issuance costs, less amortization	2,247	2,505
Other	3,231	2,503
	\$ 794,812	\$ 798,265

	September 30	
	2011	
	2012	Restated
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 35,277	\$ 33,254
Accrued payroll and other related expenses	34,946	32,411
Accrued expenses and interest payable	6,831	5,861
Due to third-party reimbursement agencies	2,602	5,106
Due to affiliated entities	–	2,535
Current portion of long-term debt	6,950	6,141
Total current liabilities	<u>86,606</u>	<u>85,308</u>
 Pension and other accrued expenses	 318,826	 298,029
 Long-term debt, less portion classified as a current liability	 258,965	 266,004
 Net assets:		
Unrestricted	32,989	54,877
Temporarily restricted	44,602	46,528
Permanently restricted	52,824	47,519
	<u>130,415</u>	<u>148,924</u>
	<u><u>\$ 794,812</u></u>	<u><u>\$ 798,265</u></u>

See accompanying notes.

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2012	2011
	Restated	
	<i>(In Thousands)</i>	
Net patient service revenue	\$ 660,780	\$ 629,121
Other operating revenues	39,639	39,055
Net assets released from restrictions for operations	6,814	6,352
	707,233	674,528
Operating expenses:		
Salaries	253,690	254,310
Supplies and other	370,907	368,551
Bad debts	19,173	16,027
Interest	11,965	9,561
Depreciation and amortization	35,802	30,423
	691,537	678,872
	15,696	(4,344)
Net gain (loss) on investment activity	328	(1,058)
Operating income (loss)	16,024	(5,402)
Interest rate swap activity:		
Interest cost on interest rate swaps	(807)	(971)
Change in fair market value of swaps	(10,315)	(10,674)
	(11,122)	(11,645)
Excess (deficiency) of revenues over expenses	4,902	(17,047)

(Continued on next page.)

Saint Francis Hospital and Medical Center and Subsidiaries

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

	Year Ended September 30	
	2012	2011
	Restated	
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess (deficiency) of revenues over expenses (continued)	\$ 4,902	\$(17,047)
Transfers to Saint Francis Hospital and Medical Center Foundation, Inc.	(1,210)	(1,532)
Net assets released from restrictions used for capital purchases	1,079	863
Change in pension funding and postretirement obligations	(26,209)	(36,344)
Purchase of minority interest in subsidiary	(450)	186
Decrease in unrestricted net assets	(21,888)	(53,874)
Temporarily restricted net assets:		
Income from investments	582	206
Gifts, contributions and donations	5,932	5,252
Net unrealized gain (loss) on investments	80	(133)
Net assets released from restrictions for renovations	(2,352)	–
Net assets released from restrictions	(7,893)	(7,215)
Transfers from Saint Francis Hospital and Medical Center Foundation, Inc.	3,394	1,961
(Decrease) increase in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	(1,669)	1,702
(Decrease) increase in temporarily restricted net assets	(1,926)	1,773
Permanently restricted net assets:		
Increase (decrease) in assets held in trusts by others	5,305	(1,362)
Increase (decrease) in permanently restricted net assets	5,305	(1,362)
Decrease in net assets	(18,509)	(53,463)
Net assets at beginning of year	148,924	195,235
Prior period adjustment-temporarily restricted net assets		8,361
Prior period adjustment-unrestricted net assets	–	(1,209)
Net assets at beginning of year-restated	148,924	202,387
Net assets at end of year	\$ 130,415	\$ 148,924

See accompanying notes.

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2012	2011
	Restated	
	<i>(In Thousands)</i>	
Operating activities and other gains		
Decrease in net assets	\$(18,509)	\$(53,463)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and other gains:		
Depreciation and amortization	35,802	30,423
Bad debts	19,173	16,027
Change in pension funding and postretirement obligations	26,209	36,344
Decrease (increase) in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	1,669	(1,702)
Unrealized (gain) loss on investments	(1,989)	1,315
(Increase) decrease in assets held in trusts by others	(5,305)	1,362
Restricted contributions and investment income	(6,514)	(5,458)
(Decrease) increase in pension and other accrued expenses	(5,412)	25,241
Change in working capital, other than cash and cash equivalents	(19,893)	(18,573)
Net cash provided by operating activities and other gains	<u>25,231</u>	31,516
Investing activities		
Purchase of property, plant, and equipment, net	(26,505)	(64,054)
Increase in investments	(22,511)	(12,955)
Decrease in noncurrent assets whose use is limited	8,339	32,633
Increase in other assets	(728)	(19)
Net cash used in investing activities	<u>(41,405)</u>	(44,395)
Financing activities		
Principal payments on long-term debt	(6,230)	(11,020)
Issuance of long-term debt	–	1,058
Restricted contributions and investment income	6,514	5,458
Net cash provided by (used in) financing activities	<u>284</u>	(4,504)
Net decrease in cash and cash equivalents	<u>(15,890)</u>	(17,383)
Cash and cash equivalents at beginning of year	<u>100,167</u>	117,550
Cash and cash equivalents at end of year	<u>\$ 84,277</u>	<u>\$ 100,167</u>

See accompanying notes.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012
(amounts in thousands)

1. Significant Accounting Policies

Organization

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

Basis of Presentation and Use of Estimates

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

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

Temporarily and Permanently Restricted Net Assets

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

Donor Restricted Gifts

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

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

1. Significant Accounting Policies (continued)

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 Equivalents

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

Patient Accounts Receivable

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

Inventories

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

Investments

Unrealized gains and losses on unrestricted investments are included in the excess (deficiency) of revenues over expenses. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market prices. Alternative investments, which are investments with a non-readily determinable fair value, are stated at fair value as estimated in an unquoted market. Valuations of those investments and, therefore, the Hospital and Medical Center's holdings may be determined by the investment manager and are

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

1. Significant Accounting Policies (continued)

primarily based on the valuation of the underlying securities. Investment income or loss, including realized and unrealized gains and losses on investments, interest, and dividends, is included in the excess (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.

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

Long-Lived Assets

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

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

General and Professional Liability Insurance

The Hospital and Medical Center purchases claims made general and professional liability insurance coverage from a wholly owned insurance captive subsidiary, Saint Francis Indemnity Company, LLC (Saint Francis Indemnity Company). The subsidiary charges the Hospital and Medical Center a premium for general and professional liability insurance coverage. Such charges amounted to \$9,351 and \$8,466 in 2012 and 2011, respectively.

The Hospital and Medical Center, in consultation with its actuary, records as a liability an estimate of incurred but not reported claims. Such liability, discounted at 4.0%, totaled \$6,183 and \$5,381 at September 30, 2012 and 2011, respectively.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

1. Significant Accounting Policies (continued)

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, 2012. These liabilities include estimates of future trends in loss severity and frequency and other factors which could vary as the losses are ultimately settled. However, there is an absence of a significant amount of experience as to whether the Saint Francis Indemnity Company's actual incurred losses and loss adjustment expenses will conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement of losses and loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and loss adjustment expenses in the accompanying 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.

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.

Other Operating Revenue

Other operating revenue includes services to other institutions, rental income and electronic health record program revenue.

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets, adjustments to the pension funding and postretirement obligations and purchases of minority interest in subsidiaries.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

1. Significant Accounting Policies (continued)

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

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

Income Taxes

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

The Hospital and Medical Center has net operating loss carryforwards resulting in the amount of approximately \$1,727. These net operating loss carryforwards result in a deferred tax asset of approximately \$691, which is offset by a corresponding valuation allowance of the same amount.

Recently Issued Accounting Standards

In August 2010, FASB issued Accounting Standards Codification (ASC) 954-605, *Measuring Charity Care for Disclosure*. ASC 954-605 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASC 954-605 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASC 954-605 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital and Medical Center adopted the guidance relative to ASC 954-605 as of October 1, 2011. The adoption of the provision of ASC 954-605 affected the disclosure in the notes to the consolidated financial statements.

In August 2010, FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital and Medical Center adopted the guidance relative to ASU 2010-24 as of October 1, 2011. The adoption of ASC 2010-24 affected the disclosure in the notes to the consolidated financial statements.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

1. Significant Accounting Policies (continued)

In July 2011, FASB issued new guidance, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. The guidance requires certain health care entities to present the bad debt expense associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Hospital and Medical Center will adopt the guidance as of October 1, 2012. The adoption of the guidance will impact the presentation of the statement of operations for fiscal year 2013 in the Hospital and Medical Center's consolidated financial statements.

Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation. Such reclassifications had no effect on the consolidated statements of operations and changes in net assets.

Restatement of 2011 Financial Statements

During fiscal 2012, Saint Francis Hospital and Medical Center determined that the interest in Saint Francis Hospital and Medical Center Foundation, Inc. (Foundation) was not recorded correctly because pledges that should have not been recorded as a receivable were recognized in the Foundation's financial statements. Additionally, certain recorded pledges had not been recognized as restricted assets as required by GAAP. These were recorded in the Hospital and Medical Center's 2012 financial statements and certain amounts reported as of and for the year ended September 30, 2011, have been restated in the accompanying financial statements. In addition to the restatement related to pledges and restricted assets, the 2011 financial statements have also been restated for certain other items. Those items relate to property, plant, and equipment, amortization of bond issuance costs, long-term investments, other operating revenues, supplies and other expense and depreciation and amortization expense.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

1. Significant Accounting Policies (continued)

The cumulative effect of this restatement as of October 1, 2010, is a decrease in unrestricted net assets of \$1,209 and increase in temporarily restricted net assets of \$8,361. The effect of the restatement on the 2011 financial statements is summarized in the table below:

	As Previously Reported	Adjustment	As Restated
Consolidated balance sheets:			
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	\$ 5,559	\$ 8,899	\$ 14,458
Long-term investments	13,307	(360)	12,947
Property, plant, and equipment, net	461,945	(1,071)	460,874
Bond issuance costs, less amortization	2,731	(226)	2,505
Unrestricted net assets	56,534	(1,657)	54,877
Temporarily restricted net assets	37,629	8,899	46,528
Consolidated statements of operations and changes in net assets:			
Other operating revenue	39,070	(15)	39,055
Depreciation and amortization	29,990	433	30,423
Operating loss	(4,954)	(448)	(5,402)
Deficiency of revenues over expenses	(16,599)	(448)	(17,047)
Decrease in unrestricted net assets	(53,425)	(449)	(53,874)
Increase in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	1,164	538	1,702
Increase in temporarily restricted net assets	1,234	539	1,773
Decrease in net assets	(53,553)	90	(53,463)
Net assets at beginning of year	195,235	7,152	202,387
Net assets at end of year	141,682	7,242	148,924
Consolidated statements of cash flows:			
Decrease in net assets	(53,553)	90	(53,463)
Depreciation and amortization	29,990	433	30,423
Increase in interest in Saint Francis Hospital and Medical Center Foundation, Inc.	(1,164)	(538)	(1,702)
Net cash provided by operating activities and other gains	30,350	1,166	31,516
Increase in investments	(12,970)	15	(12,955)
Net cash used in investing activities	(32,319)	(12,076)	(44,395)

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:

	September 30	
	2012	2011
Gross patient service revenue	\$ 1,815,295	\$ 1,621,682
Deductions:		
Allowances	1,135,565	979,387
Charity care at charge	18,950	13,174
	1,154,515	992,561
	\$ 660,780	\$ 629,121

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 2012 and 2011, approximately 41.7% and 42.2%, respectively, of net patient service revenue was received under the Medicare program; 14.4% and 12.3%, respectively, under the Medicaid program; and 18.1% and 17.6%, respectively, from Blue Cross. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital and Medical Center believes that it is in compliance with all applicable laws and regulations, except for one matter which the Hospital and Medical Center has voluntarily disclosed to the applicable government agency. At this time, management does not believe the amount of the liability will be material to the consolidated financial statements. The Hospital and Medical Center is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on the consolidated financial statements. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid

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)

programs. In addition, changes in the Medicare and Medicaid programs, the reduction of funding levels, or changes in interpretations or estimates could have an adverse impact on the Hospital and Medical Center. During 2012 and 2011, the Hospital and Medical Center recorded a net change in estimate of approximately \$10,000 and \$1,000, respectively, related to better than previously estimated third-party payor settlements.

The Hospital and Medical Center accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Hospital and Medical Center. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital and Medical Center utilizes the generally recognized poverty income levels for the state of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes. In addition, all self-pay patients receive a 45% discount from charges which is not included in net patient service revenue for financial reporting purposes.

The estimated cost of charity care provided was \$6,614 and \$5,011 for the years ended September 30, 2012 and 2011, 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 25.0% from Medicare, 13.1% from Medicaid, and 37.7% from commercial insurance carriers and managed care companies at September 30, 2012 (25.0%, 17.1%, and 34.7%, respectively, at September 30, 2011).

3. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	September 30	
	2012	2011
	2012	Restated
Health care services:		
Research and education	\$ 6,917	\$ 7,550
Capital replacement	18,823	20,494
Other health care services	18,862	18,484
	<u>\$ 44,602</u>	<u>\$ 46,528</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

3. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are restricted for the following purposes:

	September 30	
	2012	2011
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	48,538	43,233
	\$ 52,824	\$ 47,519

4. Assets Whose Use Is Limited

Assets whose use is limited consist of the following:

	September 30	
	2012	2011
		Restated
Board designated for capital acquisition and self-insurance:		
Short-term investments	\$ 481	\$ 331
Marketable equity securities	29,478	35,296
United States government securities	7,133	11,417
Corporate bonds	5,210	2,860
	42,302	49,904
Donor restricted:		
Short-term investments	220	220
Marketable equity securities	4,066	4,066
	4,286	4,286
Under bond indenture agreements – held by trustee	5,993	6,157
Assets held in trusts by others	48,538	43,233
Interest in Saint Francis Hospital and Medical Center Foundation, Inc.	12,789	14,458
Total assets whose use is limited	113,908	118,038
Less other assets that are required for current liabilities	5,076	4,503
	\$ 108,832	\$ 113,535

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

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

5. Donor-Restricted Endowment Funds

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

Management of the Hospital and Medical Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital and Medical Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital and Medical Center considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

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

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

5. Donor-Restricted Endowment Funds (continued)

Changes in endowment funds for the years ended September 30, 2012 and 2011, consisted of the following:

	2012		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of the year	\$ —	\$ 4,286	\$ 4,286
Investment income	94		94
Appropriation of endowment assets for expenditure	(94)		(94)
Net assets, end of year	<u>\$ —</u>	<u>\$ 4,286</u>	<u>\$ 4,286</u>
	 2011		
	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of the year	\$ —	\$ 4,286	\$ 4,286
Investment income	92	—	92
Appropriation of endowment assets for expenditure	(92)	—	(92)
Net assets, end of year	<u>\$ —</u>	<u>\$ 4,286</u>	<u>\$ 4,286</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor of UPMIFA requires the Hospital and Medical Center to retain as a fund of perpetual duration. There were no deficiencies of this nature which are reported in unrestricted or permanently restricted net assets as of September 30, 2012 and 2011.

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:

	September 30	
	2012	2011
		Restated
Money market funds	\$ 776	\$ 289
Marketable equity securities	6,458	4,965
United States government securities	882	505
Corporate bonds	3,558	3,830
Other	3,158	3,358
	\$ 14,832	\$ 12,947

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

	Year Ended September 30	
	2012	2011
		Restated
Realized gain on investments	\$ 769	\$ 124
Unrealized gain (loss) on investments	1,909	(1,182)
Other	(2,350)	-
	\$ 328	\$ (1,058)

For the years ended September 30, 2012 and 2011, interest and dividend income of \$6,975 and \$4,607, respectively, and realized gain (loss) on investments of \$3,557 and (\$843), respectively, were included in other operating revenues in the consolidated statements of operations and changes in net assets.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

7. Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	September 30	
	2012	2011 Restated
Land and land improvements	\$ 7,906	\$ 10,010
Buildings	467,738	505,488
Equipment	374,762	431,177
Construction-in-progress (estimated cost to complete of approximately \$7,800 as of 2012)	15,793	7,302
	866,199	953,977
Less accumulated depreciation	414,364	493,103
Total property, plant, and equipment, net	\$ 451,835	\$ 460,874

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

8. Other Operating Revenues

Electronic Health Record (EHR) Program

Certain health care providers can earn incentive payments between 2011 and 2016 from Medicare and Medicaid for establishing an EHR system and maintaining its meaningful use. The Hospital and Medical Center recognizes income when it is reasonably assured that it is in compliance with the program criteria. The Hospital and Medical Center has included \$4,711 in other operating revenue related to the program for fiscal year 2012, including \$1,282 received from Medicaid. 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 attestation of compliance with the meaningful use criteria is subject to audit by the federal or state government or its designee.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

8. Other Operating Revenues (continued)

Other operating revenues consist of the following:

	September 30	
	2012	2011
		Restated
EHR income	\$ 4,711	\$ —
Rental income	4,803	5,504
Investment income	10,532	3,764
Cafeteria /dietary income	388	1,673
Other income	19,205	28,114
Total other operating revenues	<u>\$ 39,639</u>	<u>\$ 39,055</u>

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, 2012, 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 loss portfolio transfer (LPT) on July 1, 2009, with PIE. The losses associated with this transaction did not transfer insurance risk to the Saint Francis Indemnity Company. As such, this LPT is accounted for using deposit accounting, which requires offsetting assets and liabilities.

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 and loss adjustment expenses for the years ended September 30 is summarized as follows:

	2012	2011
Balance at beginning of year, net	\$ 22,743	\$ 11,105
Incurred related to:		
Current period	9,281	6,254
Prior periods	(718)	5,612
Total incurred	8,563	11,866
Paid related to:		
Current period	325	47
Prior periods	9,108	181
Total paid	9,433	228
Balance at end of year, net of reinsurance recoverable	21,873	22,743
Plus reinsurance recoverable on unpaid losses and loss adjustment expenses	1,510	1,084
Gross balance at end of year	\$ 23,383	\$ 23,827

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

9. Professional and General Liability Insurance (continued)

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 2012 prior year loss development was slightly favorable due to increased focus on claims being addressed and closed more quickly. The 2011 prior year period loss development was adverse due to unfavorable discovery proceedings during the 2011 year.

10. Long-Term Debt

Long-term debt consists of the following:

	September 30	
	2012	2011
State of Connecticut Health and Educational Facilities Authority revenue bonds:		
Series C	\$ 2,190	\$ 4,275
Series D	12,600	13,865
Series E	39,745	39,745
Series F	175,000	175,000
Series G	29,045	29,425
	258,580	262,310
 Obligations under capital leases	 7,335	 9,835
	265,915	272,145
 Less current portion:		
Scheduled maturities	6,950	6,141
	\$ 258,965	\$ 266,004

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 of Series C revenue bonds of which \$32,765 matured serially from 1997 to 2008, \$19,900 matures in the year 2013, and \$57,840 matures in the year 2023 with interest at a net average annual rate of approximately 4.8%.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

10. 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 of Series D revenue bonds of which \$11,385 matured serially from 2003 to 2011, \$2,525 matures in the year 2013, \$5,040 matures in the year 2017, and \$6,300 matures in the year 2022 with interest at a net average annual rate of approximately 4.9%.

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

In March 2008, a financial institution terminated its total return interest rate swap with the Hospital and Medical Center on the Series C Fixed Rate Bonds. As a result, the Hospital and Medical Center purchased the Series C Fixed Rate Bonds underlying the swap (\$38,870 out of a total of \$77,740). The Hospital and Medical Center financed the purchase of these bonds using a bridge loan with another financial institution. In May 2008, the Hospital and Medical Center entered into a financing arrangement with the Authority under a Master Indenture for the purpose of refinancing the bridge loan. The Authority sold \$39,745 of Series E revenue bonds through a private placement. The bonds mature serially from 2014 to 2027 and bear interest at a fixed rate of 6.11%. The Hospital and Medical Center subsequently entered into a synthetic refinancing of these bonds through a total return interest rate swap with a financial institution that lowers the fixed rate to 3.85% 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 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 2014. Concurrent with the transaction, the Hospital and Medical Center entered into an interest rate swap to effectively fix the interest rate on \$130,000 of the Series F bonds at 3.54%.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

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

In September 2010, the Hospital and Medical Center entered into a financing arrangement with the Authority for the purpose of retiring the remaining Series C Fixed Rate Bonds which it purchased in 2008. The Authority sold \$29,870 of Series G Bond Qualified Tax Exempt Bonds which mature serially from 2011 to 2027 through a private placement. The bonds bear interest at a rate of 68% of one-month LIBOR plus 2.75% (2.02% at September 30, 2012). 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.

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

Under the terms of the financing arrangements, the proceeds of the revenue bonds were loaned to the Hospital and Medical Center by the Authority. Pursuant to the loan agreements, the Hospital and Medical Center is obligated to provide amounts which will be sufficient to enable the Authority to pay the principal and interest on the Series C, Series D, Series E, Series F and Series G bonds. The terms of the various financing arrangements between CHEFA, certain financial institutions and the Hospital and Medical Center also provide for financial covenants regarding the Hospital and Medical Center's debt service ratio, liquidity ratio, and debt to capitalization ratio, among others. As of September 30, 2012, 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)

The Hospital and Medical Center has a line of credit with a bank with a total line available of \$5,000. The rate is LIBOR plus 1.5% expiring March 2013. There were no amounts outstanding as of September 30, 2012 and 2011.

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

	September 30	
	2012	2011
Debt Service Reserve Funds	\$ 4,246	\$ 4,321
Debt Service Funds	1,747	1,836
	\$ 5,993	\$ 6,157

Annual maturities of long-term debt at September 30, 2012, are as follows:

	Scheduled Maturities
2013	\$ 6,950
2014	6,497
2015	6,130
2016	4,978
2017	4,760
Thereafter	236,600
	\$ 265,915

Interest payments of \$9,153 and \$9,617 were made during 2012 and 2011, respectively. Interest of \$3,131 was capitalized during the year ended September 30, 2011. No interest was capitalized during the year ended September 30, 2012.

The Hospital and Medical Center was late in filing its audited September 30, 2012, financial statements, which were due on January 28, 2013, under its bond covenants.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

10. Long-Term Debt (continued)

With respect to the Series G Bonds, the Hospital and Medical Center received a waiver from the bond holder to extend the due date for filing its audited financial statements by 60 days to April 1, 2013. For bonds other than the Series G bonds, the Hospital and Medical Center has 30 days after it receives a late filing notice from CHEFA or the Trustee to provide the audited financial statements and cure the covenant violation. As of February 25, 2013, the Trustee had not issued the late filing notice. As a result, the respective covenant violation will be cured if the audited statements are filed by March 27, 2013. As the Hospital and Medical Center expects to meet the modified filing due dates, there are no changes to the financial statements as a result of the noncompliance with the timely audited financial statement filing covenant. In addition, no other bond covenant violations were noted.

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, 2012 and 2011, was \$9,220 and \$8,954, 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.

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

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Unrecognized actuarial loss	\$ (217,461)	\$ (191,044)	\$ (2,693)	\$ (2,894)

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	
	2012	2011	2012	2011
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 404,786	\$ 376,715	\$ 14,086	\$ 14,273
Interest cost	19,937	20,018	679	745
Net benefits paid	(13,517)	(12,725)	(886)	(808)
Actuarial losses (gains)	47,405	20,778	(46)	(124)
Benefit obligation at end of year	458,611	404,786	13,833	14,086
Change in plan assets				
Fair value of plan assets at beginning of year	213,082	221,490	-	-
Actual return on plan assets	33,963	(113)	-	-
Contributions	7,753	4,430	886	808
Benefits paid	(13,517)	(12,725)	(886)	(808)
Fair value of plan assets at end of year	241,281	213,082	-	-
Funded status of the plan	(217,330)	(191,704)	(13,833)	(14,086)
Accrued benefit cost recognized in the consolidated balance sheets	\$ (217,330)	\$ (191,704)	\$ (13,833)	\$ (14,086)

The accumulated benefit obligations for the plans were \$472,444 and \$418,872 at September 30, 2012 and 2011, respectively.

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Components of net periodic benefit cost				
Interest cost	\$ 19,937	\$ 20,018	\$ 679	\$ 745
Expected return on plan assets	(17,563)	(19,093)	-	-
Net amortization and deferral	4,595	3,351	155	165
Benefit cost	\$ 6,969	\$ 4,276	\$ 834	\$ 910

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:

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Measurement date	9/30	9/30	9/30	9/30
Discount rate	4.25%	5.00%	4.25%	5.00%

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	
	2012	2011	2012	2011
Discount rate	5.00%	5.40%	5.00%	5.40%
Expected long-term rate of return on assets	7.50%	8.00%	–	–

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, 2012, will be 7.0%.

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 8.50% reducing 0.50% per year until an ultimate rate of 5.00% is reached in the year 2020 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 \$55 and \$1,299, respectively, at September 30, 2012. 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 \$51 and \$1,198, respectively, at September 30, 2012.

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)

Plan Assets

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

Asset category	September 30	
	2012	2011
Equity securities	31%	30%
Debt securities	38	40
International	22	21
Commodities	4	4
Real estate	5	5
Total	<u>100%</u>	<u>100%</u>

The Hospital and Medical Center maintains target allocation percentages among various asset classes based on an investment policy established for the pension plan which is designed to achieve long-term objectives of return, while mitigating against downside risk and considering expected cash flows. The current weighted-average target asset allocation is as follows: equity securities 40%-80%, debt securities 20%-40%, 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 \$9,304 to its pension plan and \$968 to its other postretirement benefit plan in 2013.

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

Fiscal year:	Pension Benefits	Other Postretirement Benefits
2013	\$ 16,893	\$ 968
2014	18,437	1,003
2015	20,033	1,027
2016	21,542	1,041
2017	23,104	1,053
2018-2022	130,464	5,128

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, 2012, are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 84,277	\$ —	—	\$ 84,277
Short-term investments	18	41,179	—	41,197
Assets whose use is limited				
Board designated:				
Short-term investments	481	—	—	481
Corporate equity securities	10,455	995	—	11,450
Mutual funds:				
U.S. Large Cap	3,754	—	—	3,754
U.S. Mid Cap	671	—	—	671
U.S. Small Cap	1,280	—	—	1,280
Fixed income	—	8,478	—	8,478
International	1,955	—	—	1,955
Emerging markets	804	—	—	804
Real estate	759	—	—	759
Commodities	327	—	—	327
U.S. government securities	—	7,133	—	7,133
Corporate bonds	—	5,210	—	5,210
	20,486	21,816	—	42,302

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

12. Fair Values of Financial Instruments (continued)

	Level 1	Level 2	Level 3	Total
Donor restricted				
Short-term investments	\$ 220	\$ —	\$ —	\$ 220
Mutual funds:				
U.S. Large Cap	1,709	—	—	1,709
U.S. Mid Cap	486	—	—	486
U.S. Small Cap	361	—	—	361
International	366	—	—	366
Emerging markets	298	—	—	298
Fixed income	—	318	—	318
Real estate	228	—	—	228
Commodities	300	—	—	300
	3,968	318	—	4,286
Held under bond indenture	5,993	—	—	5,993
Held in trust by others:				
Short-term investments	—	1,871	—	1,871
Corporate equity securities	—	15,472	—	15,472
Mutual funds:				
U.S. Large Cap	—	4,157	—	4,157
U.S. Mid Cap	—	1,098	—	1,098
U.S. Small Cap	—	782	—	782
International	—	852	—	852
Emerging markets	—	1,107	—	1,107
Fixed income	—	6,630	—	6,630
Real estate	—	649	—	649
Commodities	—	806	—	806
Equities	—	2,818	—	2,818
Corporate bonds	—	5,073	—	5,073
Government bonds	—	4,108	—	4,108
International bonds	—	888	—	888
Alternative hedge funds	—	—	1,599	1,599
Alternative private equity	—	—	504	504
Alternative REITS	—	—	124	124
	—	46,311	2,227	48,538

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
Long-term investments				
Short-term investments	\$ 776	\$ —	\$ —	\$ 776
Mutual funds:				
U.S. Large Cap	2,715	—	—	2,715
U.S. Mid Cap	772	—	—	772
U.S. Small Cap	573	—	—	573
International	581	—	—	581
Emerging markets	473	—	—	473
Fixed income	—	505	—	505
Real estate	362	—	—	362
Commodities	477	—	—	477
U.S. government securities	—	882	—	882
Corporate bonds	—	3,558	—	3,558
Other	—	—	3,158	3,158
	<u>6,729</u>	<u>4,945</u>	<u>3,158</u>	<u>14,832</u>
Liabilities				
Interest rate swap agreements	—	50,361	—	50,361
Pension assets				
Short-term investments	1,438	—	—	1,438
Mutual funds:				
U.S. Large Cap	47,411	—	—	47,411
U.S. Mid Cap	12,123	—	—	12,123
U.S. Small Cap	14,603	—	—	14,603
International	37,483	—	—	37,483
Emerging markets	14,964	—	—	14,964
Real estate	11,510	—	—	11,510
Commodities	10,128	—	—	10,128
Corporate bonds	—	91,621	—	91,621
	<u>149,660</u>	<u>91,621</u>	<u>—</u>	<u>241,281</u>
			Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
Beginning balance			\$ 4,123	
Net gain			634	
Purchases, sales and settlements			628	
Ending balance			<u>5,385</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)

Financial assets and liabilities carried at fair value as of September 30, 2011, are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total Restated
Assets				
Cash and cash equivalents	\$ 100,167	\$ —	\$ —	\$ 100,167
Short-term investments	7,672	10,910	—	18,582
Assets whose use is limited				
Board designated:				
Short-term investments	331	—	—	331
Corporate equity securities	11,819	947	—	12,766
Mutual funds:				
U.S. Large Cap	3,485	—	—	3,485
U.S. Mid Cap	592	—	—	592
U.S. Small Cap	937	—	—	937
Fixed income	—	14,528	—	14,528
International	1,782	—	—	1,782
Emerging markets	485	—	—	485
Real estate	532	—	—	532
Commodities	188	—	—	188
U.S. government securities	—	11,418	—	11,418
Corporate bonds	—	2,860	—	2,860
	20,151	29,753	—	49,904

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 Restated
Donor restricted				
Short-term investments	\$ 220	\$ —	\$ —	\$ 220
Mutual funds:				
U.S. Large Cap	2,165	—	—	2,165
U.S. Mid Cap	391	—	—	391
U.S. Small Cap	389	—	—	389
International	375	—	—	375
Emerging markets	135	—	—	135
Fixed income	—	269	—	269
Real estate	144	—	—	144
Commodities	198	—	—	198
	4,017	269	—	4,286
Held under bond indenture	6,157	—	—	6,157
Held in trust by others:				
Short-term investments	—	1,473	—	1,473
Corporate equity securities	—	11,492	—	11,492
Mutual funds:				
U.S. Large Cap	—	4,478	—	4,478
U.S. Mid Cap	—	1,469	—	1,469
U.S. Small Cap	—	455	—	455
International	—	995	—	995
Emerging markets	—	69	—	69
Fixed income	—	1,268	—	1,268
Real estate	—	159	—	159
Commodities	—	6	—	6
Equities	—	5,292	—	5,292
Corporate bonds	—	6,865	—	6,865
Government bonds	—	7,472	—	7,472
International bonds	—	975	—	975
Alternative hedge funds	—	—	765	765
	—	42,468	765	43,233

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 Restated
Long-term investments				
Mutual funds:				
U.S. Large Cap	\$ 2,644	\$ —	\$ —	\$ 2,644
U.S. Mid Cap	478	—	—	478
U.S. Small Cap	475	—	—	475
International	458	—	—	458
Emerging markets	164	—	—	164
Fixed income	—	617	—	617
Real estate	175	—	—	175
Commodities	242	—	—	242
U.S. government securities	—	505	—	505
Corporate bonds	—	3,831	—	3,831
Other	—	—	3,358	3,358
	4,636	4,953	3,358	12,947
Liabilities				
Interest rate swap agreements	—	40,046	—	40,046
Ending balance	—	—	—	—
Pension assets				
Short-term investments	1,133	—	—	1,133
Mutual funds:				
U.S. Large Cap	38,726	—	—	38,726
U.S. Mid Cap	9,483	—	—	9,483
U.S. Small Cap	11,562	—	—	11,562
International	28,493	—	—	28,493
Emerging markets	11,041	—	—	11,041
Real estate	9,628	—	—	9,628
Commodities	7,476	—	—	7,476
Corporate bonds	—	95,540	—	95,540
	117,542	95,540	—	213,082
			Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
Beginning balance			\$ 4,402	
Net loss			(279)	
Ending balance			4,123	

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

13. 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, 2012 and 2011, was \$756 and \$922, respectively.

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

Beginning in 2007 and through September 30, 2011, 159 plaintiffs filed claims against the Hospital and Medical Center asserting unspecified damages resulting from the activities of a former employee that occurred over a number of years. During the years ended September 30, 2012, 2011 and 2010, the number of claims settled totaled 66, 91 and 1, respectively. In addition, during 2011, a claim went to trial and resulted in a jury award, which management has appealed. During the year ended September 30, 2012, three additional plaintiffs filed claims.

Based on settlement experience through September 30, 2011, management estimated and accrued a liability at September 30, 2011, for unsettled claims, net of applicable insurance coverage. For fiscal year 2012, management assessed the liability for unsettled claims and the claim subject to appeal based on experience, and concluded that previously accrued amounts for open claims are adequate at September 30, 2012.

The expense related to settled and unsettled claims is included in supplies and other expense for the years ended September 30, 2012 and 2011, and the estimated liability for outstanding claims is reflected in pension and other liabilities at September 30, 2012 and 2011, in the accompanying consolidated financial statements.

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

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

	Year Ended September 30	
	2012	2011 Restated
Changes in current assets:		
Assets whose use is limited for current liabilities	\$ (573)	\$ 114
Accounts receivable – patients, net	(19,399)	(18,207)
Accounts receivable – other	5,111	(871)
Due from third-party reimbursement agencies	–	1,951
Inventories of supplies	(1,243)	(908)
Prepaid expenses	961	(227)
Due from affiliated entities	(5,239)	326
	<u>(20,382)</u>	<u>(17,822)</u>
Changes in current liabilities:		
Accounts payable	2,023	(11,048)
Accrued payroll and other related expenses	2,535	3,049
Accrued expenses and interest payable	970	(393)
Due to third-party reimbursement agencies	(2,504)	5,106
Due to affiliated entities	(2,535)	2,535
	<u>489</u>	<u>(751)</u>
Change in working capital other than cash and cash equivalents	<u>\$ (19,893)</u>	<u>\$ (18,573)</u>

15. Functional Expenses

Functional expenses are as follows:

	Year Ended September 30	
	2012	2011 Restated
Health care services	\$ 616,728	\$ 584,884
General and administrative	74,809	93,988
	<u>\$ 691,537</u>	<u>\$ 678,872</u>

Saint Francis Hospital and Medical Center and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(amounts in thousands)

16. Subsequent Events

The Hospital and Medical Center evaluated subsequent events through February 25, 2013 which is the date the 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 financial statements are issued, for potential recognition in the financial statements as of the balance sheet date for the year ended September 30, 2012.

On January 15, 2013, Saint Francis Care, Inc., (the parent organization of the Hospital and Medical Center) and Ascension Health Care Network (AHCN) signed a non-binding exclusive Letter of Intent to pursue a potential agreement under which Saint Francis Care would become a part of AHCN with the vision of building a statewide, clinically integrated health care delivery system across the state of Connecticut. AHCN is a subsidiary of Ascension Health Alliance, the largest Catholic Health System in the nation, and Oak Hill Capital Partners, a private equity fund manager. Completion of the proposed acquisition is subject to a number of conditions, including completion of definitive documentation on terms satisfactory to the parties, due diligence, and approval by both companies' boards of directors and regulators.

No events occurred that require adjustment to the consolidated financial statements.

Supplementary Information

Report of Independent Auditors on Supplementary Information

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

We have audited the consolidated financial statements of Saint Francis Hospital and Medical Center and Subsidiaries (the Hospital and Medical Center) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 25, 2013, which contained an unqualified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and statement of operations are presented for the 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 audit 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

February 25, 2013

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidating Balance Sheet

September 30, 2012

(In Thousands)

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	St. Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Saint Francis Hospital and Medical Center
Assets										
Current assets:										
Cash and cash equivalents	\$ 73,853	\$ 6,816	\$ -	\$ 80,669	\$ 1,810	\$ 437	\$ 1,147	\$ 214	\$ -	\$ 84,277
Short-term investments	33,203	-	-	33,203	-	7,994	-	-	-	41,197
Assets whose use is limited for current liabilities	5,076	-	-	5,076	-	-	-	-	-	5,076
Accounts receivable-patients, less allowance	60,915	-	-	60,915	138	-	-	315	-	61,368
Accounts receivable-other	897	60	-	957	-	2,060	235	55	-	3,307
Inventories of supplies	7,080	-	-	7,080	-	-	82	-	-	7,162
Prepaid expenses	5,605	-	-	5,605	403	-	16	36	-	6,060
Due from affiliated entities	(4,222)	3,298	(3,298)	(4,222)	3,940	8,663	(712)	(3,510)	1,229	5,388
Total current assets	182,407	10,174	(3,298)	189,283	6,291	19,154	768	(2,890)	1,229	213,835
Assets whose use is limited:										
Board - designated	19,234	-	-	19,234	-	23,068	-	-	-	42,302
Donor restricted	4,286	-	-	4,286	-	-	-	-	-	4,286
Held under bond indenture	5,993	-	-	5,993	-	-	-	-	-	5,993
Held in trusts by others	48,538	-	-	48,538	-	-	-	-	-	48,538
Investment in SFHMC Foundation, Inc.	12,789	-	-	12,789	-	-	-	-	-	12,789
	90,840	-	-	90,840	-	23,068	-	-	-	113,908
Assets whose use is limited for current liabilities	(5,076)	-	-	(5,076)	-	-	-	-	-	(5,076)
	85,764	-	-	85,764	-	23,068	-	-	-	108,832
Long-term investments	16,939	-	-	16,939	-	-	-	-	(2,107)	14,832
Property, plant, and equipment, net	443,631	4,233	-	447,864	1,526	-	2,445	-	-	451,835
Other assets:										
Bond issuance costs, less amortization	2,247	-	-	2,247	-	-	-	-	-	2,247
Due from affiliated entities	(3,298)	-	3,298	-	-	-	-	-	-	-
Other	3,230	-	-	3,230	-	-	-	1	-	3,231
	\$ 730,920	\$ 14,407	\$ -	\$ 745,327	\$ 7,817	\$ 42,222	\$ 3,213	\$ (2,889)	\$ (878)	\$ 794,812

Saint Francis Hospital and Medical Center and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2012

(In Thousands)

	Saint Francis Hospital and Medical Center, Inc.	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	St. Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 32,461	\$ 31	\$ –	\$ 32,492	\$ 1,517	\$ –	\$ 998	\$ 36	\$ 234	\$ 35,277
Accrued payroll and other related expenses	33,033	–	–	33,033	1,496	–	–	417	–	34,946
Accrued expenses and interest payable	6,559	22	–	6,581	10	240	–	–	–	6,831
Due to third-party reimbursement agencies	2,602	–	–	2,602	–	–	–	–	–	2,602
Current portion of long-term debt	6,950	–	–	6,950	–	–	–	–	–	6,950
Total current liabilities	81,605	53	–	81,658	3,023	240	998	453	234	86,606
Pension and other accrued expenses	286,980	–	–	286,980	4,769	26,264	–	–	813	318,826
Long-term debt, less portion classified as a current liability	258,965	–	–	258,965	–	–	–	–	–	258,965
Net assets:										
Unrestricted	5,944	14,354	–	20,298	25	15,718	2,215	(3,342)	(1,925)	32,989
Temporarily restricted	44,602	–	–	44,602	–	–	–	–	–	44,602
Permanently restricted	52,824	–	–	52,824	–	–	–	–	–	52,824
	103,370	14,354	–	117,724	25	15,718	2,215	(3,342)	(1,925)	130,415
	\$ 730,920	\$ 14,407	\$ –	\$ 745,327	\$ 7,817	\$ 42,222	\$ 3,213	\$ (2,889)	\$ (878)	\$ 794,812

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

Year Ended September 30, 2012
(In Thousands)

	Saint Francis Hospital and Medical Center	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	St. Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Net patient service revenue	\$ 645,465	\$ –	\$ –	\$ 645,465	\$ 12,794	\$ –	\$ –	\$ 2,521	\$ –	\$ 660,780
Other operating revenues	31,085	2,780	(1,367)	32,498	25,036	14,651	5,656	2,715	(40,917)	39,639
Net assets released from restrictions for operations	6,814	–	–	6,814	–	–	–	–	–	6,814
	<u>683,364</u>	<u>2,780</u>	<u>(1,367)</u>	<u>684,777</u>	<u>37,830</u>	<u>14,651</u>	<u>5,656</u>	<u>5,236</u>	<u>(40,917)</u>	<u>707,233</u>
Operating expenses:										
Salaries	243,950	127	–	244,077	13,303	–	–	4,632	(8,322)	253,690
Supplies and other	365,479	326	(1,367)	364,438	22,940	9,284	5,656	1,218	(32,629)	370,907
Bad debts	18,629	–	–	18,629	399	–	–	145	–	19,173
Interest	11,965	–	–	11,965	–	–	–	–	–	11,965
Depreciation and amortization	34,808	359	–	35,167	397	–	238	–	–	35,802
	<u>674,831</u>	<u>812</u>	<u>(1,367)</u>	<u>674,276</u>	<u>37,039</u>	<u>9,284</u>	<u>5,894</u>	<u>5,995</u>	<u>(40,951)</u>	<u>691,537</u>
	8,533	1,968	–	10,501	791	5,367	(238)	(759)	34	15,696
Net gain on investment activity	328	–	–	328	–	–	–	–	–	328
Operating income (loss)	<u>8,861</u>	<u>1,968</u>	<u>–</u>	<u>10,829</u>	<u>791</u>	<u>5,367</u>	<u>(238)</u>	<u>(759)</u>	<u>34</u>	<u>16,024</u>
Interest rate swap activity:										
Interest cost on interest rate swaps	(807)	–	–	(807)	–	–	–	–	–	(807)
Change in fair market value of swaps	(10,315)	–	–	(10,315)	–	–	–	–	–	(10,315)
	<u>(11,122)</u>	<u>–</u>	<u>–</u>	<u>(11,122)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(11,122)</u>
(Deficiency) excess of revenues over expenses	<u>(2,261)</u>	<u>1,968</u>	<u>–</u>	<u>(293)</u>	<u>791</u>	<u>5,367</u>	<u>(238)</u>	<u>(759)</u>	<u>34</u>	<u>4,902</u>

Saint Francis Hospital and Medical Center and Subsidiaries

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

Year Ended September 30, 2012
(In Thousands)

	Saint Francis Hospital and Medical Center	One Thousand Corporation	Intercompany Eliminations	Subtotal	Collaborative Laboratory Services	St. Francis Indemnity Co.	Total Laundry Collaborative	Saint Francis Behavioral Health Group	Intercompany Eliminations	Consolidated Saint Francis Hospital and Medical Center
Unrestricted net assets:										
(Deficiency) excess of revenues over expenses (continued)	(2,261)	\$ 1,968	\$ –	\$ (293)	\$ 791	\$ 5,367	\$ (238)	\$ (759)	\$ 34	\$ 4,902
Transfers to Saint Francis Hospital and Medical Center Foundation, Inc.	(1,210)	–	–	(1,210)	–	–	–	–	–	(1,210)
Net assets released from restrictions used for capital purchases	1,079	–	–	1,079	–	–	–	–	–	1,079
Change in pension funding and postretirement obligations	(25,075)	–	–	(25,075)	(1,134)	–	–	–	–	(26,209)
Purchase of minority interest in subsidiary	–	–	–	–	–	–	(25)	–	(425)	(450)
(Decrease) increase in unrestricted net assets	(27,467)	1,968	–	(25,499)	(343)	5,367	(263)	(759)	(391)	(21,888)
Temporarily restricted net assets:										
Income from investments	582	–	–	582	–	–	–	–	–	582
Gifts, contributions and donations	5,932	–	–	5,932	–	–	–	–	–	5,932
Net unrealized gain on investments	80	–	–	80	–	–	–	–	–	80
Net assets released from restrictions for renovations	(2,352)	–	–	(2,352)	–	–	–	–	–	(2,352)
Net assets released from restrictions	(7,893)	–	–	(7,893)	–	–	–	–	–	(7,893)
Transfers from SFHMC Foundation, Inc.	3,394	–	–	3,394	–	–	–	–	–	3,394
Decrease in interest in SFHMC Foundation, Inc.	(1,669)	–	–	(1,669)	–	–	–	–	–	(1,669)
Decrease in temporarily restricted net assets	(1,926)	–	–	(1,926)	–	–	–	–	–	(1,926)
Permanently restricted net assets:										
Increase in assets held in trusts by others	5,305	–	–	5,305	–	–	–	–	–	5,305
Increase in permanently restricted net assets	5,305	–	–	5,305	–	–	–	–	–	5,305
(Decrease) increase in net assets	(24,088)	1,968	–	(22,120)	(343)	5,367	(263)	(759)	(391)	(18,509)
Net assets at beginning of year	127,458	12,386	–	139,844	368	10,351	2,478	(2,583)	(1,534)	148,924
Net assets at end of year	\$ 103,370	\$ 14,354	\$ –	\$ 117,724	\$ 25	\$ 15,718	\$ 2,215	\$ (3,342)	\$ (1,925)	\$ 130,415

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