

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Saint Francis Care, Inc. and Subsidiaries
Years Ended September 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Saint Francis Care, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2013 and 2012

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Report of Independent Auditors

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Francis Care, Inc. and Subsidiaries at September 30, 2013 and 2012, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Change in Presentation of the Provision for Bad Debts

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

Supplementary Information

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

Ernst + Young LLP

February 7, 2014

Supplementary Information

Saint Francis Care, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2013
(In Thousands)

	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 and Subsidiary	Asylum Hill Family Medicine Center, Inc.	Total Prior to Elimination	Intercompany Elimination	Consolidated Saint Francis Care, Inc.
Assets										
Current assets:										
Cash and cash equivalents	\$ –	\$ 93,987	\$ 1,374	\$ –	\$ 451	\$ 994	\$ 718	\$ 97,524	\$ –	\$ 97,524
Short-term investments	–	37,397	13,233	55	–	–	–	50,685	–	50,685
Assets whose use is limited for current liabilities	–	4,883	–	–	–	–	–	4,883	–	4,883
Current portion of pledges receivable	–	–	–	1,257	–	–	–	1,257	–	1,257
Accounts receivable – patients, less allowance	–	61,740	3,069	–	375	7,389	328	72,901	–	72,901
Accounts receivable – other	–	3,517	–	–	–	237	878	4,632	–	4,632
Inventories of supplies	–	7,209	–	–	–	–	–	7,209	–	7,209
Prepaid expenses and deposits	–	5,801	6	–	18	–	4	5,829	–	5,829
Due from affiliated entities	650	4,374	(1,013)	–	(65)	(1,902)	(240)	1,804	8	1,812
Total current assets	650	218,908	16,669	1,312	779	6,718	1,688	246,724	8	246,732
Assets whose use is limited:										
Board – designated	–	51,522	–	–	–	–	–	51,522	–	51,522
Donor restricted	–	4,286	–	–	–	–	–	4,286	–	4,286
Held under bond indenture	–	4,764	–	–	–	–	–	4,764	–	4,764
Held in trusts by others	–	51,164	–	–	–	–	–	51,164	–	51,164
Interest in SFHMC Foundation, Inc.	–	10,952	–	–	–	–	–	10,952	(10,952)	–
	–	122,688	–	–	–	–	–	122,688	(10,952)	111,736
Assets whose use is limited for current liabilities	–	(4,883)	–	–	–	–	–	(4,883)	–	(4,883)
	–	117,805	–	–	–	–	–	117,805	(10,952)	106,853
Long-term investments	14,847	15,014	195	–	–	–	–	30,056	(14,847)	15,209
Property, plant, and equipment, net	–	461,365	5,882	14	41	753	161	468,216	–	468,216
Other assets:										
Bond issuance costs, less amortization	–	2,053	–	–	–	–	–	2,053	–	2,053
Pledges receivable, less current portion	–	–	–	9,481	–	–	–	9,481	–	9,481
Other	–	6,128	–	–	53	834	–	7,015	–	7,015
	\$ 15,497	\$ 821,273	\$ 22,746	\$ 10,807	\$ 873	\$ 8,305	\$ 1,849	\$ 881,350	\$ (25,791)	\$ 855,559

Saint Francis Care, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2013

(In Thousands)

	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 and Subsidiary	Asylum Hill Family Medicine Center, Inc.	Total Prior to Elimination	Intercompany Elimination	Consolidated Saint Francis Care, Inc.
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ –	\$ 34,425	\$ 77	\$ 2	\$ 7	\$ 834	\$ 1,770	\$ 37,115	\$ 8	\$ 37,123
Accrued payroll and other related expenses	–	34,583	1,655	–	338	9,474	169	46,219	–	46,219
Accrued expenses and interest payable	–	6,282	16	168	32	56	(4)	6,550	–	6,550
Due to third-party reimbursement agencies	–	12,474	1,547	–	–	–	–	14,021	–	14,021
Current portion of long-term debt:	–	8,819	–	–	–	–	–	8,819	–	8,819
Total current liabilities	–	96,583	3,295	170	377	10,364	1,935	112,724	8	112,732
Pension and other accrued expenses	–	222,786	–	–	–	831	–	223,617	–	223,617
Long-term debt, less portion classified as a current liability	–	258,637	–	–	–	–	–	258,637	–	258,637
Net assets:										
Unrestricted	\$ 15,497	162,203	18,409	(315)	496	(2,890)	(86)	193,314	(14,847)	178,467
Temporarily restricted	–	25,614	1,042	10,739	–	–	–	37,395	(10,739)	26,656
Permanently restricted	–	55,450	–	213	–	–	–	55,663	(213)	55,450
	15,497	243,267	19,451	10,637	496	(2,890)	(86)	286,372	(25,799)	260,573
	\$ 15,497	\$ 821,273	\$ 22,746	\$ 10,807	\$ 873	\$ 8,305	\$ 1,849	\$ 881,350	\$ (25,791)	\$ 855,559

Saint Francis Care, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2013

(In Thousands)

	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 and Subsidiary	Asylum Hill Family Medicine Center, Inc.	Total Prior to Intercompany Elimination	Intercompany Elimination	Consolidated Saint Francis Care, Inc.
Net patient service revenue	\$ -	\$ 671,123	\$ 34,748	\$ -	\$ 4,886	\$ 44,174	\$ 3,232	\$ 758,163	\$ -	\$ 758,163
Less: provision for bad debts	-	(20,788)	(342)	-	(184)	(1,906)	(91)	(23,311)	-	(23,311)
Net patient service revenue less provision for bad debts	-	650,335	34,406	-	4,702	42,268	3,141	734,852	-	734,852
Other operating revenues	-	36,278	185	304	736	39,780	905	78,188	(38,424)	39,764
Net assets released from restrictions for operations	-	4,400	252	4,867	-	-	-	9,519	-	9,519
	-	691,013	34,843	5,171	5,438	82,048	4,046	822,559	(38,424)	784,135
Operating expenses:										
Salaries		263,094	11,692	1,227	3,534	67,005	2,662	349,214	-	349,214
Supplies and other	350	371,840	14,331	775	1,306	26,620	1,563	416,785	(38,424)	378,361
Interest	-	11,601	-	-	-	-	-	11,601	-	11,601
Depreciation and amortization	-	35,854	659	4	11	169	36	36,733	-	36,733
	350	682,389	26,682	2,006	4,851	93,794	4,261	814,333	(38,424)	775,909
	(350)	8,624	8,161	3,165	587	(11,746)	(215)	8,226	-	8,226
Net gain on investment activity	-	2,296	-	3	-	-	-	2,299	-	2,299
Operating income (loss)	(350)	10,920	8,161	3,168	587	(11,746)	(215)	10,525	-	10,525
Interest rate swap activity:										
Interest cost on interest rate swaps	-	(305)	-	-	-	-	-	(305)	-	(305)
Change in fair value of interest rate swaps	-	22,523	-	-	-	-	-	22,523	-	22,523
	-	22,218	-	-	-	-	-	22,218	-	22,218
(Deficiency) excess of revenues over expenses	(350)	33,138	8,161	3,168	587	(11,746)	(215)	32,743	-	32,743

Saint Francis Care, Inc. and Subsidiaries

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

Year Ended September 30, 2013
(In Thousands)

	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 and Subsidiary	Asylum Hill Family Medicine Center, Inc.	Total Prior to Intercompany Elimination	Intercompany Elimination	Consolidated Saint Francis Care, Inc.
Unrestricted net assets:										
(Deficiency) excess of revenues over expenses (continued)	\$ (350)	\$ 33,138	\$ 8,161	\$ 3,168	\$ 587	\$ (11,746)	\$ (215)	\$ 32,743	\$ -	\$ 32,743
Net asset transfer	-	(4,835)	(10,947)	(3,161)	-	16,000	-	(2,943)	1,000	(1,943)
Net assets released from restrictions used for capital purchases	-	3,204	-	-	-	-	-	3,204	-	3,204
Change in pension funding and postretirement obligations	-	84,068	-	-	-	-	-	84,068	-	84,068
Change in minority interest in subsidiary	-	(148)	-	-	-	-	-	(148)	-	(148)
(Decrease) increase in unrestricted net assets	(350)	115,427	(2,786)	7	587	4,254	(215)	116,924	1,000	117,924
Temporarily restricted net assets:										
Income from investments	-	162	-	-	-	-	-	162	-	162
Gifts, contributions, and donations	-	6,027	126	3,030	-	-	-	9,183	-	9,183
Net unrealized gain on investments	-	43	-	-	-	-	-	43	-	43
Grants released from restrictions for renovations	-	(3,447)	-	-	-	-	-	(3,447)	-	(3,447)
Net assets released from restrictions for operations and capital purchases	-	(7,604)	(252)	(4,867)	-	-	-	(12,723)	-	(12,723)
Net asset transfer	-	1,897	100	-	-	-	-	1,997	-	1,997
Increase in interest SFHMC Foundation, Inc.	-	(1,837)	-	-	-	-	-	(1,837)	1,837	-
(Decrease) increase in temporarily restricted net assets	-	(4,759)	(26)	(1,837)	-	-	-	(6,622)	1,837	(4,785)
Permanently restricted net assets:										
Increase in assets held in trusts by others	-	2,626	-	-	-	-	-	2,626	-	2,626
Increase in permanently restricted net assets	-	2,626	-	-	-	-	-	2,626	-	2,626
(Decrease) increase in net assets	(350)	113,294	(2,812)	(1,830)	587	4,254	(215)	112,928	2,837	115,765
Net assets at beginning of year	15,847	129,973	22,263	12,467	(91)	(7,144)	129	173,444	(28,636)	144,808
Net assets at end of year	\$ 15,497	\$ 243,267	\$ 19,451	\$ 10,637	\$ 496	\$ (2,890)	\$ (86)	\$ 286,372	\$ (25,799)	\$ 260,573