

AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Saint Raphael Healthcare System, Inc. and Subsidiaries
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Saint Raphael Healthcare System, Inc. and Subsidiaries

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2010 and 2009

Contents

Report of Independent Auditors.....	1
Audited Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Other Financial Information	
Report of Independent Auditors on Other Financial Information	40
Consolidating Balance Sheet	41
Consolidating Statement of Operations	45
Consolidating Balance Sheet	47
Consolidating Statement of Operations	51

Report of Independent Auditors

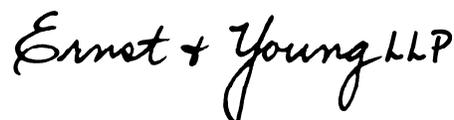
The Board of Trustees
Saint Raphael Healthcare System, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Saint Raphael Healthcare System, Inc. and Subsidiaries (the System) as of September 30, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Caritas Insurance Company, Ltd., a wholly owned subsidiary, which statements reflect total assets constituting 5.5% and 4.9% as of September 30, 2010 and 2009, respectively, of the related consolidated total. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to amounts included for Caritas Insurance Company, Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System'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 System'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, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saint Raphael Healthcare System, Inc. and Subsidiaries at September 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the System will continue as a going concern. As more fully described in Note 1, the System has incurred significant recurring operating losses and has not complied with certain financial covenants in accordance with its debt agreements. These conditions raise substantial doubt about the System's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.



December 13, 2010

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,158	\$ 26,756
Short-term investments	2,314	–
Receivables:		
Patient care, net of allowance for doubtful accounts of \$22,458 in 2010 and \$27,267 in 2009	48,996	56,162
Due from third-party payers	9,565	3,545
Other receivables	4,772	5,325
Total receivables	63,333	65,032
Current portion of assets limited as to use	1,196	1,904
Inventories	7,983	7,937
Other current assets	495	477
Total current assets	93,479	102,106
Long-term investments	2,188	1,499
Assets limited as to use:		
Net funds held in escrow pursuant to tax-exempt bond agreements	7,577	8,286
Funds held for estimated workers' compensation liabilities	7,413	7,328
Other investments	80,860	73,569
Less current portion	(1,196)	(1,904)
Total assets limited as to use, net of current portion	94,654	87,279
Property and equipment, net	100,754	107,250
Other long-term assets	18,065	16,351
Total assets	\$ 309,140	\$ 314,485

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 56,305	\$ 62,109
Interest payable	386	475
Due to third-party payers	3,568	2,066
Current portion of postretirement benefit obligations	6,200	11,000
Current portion of long-term debt	5,022	4,798
Long-term debt classified as payable in one year <i>(Notes 1 and 6)</i>	72,762	76,557
Total current liabilities	144,243	157,005
Estimated workers' compensation liabilities	6,429	7,839
Postretirement benefit obligations, net of current portion	108,026	122,776
Long-term debt, net of current portion and amounts classified as payable in one year <i>(Notes 1 and 6)</i>	1,946	3,223
Other long-term liabilities	48,313	43,530
Total liabilities	308,957	334,373
Net assets:		
Unrestricted	(36,794)	(54,383)
Temporarily restricted specific purpose	19,184	17,170
Permanently restricted endowment	17,793	17,325
Total net assets	183	(19,888)
Total liabilities and net assets	\$ 309,140	\$ 314,485

See accompanying notes.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended September 30	
	2010	2009
	<i>(In Thousands)</i>	
Unrestricted revenues and other support:		
Net patient service revenue	\$ 488,159	\$ 479,099
Other revenues:		
Realized trust fund investment losses for capital preservation <i>(Notes 1 and 8)</i>	–	(1,743)
Realized captives' investment losses for capital preservation <i>(Notes 1 and 8)</i>	–	(5,979)
Other, net <i>(Note 1)</i>	20,695	20,762
Other revenues, net	20,695	13,040
Net assets released from restrictions, used in operations	3,696	3,971
Total unrestricted revenues and other support	512,550	496,110
Expenses:		
Compensation, related fringe benefits, and fees	347,135	341,463
Supplies and other	124,977	129,861
Depreciation and amortization	15,255	18,073
Interest	3,123	4,444
Provision for uncollectible accounts	25,213	21,090
Total operating expenses	515,703	514,931
Operating loss	(3,153)	(18,821)
Nonoperating income (loss):		
Realized investment losses for capital preservation <i>(Notes 1 and 4)</i>	–	(1,208)
Other <i>(Note 1)</i>	1,713	1,060
Nonoperating income (loss), net	1,713	(148)
Net loss before income (loss) on discontinued operations, change in unrealized appreciation of investments, and realized and unrealized loss on interest rate swap agreement	(1,440)	(18,969)
Income (loss) on discontinued operations	200	(1,644)
Change in unrealized appreciation of investments	1,975	4,208
Realized and unrealized loss on interest rate swap agreement	–	(1,082)
Net income (loss)	\$ 735	\$ (17,487)

See accompanying notes.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2010 and 2009
(In Thousands)

	Total	Unrestricted	Temporarily Restricted Specific Purpose	Permanently Restricted Endowment
Balances, September 30, 2008	\$ 49,092	\$ 9,875	\$ 21,669	\$ 17,548
Net loss	(17,487)	(17,487)	-	-
Net assets released from restrictions for capital purposes	-	5,075	(5,075)	-
Change in net unrealized (depreciation) of investments	(771)	-	(456)	(315)
Restricted gifts, grants, and bequests	4,759	-	4,690	69
Restricted investment income	336	-	313	23
Net assets released from restrictions, used in operations	(3,971)	-	(3,971)	-
Effect of change in accounting for postretirement benefit plans (Note 9)	(2,158)	(2,158)	-	-
Change in postretirement benefit plans' liability to be recognized in future periods	(49,688)	(49,688)	-	-
Change in net assets	(68,980)	(64,258)	(4,499)	(223)
Balances, September 30, 2009	(19,888)	(54,383)	17,170	17,325
Net income	735	735	-	-
Net assets released from restrictions for capital purposes	-	150	(150)	-
Change in net unrealized appreciation of investments	1,589	-	1,205	384
Restricted gifts, grants, and bequests	4,580	-	4,486	94
Restricted investment income (loss)	159	-	169	(10)
Net assets released from restrictions, used in operations	(3,696)	-	(3,696)	-
Postretirement benefit plan curtailment gain	40,995	40,995	-	-
Change in postretirement benefit plans' liability to be recognized in future periods	(24,291)	(24,291)	-	-
Change in net assets	20,071	17,589	2,014	468
Balances, September 30, 2010	\$ 183	\$ (36,794)	\$ 19,184	\$ 17,793

See accompanying notes.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2010	2009
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Change in net assets	\$ 20,071	\$ (68,980)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Noncash items:		
Depreciation and amortization	15,255	18,073
Change in net unrealized appreciation of investments	(3,564)	(3,437)
Restricted gifts, grants, and bequests	(4,580)	(4,759)
Restricted investment income	(159)	(336)
Postretirement benefit plan curtailment gain	(40,995)	-
Effect of change in accounting for postretirement benefit plans	-	2,158
Change in postretirement benefit plans' liability to be recognized in future periods	24,291	49,688
Realized and unrealized loss on interest rate swap agreement	-	1,082
Nonoperating (income) loss, net	(1,713)	148
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Patient care receivables	7,166	(3,356)
Other receivables	(5,467)	2,987
Other assets	(1,778)	3,827
Increase (decrease) in:		
Accounts payable and other accruals	(4,391)	5,467
Estimated workers' compensation liabilities	(1,410)	(1,017)
Postretirement benefit obligations	(2,846)	1,211
Other long-term liabilities	4,783	(6,664)
Net cash provided by (used in) operating activities	4,663	(3,908)
Cash flows from investing activities		
(Increase) decrease in short-term investments	(2,305)	3,990
(Increase) decrease in assets limited as to use, net	(3,135)	17,213
Nonoperating loss (income), net	1,713	(148)
Restricted investment income	159	336
(Increase) decrease in long-term investments	(680)	5,384
Capital expenditures, net	(8,759)	(10,888)
Net cash (used in) provided by investing activities	(13,007)	15,887
Cash flows from financing activities		
Restricted gifts, grants, and bequests	4,580	4,759
Repayment of capital lease and other	(2)	(89)
Principal payments on long-term debt	(4,832)	(4,564)
Net cash (used in) provided by financing activities	(254)	106
Net (decrease) increase in cash and cash equivalents	(8,598)	12,085
Cash and cash equivalents at beginning of year	26,756	14,671
Cash and cash equivalents at end of year	\$ 18,158	\$ 26,756
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 3,212	\$ 4,256

See accompanying notes.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2010

(In Thousands)

1. Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the accounts of Saint Raphael Healthcare System, Inc., a tax-exempt, nonstock holding company, and its subsidiaries (collectively, the System). The active subsidiaries include consolidated Hospital of Saint Raphael (the Hospital), a tax-exempt tertiary care hospital, including its wholly owned subsidiaries, Caritas Insurance Company, Ltd. (Caritas) and Lukan Indemnity Company, Ltd. (Lukan); Saint Raphael Foundation, Inc. (the Foundation), a tax-exempt, fund-raising foundation; Saint Regis Health Center, Inc., d/b/a Sister Anne Virginie Grimes Health Center (the Center), a tax-exempt, skilled nursing facility; DePaul Health Services Corporation (DePaul), a tax-exempt holding company; and Xavier Services Corporation (Xavier), a taxable holding company. All material intercompany transactions have been eliminated in consolidation.

During fiscal 2010, Xavier (inactive for several years) was dissolved and a home care subsidiary of DePaul was sold. The impact of these events are not material to the consolidated financial statements.

Operational Uncertainties and Financial Bridge Plan

As of and for the year ended September 30, 2010, the System incurred recurring operating losses and remains out of compliance with certain financial covenant requirements of its long-term debt agreements (see Note 6, Long-Term Debt). Negotiations continue with the various parties to the System's long-term debt agreements, although a resolution acceptable to all parties is yet to be achieved. The unresolved long-term debt financial covenant violations create the possibility that an existing event of default, if declared, could result in the acceleration of substantially all of the System's long-term debt which raises substantial doubt about the System's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. This situation has been ongoing since fiscal year end 2008, with no event of default having been declared.

The System continues to make all principal and interest payments on its long-term debt in accordance with the applicable amortization schedules.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Significant Accounting Policies (continued)

Financial performance reflects operating losses of \$3,153 and \$18,821 for fiscal 2010 and 2009, respectively. The improvement in operating results for fiscal 2010 was due to continued development and successful further implementation of the financial bridge plan to stabilize operations and improve financial performance. Key elements of this financial bridge plan during fiscal 2010 included initiatives to: increasing rates of payment for services rendered; improving revenue cycle charge capture and reducing payment denials; improving medical record documentation; improving financial counseling and collection processes; improving and expanding physician professional billing for services provided; increasing Operating Room capacity and efficiency by improvements in physician scheduling; evaluating staffing levels with comparable benchmarked institutions to identify realizable personnel productivity improvements; renegotiation of key supply and service agreements; and other initiatives. Various expert consultants were engaged to assist in key aspects of the financial bridge plan, with the medical staff, administrative staff and all levels of the organization working collaboratively to affect permanent improvements in operations.

Other Revenues

Other revenues primarily consist of transactions unrelated to the specific health care activities of the System and include nonpatient revenues from occupational health, parking, cafeteria, and other sources including investment gains and losses on certain unrestricted investments. Due to significant investment market uncertainty during fiscal 2009, the System recognized losses on the sale of certain equity investments in the captive insurance company's investment portfolios as well as in the workers' compensation trust to preserve capital; such investment losses from the substantial reduction in equity investments are separately identified as a component of other revenues, net, in the accompanying consolidated statements of operations.

Nonoperating Income

Nonoperating income, net, primarily consists of unrestricted investment income, including realized gains and losses, and the results of nonpatient care operations of certain affiliates. Due to significant investment market uncertainty during fiscal 2009, the System recognized losses on the sale of unrestricted fixed income investments to preserve capital; such investment losses from the reduction of fixed income investments are separately identified as a component of nonoperating income (loss), net, in the accompanying consolidated statements of operations.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Significant Accounting Policies (continued)

Discontinued Operations

The last short-term surgery procedure was performed at DePaul's ambulatory surgery center during January 2009, with the State of Connecticut Office of Health Care Access subsequently approving the System's application for closure. In connection with this closure, the System recorded during fiscal 2009 a provision for loss on this discontinued operation of \$1,644 million (for costs estimated through March 31, 2010, the end of the associated property lease term). As of September 30, 2009, \$637 of accrued costs for this discontinued operation were included in accounts payable and accrued expenses in the accompanying consolidated balance sheets. During fiscal 2010, the finalization of the outstanding matters resulted in the reversal of \$0.2 million of the prior year provision.

Net Income (Loss) and Changes in Net Assets

The performance indicator is net income (loss), which for fiscal 2010 includes all changes in unrestricted net assets other than the change in postretirement benefit plans' liability to be recognized in future periods, postretirement benefit plan curtailment gain and net assets released from restrictions for capital purposes. For fiscal 2009, the effect of the change in accounting for postretirement benefit plans was also excluded from the performance indicator.

Income Taxes

The System, the Hospital, Caritas, the Center, the Foundation, and DePaul are tax-exempt organizations exempt from federal income tax on related income as described in Section 501(c)(3) of the Internal Revenue Code. Lukan is presently nontaxable under Bermuda law.

Cash and Cash Equivalents

The System reports all unrestricted highly liquid investments with an initial maturity of three months or less as a component of cash and cash equivalents. Total deposits with financial institutions at times exceed the amount insured by Federal agencies and, therefore, bear a risk of loss.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Significant Accounting Policies (continued)

Inventories of Supplies

Inventories, consisting mainly of medical and surgical supplies, are stated at the lower of average cost or market determined by the first-in, first out method.

Pledges Receivable

The Foundation recognizes pledges on the accrual basis, net of estimated uncollectible amounts and net present value discounts on long-term pledges receivable. The net present value discount reserve was based on a range of 3% to 5% that are applied to estimated future cash collections as of September 30, 2010 and 2009. Net pledges receivable, included in other receivables and other long-term assets in the accompanying consolidated balance sheets, are due as follows:

	<u>2010</u>	<u>2009</u>
Current	\$ 613	\$ 2,230
Due in one to five years	1,755	1,505
Subtotal	<u>2,368</u>	<u>3,735</u>
Less: reserve for uncollectible pledges	(482)	(544)
Less: reserve for net present value discount	(31)	(93)
	<u>\$ 1,855</u>	<u>\$ 3,098</u>

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the various assets (or for capitalized leases, the lesser of the estimated useful lives of the asset or the lease term, whichever is shorter), with one-half year depreciation generally recorded in the year of acquisition and disposition. The American Hospital Association recommended lives are primarily used and provide for a 25 to 50-year life for buildings and 3 to 20 years for building fixtures and equipment.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Significant Accounting Policies (continued)

Investments

The System's investments and assets limited as to use reported in the accompanying consolidated balance sheets is a trading portfolio, with unrealized appreciation and depreciation of unrestricted investments included in net income (loss).

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Fair value is determined based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest income, and dividends) and unrealized appreciation and depreciation of investments are included in net income (loss), unless the income or loss is restricted by donor or law.

When investments are received as a donation or bequest, the fair value is recorded as the cost of the investment. Interest, dividends, and realized gains or losses are recorded in unrestricted net assets unless otherwise restricted by the contributors. Restricted investment income is added directly to the appropriate restricted net asset fund.

Fair Value of Financial Instruments

Information regarding the fair value of investments and long-term debt is included in Note 12, Fair Value Measurements. For other monetary assets and liabilities, the carrying value approximates fair value based on current market conditions.

Assets Limited as to Use

Assets limited as to use include certain funds held in escrow pursuant to tax-exempt bond agreements (see Note 6, Long-Term Debt), funds held in trust for estimated workers' compensation liabilities (see Note 8, Self-Insurance Programs), donor-restricted investments of the Foundation, and other assets whose use is limited, which primarily reflect the assets of Lukan and Caritas (see Note 8, Self-Insurance Programs). Amounts required to meet current liabilities have been reclassified to current assets in the accompanying consolidated balance sheets.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Significant Accounting Policies (continued)

Interest Rate Swap Agreement

The System utilized an interest rate swap agreement to reduce risks associated with changes in interest rates, which was terminated as of July 1, 2009 as a result of an “insurer event” under the terms of this agreement (see Note 6, Long-Term Debt). The System does not hold or issue derivative financial instruments for trading purposes.

Net Assets

Separate accounts are maintained by the System to ensure compliance with restrictions imposed by contributors on the use of donated funds. Substantially all of the assets of such funds are invested in marketable securities.

Temporarily restricted net assets are those assets whose use has been limited by donors for a specific purpose. Permanently restricted net assets must be maintained by the System in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets used in operations are reclassified and reported in the consolidated financial statements as net assets released from restrictions.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the amounts reported for fiscal 2009 to conform the presentation with the 2010 presentation. These reclassifications had no effect on total net assets.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

1. Significant Accounting Policies (continued)

Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date for the year ended September 30, 2010. The System evaluated subsequent events through December 13, 2010, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the consolidated financial statements.

Recently Issued Accounting Standards

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

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Net Patient Service Revenue

Revenues from the Medicare and Medicaid programs accounted for 46.6% and 9.5%, respectively, of the System's net patient service revenue for the year ended September 30, 2010 and 47.8% and 7.9%, respectively, for the year ended September 30, 2009. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs, reduction of funding levels and changes in estimates could have an adverse impact on the System.

Patient accounts receivable and revenues are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered. Revenue received under third-party payer agreements is subject to audit and retroactive adjustments. Provisions for third-party payer settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. Retroactive adjustments related to settlements with third-party payers decreased the System's net patient service revenues in fiscal 2010 by approximately \$359 and increased the System's net patient service revenues in fiscal 2009 by approximately \$895.

The Hospital has agreements with various commercial insurers and managed care organizations (MCOs) to provide medical services to subscribing participants. Under these agreements, the MCOs make payments to the Hospital for certain covered services based upon negotiated pricing for the services provided.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Net Patient Service Revenue (continued)

The System grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer arrangements. The approximate mix of patient care receivables at September 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Medicare	36%	35%
Medicaid	13	8
Blue Cross	13	12
Commercial and other	30	33
Self-pay	8	12
Total	<u>100%</u>	<u>100%</u>

The following table summarizes the Hospital's net patient service revenue:

	Year Ended September 30	
	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 1,287,870	\$ 1,237,133
Deductions:		
Allowances	(813,109)	(776,684)
Charity care (at charges)	(3,724)	(1,868)
	<u>(816,833)</u>	<u>(778,552)</u>
Net patient service revenue	<u>\$ 471,037</u>	<u>\$ 458,581</u>

3. Uncompensated Care and Community Benefit Expense

The System is committed to the community by providing services to the poor and the medically underserved, as well as providing benefits to the broader community. Focused on providing nondiscriminatory treatment of all patients, the System fosters universal access to emergency care regardless of ability to pay. Services provided to the poor and the medically underserved include services provided to persons who cannot afford health care due to lack of resources, lack of insurance, or both.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Uncompensated Care and Community Benefit Expense (continued)

The System considers care provided for which no payment was received from the patient or their insurer as uncompensated care. Uncompensated care is composed of free care provided, charity care provided, and bad debt expense. In determining uncompensated care, the System excludes voluntary and involuntary discounts or “reductions in revenue,” such as underpayments from Medicare and Medicaid or discounts to managed care companies. Consistent with the reporting requirements of the State of Connecticut Office of Health Care Access, uncompensated care is reported at customary (undiscounted) charges; for the years ended September 30, 2010 and 2009, uncompensated care amounted to approximately \$30,604 and \$25,747, respectively.

The System makes available free care programs for qualifying patients. In accordance with the established policies of the System during the registration, billing, and collection processes, a patient’s eligibility for free care funds is determined. For the years ended September 30, 2010 and 2009, free care funds provided to patients qualifying for these assistance programs at customary charges were approximately \$36 and \$51, respectively.

The System makes available financial assistance programs for qualifying patients. In accordance with the established policies of the System during the registration, billing, and collection processes, a patient’s eligibility for financial assistance is determined. For the years ended September 30, 2010 and 2009, financial assistance provided at customary charges was approximately \$5,355 and \$4,606, respectively.

For patients who were determined to have the ability to pay but did not, the System’s provision for uncollectible accounts is bad debt expense. For the years ended September 30, 2010 and 2009, bad debt expense was approximately \$25,213 and \$21,090, respectively.

Annually, the System accrues for the potential losses related to its uncompensated care. At September 30, 2010 and 2009, the amount estimated by management to represent the System’s uncompensated care allowances, which is included in the accompanying consolidated balance sheets as a reduction of accounts receivable for services to patients, was approximately \$22,458 and \$27,267, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Uncompensated Care and Community Benefit Expense (continued)

Additionally, the System reaches out to the broader community, which includes services provided to other needy populations that may not qualify as poor but need special services and support, by increasing access to services, educating the public about disease prevention, providing goods and services, and advocating health care coverage for all. These benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. These benefits are provided through the Project Mother Care services, a mobile Dental Van, community health centers, neighborhood schools, various community support groups, and the *Better Health* magazine.

The System also makes contributions to programs, organizations, and foundations for efforts on behalf of the poor, the disadvantaged, and the community in general. These include the Hospital of Saint Raphael One-For-All Fund, Inc., sponsored by employees, which annually donates approximately \$100 to local community-based organizations, and a variety of in-kind services, including vaccination programs to police and paramedic personnel, supplies and medical equipment to various organizations, shelters and relief programs, technical assistance in the areas of printing and graphic design, and use of space for community meetings.

4. Investments

Short-term unrestricted investments and long-term unrestricted investments at September 30, 2010 and 2009 primarily consist of government and corporate bonds. Fair value and cost information for these investments at September 20, 2010 and 2009 is summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Appreciation</u>
2010			
Corporate and government bonds	<u>\$ 4,502</u>	<u>\$ 4,484</u>	<u>\$ 18</u>
2009			
Corporate and government bonds	<u>\$ 1,499</u>	<u>\$ 1,499</u>	<u>\$ —</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Investments (continued)

Other assets limited as to use comprise investments related to permanently restricted endowments, temporarily restricted specific-purpose funds, and unrestricted investments held by the Hospital's captive insurance company subsidiaries. Fair value and cost information for these System's investments at September 30, 2010 and 2009 is summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Appreciation (Depreciation)</u>
2010			
Cash	\$ 5,975	\$ 5,975	\$ -
Certificates of deposit and other	2,050	2,049	1
Money market funds	20,547	20,547	-
Common stock	19,578	22,488	(2,910)
Corporate and government bonds	26,114	24,897	1,217
Mutual funds	5,610	5,341	269
	<u>\$ 79,874</u>	<u>\$ 81,297</u>	<u>\$ (1,423)</u>
2009			
Cash	\$ 21,816	\$ 21,822	\$ (6)
Certificates of deposit and other	2,017	2,017	-
Money market funds	12,790	12,790	-
Common stock	17,393	22,118	(4,725)
Corporate and government bonds	12,555	12,282	273
Mutual funds	6,012	6,021	(9)
	<u>\$ 72,583</u>	<u>\$ 77,050</u>	<u>\$ (4,467)</u>

Property held for investment (at amortized cost) of \$986 is also included in other assets limited as to use at September 30, 2010 and 2009.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

4. Investments (continued)

Unrestricted income from the System's investments is included as nonoperating income (loss), net in the accompanying consolidated statements of operations. The components of nonoperating income for September 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Hospital:		
Income, net, from assets limited as to use and other unrestricted funds	\$ 80	\$ 291
Realized unrestricted investment losses for capital preservation	-	(1,208)
Unrestricted income from trust and endowment funds	154	164
Other subsidiaries' nonpatient care operations	1,479	605
Nonoperating income (loss), net	<u>\$ 1,713</u>	<u>\$ (148)</u>

Funds held for estimated workers' compensation liabilities at September 30, 2010 and 2009 are summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Appreciation</u>
2010			
Money market funds	\$ 4,422	\$ 4,422	\$ -
Corporate and government bonds	2,991	2,830	161
	<u>\$ 7,413</u>	<u>\$ 7,252</u>	<u>\$ 161</u>
2009			
Money market funds	\$ 4,468	\$ 4,468	\$ -
Corporate and government bonds	2,860	2,796	64
	<u>\$ 7,328</u>	<u>\$ 7,264</u>	<u>\$ 64</u>

Investment gains and losses from the workers' compensation trust fund investments are included in other revenues, net, in the accompanying consolidated statements of operations. Investment income, net for fiscal 2010 was \$159. The net investment loss of \$(1,522) for fiscal 2009 includes net investment income of \$221, net of realized investment losses of \$(1,743) associated with the elimination of equity investments to ensure the preservation of capital.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

5. Property and Equipment

The components of property and equipment at September 30, 2010 and 2009 are as follows:

	2010	2009
Land	\$ 3,497	\$ 3,497
Land improvements	3,377	3,227
Buildings and improvements	190,446	189,282
Fixed equipment	46,930	46,917
Movable equipment	214,360	207,217
Construction in progress	396	43
	459,006	450,183
Less accumulated depreciation	(358,252)	(342,933)
	\$ 100,754	\$ 107,250

6. Long-Term Debt

The System's long-term debt consists of the following at September 30, 2010 and 2009:

	2010	2009
State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Tax-Exempt Bonds, Series H	\$ 16,570	\$ 20,160
Tax-Exempt Bonds, Series L	29,525	29,525
Tax-Exempt Bonds, Series M	30,420	30,420
Easyloan Master Financing Agreement	3,187	4,384
Capital lease	-	2
Other	-	45
Original issue premium, net	28	42
	79,730	84,578
Less current portion	(5,022)	(4,798)
Less amounts classified as payable in one year	(72,762)	(76,557)
	\$ 1,946	\$ 3,223

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Long-Term Debt (continued)

As discussed below, the Obligated Group is not in compliance with certain financial covenants of its long-term debt agreements. Negotiations regarding modifications to the terms of the existing agreements to resolve the financial covenant violations have been ongoing, and mutual agreement among the involved parties has not been reached. As a result of the financial covenant violations, the possibility of the declaration of an event of default and the related possibility of acceleration of payment terms, certain long-term debt amounts noted above have been reclassified as a current obligation in the accompanying consolidated balance sheets as of September 30, 2010 and 2009.

The CHEFA bonds outstanding as of September 30, 2010 bear interest and have terms as follows:

Issue	Year	Interest Rate	Principal Payments	
			Begin	End
Series H	1994	5.25% to 6.5%	July 1, 1994	July 1, 2014
Series L	2005	Variable	July 1, 2015	July 1, 2024
Series M	2005	Variable	July 1, 2015	July 1, 2024

Principal payments on the outstanding bonds are scheduled as follows: \$3,780 in 2011; \$4,035 in 2012; \$4,235 in 2013; \$4,520 in 2014; \$4,930 in 2015 and \$55,015 thereafter.

Under the terms of the Series H, Series L, and Series M loan agreements, the members of the Obligated Group are jointly and severally liable for all issued and outstanding CHEFA revenue bonds in the event of a default. The current members of the Obligated Group are the System, the Hospital, the Center, the Foundation, and DePaul.

The Series H and Series L bonds are insured by AMBAC Assurance Corporation and are secured by a pledge of gross receipts of the Obligated Group members and by a mortgage on substantially all property owned by the Hospital and the Center. The Series M bonds have credit enhancement provided by a letter of credit with a bank (currently extended through June 2011), and are also secured by a pledge of gross receipts of the Obligated Group members and by a mortgage on substantially all property owned by the Hospital and the Center. Negotiations are ongoing with the letter of credit provider regarding further extension of the letter of credit.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Long-Term Debt (continued)

The terms of the Series H, Series L and Series M loan agreements provide for, among other provisions, financial covenants requiring on a consolidated basis; (1) maintenance of specified long-term debt service coverage at the end of each fiscal quarter; (2) maintenance of specified long-term indebtedness to capitalization at the end of each fiscal quarter; (3) maintenance of specified fund balance at the end of each fiscal quarter; (4) maintenance of specified short-term indebtedness at the end of each fiscal quarter; and (5) maintenance of specified days cash on hand semiannually at March 31 and September 30. As of September 30, 2010, the Obligated Group is not in compliance with the financial covenants to maintain: the specified long-term indebtedness to capitalization; the specified minimum fund balance; and the specified days cash on hand. The Obligated Group has requested modifications to the terms of the existing agreements to resolve the financial covenant violations for these matters; negotiations regarding resolution of these matters are ongoing.

In connection with the Series L bonds, the Obligated Group had entered into an interest rate swap agreement with a financial institution. This agreement required the payment of a fixed rate (3.439%), with receipt of a floating rate based on LIBOR. During fiscal 2009, the further downgrade of the bond insurer created an “insurer event” as defined in the interest rate swap agreement; in response to this event, the System paid \$2,116 to terminate this agreement. The realized and unrealized loss on the interest rate swap agreement of \$1,082 for fiscal 2009 is reflected in the accompanying consolidated statements of operations.

The Series L bonds are auction rate securities. In the event that the weekly auctions fail to clear, the interest rate associated with these securities defaults to a formula, as described in the bond documents. The formula used to calculate the interest rate for the auctions that fail would be 175% of the defined index, increasing to 265% of the defined index if the bond insurer’s rating falls below investment grade. Since fiscal 2008, the System’s auctions have failed to clear. Due to the further downgrade of the bond insurer during fiscal 2009, the Obligated Group has been required to pay interest at 265% of the defined index (since August 2009). Interest rates (based on the defined index) on this debt ranged from 0.32% to 0.48% during fiscal 2010, and ranged from 0.40% to 5.07% during fiscal 2009.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

6. Long-Term Debt (continued)

The Series M bonds are variable rate demand obligations. In addition to the letter of credit fee paid to the bank, interest rates on this debt ranged from 0.21% to 0.39% during fiscal 2010 and from 0.30% to 5.05% during fiscal 2009.

In connection with the Series H, Series L, and Series M bonds, various debt service reserve funds have been established to provide security for the bondholders. In connection with the original Series H loan agreement, a depreciation reserve fund had been established to provide for debt service and the purchase of replacement assets over the life of the debt. These balances, in addition to the required quarterly principal and interest payment deposits, are included in assets limited as to use in the accompanying consolidated balance sheets. The assets primarily consist of U.S. Treasury bonds and are carried at fair value, which approximates carrying value. The balance in the debt service reserve funds was \$6,381 and \$6,382 at September 30, 2010 and 2009, respectively.

Expenses associated with the issuance of the CHEFA bonds have been deferred and are being amortized over the life of the related debt. These deferred bond issuance costs are included as other long-term assets in the accompanying consolidated balance sheets.

During fiscal 2006, the Hospital acquired certain equipment under a master financing agreement among a bank, CHEFA and the Hospital. Principal payments on this debt, which began in 2007, are as follows: \$1,240 in 2011; \$1,286 in 2012 and \$661 in 2013.

DePaul had several financing arrangements with various financial institutions, all of which were repaid in full during fiscal 2010.

7. Restricted Net Assets

Endowment Funds

The System's endowments consist of approximately 200 donor-restricted funds established for a variety of purposes. The net assets associated with endowment funds, maintained primarily at the Foundation, are classified and reported based on the donor-imposed restrictions.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Restricted Net Assets (continued)

The System has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the System 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, if applicable (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. 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 System in a manner consistent with the donor intention. The System considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of 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 System
7. The investment policies of the System

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the System to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$7 and \$36 as of September 30, 2010 and 2009, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Restricted Net Assets (continued)

Return Objectives and Risk Parameters

The System's Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specified period. The System expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually; actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The System has adopted a policy, effective for fiscal 2010, of appropriating for distribution each year between 3 and 6 percent of its endowment fund's average fair value over the prior three years (through the calendar yearend immediately preceding the beginning of the fiscal year in which the distribution is planned), with an average annual target of 4 percent. In establishing this policy, the System considered the long-term expected return on its endowment noted above. Accordingly, over the long term, the System expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the System's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Prior to the adoption of the aforementioned spending policy late in fiscal 2009 effective for fiscal 2010, any expenditure associated with the endowment were appropriated in accordance with the donor's intention.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Restricted Net Assets (continued)

Endowment Net Asset Composition by Type of Fund as of September 30, 2010

All endowment net assets are donor-restricted endowment funds.

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ (36)	\$ 2,905	\$ 17,325	\$ 20,194
Total investment return	-	1,349	374	1,723
Contributions	-	-	94	94
Appropriation of endowment assets for expenditure	-	(466)	-	(466)
Reclassifications	28	(28)	-	-
Endowment net assets, ending balance	<u>\$ (8)</u>	<u>\$ 3,760</u>	<u>\$ 17,793</u>	<u>\$ 21,545</u>

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ -	\$ 2,935	\$ 17,548	\$ 20,483
Total investment return	-	(63)	(292)	(355)
Contributions	-	-	69	69
Appropriation of endowment assets for expenditure	-	(3)	-	(3)
Reclassifications	(36)	36	-	-
Endowment net assets, ending balance	<u>\$ (36)</u>	<u>\$ 2,905</u>	<u>\$ 17,325</u>	<u>\$ 20,194</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

7. Restricted Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Health education	14%	14%
Equipment purchases	11	11
Indigent care	9	9
Cancer care	33	39
All other	33	27
	<u>100%</u>	<u>100%</u>

8. Self-Insurance Programs

Malpractice and General Liability

During fiscal 2010 and 2009, the Hospital's malpractice coverage was provided by a "claims-made" insurance program through its wholly owned subsidiaries, Lukan and Caritas. The liability for incurred but not reported claims of \$2,760 and \$2,535 as of September 30, 2010 and 2009, respectively, has been retained at the Hospital.

Effective October 1, 1992, the Hospital formed Lukan. Lukan is a wholly owned subsidiary of the Hospital and a Bermuda captive insurance company which provides the first level of the Hospital's "claims-made" insurance coverage. Coverage for the years ended September 30, 2010 and 2009 was \$2,000 per claim and \$10,000 in the aggregate.

Effective October 1, 1989, the Hospital formed Caritas. This wholly owned subsidiary of the Hospital, a Vermont captive insurance company, currently provides the remainder of the Hospital's "claims-made" coverage. Coverage for the years ended September 30, 2010 and 2009 was \$28,000 per claim and \$48,000 in the aggregate; of this coverage, \$20,000 per claim and \$40,000 in the aggregate was provided under a reinsurance agreement with a commercial insurer. With favorable experience during the three year term of this initial reinsurance agreement,

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Self-Insurance Programs (continued)

effective October 1, 2009 the reinsurance agreement was commuted; as a result, Caritas' coverage for each of the three years ended September 30, 2009 becomes \$28,000 per claim with no aggregate limit. Caritas has entered into another reinsurance agreement with a commercial insurer to provide similar levels of umbrella insurance coverage for the three year periods beginning October 1, 2009.

Assets held by Lukan and Caritas were \$51,456 and \$45,975 as of September 30, 2010 and 2009, respectively, and are reflected as other assets whose use is limited in the accompanying consolidated balance sheets. Liabilities recorded by Lukan and Caritas were \$35,535 and \$31,522 as of September 30, 2010 and 2009, respectively, and are reflected as other long-term liabilities in the accompanying consolidated balance sheets.

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 30, 2010 and 2009; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations of future years when such adjustments, if any, become known.

Activity in the estimated liability for outstanding losses and loss related expenses at Lukan and Caritas for the years ended September 30, 2010 and 2009 for outstanding losses and loss related expenses is summarized as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 31,403	\$ 35,191
Losses incurred related to:		
Current year	10,852	10,367
Prior years	(3,695)	(3,036)
Total incurred	<u>7,157</u>	<u>7,331</u>
Paid losses related to:		
Current year	(99)	(96)
Prior years	(3,554)	(11,023)
Total paid	<u>(3,653)</u>	<u>(11,119)</u>
Balance, end of year	<u>\$ 34,907</u>	<u>\$ 31,403</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Self-Insurance Programs (continued)

As a result of changes in management's estimates of the ultimate settlement amount of claims reported in prior years, incurred losses and loss adjustment expenses decreased by \$3,695 in fiscal 2010 and decreased by \$3,036 in fiscal 2009.

Workers' Compensation

Effective October 1, 1991, the Hospital became self-insured for the deductible portion of workers' compensation claims. Based upon fiscal 2008 financial performance, the Hospital was notified during fiscal 2009 that the State of Connecticut would no longer permit the self-insurance of worker's compensation claims after April 17, 2009. The Hospital has obtained commercial insurance coverage for such claims arising after this date. The worker's compensation trust fund will continue to cover the costs of claims arising through the date of the change.

For the applicable periods of fiscal 2009, the deductibles for the self-insured program were \$1,000 per occurrence, with an aggregate maximum of \$1,000 per year. The Hospital has purchased statutory umbrella insurance coverage with a commercial carrier through September 30, 2011. The Hospital is required to maintain a performance bond related to this self-insurance program; as of September 30, 2010, the Hospital provided \$4,250 of cash collateral to the performance bond provider via a custody arrangement with a bank; such direct collateral was funded by a withdrawal from the related trust.

The Hospital established an irrevocable trust to hold assets, accumulate income, and pay settled claims and expenses related to the workers' compensation self-insurance program for deductibles. Amounts are charged to expense and funds are deposited into the trust based upon an actuarial determination of the Hospital's liability. A discount rate of 5% was used in the determination of this liability for fiscal 2010 and 2009. Trust fund deposits at September 30, 2010 and 2009 are invested by the trustee in marketable securities.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

8. Self-Insurance Programs (continued)

Activity in the workers' compensation asset and self-insurance liability accounts for the years ended September 30, 2010 and 2009 was as follows:

	2010		2009	
	Asset	Liability	Asset	Liability
Trust fund balance, beginning of year	\$ 7,328	\$ 7,839	\$ 8,678	\$ 8,856
Current year expense	–	658	–	1,724
Hospital contribution	1,897	–	2,079	–
Investment gains and losses, net	159	–	221	–
Realized losses for capital preservation	–	–	(1,743)	–
Change in unrealized appreciation (depreciation) of investments	97	–	852	–
Reinsurance receivable	–	–	120	120
Performance bond collateral	(4,250)	–	–	–
Settlement of claims	(1,476)	(1,476)	(2,182)	(2,182)
Fund expenses	(592)	(592)	(697)	(679)
Trust fund balance, end of year	3,163	6,429	7,328	7,839
Performance bond collateral	4,250	–	–	–
Total assets and liabilities	<u>\$ 7,413</u>	<u>\$ 6,429</u>	<u>\$ 7,328</u>	<u>\$ 7,839</u>

9. Postretirement Benefits

Pensions

The System has a noncontributory defined benefit retirement plan, which is funded in accordance with a method approved by the Board of Trustees. Benefits payable under this plan are based on credited years of service and earnings as defined in the plan documents. During fiscal 2004, participation in the plan was limited to eligible employees hired through December 31, 2003. During fiscal 2010, participation in the plan was frozen for benefits accumulated as of December 31, 2009; accordingly, a curtailment gain of approximately \$41 million was recognized and included in the accompanying consolidated statements of changes in net assets. Pension cost for the defined benefit retirement plan was approximately \$5,141 and \$6,934 for fiscal 2010 and 2009, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postretirement Benefits (continued)

Effective January 1, 2004, for eligible new hires subsequent to December 31, 2003, the System has a noncontributory defined contribution retirement plan. Deposits into this plan are based on credited years of service and earnings as defined in the plan documents. During fiscal 2010, participation in the plan was suspended for benefits earned as of December 31, 2009. Pension cost for the defined contribution retirement plan was approximately \$272 for fiscal 2010 and \$1,126 for fiscal 2009. It is anticipated that this plan will be amended at some point in the future to include those employees who were previously eligible to participate in the noncontributory defined benefit retirement plan through December 31, 2009.

For fiscal 2010 and 2009, the majority of the System's employees were eligible to participate in a 401(k) savings plan sponsored by the System. The System matches one dollar for every dollar contributed by an employee into the Plan, up to 3% compensation as defined. During fiscal 2010, participation in the plan was suspended for contributions made after April 3, 2010. Savings plan expense was approximately \$2,015 and \$3,891 for fiscal 2010 and 2009, respectively.

The System has a nonqualified supplemental retirement plan for certain executives. During 2010, participation in this nonqualified plan was suspended for periods after April 3, 2010. Nonqualified retirement plan expense was approximately \$282 and \$557 for fiscal 2010 and 2009, respectively.

Certain skilled maintenance employees are covered under a multi-employer union pension plan. Union retirement plan expense was approximately \$344 and \$312 for fiscal 2010 and 2011, respectively.

The total pension expense for the years ended September 30, 2010 and 2009 was approximately \$8,054 and \$12,820, respectively.

Restoration of currently suspended pension benefits for System employees will be dependent upon sustained improvements in operating results for fiscal 2011 and beyond.

Medical and Life Insurance

The System utilizes the attribution method of accounting for the actuarially determined cost of providing medical and life insurance benefits to eligible retirees, where the cost of providing the postretirement benefits is accrued during the active service period of the employee. Effective during fiscal 2004, the ability to participate in this benefit plan was frozen for all existing employees at that date based on a combination of age and years of service.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postretirement Benefits (continued)

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) was enacted on December 8, 2003. The Act introduced a prescription drug benefit under Medicare 9. (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The System's estimate of its postretirement obligation, net periodic postretirement benefit cost, and the corresponding disclosures reflect the effects of the Act on the medical and life insurance plan.

The assumed health care cost trend rate used was 7.5% in 2010 reaching an ultimate trend rate of 5% in 2015 and later. If the health care cost trend rate was increased by 1%, the periodic expense would be increased by \$50. If the health care cost trend rate was decreased by 1%, the periodic expense would be decreased by \$44.

Postretirement Benefit Costs

On September 30, 2009, the System adopted the measurement date provisions of FASB ASC 715 & 958, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (ASC 715 & 958). ASC 715 & 958 required the System to measure plan assets and benefit obligations at a date consistent with its fiscal year-end consolidated balance sheet. The reduction of net assets recorded as a result of this change in accounting is \$2,158, and is included in the accompanying consolidated statement of changes in net assets.

Included in unrestricted net assets at September 30, 2010 and 2009 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2010		2009	
	Pension	Insurance	Pension	Insurance
Unrecognized actuarial (loss) gain	\$ (65,685)	\$ (3,071)	\$ (84,349)	\$ (809)
Unrecognized prior service (cost) credit	—	—	(302)	—
	<u>\$ (65,685)</u>	<u>\$ (3,071)</u>	<u>\$ (84,651)</u>	<u>\$ (809)</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postretirement Benefits (continued)

The unrecognized actuarial loss included in unrestricted net assets at September 30, 2010 and expected to be recognized in net periodic benefit costs during the year ending September 30, 2011 are \$1,018 and \$97 for pension and insurance, respectively.

The following table sets forth the funded status of the postretirement benefit plans and the related amounts recognized in the System's consolidated financial statements at September 30, 2010 and 2009:

	2010		2009	
	Pension	Insurance	Pension	Insurance
Change in benefit obligations:				
Benefit obligations, at beginning of year	\$ 213,390	\$ 18,702	\$ 169,070	\$ 17,145
Effect of eliminating early measurement date	–	–	(14,958)	(1,103)
Service cost	1,620	54	4,620	38
Interest cost	11,169	1,014	11,445	1,130
Actuarial loss (gain)	25,824	2,265	47,613	3,066
Plan curtailment	(40,995)	–	–	–
Benefits paid	(4,886)	(1,808)	(4,400)	(1,707)
Federal subsidy on benefits paid	–	204	–	133
Benefit obligations, at end of year	<u>206,122</u>	<u>20,431</u>	213,390	18,702
Change in plan assets at fair value:				
Plan assets, beginning of year	98,316	–	105,090	–
Effect of eliminating early measurement date	–	–	(6,075)	–
Actual return on plan assets	11,446	–	(763)	–
Employer contribution	7,451	1,604	4,464	1,574
Benefits paid	(4,886)	(1,808)	(4,400)	(1,707)
Federal subsidy on benefits paid	–	204	–	133
Plan assets, end of year	<u>112,327</u>	–	98,316	–
Funded status of plan	<u>\$ (93,795)</u>	<u>\$ (20,431)</u>	<u>\$ (115,074)</u>	<u>\$ (18,702)</u>

The accumulated benefit obligation at September 30, 2010 and 2009 was \$206,122 and \$183,563, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postretirement Benefits (continued)

The following assumptions were used in calculating and determining the actuarial present value of the accumulated benefit obligations and net periodic benefit cost at September 30, 2010 and 2009:

	2010		2009	
	Pension	Insurance	Pension	Insurance
Discount rate for projected benefit obligation	5.15%	5.15%	5.60%	5.60%
Discount rate for net periodic benefit cost	5.60%	5.60%	6.35%	6.35%
Long-term rate of return on plan assets	7.75%	N/A	7.75%	N/A
Average rate of increase in compensation	N/A	3.00%	3.00%	3.00%

To develop the expected long-term rate of return on plan assets assumption, the System considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Net postretirement benefit costs for fiscal 2010 and 2009 included the following components:

	2010		2009	
	Pension	Insurance	Pension	Insurance
Service cost – benefits earned during the period	\$ 1,620	\$ 54	\$ 4,620	\$ 38
Interest cost on projected benefit obligation	11,169	1,014	11,445	1,130
Expected return on plan assets	(9,697)	–	(9,192)	–
Amortization of unrecognized net loss (gain)	1,747	–	–	(190)
Plan curtailment	277	–	–	–
Amortization of prior service cost	25	–	61	(663)
Net periodic benefit cost	<u>\$ 5,141</u>	<u>\$ 1,068</u>	<u>\$ 6,934</u>	<u>\$ 315</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postretirement Benefits (continued)

Contributions

The System expects to contribute approximately \$4,600 to its defined benefit pension plan and approximately \$1,600 to its medical and life insurance plan in fiscal 2011.

Estimated Future Cash Flows

The following benefit payments (which reflect expected future service, as appropriate) are expected to be paid, and the following Medicare Part D subsidies are expected to be received, approximately as follows:

Fiscal Year	Pension Payments	Insurance Payments	Medicare Part D Receipts
2011	\$ 6,192	\$ 1,634	\$ 204
2012	6,912	1,693	203
2013	7,571	1,739	200
2014	8,216	1,778	194
2015	8,877	1,812	187
Years 2016 – 2020	54,185	8,733	781

Pension Plan Assets

The defined benefit pension plan's investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize the risk, the plan aims to minimize the variability in yearly returns. The plan also aims to diversify its holding among sectors, industries, and companies. No more than 5% of the plan's portfolio (excluding U.S. government securities and cash) may be held in an individual company's stocks or bonds with no more than twice the industry weighting listed in the most appropriate benchmark factor for that industry. The assets of the plan are measured at fair value in accordance with the policies discussed in Note 1. Refer to Note 12 for fair value measurement

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

9. Postretirement Benefits (continued)

information related to plan asset categories noted in the table below. The System's defined benefit pension plan allocations at September 30, 2010 and 2009, by asset category, are as follows:

Asset Category	2010	2009
Equity securities	53.1%	52.4%
Debt securities	39.0	15.1
Cash and accrued income	7.9	32.5
Total	100.0%	100.0%

10. Functional Expenses

The System provides tertiary level health care services to residents within its geographic location. The approximate proportion of program services and administrative expenses for the years ended September 30, 2010 and 2009 is as follows:

	2010	2009
Health care services	86%	85%
Administrative and general	14	15
	100%	100%

11. Commitments and Contingencies

Leases

The System is a party to various operating leases for property and equipment. Rental expense amounted to approximately \$11,016 and \$10,313 for the years ended September 30, 2010 and 2009, respectively. Minimum future rental commitments on all noncancelable operating leases with initial or remaining terms of more than one year are as follows: \$3,954 in 2,011; \$2,872 in 2012; \$1,987 in 2013; \$1,241 in 2014; \$815 in 2015 and \$2,666 thereafter.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

11. Commitments and Contingencies (continued)

Litigation

The System is involved in litigation arising in the ordinary course of business. In the opinion of management, the final resolution of these legal matters will not have a material effect on the System's consolidated financial position.

12. Fair Value Measurements

For assets and liabilities required to be measured at fair value, the System 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 System'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 System follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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

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

Level 3: Unobservable inputs are used when little or no market data is 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 System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Fair Value Measurements (continued)

Financial assets, including defined benefit retirement plan assets, carried at fair value as of September 30, 2010 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents				
Cash and cash equivalents	\$ 18,158	\$ –	\$ –	\$ 18,158
Unrestricted (short-term and long-term) investments				
Corporate and government bonds	\$ –	\$ 4,502	\$ –	\$ 4,502
Other assets limited as to use, including pension				
Cash and cash equivalents	\$ 14,843	\$ –	\$ –	\$ 14,843
Certificates of deposit and other	–	2,050	–	2,050
Money market funds	20,547	–	–	20,547
Common stock	63,012	–	–	63,012
Corporate and government bonds	–	41,469	–	41,469
Mutual funds	48,779	1,501	–	50,280
Total	<u>\$ 147,181</u>	<u>\$ 45,020</u>	<u>\$ –</u>	<u>\$ 192,201</u>
Other assets limited to use	\$ 51,710	\$ 28,164	\$ –	\$ 79,874
Defined benefit retirement plan	95,471	16,856	–	112,327
Total	<u>\$ 147,181</u>	<u>\$ 45,020</u>	<u>\$ –</u>	<u>\$ 192,201</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

12. Fair Value Measurements (continued)

Financial assets, excluding defined benefit retirement plan assets, carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash and cash equivalents	\$ 26,756	\$ –	\$ –	\$ 26,756
Long-term investments				
Corporate and government bonds	\$ –	\$ 1,499	\$ –	\$ 1,499
Other assets limited as to use				
Cash and cash equivalents	\$ 21,816	\$ –	\$ –	\$ 21,816
Certificates of deposit and other	–	2,017	–	2,017
Money market funds	12,790	–	–	12,790
Common stock	17,393	–	–	17,393
Corporate and government bonds	–	12,555	–	12,555
Mutual funds	6,012	–	–	6,012
	<u>\$ 58,011</u>	<u>\$ 14,572</u>	<u>\$ –</u>	<u>\$ 72,583</u>

The following is a description of the System's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

The fair value of CHEFA Series H bonds, determined using quoted market prices at the valuation date, was approximately \$16,560 and \$21,822 at September 30, 2010 and September 30, 2009, respectively. As the Series L and M bonds have variable interest rates, fair value is considered to be equal to carrying value.

Other Financial Information

Report of Independent Auditors on Other Financial Information

The Board of Trustees
Saint Raphael Healthcare System, Inc. and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating other financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. No provision for any adjustments that may result from the outcome of the going concern uncertainty as explained in our report on the consolidated financial statements has been made in the information.

Ernst & Young LLP

December 13, 2010

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

(In Thousands)

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
Assets									
Current assets:									
Cash and cash equivalent	\$ 12,376	\$ 2	\$ 206	\$ 4,863	\$ 547	\$ –	\$ 164	\$ –	\$ 18,158
Short-term investments	2,314	–	–	–	–	–	–	–	2,314
Receivables:									
Patient care, net of allowance for doubtful accounts of \$22,458	46,474	2,234	–	–	288	–	–	–	48,996
Due from third-party payers	9,565	–	–	–	–	–	–	–	9,565
Other receivables	2,682	–	–	1,857	233	–	–	–	4,772
Total receivables	58,721	2,234	–	1,857	521	–	–	–	63,333
Due from affiliates	13,312	–	–	–	39	–	1,129	(14,480)	–
Current portion of assets limited as to use	1,195	1	–	–	–	–	–	–	1,196
Inventories	7,914	69	–	–	–	–	–	–	7,983
Other current assets	431	1	–	–	63	–	–	–	495
Total current assets	96,263	2,307	206	6,720	1,170	–	1,293	(14,480)	93,479
Long-term investments	2,188	–	–	–	–	–	–	–	2,188
Assets limited as to use:									
Net funds held in escrow pursuant to tax-exempt bond agreements	7,470	107	–	–	–	–	–	–	7,577
Funds held in trust for estimated workers' compensation liabilities	7,413	–	–	–	–	–	–	–	7,413
Other investments	85,680	1,234	–	14,886	–	–	–	(20,940)	80,860
Less current portion	(1,195)	(1)	–	–	–	–	–	–	(1,196)
Total assets limited as to use, net of current portion	99,368	1,340	–	14,886	–	–	–	(20,940)	94,654
Property and equipment, net	94,202	5,711	–	–	831	–	10	–	100,754
Other long-term assets	4,001	160	–	5,793	8,111	–	–	–	18,065
Total assets	\$ 296,022	\$ 9,518	\$ 206	\$ 27,399	\$ 10,112	\$ –	\$ 1,303	\$ (35,420)	\$ 309,140

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2010

(In Thousands)

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 53,148	\$ 1,507	\$ —	\$ 47	\$ 668	\$ —	\$ 935	\$ —	\$ 56,305
Interest payable	373	13	—	—	—	—	—	—	386
Due to third-party payers	2,996	572	—	—	—	—	—	—	3,568
Due to affiliates	—	6,094	—	1,232	3,834	—	3,320	(14,480)	—
Current portion of postretirement benefit obligations	6,200	—	—	—	—	—	—	—	6,200
Current portion of long-term debt	5,022	—	—	—	—	—	—	—	5,022
Long-term debt classified as payable in one year	65,782	6,980	—	—	—	—	—	—	72,762
Total current liabilities	133,521	15,166	—	1,279	4,502	—	4,255	(14,480)	144,243
Estimated workers' compensation liabilities	6,429	—	—	—	—	—	—	—	6,429
Postretirement benefit obligations, net of current portion	108,026	—	—	—	—	—	—	—	108,026
Long-term debt, net of current portion and amounts classified as payable in one year	1,946	—	—	—	—	—	—	—	1,946
Other long-term liabilities	48,220	37	—	56	—	—	—	—	48,313
Total liabilities	298,142	15,203	—	1,335	4,502	—	4,255	(14,480)	308,957
Net assets:									
Unrestricted	(32,809)	(6,881)	206	32	5,610	—	(2,952)	—	(36,794)
Temporarily restricted specific purpose	17,620	831	—	11,671	—	—	—	(10,938)	19,184
Permanently restricted endowment	13,069	365	—	14,361	—	—	—	(10,002)	17,793
Total net assets	(2,120)	(5,685)	206	26,064	5,610	—	(2,952)	(20,940)	183
Total liabilities and net assets	\$ 296,022	\$ 9,518	\$ 206	\$ 27,399	\$ 10,112	\$ —	\$ 1,303	\$ (35,420)	\$ 309,140

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2009

(In Thousands)

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
Assets									
Current assets:									
Cash and cash equivalents	\$ 21,037	\$ 2	\$ 168	\$ 5,021	\$ 109	\$ 256	\$ 163	\$ -	\$ 26,756
Short-term investments	-	-	-	-	-	-	-	-	-
Receivables:									
Patient care, net of allowance for doubtful accounts of \$27,267	53,666	1,511	-	-	985	-	-	-	56,162
Due from third-party payers	3,545	-	-	-	-	-	-	-	3,545
Other receivables	2,113	-	-	3,098	114	-	-	-	5,325
Total receivables	59,324	1,511	-	3,098	1,099	-	-	-	65,032
Due from affiliates	8,130	-	-	-	56	69	707	(8,962)	-
Current portion of assets limited as to use	1,903	1	-	-	-	-	-	-	1,904
Inventories	7,867	70	-	-	-	-	-	-	7,937
Other current assets	371	-	-	-	98	-	8	-	477
Total current assets	98,632	1,584	168	8,119	1,362	325	878	(8,962)	102,106
Long-term investments	1,499	-	-	-	-	-	-	-	1,499
Assets limited as to use:									
Net funds held in escrow pursuant to tax-exempt bond agreements	8,179	107	-	-	-	-	-	-	8,286
Funds held in trust for estimated workers' compensation liabilities	7,328	-	-	-	-	-	-	-	7,328
Other investments	79,712	1,180	-	13,706	9	-	-	(21,038)	73,569
Less current portion	(1,903)	(1)	-	-	-	-	-	-	(1,904)
Total assets limited as to use, net of current portion	93,316	1,286	-	13,706	9	-	-	(21,038)	87,279
Property and equipment, net	100,117	6,216	-	-	897	-	20	-	107,250
Other long-term assets	3,823	171	-	4,885	6,910	-	567	(5)	16,351
Total assets	\$ 297,387	\$ 9,257	\$ 168	\$ 26,710	\$ 9,178	\$ 325	\$ 1,465	\$ (30,005)	\$ 314,485

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2009 (continued)

(In Thousands)

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 57,138	\$ 1,297	\$ –	\$ 32	\$ 1,163	\$ 56	\$ 2,423	\$ –	\$ 62,109
Interest payable	457	18	–	–	–	–	–	–	475
Due to third-party payers	1,494	572	–	–	–	–	–	–	2,066
Due to affiliates	69	4,607	–	636	2,141	–	1,509	(8,962)	–
Current portion of postretirement benefit obligations	11,000	–	–	–	–	–	–	–	11,000
Current portion of long-term debt	4,787	–	–	–	11	–	–	–	4,798
Long-term debt classified as payable in one year	69,578	6,979	–	–	–	–	–	–	76,557
Total current liabilities	144,523	13,473	–	668	3,315	56	3,932	(8,962)	157,005
Estimated workers' compensation liabilities	7,839	–	–	–	–	–	–	–	7,839
Postretirement benefit obligations, net of current portion	122,776	–	–	–	–	–	–	–	122,776
Long-term debt, net of current portion and amounts classified as payable in one year	3,187	–	–	–	36	–	–	–	3,223
Other long-term liabilities	43,209	44	–	67	–	–	210	–	43,530
Total liabilities	321,534	13,517	–	735	3,351	56	4,142	(8,962)	334,373
Net assets:									
Unrestricted	(52,531)	(5,395)	168	(25)	5,813	269	(2,677)	(5)	(54,383)
Temporarily restricted specific purpose	15,697	792	–	11,798	14	–	–	(11,131)	17,170
Permanently restricted endowment	12,687	343	–	14,202	–	–	–	(9,907)	17,325
Total net assets	(24,147)	(4,260)	168	25,975	5,827	269	(2,677)	(21,043)	(19,888)
Total liabilities and net assets	\$ 297,387	\$ 9,257	\$ 168	\$ 26,710	\$ 9,178	\$ 325	\$ 1,465	\$ (30,005)	\$ 314,485

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2010

(In Thousands)

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
Unrestricted revenues and other support:									
Net patient service revenue	\$ 471,037	\$ 11,804	\$ –	\$ –	\$ 5,318	\$ –	\$ –	\$ –	\$ 488,159
Other revenues, net	20,310	29	–	1,934	356	–	–	(1,934)	20,695
Net assets released from restrictions, used in operations	3,636	–	–	–	60	–	–	–	3,696
Total unrestricted revenues and other support	494,983	11,833	–	1,934	5,734	–	–	(1,934)	512,550
Expenses:									
Compensation, related fringe benefits, and fees	331,458	9,673	–	826	5,674	–	154	(650)	347,135
Supplies and other	121,769	2,441	–	231	656	–	111	(231)	124,977
Depreciation and amortization	14,607	553	–	–	86	–	9	–	15,255
Interest	2,902	219	–	–	2	–	–	–	3,123
Provision for uncollectible accounts	24,671	481	–	–	61	–	–	–	25,213
Total operating expenses	495,407	13,367	–	1,057	6,479	–	274	(881)	515,703
Operating income (loss)	(424)	(1,534)	–	877	(745)	–	(274)	(1,053)	(3,153)
Nonoperating income (loss)									
Other <i>(Note 1)</i>	234	1	38	–	1,643	–	–	(203)	1,713
Nonoperating income (loss), net	234	1	38	–	1,643	–	–	(203)	1,713
Net income (loss) before income on discontinued operations and change in unrealized (depreciation) appreciation of investments	(190)	(1,533)	38	877	898	–	(274)	(1,256)	(1,440)
Income on discontinued operations	–	–	–	–	200	–	–	–	200
Change in unrealized (depreciation) appreciation of investments	1,865	–	–	1,379	–	–	–	(1,269)	1,975
Net income (loss)	\$ 1,675	\$ (1,533)	\$ 38	\$ 2,256	\$ 1,098	\$ –	\$ (274)	\$ (2,525)	\$ 735

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Statement of Operations (continued)

Year Ended September 30, 2009

(In Thousands)

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
Unrestricted revenues and other support:									
Net patient service revenue	\$ 458,581	\$ 12,313	\$ -	\$ -	\$ 8,205	\$ -	\$ -	\$ -	\$ 479,099
Other revenues:									
Realized trust fund investment losses for capital preservation (Notes 1 and 8)	(1,743)	-	-	-	-	-	-	-	(1,743)
Realized captives' investment losses for capital preservation (Notes 1 and 8)	(5,979)	-	-	-	-	-	-	-	(5,979)
Other, net (Note 1)	20,447	23	-	2,106	292	-	-	(2,106)	20,762
Other revenues, net	12,725	23	-	2,106	292	-	-	(2,106)	13,040
Net assets released from restrictions, used in operations	3,913	-	-	10	48	-	-	-	3,971
Total unrestricted revenues and other support	475,219	12,336	-	2,116	8,545	-	-	(2,106)	496,110
Expenses:									
Compensation, related fringe benefits, and fees	321,739	9,152	-	931	7,975	-	2,424	(758)	341,463
Supplies and other	125,678	2,766	-	283	1,310	-	107	(283)	129,861
Depreciation and amortization	17,181	612	-	-	271	-	9	-	18,073
Interest	4,096	343	-	-	5	-	-	-	4,444
Provision for uncollectible accounts	20,633	357	-	-	100	-	-	-	21,090
Total operating expenses	489,327	13,230	-	1,214	9,661	-	2,540	(1,041)	514,931
Operating (loss) income	(14,108)	(894)	-	902	(1,116)	-	(2,540)	(1,065)	(18,821)
Nonoperating (loss) income:									
Realized investment losses for capital preservation (Note 1)	(1,208)	-	-	-	-	-	-	-	(1,208)
Other (Note 1)	455	-	(80)	-	994	-	2	(311)	1,060
Nonoperating (loss) income, net	(753)	-	(80)	-	994	-	2	(311)	(148)
Net (loss) income before loss on discontinued operations, change in unrealized (depreciation) appreciation of investments, and realized and unrealized loss on interest rate swap agreement	(14,861)	(894)	(80)	902	(122)	-	(2,538)	(1,376)	(18,969)
Loss on discontinued operations	-	-	-	-	(1,644)	-	-	-	(1,644)
Change in unrealized appreciation (depreciation) appreciation of investments	4,219	-	-	(785)	77	-	-	697	4,208
Realized and unrealized loss on interest rate swap agreement	(1,012)	(70)	-	-	-	-	-	-	(1,082)
Net (loss) income	\$ (11,654)	\$ (964)	\$ (80)	\$ 117	\$ (1,689)	\$ -	\$ (2,538)	\$ (679)	\$ (17,487)

Hospital of Saint Raphael and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

(In Thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 12,376	\$ -	\$ -	\$ -	\$ 12,376
Short-term investments	2,314	-	-	-	2,314
Receivables:					
Patient care, net of allowance for doubtful accounts of \$19,872	46,474	-	-	-	46,474
Due from third-party payers	9,565	-	-	-	9,565
Other receivables	2,682	-	-	-	2,682
Total receivables	58,721	-	-	-	58,721
Due from affiliates	13,312	-	-	-	13,312
Current portion of assets limited as to use					
Inventories	1,195	-	-	-	1,195
Other current assets	7,914	-	-	-	7,914
Total current assets	431	-	-	-	431
Long-term investments	96,263	-	-	-	96,263
Assets limited as to use:	2,188	-	-	-	2,188
Net funds held in escrow pursuant to tax-exempt bond agreements	7,470	-	-	-	7,470
Funds held for estimated workers' compensation liabilities	7,413	-	-	-	7,413
Other investments	42,094	34,396	17,060	(7,870)	85,680
Less current portion	(1,195)	-	-	-	(1,195)
Total assets limited as to use, net of current portion	55,782	34,396	17,060	(7,870)	99,368
Property and equipment, net	94,202	-	-	-	94,202
Other long-term assets	4,001	-	-	-	4,001
Total assets	\$ 252,436	\$ 34,396	\$ 17,060	\$ (7,870)	\$ 296,022

Hospital of Saint Raphael and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2010

(In Thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 53,148	\$ —	\$ —	\$ —	\$ 53,148
Interest payable	373	—	—	—	373
Due to third-party payers	2,996	—	—	—	2,996
Due to affiliates	—	—	—	—	—
Current portion of postretirement benefit obligations	6,200	—	—	—	6,200
Current portion of long-term debt	5,022	—	—	—	5,022
Long-term debt classified as payable in one year	65,782	—	—	—	65,782
Total current liabilities	133,521	—	—	—	133,521
Estimated workers' compensation liabilities	6,429	—	—	—	6,429
Postretirement benefit obligations, net of current portion	108,026	—	—	—	108,026
Long-term debt, net of current portion and amounts classified as payable in one year	1,946	—	—	—	1,946
Other long-term liabilities	12,685	29,033	6,502	—	48,220
Total liabilities	262,607	29,033	6,502	—	298,142
Net assets:					
Unrestricted	(40,860)	5,363	10,558	(7,870)	(32,809)
Temporarily restricted specific purpose	17,620	—	—	—	17,620
Permanently restricted endowment	13,069	—	—	—	13,069
Total net assets	(10,171)	5,363	10,558	(7,870)	(2,120)
Total liabilities and net assets	\$ 252,436	\$ 34,396	\$ 17,060	\$ (7,870)	\$ 296,022

Hospital of Saint Raphael and Subsidiaries

Consolidating Balance Sheet

September 30, 2009

(In Thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 21,037	\$ -	\$ -	\$ -	\$ 21,037
Receivables:					
Patient care, net of allowance for doubtful accounts of \$24,690	53,666	-	-	-	53,666
Due from third-party payers	3,545	-	-	-	3,545
Other receivables	2,113	-	-	-	2,113
Total receivables	59,324	-	-	-	59,324
Due from affiliates	8,130	-	-	-	8,130
Current portion of assets limited as to use					
Inventories	1,903	-	-	-	1,903
Other current assets	7,867	-	-	-	7,867
Total current assets	371	-	-	-	371
Long-term investments	98,632	-	-	-	98,632
Assets limited as to use:	1,499	-	-	-	1,499
Net funds held in escrow pursuant to tax-exempt bond agreements	8,179	-	-	-	8,179
Funds held in trust for estimated workers' compensation liabilities	7,328	-	-	-	7,328
Other investments	41,607	30,572	15,403	(7,870)	79,712
Less current portion	(1,903)	-	-	-	(1,903)
Total assets limited as to use, net of current portion	55,211	30,572	15,403	(7,870)	93,316
Property and equipment, net	100,117	-	-	-	100,117
Other long-term assets	3,823	-	-	-	3,823
Total assets	\$ 259,282	\$ 30,572	\$ 15,403	\$ (7,870)	\$ 297,387

Hospital of Saint Raphael and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2009

(In Thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 57,138	\$ —	\$ —	\$ —	\$ 57,138
Interest payable	457	—	—	—	457
Due to third-party payers	1,494	—	—	—	1,494
Due to affiliates	69	—	—	—	69
Current portion of postretirement benefit obligations	11,000	—	—	—	11,000
Current portion of long-term debt	4,787	—	—	—	4,787
Long-term debt classified as payable in one year	69,578	—	—	—	69,578
Total current liabilities	144,523	—	—	—	144,523
Estimated workers' compensation liabilities	7,839	—	—	—	7,839
Postretirement benefit obligations, net of current portion	122,776	—	—	—	122,776
Long-term debt, net of current portion and amounts classified as payable in one year	3,187	—	—	—	3,187
Other long-term liabilities	11,687	25,930	5,592	—	43,209
Total liabilities	290,012	25,930	5,592	—	321,534
Net assets:					
Unrestricted	(59,114)	4,642	9,811	(7,870)	(52,531)
Temporarily restricted specific purpose	15,697	—	—	—	15,697
Permanently restricted endowment	12,687	—	—	—	12,687
Total net assets	(30,730)	4,642	9,811	(7,870)	(24,147)
Total liabilities and net assets	\$ 259,282	\$ 30,572	\$ 15,403	\$ (7,870)	\$ 297,387

Hospital of Saint Raphael and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2010

(In Thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
Unrestricted revenues and other support:					
Net patient service revenue	\$ 471,037	\$ –	\$ –	\$ –	\$ 471,037
Other revenues:					
Other, net	16,659	7,523	1,296	(5,168)	20,310
Other revenues, net	16,659	7,523	1,296	(5,168)	20,310
Net assets released from restrictions, used in operations	3,636	–	–	–	3,636
Total unrestricted revenues and other support	491,332	7,523	1,296	(5,168)	494,983
Expenses:					
Compensation, related fringe benefits, and fees	331,458	–	–	–	331,458
Supplies and other	117,832	7,831	1,271	(5,165)	121,769
Depreciation and amortization	14,607	–	–	–	14,607
Interest	2,905	–	–	(3)	2,902
Provision for uncollectible accounts	24,671	–	–	–	24,671
Total operating expenses	491,473	7,831	1,271	(5,168)	495,407
Operating (loss) income	(141)	(308)	25	–	(424)
Nonoperating income :					
Other (Note 1)	234	–	–	–	234
Nonoperating income, net	234	–	–	–	234
Net income (loss) before change in unrealized appreciation of investments	93	(308)	25	–	(190)
Change in unrealized appreciation of investments	116	1,028	721	–	1,865
Net income	\$ 209	\$ 720	\$ 746	\$ –	\$ 1,675

Hospital of Saint Raphael and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2009

(In Thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
Unrestricted revenues and other support:					
Net patient service revenue	\$ 458,581	\$ -	\$ -	\$ -	\$ 458,581
Other revenues:					
Realized trust fund investment losses for capital preservation <i>(Notes 1 and 8)</i>	(1,743)	-	-	-	(1,743)
Realized captives' investment losses for capital preservation <i>(Notes 1 and 8)</i>	-	(2,909)	(3,070)	-	(5,979)
Other, net	16,964	6,454	1,037	(4,008)	20,447
Other revenues, net	15,221	3,545	(2,033)	(4,008)	12,725
Net assets released from restrictions, used in operations	3,913	-	-	-	3,913
Total unrestricted revenues and other support	477,715	3,545	(2,033)	(4,008)	475,219
Expenses:					
Compensation, related fringe benefits, and fees	321,739	-	-	-	321,739
Supplies and other	120,203	8,188	1,207	(3,920)	125,678
Depreciation and amortization	17,181	-	-	-	17,181
Interest	4,184	-	-	(88)	4,096
Provision for uncollectible accounts	20,633	-	-	-	20,633
Total operating expenses	483,940	8,188	1,207	(4,008)	489,327
Operating loss	(6,225)	(4,643)	(3,240)	-	(14,108)
Nonoperating (loss) income:					
Realized investment losses for capital preservation <i>(Note 1 and 4)</i>	(1,208)	-	-	-	(1,208)
Other <i>(Note 1)</i>	455	-	-	-	455
Nonoperating (loss) income, net	(753)	-	-	-	(753)
Net loss before change in unrealized (depreciation) of investments, and realized and unrealized loss on interest rate swap agreement	(6,978)	(4,643)	(3,240)	-	(14,861)
Change in unrealized appreciation (depreciation) of investments	1,786	1,819	614	-	4,219
Realized and unrealized loss on interest rate swap agreement	(1,012)	-	-	-	(1,012)
Net loss	\$ (6,204)	\$ (2,824)	\$ (2,626)	\$ -	\$ (11,654)