



AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Saint Raphael Healthcare System, Inc. and Subsidiaries
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Saint Raphael Healthcare System, Inc. and Subsidiaries

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2011 and 2010

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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, 2011 and 2010, 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 5.8% and 5.5% as of September 30, 2011 and 2010, 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, 2011 and 2010, 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, prior to 2011, 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 22, 2011

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2011	2010
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,763	\$ 18,158
Short-term investments	1,157	2,314
Receivables:		
Patient care, net of allowance for doubtful accounts of \$29,065 in 2011 and \$22,458 in 2010	45,453	48,996
Due from third-party payers	6,665	4,952
Other receivables	3,483	4,772
Total receivables	<u>55,601</u>	<u>58,720</u>
Current portion of assets limited as to use	1,206	1,196
Inventories	7,466	7,983
Other current assets	241	495
Total current assets	<u>99,434</u>	<u>88,866</u>
Long-term investments	2,204	2,188
Assets limited as to use:		
Net funds held in escrow pursuant to tax-exempt bond agreements	7,585	7,577
Funds held in trust for estimated workers' compensation liabilities	7,504	7,413
Other investments	81,860	80,860
Less current portion	<u>(1,206)</u>	<u>(1,196)</u>
Total assets limited as to use, net of current portion	95,743	94,654
Property and equipment, net	96,935	100,754
Other long-term assets, including amounts due from third-party payers	21,830	22,678
Total assets	<u><u>\$ 316,146</u></u>	<u><u>\$ 309,140</u></u>

	September 30	
	2011	2010
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 58,534	\$ 56,305
Interest payable	314	386
Due to third-party payers	4,864	1,937
Current portion of postretirement benefit obligations	1,700	6,200
Current portion of long-term debt	5,261	5,022
Long-term debt classified as payable in one year <i>(Notes 1 and 6)</i>	68,776	72,762
Total current liabilities	139,449	142,612
Estimated workers' compensation liabilities	6,981	6,429
Postretirement benefit obligations, net of current portion	140,965	108,026
Long-term debt, net of current portion and amounts classified as payable in one year <i>(Notes 1 and 6)</i>	661	1,946
Other long-term liabilities, including amounts due to third-party payers	53,010	49,944
Total liabilities	341,066	308,957
Net assets:		
Unrestricted	(61,657)	(36,794)
Temporarily restricted	20,776	19,184
Permanently restricted	15,961	17,793
	(24,920)	183
Total liabilities and net assets	\$ 316,146	\$ 309,140

See accompanying notes.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended September 30	
	2011	2010
	<i>(In Thousands)</i>	
Unrestricted revenues, gains, and other support:		
Net patient service revenue	\$ 492,337	\$ 488,159
Other revenues, net	21,109	20,695
Net assets released from restrictions, used in operations	5,556	3,696
Total unrestricted revenues and other support	<u>519,002</u>	<u>512,550</u>
Expenses:		
Compensation, related fringe benefits, and fees	346,926	347,135
Supplies and other non-salary costs	131,821	124,977
Depreciation and amortization	14,006	15,255
Interest	2,704	3,123
Provision for uncollectible accounts	23,430	25,213
Total operating expenses	<u>518,887</u>	<u>515,703</u>
Operating income (loss)	115	(3,153)
Nonoperating income, net	<u>654</u>	<u>1,713</u>
Net income (loss) before income on discontinued operations and change in unrealized gains and losses on investments	769	(1,440)
Income on discontinued operations	-	200
Change in unrealized gains and losses on investments	148	1,975
Net income	<u>\$ 917</u>	<u>\$ 735</u>

See accompanying notes.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2011 and 2010

	Total	Unrestricted	Temporarily Restricted Specific Purpose	Permanently Restricted Endowment
	<i>(In Thousands)</i>			
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 unrealized gains and losses on 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
Net income	917	917	-	-
Net assets released from restrictions for capital purposes	-	966	(966)	-
Change in unrealized gains and losses on investments	832	-	451	381
Restricted gifts, grants, and bequests	5,984	-	5,963	21
Restricted investment (loss) income	(72)	-	88	(160)
Net assets released from restrictions, used in operations	(5,556)	-	(5,556)	-
Change in postretirement benefit plans' liability to be recognized in future periods	(27,208)	(27,208)	-	-
Transfer of net assets	-	462	1,612	(2,074)
Change in net assets	(25,103)	(24,863)	1,592	(1,832)
Balances, September 30, 2011	\$ (24,920)	\$ (61,657)	\$ 20,776	\$ 15,961

See accompanying notes.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended	
	September 30	
	2011	2010
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Change in net assets	\$ (25,103)	\$ 20,071
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	14,006	15,255
Change in unrealized gains and losses on investments	(980)	(3,564)
Restricted gifts, grants, and bequests	(5,984)	(4,580)
Restricted investment loss (income)	72	(159)
Postretirement benefit plan curtailment gain	-	(40,995)
Effect of change in accounting for postretirement benefit plans	-	-
Change in postretirement benefit plans' liability to be recognized in future periods	27,208	24,291
Nonoperating income, net	(654)	(1,713)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Patient care receivables	3,543	7,166
Other receivables	(424)	(2,607)
Other assets	1,619	(4,638)
Increase (decrease) in:		
Accounts payable and other accruals	5,084	(3,956)
Estimated workers' compensation liabilities	552	(1,410)
Postretirement benefit obligations	1,231	(2,846)
Other long-term liabilities	3,066	4,348
Net cash provided by operating activities	<u>23,236</u>	<u>4,663</u>
Cash flows from investing activities		
Decrease (increase) in short-term investments	1,157	(2,305)
Decrease in assets limited as to use, net	(119)	(3,135)
Nonoperating income, net	654	1,713
Restricted investment (loss) income	(72)	159
Increase in long-term investments	(16)	(680)
Capital expenditures, net	(10,187)	(8,759)
Net cash used in investing activities	<u>(8,583)</u>	<u>(13,007)</u>
Cash flows from financing activities		
Restricted gifts, grants, and bequests	5,984	4,580
Repayment of capital lease	-	(2)
Principal payments of long-term debt	(5,032)	(4,832)
Net cash provided by (used in) financing activities	<u>952</u>	<u>(254)</u>
Net increase (decrease) in cash and cash equivalents	<u>15,605</u>	<u>(8,598)</u>
Cash and cash equivalents at beginning of year	<u>18,158</u>	<u>26,756</u>
Cash and cash equivalents at end of year	<u>\$ 33,763</u>	<u>\$ 18,158</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 2,776</u>	<u>\$ 3,212</u>

See accompanying notes.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2011
(Dollars 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 Raphael Healthcare System Affiliated Physicians, Inc. (Affiliated Physicians), a medical foundation; Saint Regis Health Center, Inc., d/b/a Sister Anne Virginie Grimes Health Center (the Center), a tax-exempt, skilled nursing facility; and DePaul Health Services Corporation (DePaul), a tax-exempt holding company. All material intercompany transactions have been eliminated in consolidation.

During fiscal 2011, the System began to operationalize its new medical foundation, Affiliated Physicians, a Connecticut non-stock corporation. During fiscal 2010, Xavier (inactive for several years) was dissolved and a home care subsidiary of DePaul was sold; the impact of these events is not material to the consolidated financial statements.

Potential Affiliation With Yale-New Haven Hospital

On September 28, 2011, the System and Yale-New Haven Hospital (a 966-bed not-for-profit hospital located in New Haven, Connecticut (YNHH), serving as the primary teaching hospital for the Yale University School of Medicine) announced the signing of a definitive agreement (dated September 26, 2011) for YNHH and its parent company (Yale-New Haven Health Services Corporation) to purchase a majority of the assets of the consolidated Hospital and the Center, the restricted assets of the Foundation, and certain assets of DePaul. This agreement is contingent upon regulatory review by appropriate state and federal agencies. During this review period, both organizations continue to operate independently.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Significant Accounting Policies (continued)

Operational Uncertainties

As of September 30, 2011, the System 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.

Financial performance reflects an operating gain of \$115 for fiscal 2011 and an operating loss of \$3,153 for fiscal 2010. At September 30, 2011, the System's unrestricted net asset deficiency increased to approximately \$61.7 million from approximately \$36.8 million as of September 30, 2010. This increase is primarily related to the approximately \$27.2 million change in postretirement benefit plans' liability. The cumulative net asset reduction due to the change in the postretirement benefit plans' liability is approximately \$95.9 million at September 30, 2011 (see Note 9, Postretirement Benefits).

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.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Significant Accounting Policies (continued)

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.

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). During fiscal 2010, the finalization of the outstanding matters resulted in the reversal of \$0.2 million of the prior year provision.

Net Income and Changes in Net Assets

The performance indicator is net income, which for fiscal 2011 includes all changes in unrestricted net assets other than the change in postretirement benefit plans' liability to be recognized in future periods, net assets released from restrictions for capital purposes, and reclassifications between funds. For fiscal 2010, the postretirement benefit plan curtailment gain 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. Affiliated Physicians has filed for exemption from federal income tax, with the application pending with the Internal Revenue Service.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Significant Accounting Policies (continued)

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.

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 4% to 5% that was applied to estimated future cash collections as of September 30, 2011 and 2010. Net pledges receivable, included in other receivables and other long-term assets, including amounts due from third-party payers, in the accompanying consolidated balance sheets, are due as follows:

	<u>2011</u>	<u>2010</u>
Current	\$ 1,010	\$ 613
Due in one to five years	420	1,755
Subtotal	<u>1,430</u>	<u>2,368</u>
Less: reserve for uncollectible pledges	(254)	(482)
Less: reserve for net present value discount	(72)	(31)
	<u>\$ 1,104</u>	<u>\$ 1,855</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Significant Accounting Policies (continued)

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 half-year depreciation generally recorded in the year of acquisition and disposition. The American Hospital Association recommended lives are primarily used and provide for lives of 25 to 50 years for buildings and 3 to 20 years for building fixtures and equipment.

Investments

The System's investments and assets limited as to use reported in the accompanying consolidated balance sheets are a trading portfolio, with unrealized gains and losses on unrestricted investments included in net income.

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 gains and losses on investments are included in net income, 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.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Significant Accounting Policies (continued)

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.

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, such as: estimated uncollectibles for patient receivables; estimated receivables and payables to and from third-party payers; and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Management believes the amounts recorded based on estimates and assumptions are reasonable and any differences between estimates and actual should not have a material effect on the System's financial position.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the amounts reported for fiscal 2010 to conform the presentation with the 2011 presentation. These reclassifications had no effect on total net assets.

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, 2011. The System evaluated subsequent events through December 22, 2011, 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 August 2010, the Financial Accounting Standards Board (FASB) issued amended guidance relating to measuring charity care for disclosures. The amended guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The System will be required to adopt the disclosures required by the amended guidance for periods beginning after December 15, 2010.

In June 2011, the FASB issued amended guidance related to the presentation and disclosure of patient service revenue, provision for uncollectible accounts, and the allowance for doubtful accounts for certain health care entities. Under the new guidance, certain health care entities will be required to reclassify the provision for uncollectible accounts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Separate disclosure regarding policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts, must also be disclosed. The System will be required to adopt the presentation and disclosures required by the amended guidance for periods beginning after December 15, 2011.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Net Patient Service Revenue

Revenues from the Medicare and Medicaid programs accounted for 45.8% and 12.3%, respectively, of the System's net patient service revenue for the year ended September 30, 2011 and 46.6% and 9.5%, respectively, for the year ended September 30, 2010. 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 increased the System's net patient service revenues in fiscal 2011 by approximately \$1,452 and decreased the System's net patient service revenues in fiscal 2010 by approximately \$359.

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)

(Dollars in Thousands)

2. Net Patient Service Revenue (continued)

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer arrangements. The approximate mix of patient care receivables at September 30, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Medicare	38%	36%
Medicaid	12	13
Blue Cross	13	13
Commercial and other	31	30
Self-pay	6	8
Total	<u>100%</u>	<u>100%</u>

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

	Year Ended September 30	
	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 1,368,811	\$ 1,274,386
Deductions:		
Allowances	(885,301)	(799,625)
Charity care (at charges)	(5,553)	(3,724)
	<u>(890,854)</u>	<u>(803,349)</u>
Net patient service revenue	<u>\$ 477,957</u>	<u>\$ 471,037</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)

(Dollars in Thousands)

3. Uncompensated Care and Community Benefit Expense (continued)

The System considers care provided for which no payment was received from patients 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, 2011 and 2010, uncompensated care amounted to approximately \$29,214 and \$30,604, 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, 2011 and 2010, free care funds provided to patients qualifying for these assistance programs at customary charges were approximately \$3 and \$36, 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, 2011 and 2010, financial assistance provided at customary charges was approximately \$5,781 and \$5,355, 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, 2011 and 2010, bad debt expense was approximately \$23,430 and \$25,213, respectively.

Annually, the System accrues for the potential losses related to its uncompensated care. At September 30, 2011 and 2010, 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 \$29,065 and \$22,458, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars 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 *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, 2011 and 2010, primarily consist of government and corporate bonds. Fair value and cost information for these investments at September 30, 2011 and 2010, is summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized (Depreciation) Appreciation</u>
2011			
Corporate and government bonds	<u>\$ 3,361</u>	<u>\$ 3,399</u>	<u>\$ (38)</u>
2010			
Corporate and government bonds	<u>\$ 4,502</u>	<u>\$ 4,484</u>	<u>\$ 18</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars 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 investments of the System at September 30, 2011 and 2010, are summarized as follows:

	Fair Value	Cost	Net Unrealized Appreciation (Depreciation)
2011			
Cash	\$ 7,580	\$ 7,580	\$ —
Certificates of deposit	1,369	1,369	—
Money market mutual funds	16,281	16,281	—
Fixed income mutual funds	33,788	33,070	718
Equity mutual funds	20,596	22,012	(1,416)
Other	1,260	1,260	—
	\$ 80,874	\$ 81,572	\$ (698)
2010			
Cash	\$ 8,819	\$ 8,819	\$ —
Certificates of deposit	1,365	1,365	—
Money market mutual funds	17,705	17,705	—
Corporate and government bonds	17,357	16,461	896
Fixed income mutual funds	13,885	13,290	595
Common stock	11,412	12,664	(1,252)
Equity mutual funds	8,647	10,309	(1,662)
Other	684	684	—
	\$ 79,874	\$ 81,297	\$ (1,423)

Property held for investment (at amortized cost) of \$986 is also included in other assets limited as to use at September 30, 2011 and 2010.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Investments (continued)

Unrestricted income from the System's investments is included as nonoperating income, net in the accompanying consolidated statements of operations. The components of nonoperating income for September 30, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Hospital:		
Income from assets limited as to use and other unrestricted funds	\$ 98	\$ 80
Unrestricted income from trust and endowment funds	207	154
Other subsidiaries' nonpatient care operations	349	1,479
Nonoperating income, net	<u>\$ 654</u>	<u>\$ 1,713</u>

Funds held for estimated workers' compensation liabilities at September 30, 2011 and 2010, are summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized (Depreciation) Appreciation</u>
2011			
Money market funds	\$ 4,942	\$ 4,942	\$ -
Corporate and government bonds	2,562	2,573	(11)
	<u>\$ 7,504</u>	<u>\$ 7,515</u>	<u>\$ (11)</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>

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 was \$272 and \$159 for fiscal 2011 and 2010, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Property and Equipment

The components of property and equipment at September 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 3,497	\$ 3,497
Land improvements	3,330	3,377
Buildings and improvements	192,519	190,446
Fixed equipment	46,990	46,930
Movable equipment	212,846	214,360
Construction in progress	2,089	396
	<u>461,271</u>	<u>459,006</u>
Less accumulated depreciation	<u>(364,336)</u>	<u>(358,252)</u>
	<u>\$ 96,935</u>	<u>\$ 100,754</u>

6. Long-Term Debt

The System's long-term debt consists of the following at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Tax-Exempt Bonds, Series H	\$ 12,790	\$ 16,570
Tax-Exempt Bonds, Series L	29,525	29,525
Tax-Exempt Bonds, Series M	30,420	30,420
Easyloan Master Financing Agreement	1,947	3,187
Original issue premium, net	16	28
	<u>74,698</u>	<u>79,730</u>
Less current portion	(5,261)	(5,022)
Less amounts classified as payable in one year	<u>(68,776)</u>	<u>(72,762)</u>
	<u>\$ 661</u>	<u>\$ 1,946</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt (continued)

As discussed below, the Obligated Group (defined below) 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, 2011 and 2010.

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: \$4,035 in 2012; \$4,235 in 2013; \$4,520 in 2014; \$4,930 in 2015; \$5,160 in 2016; and \$49,855 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 2012), 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.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars 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, 2011, the Obligated Group is not in compliance with the financial covenants to maintain the following: 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.

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 0.58% to 1.17% during fiscal 2011, and ranged from 0.32% to 0.48% during fiscal 2010.

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 0.13% to 0.45% during fiscal 2011 and from 0.21% to 0.39% during fiscal 2010.

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 \$6,378 and \$6,381 at September 30, 2011 and 2010, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt (continued)

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: \$1,286 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.

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

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Restricted Net Assets (continued)

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 \$8 as of September 30, 2011 and 2010.

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.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Restricted Net Assets (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The System has a policy of appropriating for distribution each year between 3% and 6% of its endowment fund's average fair value over the prior three years (through the calendar year-end immediately preceding the beginning of the fiscal year in which the distribution is planned), with an average annual target of 4%. 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% 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.

Endowment Net Asset Composition by Type of Fund as of September 30, 2011

All endowment net assets are donor-restricted endowment funds.

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ (8)	\$ 3,760	\$ 17,793	\$ 21,545
Total investment return	-	589	221	810
Contributions	-	-	21	21
Appropriation of endowment assets for expenditure	-	(1,781)	-	(1,781)
Reclassifications	-	2,074	(2,074)	-
Endowment net assets, ending balance	\$ (8)	\$ 4,642	\$ 15,961	\$ 20,595

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Restricted Net Assets (continued)

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>

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30, 2011 and 2010:

	2011	2010
Cancer care	32%	33%
Health education	13	14
Equipment purchases	13	11
Indigent care	6	9
All other	36	33
	<u>100%</u>	<u>100%</u>

8. Self-Insurance Programs

Malpractice and General Liability

During fiscal 2011 and 2010, 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 \$2,559 and \$2,760 as of September 30, 2011 and 2010, respectively, has been retained at the Hospital.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Self-Insurance Programs (continued)

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, 2011 and 2010, 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, 2011 and 2010, 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.

Assets held by Lukan and Caritas were \$53,012 and \$51,456 as of September 30, 2011 and 2010, respectively, and are reflected as other assets whose use is limited in the accompanying consolidated balance sheets. Liabilities recorded by Lukan and Caritas were \$37,468 and \$35,535 as of September 30, 2011 and 2010, respectively, and are reflected as other long-term liabilities, including amounts due to third-party payors 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, 2011 and 2010; 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.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Self-Insurance Programs (continued)

Activity in the estimated liability for outstanding losses and loss-related expenses at Lukan and Caritas for the years ended September 30, 2011 and 2010, is summarized as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 34,907	\$ 31,403
Losses incurred related to:		
Current year	10,114	10,852
Prior years	(5,187)	(3,695)
Total incurred	<u>4,927</u>	<u>7,157</u>
Paid losses related to:		
Current year	(226)	(99)
Prior years	(3,297)	(3,554)
Total paid	<u>(3,523)</u>	<u>(3,653)</u>
Balance, end of year	<u>\$ 36,311</u>	<u>\$ 34,907</u>

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 \$5,187 and \$3,695 during fiscal 2011 and 2010, respectively.

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 workers' compensation claims after April 17, 2009. The Hospital has obtained commercial insurance coverage for such claims arising after this date. The workers' compensation trust fund will continue to cover the costs of claims arising through the date of the change.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Self-Insurance Programs (continued)

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, 2011, the Hospital provided \$4,900 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 3% and 4% was used in the determination of this liability for fiscal 2011 and 2010, respectively. Trust fund deposits at September 30, 2011 and 2010, are invested by the trustee in marketable securities (see Note 4, Investments).

Activity in the workers' compensation asset and self-insurance liability accounts for the years ended September 30, 2011 and 2010, was as follows:

	2011		2010	
	Asset	Liability	Asset	Liability
Trust fund balance, beginning of year	\$ 3,163	\$ 6,429	\$ 7,328	\$ 7,839
Current year expense	–	1,935	–	658
Hospital contribution	1,794	–	1,897	–
Investment gains and losses, net	272	–	159	–
Change in unrealized gains and losses on investments	(172)	–	97	–
Reinsurance recoverable	–	420	–	–
Performance bond collateral	(650)	–	(4,250)	–
Settlement of claims	(1,045)	(1,045)	(1,476)	(1,476)
Fund expenses	(758)	(758)	(592)	(592)
Trust fund balance, end of year	<u>2,604</u>	<u>6,981</u>	<u>3,163</u>	<u>6,429</u>
Performance bond collateral	4,900	–	4,250	–
Total assets and liabilities	<u>\$ 7,504</u>	<u>\$ 6,981</u>	<u>\$ 7,413</u>	<u>\$ 6,429</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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 \$1,727 and \$5,141 for fiscal 2011 and 2010, respectively.

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. It is possible 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 2011 and 2010, 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% of compensation as defined. During fiscal 2010, the System's participation in the plan was suspended for contributions made after April 12, 2010. Savings plan expense was approximately \$126 and \$2,015 for fiscal 2011 and 2010, 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 for fiscal 2010.

Certain skilled maintenance employees are covered under a multiemployer union pension plan. Union retirement plan expense was approximately \$427 and \$344 for fiscal 2011 and 2010, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Postretirement Benefits (continued)

The total pension expense for the years ended September 30, 2011 and 2010, was approximately \$2,281 and \$8,054, respectively.

Restoration of currently suspended pension benefits for System employees will be dependent upon sustained improvements in operating results for fiscal 2012 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.

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 8% in 2011, reaching an ultimate trend rate of 5% in 2016 and later. If the health care cost trend rate was increased by 1%, the periodic expense would be increased by \$49. If the health care cost trend rate was decreased by 1%, the periodic expense would be decreased by \$43.

Postretirement Benefit Costs

Included in unrestricted net assets at September 30, 2011 and 2010, are the following amounts that have not yet been recognized in net periodic benefit cost:

	2011		2010	
	Pension	Insurance	Pension	Insurance
Unrecognized actuarial loss	\$ (91,738)	\$ (4,190)	\$ (65,649)	\$ (3,071)

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Postretirement Benefits (continued)

The unrecognized actuarial loss included in unrestricted net assets at September 30, 2011, and expected to be recognized in net periodic benefit costs during the year ending September 30, 2012, are \$1,748 and \$183 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, 2011 and 2010:

	2011		2010	
	Pension	Insurance	Pension	Insurance
Change in benefit obligations:				
Benefit obligations, at beginning of year	\$ 206,122	\$ 20,431	\$ 213,390	\$ 18,702
Service cost	–	43	1,620	54
Interest cost	10,474	1,018	11,169	1,014
Actuarial loss	18,252	1,251	25,824	2,265
Plan curtailment	–	–	(40,995)	–
Benefits paid	(5,220)	(1,858)	(4,886)	(1,808)
Federal subsidy on benefits paid	–	204	–	204
Benefit obligations, at end of year	229,628	21,089	206,122	20,431
Change in plan assets at fair value:				
Plan assets, beginning of year	112,327	–	98,316	–
Actual return on plan assets	945	1,654	11,446	–
Employer contribution	–	(1,858)	7,451	1,604
Benefits paid	(5,220)	204	(4,886)	(1,808)
Federal subsidy on benefits paid	–	–	–	204
Plan assets, end of year	108,052	–	112,327	–
Funded status of plan	\$ (121,576)	\$ (21,089)	\$ (93,795)	\$ (20,431)

The accumulated benefit obligation at September 30, 2011 and 2010, was \$229,628 and \$206,122, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars 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, 2011 and 2010:

	2011		2010	
	Pension	Insurance	Pension	Insurance
Discount rate for projected benefit obligation	4.60%	4.60%	5.15%	5.15%
Discount rate for net periodic benefit cost	5.15%	5.15%	5.60%	5.60%
Long-term rate of return on plan assets	7.75%	N/A	7.75%	N/A
Average rate of increase in compensation	N/A	N/A	N/A	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 2011 and 2010 included the following components:

	2011		2010	
	Pension	Insurance	Pension	Insurance
Service cost – benefits earned during the period	\$ –	\$ 43	\$ 1,620	\$ 54
Interest cost on projected benefit obligation	10,474	1,018	11,169	1,014
Expected return on plan assets	(9,744)	–	(9,697)	–
Amortization of unrecognized net loss	997	97	1,747	–
Plan curtailment	–	–	277	–
Amortization of prior service cost	–	–	25	–
Net periodic benefit cost	<u>\$ 1,727</u>	<u>\$ 1,158</u>	<u>\$ 5,141</u>	<u>\$ 1,068</u>

Contributions

The System expects to make no contributions to its defined benefit pension plan and to contribute approximately \$1,700 to its medical and life insurance plan in fiscal 2012.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

9. Postretirement Benefits (continued)

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
2012	\$ 7,084	\$ 1,693	\$ 201
2013	7,921	1,739	200
2014	8,648	1,778	194
2015	9,364	1,813	187
2016	10,028	1,826	178
Years 2011–2021	58,927	8,492	723

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 information related to plan asset categories noted in the table below. The System's defined benefit pension plan allocations at September 30, 2011 and 2010, by asset category, are as follows:

Asset Category	2011	2010
Equity securities	55.8%	53.1%
Debt securities	43.7	39.0
Cash and accrued income	0.5	7.9
Total	100.0%	100.0%

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

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, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Health care services	86%	86%
Administrative and general	14	14
	<u>100%</u>	<u>100%</u>

11. Commitments and Contingencies

Leases

The System is a party to various operating leases for property and equipment. Rental expense amounted to approximately \$11,581 and \$11,016 for the years ended September 30, 2011 and 2010, respectively. Minimum future rental commitments on all noncancelable operating leases with initial or remaining terms of more than one year are as follows: \$3,810 in 2012; \$2,792 in 2013; \$1,983 in 2014; \$871 in 2015; \$468 in 2016; and \$2,199 thereafter.

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.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Fair Value Measurements (continued)

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.

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 \$12,689 and \$16,560 at September 30, 2011 and 2010, respectively. As the Series L and M bonds have variable interest rates, fair value is considered to be equal to carrying value.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Fair Value Measurements (continued)

Financial assets, including defined benefit retirement plan assets, carried at fair value as of September 30, 2011, are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents				
Cash and cash equivalents	\$ 33,763	\$ –	\$ –	\$ 33,763
Unrestricted (short-term and long-term) investments				
Corporate and government bonds (c)	\$ –	\$ 3,361	\$ –	\$ 3,361
Other assets limited as to use, including pension				
Cash	\$ 8,452	\$ –	\$ –	\$ 8,452
Certificates of deposits (a)	1,369	–	–	1,369
Money market mutual funds (b)	16,281	–	–	16,281
Fixed income mutual funds (d)	81,007	–	–	81,007
Equity mutual funds (f)	79,490	1,367	–	80,857
Other (g)	960	–	–	960
	<u>\$ 187,559</u>	<u>\$ 1,367</u>	<u>\$ –</u>	<u>\$ 188,926</u>
Other assets limited to use	\$ 80,874	\$ –	\$ –	\$ 80,874
Defined benefit retirement plan	106,685	1,367	–	108,052
Total	<u>\$ 187,559</u>	<u>\$ 1,367</u>	<u>\$ –</u>	<u>\$ 188,926</u>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars 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 (c)	\$ –	\$ 4,502	\$ –	\$ 4,502
Other assets limited as to use				
Cash	\$ 17,458	\$ –	\$ –	\$ 17,458
Certificates of deposits (a)	1,365	–	–	1,365
Money market mutual funds (b)	17,705	–	–	17,705
Corporate and government bonds (c)	–	32,712	–	32,712
Fixed income mutual funds (d)	42,365	–	–	42,365
Common stock (e)	54,846	–	–	54,846
Equity mutual funds (f)	23,336	1,501	–	24,837
Other (g)	913	–	–	913
	<u>\$ 157,988</u>	<u>\$ 34,213</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>

- (a) Investments in short-term certificates of deposit with area banking institutions
- (b) Investments in mutual funds that invest primarily in short-term debt securities, including U.S. Treasury bills, commercial paper and certificates of deposit
- (c) Investments in a diverse portfolio of short-term high-quality bonds, actively managed primarily across the mortgage-backed security, U.S. Treasury and corporate fixed income sectors
- (d) Investments in fixed income mutual funds that maintain short and mid-term high-quality corporate bonds of companies primarily domiciled in the United States
- (e) Investments in a diverse portfolio of common stock of corporations primarily domiciled in the United States, including small-cap, mid-cap, and large-cap holdings
- (f) Investments in domestic and international equity mutual funds and exchange-traded funds, including small-cap, mid-cap, and large-cap holdings
- (g) Primarily reflects captive insurance companies' premium and reinsurance recoverable receivables and other current assets; also includes net accrued income and expenses

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 22, 2011

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxillary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Affiliated Physicians	Parent	Eliminations	Total
	<i>(In thousands)</i>								
Assets									
Current assets:									
Cash and cash equivalents	\$ 26,694	\$ 2	\$ 201	\$ 6,036	\$ 666	\$ –	\$ 164	\$ –	\$ 33,763
Short-term investments	1,157	–	–	–	–	–	–	–	1,157
Receivables:									
Patient care, net of allowance for doubtful accounts of \$29,065	42,793	2,180	–	–	–	480	–	–	45,453
Due from third-party payers	6,665	–	–	–	–	–	–	–	6,665
Other receivables	2,254	–	–	1,104	125	–	–	–	3,483
Total receivables	51,712	2,180	–	1,104	125	480	–	–	55,601
Current portion of assets limited as to use	1,204	2	–	–	–	–	–	–	1,206
Inventories	7,424	42	–	–	–	–	–	–	7,466
Other current assets	232	–	–	–	9	–	–	–	241
Total current assets	88,423	2,226	201	7,140	800	480	164	–	99,434
Long-term investments	2,204	–	–	–	–	–	–	–	2,204
Assets limited as to use:									
Net funds held in escrow pursuant to tax-exempt bond agreements	7,477	108	–	–	–	–	–	–	7,585
Funds held in trust for estimated workers' compensation liabilities	7,504	–	–	–	–	–	–	–	7,504
Other investments	87,555	1,027	–	15,529	–	–	–	(22,251)	81,860
Less current portion	(1,204)	(2)	–	–	–	–	–	–	(1,206)
Total assets limited as to use, net of current portion	101,332	1,133	–	15,529	–	–	–	(22,251)	95,743
Property and equipment, net	91,355	5,339	–	–	–	–	241	–	96,935
Other long-term assets, including amounts due from third-party payers	7,460	150	–	6,216	8,004	–	–	–	21,830
Total assets	\$ 290,774	\$ 8,848	\$ 201	\$ 28,885	\$ 8,804	\$ 480	\$ 405	\$ (22,251)	\$ 316,146

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2011

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxillary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Affiliated Physicians	Parent	Eliminations	Total
	<i>(In Thousands)</i>								
Liabilities and net assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 56,622	\$ 1,501	\$ –	\$ 53	\$ 43	\$ 38	\$ 277	\$ –	\$ 58,534
Interest payable	299	15	–	–	–	–	–	–	314
Due to third-party payers	4,864	–	–	–	–	–	–	–	4,864
Current portion of postretirement benefit obligations	1,700	–	–	–	–	–	–	–	1,700
Current portion of long-term debt	5,261	–	–	–	–	–	–	–	5,261
Long-term debt classified as payable in one year <i>(Notes 1 and 6)</i>	61,797	6,979	–	–	–	–	–	–	68,776
Total current liabilities	130,543	8,495	–	53	43	38	277	–	139,449
Estimated workers' compensation liabilities	6,981	–	–	–	–	–	–	–	6,981
Postretirement benefit obligations, net of current portion	140,965	–	–	–	–	–	–	–	140,965
Long-term debt, net of current portion and amounts classified as payable in one year <i>(Notes 1 and 6)</i>	661	–	–	–	–	–	–	–	661
Other long-term liabilities, including amounts due to third-party payers	52,354	609	–	47	–	–	–	–	53,010
Total liabilities	331,504	9,104	–	100	43	38	277	–	341,066
Net assets:									
Unrestricted	(71,511)	(1,164)	201	1,486	8,761	442	128	–	(61,657)
Temporarily restricted	19,691	522	–	12,710	–	–	–	(12,147)	20,776
Permanently restricted	11,090	386	–	14,589	–	–	–	(10,104)	15,961
	(40,730)	(256)	201	28,785	8,761	442	128	(22,251)	(24,920)
Total liabilities and net assets	\$ 290,774	\$ 8,848	\$ 201	\$ 28,885	\$ 8,804	\$ 480	\$ 405	\$ (22,251)	\$ 316,146

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxillary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Total
	<i>(In Thousands)</i>								
Assets									
Current assets:									
Cash and cash equivalents	\$ 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	4,952	–	–	–	–	–	–	–	4,952
Other receivables	2,682	–	–	1,857	233	–	–	–	4,772
Total receivables	54,108	2,234	–	1,857	521	–	–	–	58,720
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	91,650	2,307	206	6,720	1,170	–	1,293	(14,480)	88,866
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, including amounts due from third-party payers	8,614	160	–	5,793	8,111	–	–	–	22,678
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

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxillary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Total
	<i>(In Thousands)</i>								
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	1,937	–	–	–	–	–	–	–	1,937
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 <i>(Notes 1 and 6)</i>	65,782	6,980	–	–	–	–	–	–	72,762
Total current liabilities	132,462	14,594	–	1,279	4,502	–	4,255	(14,480)	142,612
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 <i>(Notes 1 and 6)</i>	1,946	–	–	–	–	–	–	–	1,946
Other long-term liabilities, including amounts due to third-party payers	49,279	609	–	56	–	–	–	–	49,944
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	17,620	831	–	11,671	–	–	–	(10,938)	19,184
Permanently restricted	13,069	365	–	14,361	–	–	–	(10,002)	17,793
	(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 Statement of Operations

September 30, 2011

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxillary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Affiliated Physicians	Parent	Eliminations	Total
	<i>(In Thousands)</i>								
Unrestricted revenues, gains, and other support:									
Net patient service revenue	\$ 477,957	\$ 12,029	\$ –	\$ –	\$ –	\$ 2,351	\$ –	\$ –	\$ 492,337
Other revenues, net	21,004	50	–	2,840	–	55	–	(2,840)	21,109
Net assets released from restrictions, used in operations	5,556	–	–	–	–	–	–	–	5,556
Total unrestricted revenues and other support	504,517	12,079	–	2,840	–	2,406	–	(2,840)	519,002
Expenses:									
Compensation, related fringe benefits, and fees	334,441	9,630	–	848	100	2,513	58	(664)	346,926
Supplies and other non-salary costs	128,774	2,548	–	220	(13)	380	132	(220)	131,821
Depreciation and amortization	13,478	514	–	–	–	–	14	–	14,006
Interest	2,513	191	–	–	–	–	–	–	2,704
Provision for uncollectible accounts	22,840	590	–	–	–	–	–	–	23,430
Total operating expenses	502,046	13,473	–	1,068	87	2,893	204	(884)	518,887
Operating income (loss)	2,471	(1,394)	–	1,772	(87)	(487)	(204)	(1,956)	115
Nonoperating income (loss), net	305	1	(5)	–	643	–	–	(290)	654
Net income (loss) before change in unrealized gains and losses on investments	2,776	(1,393)	(5)	1,772	556	(487)	(204)	(2,246)	769
Change in unrealized gains and losses on investments	88	–	–	718	–	–	–	(658)	148
Net income (loss)	\$ 2,864	\$ (1,393)	\$ (5)	\$ 2,490	\$ 556	\$ (487)	\$ (204)	\$ (2,904)	\$ 917

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Statement of Operations

September 30, 2010

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxillary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Total
	<i>(In Thousands)</i>								
Unrestricted revenues, gains 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 non-salary costs	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 (loss) income	(424)	(1,534)	–	877	(745)	–	(274)	(1,053)	(3,153)
Nonoperating income, net	234	1	38	–	1,643	–	–	(203)	1,713
Net (loss) income before income on discontinued operations and change in unrealized gains and losses on investments	(190)	(1,533)	38	877	898	–	(274)	(1,256)	(1,440)
Income on discontinued operations	–	–	–	–	200	–	–	–	200
Change in unrealized gains and losses on 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

Hospital of Saint Raphael and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
<i>(In Thousands)</i>					
Assets					
Current assets:					
Cash and cash equivalents	\$ 26,694	\$ -	\$ -	\$ -	\$ 26,694
Short-term investments	1,157	-	-	-	1,157
Receivables:					
Patient care, net of allowance for doubtful accounts of \$26,068	42,793	-	-	-	42,793
Due from third-party payers	6,665	-	-	-	6,665
Other receivables	2,254	-	-	-	2,254
Total receivables	51,712	-	-	-	51,712
Current portion of assets limited as to use	1,204	-	-	-	1,204
Inventories	7,424	-	-	-	7,424
Other current assets	232	-	-	-	232
Total current assets	88,423	-	-	-	88,423
Long-term investments	2,204	-	-	-	2,204
Assets limited as to use:					
Net funds held in escrow pursuant to tax-exempt bond agreements	7,477	-	-	-	7,477
Funds held in trust for estimated workers' compensation liabilities	7,504	-	-	-	7,504
Other investments	42,413	34,714	18,298	(7,870)	87,555
Less current portion	(1,204)	-	-	-	(1,204)
Total assets limited as to use, net of current portion	56,190	34,714	18,298	(7,870)	101,332
Property and equipment, net	91,355	-	-	-	91,355
Other long-term assets, including amounts due from third-party payers	7,460	-	-	-	7,460
Total assets	\$ 245,632	\$ 34,714	\$ 18,298	\$ (7,870)	\$ 290,774

Hospital of Saint Raphael and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2011

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
	<i>(In Thousands)</i>				
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 56,622	\$ -	\$ -	\$ -	\$ 56,622
Interest payable	299	-	-	-	299
Due to third-party payers	4,864	-	-	-	4,864
Current portion of postretirement benefit obligations	1,700	-	-	-	1,700
Current portion of long-term debt	5,261	-	-	-	5,261
Long-term debt classified as payable in one year <i>(Notes 1 and 6)</i>	61,797	-	-	-	61,797
Total current liabilities	130,543	-	-	-	130,543
Estimated workers' compensation liabilities	6,981	-	-	-	6,981
Postretirement benefit obligations, net of current portion	140,965	-	-	-	140,965
Long-term debt, net of current portion and amounts classified as payable in one year <i>(Notes 1 and 6)</i>	661	-	-	-	661
Other long-term liabilities, including amounts due to third-party payers	14,886	29,495	7,973	-	52,354
Total liabilities	294,036	29,495	7,973	-	331,504
Net assets:					
Unrestricted	(79,185)	5,219	10,325	(7,870)	(71,511)
Temporarily restricted	19,691	-	-	-	19,691
Permanently restricted	11,090	-	-	-	11,090
	(48,404)	5,219	10,325	(7,870)	(40,730)
Total liabilities and net assets	\$ 245,632	\$ 34,714	\$ 18,298	\$ (7,870)	\$ 290,774

Hospital of Saint Raphael and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
	<i>(In Thousands)</i>				
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	4,952	-	-	-	4,952
Other receivables	2,682	-	-	-	2,682
Total receivables	54,108	-	-	-	54,108
Due from affiliates	13,312	-	-	-	13,312
Current portion of assets limited as to use	1,195	-	-	-	1,195
Inventories	7,914	-	-	-	7,914
Other current assets	431	-	-	-	431
Total current assets	91,650	-	-	-	91,650
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	-	-	-	7,470
Funds held in trust 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, including amounts due from third-party payers	8,614	-	-	-	8,614
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

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
	<i>(In Thousands)</i>				
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 53,148	\$ -	\$ -	\$ -	\$ 53,148
Interest payable	373	-	-	-	373
Due to third-party payers	1,937	-	-	-	1,937
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 <i>(Notes 1 and 6)</i>	65,782	-	-	-	65,782
Total current liabilities	132,462	-	-	-	132,462
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 <i>(Notes 1 and 6)</i>	1,946	-	-	-	1,946
Other long-term liabilities, including amounts due to third-party payers	13,744	29,033	6,502	-	49,279
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	17,620	-	-	-	17,620
Permanently restricted	13,069	-	-	-	13,069
	(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 Statement of Operations

September 30, 2011

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
	<i>(In Thousands)</i>				
Unrestricted revenues, gains, and other support:					
Net patient service revenue	\$ 477,957	\$ -	\$ -	\$ -	\$ 477,957
Other revenues, net	17,978	6,190	396	(3,560)	21,004
Net assets released from restrictions, used in operations	5,556	-	-	-	5,556
Total unrestricted revenues and other support	501,491	6,190	396	(3,560)	504,517
Expenses:					
Compensation, related fringe benefits, and fees	334,441	-	-	-	334,441
Supplies and other non-salary costs	125,050	5,486	1,798	(3,560)	128,774
Depreciation and amortization	13,478	-	-	-	13,478
Interest	2,513	-	-	-	2,513
Provision for uncollectible accounts	22,840	-	-	-	22,840
Total operating expenses	498,322	5,486	1,798	(3,560)	502,046
Operating income (loss)	3,169	704	(1,402)	-	2,471
Nonoperating income, net	305	-	-	-	305
Net income (loss) before change in unrealized gains and losses on investments	3,474	704	(1,402)	-	2,776
Change in unrealized gains and losses on investments	(234)	(848)	1,170	-	88
Net income (loss)	\$ 3,240	\$ (144)	\$ (232)	\$ -	\$ 2,864

Hospital of Saint Raphael and Subsidiaries

Consolidating Statement of Operations

September 30, 2010

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
	<i>(In Thousands)</i>				
Unrestricted revenues, gains and other support:					
Net patient service revenue	\$ 471,037	\$ -	\$ -	\$ -	\$ 471,037
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 non-salary costs	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, net	234	-	-	-	234
Net income (loss) before change in unrealized gains and losses on investments	93	(308)	25	-	(190)
Change in unrealized gains and losses on investments	116	1,028	721	-	1,865
Net income	\$ 209	\$ 720	\$ 746	\$ -	\$ 1,675

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