

AUDITED CONSOLIDATED FINANCIAL  
STATEMENTS AND OTHER FINANCIAL  
INFORMATION

Saint Raphael Healthcare System, Inc. and Subsidiaries  
Years Ended September 30, 2009 and 2008  
With Report of Independent Auditors

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Audited Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2009 and 2008

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## Report of Independent Auditors

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

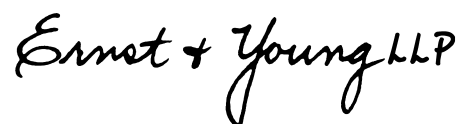
We have audited the accompanying consolidated balance sheets of Saint Raphael Healthcare System, Inc. and Subsidiaries (the System) as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial 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 4.9% and 6.5% as of September 30, 2009 and 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of 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 and the report of other auditors 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, 2009 and 2008, 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.

As discussed in Note 9 to the consolidated financial statements, the System adopted the measurement date provisions of FASB ASC 715, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective September 30, 2009.

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



February 17, 2010

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Consolidated Balance Sheets

*(In thousands)*

	<b>September 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 26,756	\$ 14,671
Short-term investments	-	3,935
Receivables:		
Patient care, net of allowance for doubtful accounts of \$27,267 in 2009 and \$28,336 in 2008	56,162	52,806
Due from third-party payers	3,545	5,228
Other receivables	5,325	6,629
Total receivables	65,032	64,663
Current portion of assets limited as to use	1,904	1,358
Inventories	7,937	8,179
Other current assets	477	532
Total current assets	102,106	93,338
Long-term investments	1,499	6,006
Assets limited as to use:		
Net funds held in escrow pursuant to tax-exempt bond agreements	8,286	8,904
Funds held in trust for estimated workers' compensation liabilities	7,328	8,678
Other investments	73,569	86,325
Less current portion	(1,904)	(1,358)
Total assets limited as to use, net of current portion	87,279	102,549
Property and equipment, net	107,250	114,435
Other long-term assets	15,399	18,929
Total assets	\$ 313,533	\$ 335,257

	<b>September 30</b>	
	<b>2009</b>	<b>2008</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 62,109	\$ 56,240
Interest payable	475	663
Due to third-party payers	2,066	2,280
Current portion of postretirement benefit obligations	11,000	10,800
Current portion of long-term debt	4,798	4,653
Long-term debt classified as payable in one year ( <i>Notes 1 and 6</i> )	76,557	80,164
Total current liabilities	<u>157,005</u>	<u>154,800</u>
Estimated workers' compensation liabilities	7,839	8,856
Postretirement benefit obligations, net of current portion	122,776	69,919
Long-term debt, net of current portion and amounts classified as payable in one year ( <i>Notes 1 and 6</i> )	3,223	4,430
Other long-term liabilities	42,578	48,160
Total liabilities	<u>333,421</u>	<u>286,165</u>
Net assets:		
Unrestricted	(54,383)	9,875
Temporarily restricted specific purpose	17,170	21,669
Permanently restricted endowment	17,325	17,548
Total net assets	<u>(19,888)</u>	<u>49,092</u>
Total liabilities and net assets	<u><u>\$ 313,533</u></u>	<u><u>\$ 335,257</u></u>

*See accompanying notes.*

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands)

	Year Ended September 30	
	2009	2008
Unrestricted revenues and other support:		
Net patient service revenue	\$ 479,099	\$ 444,979
Other revenues:		
Realized trust fund investment losses for capital preservation (Notes 1 and 8)	(1,743)	-
Realized captives' investment losses for capital preservation (Notes 1 and 8)	(5,979)	-
Other, net (Note 1)	20,762	24,100
Other revenues, net	13,040	24,100
Net assets released from restrictions, used in operations	3,971	3,411
Total unrestricted revenues and other support	496,110	472,490
Expenses:		
Compensation, related fringe benefits, and fees	341,463	320,982
Supplies and other	129,861	132,853
Depreciation and amortization	18,073	19,927
Interest	4,444	4,315
Provision for uncollectible accounts	21,090	23,011
Total operating expenses	514,931	501,088
Operating loss	(18,821)	(28,598)
Nonoperating (loss) income:		
Realized investment losses for capital preservation (Notes 1 and 4)	(1,208)	-
Other (Note 1)	1,060	2,821
Nonoperating (loss) income, net	(148)	2,821
Net loss before loss on discontinued operations, change in unrealized appreciation (depreciation) of investments, and realized and unrealized loss on interest rate swap agreement	(18,969)	(25,777)
Loss on discontinued operations	(1,644)	-
Change in unrealized appreciation (depreciation) of investments	4,208	(8,763)
Realized and unrealized loss on interest rate swap agreement	(1,082)	(1,034)
Net loss	\$ (17,487)	\$ (35,574)

See accompanying notes.

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2009 and 2008

*(In thousands)*

	Total	Unrestricted	Temporarily Restricted Specific Purpose	Permanently Restricted Endowment
Balances, September 30, 2007	\$ 98,172	\$ 58,343	\$ 21,827	\$ 18,002
Net loss	(35,574)	(35,574)	-	-
Net assets released from restrictions for capital purposes	-	1,449	(1,449)	-
Change in net unrealized (depreciation) of investments	(2,738)	-	(1,944)	(794)
Restricted gifts, grants, and bequests	6,530	-	6,303	227
Restricted investment income	456	-	343	113
Net assets released from restrictions, used in operations	(3,411)	-	(3,411)	-
Change in postretirement benefit plans' liability to be recognized in future periods	(14,042)	(14,042)	-	-
Change in fair value of interest rate swap agreement	(301)	(301)	-	-
Change in net assets	(49,080)	(48,468)	(158)	(454)
Balances, September 30, 2008	49,092	9,875	21,669	17,548
Net loss	<b>(17,487)</b>	<b>(17,487)</b>	-	-
Net assets released from restrictions for capital purposes	-	<b>5,075</b>	<b>(5,075)</b>	-
Change in net unrealized (depreciation) of investments	<b>(771)</b>	-	<b>(456)</b>	<b>(315)</b>
Restricted gifts, grants, and bequests	<b>4,759</b>	-	<b>4,690</b>	<b>69</b>
Restricted investment income	<b>336</b>	-	<b>313</b>	<b>23</b>
Net assets released from restrictions, used in operations	<b>(3,971)</b>	-	<b>(3,971)</b>	-
Effect of change in accounting for postretirement benefit plans ( <i>Note 9</i> )	<b>(2,158)</b>	<b>(2,158)</b>	-	-
Change in postretirement benefit plans' liability to be recognized in future periods	<b>(49,688)</b>	<b>(49,688)</b>	-	-
Change in net assets	<b>(68,980)</b>	<b>(64,258)</b>	<b>(4,499)</b>	<b>(223)</b>
Balances, September 30, 2009	<b>\$ (19,888)</b>	<b>\$ (54,383)</b>	<b>\$ 17,170</b>	<b>\$ 17,325</b>

*See accompanying notes.*

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended September 30	
	2009	2008
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (68,980)	\$ (49,080)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Noncash items:		
Depreciation and amortization	18,073	19,927
Change in net unrealized depreciation of investments	(3,437)	11,501
Restricted gifts, grants, and bequests	(4,759)	(6,530)
Restricted investment income	(336)	(456)
Effect of change in accounting for postretirement benefit plans	2,158	-
Change in postretirement benefit plans' liability to be recognized in future periods	49,688	14,042
Realized and unrealized loss on interest rate swap agreement	1,082	1,335
Nonoperating (loss) income, net	148	(2,821)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Patient care receivables	(3,356)	2,533
Other receivables	2,987	(673)
Other assets	3,827	1,542
Increase (decrease) in:		
Accounts payable and other accruals	5,467	(1,512)
Estimated workers' compensation liabilities	(1,017)	342
Postretirement benefit obligations	1,211	2,276
Other long-term liabilities	(6,664)	3,842
Net cash used in operating activities	(3,908)	(3,732)
<b>Cash flows from investing activities</b>		
Decrease in short-term investments	3,990	17,848
Decrease (increase) in assets limited as to use, net	17,213	(4,351)
Nonoperating (loss) income, net	(148)	2,821
Restricted investment income	336	456
Decrease (increase) in long-term investments	5,384	(1,439)
Capital expenditures, net	(10,888)	(12,264)
Net cash provided by investing activities	15,887	3,071
<b>Cash flows from financing activities</b>		
Restricted gifts, grants, and bequests	4,759	6,530
Repayment of capital lease and other	(89)	(700)
Principal payments on long-term debt	(4,564)	(4,363)
Net cash provided by financing activities	106	1,467
Net increase in cash and cash equivalents	12,085	806
Cash and cash equivalents at beginning of year	14,671	13,865
Cash and cash equivalents at end of year	\$ 26,756	\$ 14,671
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 4,256	\$ 5,327

See accompanying notes.



# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2009

*(In thousands)*

### **1. Significant Accounting Policies**

#### **Organization**

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

#### **Operational Uncertainties and Financial Bridge Plan**

As of and for the year ended September 30, 2009, the System incurred significant recurring operating losses and remains out of compliance with certain financial covenant requirements of its long-term debt agreements (see Note 6, Long-Term Debt). Negotiations continue with the various parties to the System's long-term debt agreements, although a resolution acceptable to all parties is yet to be achieved. The unresolved long-term debt financial covenant violations create the possibility that an existing event of default, if declared, could result in the acceleration of substantially all of the System's long-term debt; this situation has been ongoing since fiscal year end 2008, with no event of default having been declared. However, these matters raise 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.

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

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(In thousands)*

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

Financial performance reflects operating losses of \$18,821 and \$28,598 for fiscal 2009 and 2008, respectively, with fiscal 2009 operating results negatively impacted by \$7,722 of realized investment losses (to preserve capital during a period of significant investment market uncertainty) included as a component of other revenues, net, in the accompanying consolidated statements of operations. Excluding these realized investment losses, the \$17,499 improvement in operating results for fiscal 2009 was due to the development and successful implementation of a financial bridge plan to stabilize operations and improve financial performance. Key elements of this financial bridge plan during fiscal 2009 included initiatives to: increase rates of payment for services rendered; improve revenue cycle charge capture and reduce payment denials; improve and expand physician professional billing for services provided; increase patient flow by reducing Emergency Room waiting times and eliminating barriers to efficient movement of inpatients throughout the Hospital; increasing Operating Room capacity and efficiency by improvements in physician scheduling; evaluating staffing levels with comparable benchmarked institutions to identify realizable personnel productivity improvements; and other initiatives. Various expert consultants were engaged to assist in key aspects of the financial bridge plan, with the medical staff, administrative staff and all levels of the organization working collaboratively to affect permanent improvements in operations.

As noted above, a significant factor in the improved operating results for fiscal 2009 was the achievement of financial bridge plan initiatives. These initiatives, estimated by management to have had a positive fiscal 2009 impact of \$27.6 million, are anticipated by management to favorably impact fiscal 2010 operating results by \$28.4 million. An additional \$8 million of financial bridge plan improvements are also anticipated to be recognized in fiscal 2010, as work currently in process is completed in the areas of cash collections and medical record documentation (estimated by management to be \$5 million) and supply chain savings are recognized as revised contracts for goods and services are finalized (estimated by management to be \$3 million). Management is also in the process of developing additional financial bridge plan initiatives for fiscal 2010 to provide further revenue enhancement and expense containment initiatives. The financial bridge plan will continue to be a major focus of senior management and the Board of Trustees of the System throughout fiscal 2010, with management confident that accomplishment of some of these incremental initiatives will favorably impact operating results.

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

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

##### **Other Revenues**

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

##### **Nonoperating Income**

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

##### **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 has recorded during fiscal 2009 a provision for loss on this discontinued operation of \$1,644 million (for costs estimated through March 31, 2010, the end of the associated property lease term). As of September 30, 2009, \$637 of accrued costs for this discontinued operation are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(In thousands)*

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

#### **Net Loss and Changes in Net Assets**

The performance indicator is net loss, which for fiscal 2009 includes all changes in unrestricted net assets other than changes in net assets related to the effect of the change in accounting for postretirement benefit plans, the change in postretirement benefit plans' liability to be recognized in future periods, and net assets released from restrictions for capital purposes. For fiscal 2008, the change in the fair value of interest rate swap agreement that qualified as an effective cash flow hedge was also excluded from the performance indicator.

#### **Income Taxes**

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

#### **Cash and Cash Equivalents**

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

#### **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.

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(In thousands)*

### 1. Significant Accounting Policies (continued)

#### Pledges Receivable

The Foundation recognizes pledges on the accrual basis, net of estimated uncollectible amounts and net present value discounts on long-term pledges receivable. The net present value discount reserve was based on a range of 3% to 5% that are applied to estimated future cash collections as of September 30, 2009 and 2008. Net pledges receivable, included in other receivables and other long-term assets in the accompanying consolidated balance sheets, are due as follows:

	<u>2009</u>	<u>2008</u>
Current	\$ 2,230	\$ 2,321
Due in one to five years	1,505	2,859
Subtotal	<u>3,735</u>	5,180
Less: reserve for uncollectible pledges	(544)	(451)
Less: reserve for net present value discount	(93)	(236)
	<u>\$ 3,098</u>	<u>\$ 4,493</u>

#### Property and Equipment

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

#### Investments

Effective beginning in fiscal 2008, the System determined that investments and assets limited as to use reported in the accompanying consolidated balance sheets are considered trading securities, with unrealized appreciation and depreciation of unrestricted investments included in net loss.

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

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

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

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

#### **Fair Value of Financial Instruments**

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

#### **Assets Limited as to Use**

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

#### **Interest Rate Swap Agreement**

The System utilized an interest rate swap agreement to reduce risks associated with changes in interest rates, which was terminated as of July 1, 2009 as a result of an "insurer event" under the terms of this agreement (see Note 6, Long-Term Debt). The System does not hold or issue derivative financial instruments for trading purposes. Until its termination, the interest rate swap agreement was reported at fair value in the accompanying consolidated balance sheet.

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

*(In thousands)*

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

#### **Net Assets**

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

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

#### **Use of Estimates**

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

#### **Reclassifications**

Certain reclassifications have been made to the amounts reported for fiscal 2008 to conform the presentation with the 2009 presentation. These reclassifications had no effect on total net assets.

#### **Adoption of New Accounting Standards**

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of ASC 105, the System has updated references to generally accepted accounting principles in its consolidated financial statements issued for the year ended September 30, 2009. The adoption of ASC 105 did not impact the System's consolidated financial position or consolidated results of operations.

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

(In thousands)

### 1. Significant Accounting Policies (continued)

Effective October 1, 2008, the System adopted FASB ASC 820-10, *Fair Value Measurements* (ASC 820-10). ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosure about fair value measurements. The System's adoption of ASC 820-10 did not have any effect its consolidated financial statements (see Note 12, Fair Value Measurements).

Effective October 1, 2008, the System adopted FASB ASC 825-10, *The Fair Value Option for Financial Assets and Liabilities* (ASC 825-10). ASC 825-10 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value under accounting principles generally accepted in the United States. The System chose not to elect the fair value option for its financial assets and liabilities. Consequently, the adoption of ASC 825-10 did not have any effect on its consolidated financial statements.

Effective October 1, 2008, the System adopted FASB ASC 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (ASC 958-205). ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and also requires enhanced disclosures for all endowment funds, including funds designated as endowments by the System. The adoption of ASC 958-205 did not have a material effect on the System's consolidated financial position as of September 30, 2009 or on the consolidated statements of operations and changes in net assets or cash flows for the year then ended (see Note 7, Restricted Net Assets).

During 2009, FASB issued FASB ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events (events that occur after the balance sheet date but before the financial statements are issued). In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The System adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through February 17, 2010, representing the date at which the consolidated financial statements were issued.



## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

#### **2. Net Patient Service Revenue**

Revenues from the Medicare and Medicaid programs accounted for 47.8% and 7.9%, respectively, of the System's net patient service revenue for the year ended September 30, 2009 and 48.9% and 8.8%, respectively, for the year ended September 30, 2008. 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. During fiscal 2009 and 2008, retroactive adjustments related to settlements with third-party payers increased the System's net patient service revenues by approximately \$895 and \$504, respectively.

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

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**2. Net Patient Service Revenue (continued)**

The System grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer arrangements. The approximate mix of patient care receivables at September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Medicare	35%	33%
Medicaid	8	6
Blue Cross	12	15
Commercial and other	33	34
Self-pay	12	12
Total	<u>100%</u>	<u>100%</u>

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

	<u>Year Ended September 30</u>	
	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 1,237,133	\$ 1,133,035
Deductions:		
Allowances	(776,684)	(708,438)
Charity care (at charges)	(1,868)	(1,837)
	<u>(778,552)</u>	<u>(710,275)</u>
Net patient service revenue	<u>\$ 458,581</u>	<u>\$ 422,760</u>

**3. Uncompensated Care and Community Benefit Expense**

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

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

#### **3. Uncompensated Care and Community Benefit Expense (continued)**

The System considers care provided for which no payment was received from the patient or their insurer as uncompensated care. Uncompensated care is composed of free care provided, charity care provided, and bad debt expense. In determining uncompensated care, the System excludes voluntary and involuntary discounts or “reductions in revenue,” such as underpayments from Medicare and Medicaid or discounts to managed care companies. Consistent with the reporting requirements of the State of Connecticut Office of Health Care Access, uncompensated care is reported at customary (undiscounted) charges; for the years ended September 30, 2009 and 2008, uncompensated care amounted to approximately \$25,747 and \$27,668, 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, 2009 and 2008, free care funds provided to patients qualifying for these assistance programs at customary charges were approximately \$51 and \$94, 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, 2009 and 2008, financial assistance provided at customary charges was approximately \$4,606 and \$4,563, 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, 2009 and 2008, bad debt expense was approximately \$21,090 and \$23,011, respectively.

Annually, the System accrues for the potential losses related to its uncompensated care. At September 30, 2009 and 2008, 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 \$27,267 and \$28,336, respectively.

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(In thousands)

#### 3. Uncompensated Care and Community Benefit Expense (continued)

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

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

#### 4. Investments

Short-term investments and long-term investments at September 30, 2009 and 2008 primarily consist of government and corporate bonds. Fair value and cost information for these investments at September 20, 2009 and 2008 is summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Appreciation (Depreciation)</u>
<b>2009</b>			
Corporate and government bonds	\$ 1,499	\$ 1,499	\$ —
<b>2008</b>			
Corporate and government bonds	\$ 9,941	\$ 10,872	\$ (931)

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**4. Investments (continued)**

Other assets limited as to use comprise investments related to permanently restricted endowments, temporarily restricted specific-purpose funds, and unrestricted investments held by the Hospital's captive insurance company subsidiaries. Fair value and cost information for these System's investments at September 30, 2009 and 2008 is summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Appreciation (Depreciation)</u>
<b>2009</b>			
Cash	\$ 21,816	\$ 21,822	\$ (6)
Certificates of deposit and other	2,017	2,017	-
Money market funds	12,790	12,790	-
Common stock	17,393	22,118	(4,725)
Corporate and government bonds	12,555	12,282	273
Mutual funds	6,012	6,021	(9)
	<u>\$ 72,583</u>	<u>\$ 77,050</u>	<u>\$ (4,467)</u>
<b>2008</b>			
Cash	\$ 20,647	\$ 20,653	\$ (6)
Certificates of deposit and other	2,572	2,572	-
Money market funds	12,660	12,660	-
Common stock	30,869	36,700	(5,831)
Corporate and government bonds	11,301	11,718	(417)
Mutual funds	7,236	7,508	(272)
	<u>\$ 85,285</u>	<u>\$ 90,811</u>	<u>\$ (6,526)</u>

Property held for investment (at amortized cost) of \$986 and \$1,040 is also included in other assets limited as to use at September 30, 2009 and 2008, respectively.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**4. Investments (continued)**

Unrestricted income from the System's investments is included as nonoperating income in the accompanying consolidated statements of operations. The components of nonoperating income for September 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Hospital:		
Income, net, from assets limited as to use and other unrestricted funds	\$ 291	\$ 1,485
Realized unrestricted investment losses for capital preservation	(1,208)	-
Unrestricted income from trust and endowment funds	164	214
Other subsidiaries' nonpatient care operations	605	1,122
Nonoperating (loss) income, net	<u>\$ (148)</u>	<u>\$ 2,821</u>

Funds held in trust for estimated workers' compensation liabilities at September 30, 2009 and 2008 are summarized as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Appreciation (Depreciation)</u>
<b>2009</b>			
Money market funds	\$ 4,468	\$ 4,468	\$ -
Fixed income mutual funds	2,860	2,796	64
	<u>\$ 7,328</u>	<u>\$ 7,264</u>	<u>\$ 64</u>
<b>2008</b>			
Money market funds	\$ 2,690	\$ 2,690	\$ -
Common stock	3,174	3,887	(713)
Fixed income mutual funds	2,814	2,889	(75)
	<u>\$ 8,678</u>	<u>\$ 9,466</u>	<u>\$ (788)</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. The net investment loss of \$(1,522) for fiscal 2009 includes net investment income of \$221, net of realized investment losses of \$(1,743) associated with the elimination of equity investments to ensure the preservation of capital; investment income, net, for fiscal 2008 was \$346.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(In thousands)*

**5. Property and Equipment**

The components of property and equipment at September 30, 2009 and 2008 are as follows:

	<b>2009</b>	<b>2008</b>
Land	\$ 3,497	\$ 3,497
Land improvements	3,227	3,195
Buildings and improvements	189,282	182,818
Fixed equipment	46,917	46,854
Movable equipment	207,217	198,844
Construction in progress	43	3,878
	<b>450,183</b>	439,086
Less accumulated depreciation	<b>(342,933)</b>	(324,651)
	<b>\$ 107,250</b>	\$ 114,435

**6. Long-Term Debt**

The System's long-term debt consists of the following at September 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Tax-Exempt Bonds, Series H	\$ 20,160	\$ 23,570
Tax-Exempt Bonds, Series L	29,525	29,525
Tax-Exempt Bonds, Series M	30,420	30,420
Easyloan Master Financing Agreement	4,384	5,538
Capital lease	2	82
Other	45	53
Original issue premium, net	42	59
	<b>84,578</b>	89,247
Less current portion	<b>(4,798)</b>	(4,653)
Less amounts classified as payable in one year	<b>(76,557)</b>	(80,164)
	<b>\$ 3,223</b>	\$ 4,430

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

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

As discussed below, the Obligated Group is not in compliance with certain financial covenants of its long-term debt agreements. Negotiations regarding modifications to the terms of the existing agreements to resolve the financial covenant violations have been ongoing, and mutual agreement among the involved parties has not been reached. As a result of the financial covenant violations, the possibility of the declaration of an event of default and the related possibility of acceleration of payment terms, certain long-term debt amounts noted above have been reclassified as a current obligation in the accompanying consolidated balance sheets as of September 30, 2009 and 2008.

The CHEFA bonds outstanding as of September 30, 2009 bear interest and have terms as follows:

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

Principal payments on the outstanding bonds are scheduled as follows: \$3,590 in 2010; \$3,780 in 2011; \$4,035 in 2012; \$4,235 in 2013; \$4,520 in 2014; and \$59,945 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 2010), and are also secured by a pledge of gross receipts of the Obligated Group members and by a mortgage on substantially all property owned by the Hospital and the Center. Negotiations are ongoing with the letter of credit provider regarding further extension of the letter of credit.



## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

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

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

In connection with the Series L bonds, the Obligated Group had entered into an interest rate swap agreement with a financial institution. This agreement required the payment of a fixed rate (3.439%), with receipt of a floating rate based on LIBOR. During fiscal 2009, the further downgrade of the bond insurer created an “insurer event” as defined in the interest rate swap agreement; in response to this event, the System paid \$2,116 to terminate this agreement. The realized and unrealized loss on the interest rate swap agreement of \$1,082 and \$1,034 for fiscal 2009 and 2008, respectively, is reflected in the accompanying consolidated statements of operations. As of September 30, 2008, the fair value of the interest rate swap agreement was reflected as a component of accounts payable and accrued expenses in the accompanying consolidated balance sheet.

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 on this debt ranged from 0.70% to 8.87% during fiscal 2009, and ranged from 2.3% to 11.0% during fiscal 2008.

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

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

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 \$6,382 and \$7,438 at September 30, 2009 and 2008, respectively.

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

During fiscal 2006, the Hospital acquired certain equipment under a master financing agreement among a bank, CHEFA and the Hospital. Principal payments on this debt, which began in 2007, are as follows: \$1,197 in 2010; \$1,240 in 2011; \$1,286 in 2012 and \$661 in 2013.

DePaul has several financing arrangements with various financial institutions. Principal payments on these financing agreements are as follows: \$11 in 2010; \$10 in 2011; \$10 in 2012; \$11 in 2013 and \$5 in 2014.

The Hospital had a \$15,000 revolving line of credit, which terminated early in fiscal 2009. Advances on the line of credit were payable on demand with an interest rate based on the bank's base rate. The line of credit was unsecured, and was unused at September 30, 2008.

#### **7. Restricted Net Assets**

##### **Endowment Funds**

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

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

#### **7. Restricted Net Assets (continued)**

The System has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the donor intention. The System considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

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

#### Endowment Funds with Deficiencies

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

#### 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.

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

#### **7. Restricted Net Assets (continued)**

##### Strategies Employed for Achieving Objectives

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

##### Spending Policy and How the Investment Objectives Relate to Spending Policy

The System has adopted a policy, effective for fiscal 2011, of appropriating for distribution each year between 3 and 6 percent of its endowment fund's average fair value over the prior three years (through the calendar yearend immediately preceding the beginning of the fiscal year in which the distribution is planned), with an average annual target of 4 percent. In establishing this policy, the System considered the long-term expected return on its endowment noted above. Accordingly, over the long term, the System expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the System's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Prior to the adoption of the aforementioned spending policy late in fiscal 2009 effective for fiscal 2011, any expenditure associated with the endowment were appropriated in accordance with the donor's intention.

##### Endowment Net Asset Composition by Type of Fund as of September 30, 2009

All endowment net assets are donor-restricted endowment funds.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**7. Restricted Net Assets (continued)**

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

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

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2008

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning balance	\$ —	\$ 4,580	\$ 18,002	\$ 22,582
Total investment return	—	(1,641)	(681)	(2,322)
Contributions	—	—	227	227
Appropriation of endowment assets for expenditure	—	(4)	—	(4)
Endowment net assets, ending balance	<u>\$ —</u>	<u>\$ 2,935</u>	<u>\$ 17,548</u>	<u>\$ 20,483</u>

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

#### 7. Restricted Net Assets (continued)

##### Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Health education	14%	15%
Equipment purchases	11	8
Indigent care	9	14
Cancer care	39	42
All other	27	21
	<u>100%</u>	<u>100%</u>

#### 8. Self-Insurance Programs

##### Malpractice and General Liability

During fiscal 2009 and 2008, 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 \$2,535 and \$2,473 as of September 30, 2009 and 2008, respectively, has been retained at the Hospital.

Effective October 1, 1992, the Hospital formed Lukan. Lukan is a wholly owned subsidiary of the Hospital and a Bermuda captive insurance company which provides the first level of the Hospital's "claims-made" insurance coverage. Coverage for the years ended September 30, 2009 and 2008 was \$2,000 per claim and \$10,000 in the aggregate.

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

#### **8. Self-Insurance Programs (continued)**

Effective October 1, 1989, the Hospital formed Caritas. This wholly owned subsidiary of the Hospital, a Vermont captive insurance company, provides the remainder of the Hospital's "claims-made" coverage. Coverage for the years ended September 30, 2009 and 2008 was \$28,000 per claim and \$48,000 in the aggregate; of this coverage, \$20,000 per claim and \$40,000 in the aggregate was provided under a reinsurance agreement with a commercial insurer. With favorable experience during the three year term of this initial reinsurance agreement, effective October 1, 2009 the reinsurance agreement was commuted; as a result, Caritas' coverage for each of the three years ended September 30, 2009 becomes \$28,000 per claim with no aggregate limit. As a result of the commutation, Caritas has recorded the premium to be returned under the terms of the reinsurance agreement of \$500 as of September 30, 2009, which is included in other assets whose use is limited in the accompanying consolidated balance sheets. Caritas has entered into another reinsurance agreement with a commercial insurer to provide similar levels of umbrella insurance coverage for the three year periods beginning October 1, 2009.

Assets held by Lukan and Caritas were \$45,975 and \$55,281 as of September 30, 2009 and 2008, respectively, and are reflected as other assets whose use is limited in the accompanying consolidated balance sheets. Liabilities recorded by Lukan and Caritas were \$31,522 and \$35,378 as of September 30, 2009 and 2008, respectively, and are reflected as other long-term liabilities in the accompanying consolidated balance sheets.

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 30, 2009 and 2008; 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)

(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, 2009 and 2008 for outstanding losses and loss related expenses is summarized as follows:

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 35,191	\$ 33,980
Losses incurred related to:		
Current year	10,367	10,731
Prior years	(3,036)	(695)
Total incurred	<u>7,331</u>	<u>10,036</u>
Paid losses related to:		
Current year	(96)	(50)
Prior years	(11,023)	(8,775)
Total paid	<u>(11,119)</u>	<u>(8,825)</u>
Balance, end of year	<u>\$ 31,403</u>	<u>\$ 35,191</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 \$3,036 in fiscal 2009 and decreased by \$695 in fiscal 2008.

**Workers' Compensation**

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



Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**8. Self-Insurance Programs (continued)**

For the applicable periods of fiscal 2009 and for fiscal 2008, 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, 2010. The Hospital is required to maintain a performance bond related to this self-insurance program; as of September 30, 2009, this performance bond has been collateralized by a \$4,250 irrevocable letter of credit which expired as of November 30, 2009. Effective with the expiration of this irrevocable letter of credit, the Hospital provides \$4,250 of direct collateral to the performance bond provider via a custody arrangement with a bank; such direct collateral was funded by a withdrawal from the related trust.

The Hospital established an irrevocable trust to hold assets, accumulate income, and pay settled claims and expenses related to the workers' compensation self-insurance program for deductibles. Amounts are charged to expense and funds are deposited into the trust based upon an actuarial determination of the Hospital's liability. A discount rate of 5% was used in the determination of this liability for fiscal 2009 and 2008. Trust fund deposits at September 30, 2009 and 2008 are invested by the trustee in marketable securities.

Activity in the workers' compensation trust fund asset and self-insurance liability accounts for the years ended September 30, 2009 and 2008 was as follows:

	2009		2008	
	Asset	Liability	Asset	Liability
Balance, beginning of year	\$ 8,678	\$ 8,856	\$ 8,985	\$ 8,514
Current year expense	–	1,724	–	3,062
Hospital contribution	2,079	–	2,973	–
Investment gains and losses, net	221	–	346	–
Realized losses for capital preservation	(1,743)	–	–	–
Change in unrealized appreciation (depreciation) of investments	852	–	(906)	–
Reinsurance receivable	120	120	273	273
Settlement of claims	(2,182)	(2,182)	(2,085)	(2,085)
Fund expenses	(697)	(679)	(908)	(908)
Balance, end of year	<u>\$ 7,328</u>	<u>\$ 7,839</u>	<u>\$ 8,678</u>	<u>\$ 8,856</u>

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(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 employees hired through December 31, 2003. Pension cost for the defined benefit pension plan was approximately \$6,934 and \$8,139 for fiscal 2009 and 2008, respectively.

Effective January 1, 2004, for 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. Pension cost for the defined contribution retirement plan was approximately \$1,126 for fiscal 2009 and \$847 for fiscal 2008.

For fiscal 2009 and 2008, the majority of the System's employees were eligible to participate in a 401(k) savings plan sponsored by the System. The System matches one dollar for every dollar contributed by an employee into the Plan, up to 3% compensation as defined. Savings plan expense was approximately \$3,891 and \$3,629 for fiscal 2009 and 2008, respectively.

The total pension expense for the years ended September 30, 2009 and 2008 was approximately \$12,263 and \$12,945, respectively.

##### **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 (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.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**9. Postretirement Benefits (continued)**

The assumed health care cost trend rate used was 8% in 2009 reaching an ultimate trend rate of 5% in 2015 and later. If the health care cost trend rate was increased by 1%, the periodic expense would be increased by \$75. If the health care cost trend rate was decreased by 1%, the periodic expense would be decreased by \$65.

**Postretirement Benefit Costs**

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

Included in unrestricted net assets at September 30, 2009 and 2008 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<b>2009</b>		<b>2008</b>	
	<b>Pension</b>	<b>Insurance</b>	<b>Pension</b>	<b>Insurance</b>
Unrecognized actuarial (loss) gain	\$ (84,349)	\$ (797)	\$ (37,693)	\$ 1,466
Unrecognized prior service (cost) credit	(302)	–	(378)	845
	<b>\$ (84,651)</b>	<b>\$ (797)</b>	<b>\$ (38,071)</b>	<b>\$ 2,311</b>

The actuarial loss and prior service credit included in unrestricted net assets at September 30, 2009 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2010 are as follows:

	<b>Pension</b>
Unrecognized actuarial loss	\$ 3,967
Unrecognized prior service credit	61
	<b>\$ 4,028</b>

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**9. Postretirement Benefits (continued)**

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, 2009 and 2008:

	2009		2008	
	Pension	Insurance	Pension	Insurance
Change in benefit obligations:				
Benefit obligations, at beginning of year	\$ 169,070	\$ 17,145	\$ 161,486	\$ 17,555
Effect of eliminating early measurement date	(14,958)	(1,103)	–	–
Service cost	4,620	38	5,632	51
Interest cost	11,445	1,130	10,490	1,079
Actuarial loss (gain)	47,613	3,066	(4,541)	(27)
Benefits paid	(4,400)	(1,707)	(3,997)	(1,685)
Federal subsidy on benefits paid	–	133	–	172
Benefit obligations, at end of year	<b>213,390</b>	<b>18,702</b>	169,070	17,145
Change in plan assets at fair value:				
Plan assets, beginning of year	105,090	–	112,235	–
Effect of eliminating early measurement date	(6,075)	–	–	–
Actual return on plan assets	(763)	–	(9,948)	–
Employer contribution	4,464	1,574	6,800	1,513
Benefits paid	(4,400)	(1,707)	(3,997)	(1,685)
Federal subsidy on benefits paid	–	133	–	172
Plan assets, end of year	<b>98,316</b>	–	105,090	–
Funded status of plan	<b>(115,074)</b>	<b>(18,702)</b>	(63,980)	(17,145)
Contributions made after measurement date	–	–	–	406
Accrued postretirement benefit cost	<b>\$ (115,074)</b>	<b>\$ (18,702)</b>	\$ (63,980)	\$ (16,739)

The measurement date for the postretirement obligations in the table above is September 30, 2009 for fiscal 2009 and June 30, 2008 for fiscal 2008. The following assumptions were used in calculating and determining the actuarial present value of the accumulated benefit obligations at September 30, 2009 and 2008:

	2009		2008	
	Pension	Insurance	Pension	Insurance
Discount rate at year-end	5.60%	5.60%	6.35%	6.35%
Long-term rate of return on plan assets	7.75%	N/A	8.50%	N/A
Average rate of increase in compensation	3.00%	3.00%	3.00%	3.00%

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**9. Postretirement Benefits (continued)**

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.

The accumulated benefit obligation at September 30, 2009 and 2008 was \$183,563 and \$144,759, respectively.

Net postretirement benefit costs for fiscal 2009 and 2008 included the following components:

	2009		2008	
	Pension	Insurance	Pension	Insurance
Service cost – benefits earned during the period	\$ 4,620	\$ 38	\$ 5,632	\$ 51
Interest cost on projected benefit obligation	11,445	1,130	10,490	1,079
Expected return on plan assets	(9,192)	–	(9,165)	–
Amortization of unrecognized net (gain) loss	–	(190)	1,121	–
Amortization of prior service cost	61	(663)	61	(679)
Net periodic benefit cost	\$ 6,934	\$ 315	\$ 8,139	\$ 451

**Contributions**

The System expects to contribute approximately \$9,200 to its defined benefit pension plan and approximately \$1,800 to its medical and life insurance plan in fiscal 2010.

Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(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
2010	\$ 5,004	\$ 1,488	\$ 134
2011	5,715	1,525	134
2012	6,308	1,563	132
2013	7,012	1,585	130
2014	7,784	1,597	125
Years 2015-2019	53,185	7,905	537

**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 System's defined benefit pension plan allocations at September 30, 2009 and 2008, by asset category, are as follows:

Asset Category	2009	2008
Equity securities	<b>52.4%</b>	53.8%
Debt securities	<b>15.1</b>	13.3
Cash and accrued income	<b>32.5</b>	32.9
Total	<b>100.0%</b>	100.0%

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(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, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Health care services	85%	85%
Administrative and general	15	15
	<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 \$10,313 and \$9,927 for the years ended September 30, 2009 and 2008, respectively. Minimum future rental commitments on all noncancelable operating leases with initial or remaining terms of more than one year are as follows: \$3,515 in 2010; \$2,916 in 2,011; \$2,000 in 2012; \$1,213 in 2013; \$760 in 2014; and \$3,291 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.

## Saint Raphael Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(In thousands)*

#### **12. Fair Value Measurements**

As described in Note 1, on October 1, 2008, the System adopted the methods of calculating fair value defined in ASC 820-10 to value its financial assets and liabilities, when applicable. ASC 820-10 defines fair value as 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 and establishes a framework for measuring fair value. ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity'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.

ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.



Saint Raphael Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In thousands)

**12. Fair Value Measurements (continued)**

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

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

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

The fair value of CHEFA Series H bonds, determined using quoted market prices at the valuation date, was approximately \$21,822 and \$24,349 at September 30, 2009 and September 30, 2008, respectively. As the Series L and M bonds have variable interest rates, fair value is considered to be equal to carrying value.

## Other Financial Information

## Report of Independent Auditors on Other Financial Information

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

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

*Ernst & Young LLP*

February 17, 2010

# Saint Raphael Healthcare System, Inc. and Subsidiaries

## Consolidating Balance Sheet

September 30, 2009

*(In thousands)*

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
<b>Assets</b>									
Current assets:									
Cash and cash equivalents	\$ 21,037	\$ 2	\$ 168	\$ 5,021	\$ 109	\$ 256	\$ 163	\$ -	\$ 26,756
Short-term investments	-	-	-	-	-	-	-	-	-
Receivables:									
Patient care, net of allowance for doubtful accounts of \$27,267	53,666	1,511	-	-	985	-	-	-	56,162
Due from third-party payers	3,545	-	-	-	-	-	-	-	3,545
Other receivables	2,113	-	-	3,098	114	-	-	-	5,325
Total receivables	59,324	1,511	-	3,098	1,099	-	-	-	65,032
Due from affiliates	8,130	-	-	-	56	69	707	(8,962)	-
Current portion of assets limited as to use	1,903	1	-	-	-	-	-	-	1,904
Inventories	7,867	70	-	-	-	-	-	-	7,937
Other current assets	371	-	-	-	98	-	8	-	477
Total current assets	98,632	1,584	168	8,119	1,362	325	878	(8,962)	102,106
Long-term investments	1,499	-	-	-	-	-	-	-	1,499
Assets limited as to use:									
Net funds held in escrow pursuant to tax- exempt bond agreements	8,179	107	-	-	-	-	-	-	8,286
Funds held in trust for estimated workers' compensation liabilities	7,328	-	-	-	-	-	-	-	7,328
Other investments	79,712	1,180	-	13,706	9	-	-	(21,038)	73,569
Less current portion	(1,903)	(1)	-	-	-	-	-	-	(1,904)
Total assets limited as to use, net of current portion	93,316	1,286	-	13,706	9	-	-	(21,038)	87,279
Property and equipment, net	100,117	6,216	-	-	897	-	20	-	107,250
Other long-term assets	2,871	171	-	4,885	6,910	-	567	(5)	15,399
Total assets	\$ 296,435	\$ 9,257	\$ 168	\$ 26,710	\$ 9,178	\$ 325	\$ 1,465	\$ (30,005)	\$ 313,533

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2009

*(In thousands)*

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
<b>Liabilities and net assets</b>									
Current liabilities:									
Accounts payable and accrued expenses	\$ 57,138	\$ 1,297	\$ –	\$ 32	\$ 1,163	\$ 56	\$ 2,423	\$ –	\$ 62,109
Interest payable	457	18	–	–	–	–	–	–	475
Due to third-party payers	1,494	572	–	–	–	–	–	–	2,066
Due to affiliates	69	4,607	–	636	2,141	–	1,509	(8,962)	–
Current portion of postretirement benefit obligations	11,000	–	–	–	–	–	–	–	11,000
Current portion of long-term debt	4,787	–	–	–	11	–	–	–	4,798
Long-term debt classified as payable in one year	69,578	6,979	–	–	–	–	–	–	76,557
Total current liabilities	144,523	13,473	–	668	3,315	56	3,932	(8,962)	157,005
Estimated workers' compensation liabilities	7,839	–	–	–	–	–	–	–	7,839
Postretirement benefit obligations, net of current portion	122,776	–	–	–	–	–	–	–	122,776
Long-term debt, net of current portion and amounts classified as payable in one year	3,187	–	–	–	36	–	–	–	3,223
Other long-term liabilities	42,257	44	–	67	–	–	210	–	42,578
Total liabilities	320,582	13,517	–	735	3,351	56	4,142	(8,962)	333,421
Net assets:									
Unrestricted	(52,531)	(5,395)	168	(25)	5,813	269	(2,677)	(5)	(54,383)
Temporarily restricted specific purpose	15,697	792	–	11,798	14	–	–	(11,131)	17,170
Permanently restricted endowment	12,687	343	–	14,202	–	–	–	(9,907)	17,325
Total net assets	(24,147)	(4,260)	168	25,975	5,827	269	(2,677)	(21,043)	(19,888)
Total liabilities and net assets	\$ 296,435	\$ 9,257	\$ 168	\$ 26,710	\$ 9,178	\$ 325	\$ 1,465	\$ (30,005)	\$ 313,533

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2008

(In thousands)

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
<b>Assets</b>									
Current assets:									
Cash and cash equivalents	\$ 11,377	\$ 2	\$ 247	\$ 2,485	\$ 143	\$ 256	\$ 161	\$ -	\$ 14,671
Short-term investments	3,935	-	-	-	-	-	-	-	3,935
Receivables:									
Patient care, net of allowance for doubtful accounts of \$28,336	50,102	1,265	-	-	1,439	-	-	-	52,806
Due from third-party payers	5,228	-	-	-	-	-	-	-	5,228
Other receivables	2,083	-	-	4,494	54	-	-	(2)	6,629
Total receivables	57,413	1,265	-	4,494	1,493	-	-	(2)	64,663
Due from affiliates	7,847	-	-	-	56	70	328	(8,301)	-
Current portion of assets limited as to use	1,339	19	-	-	-	-	-	-	1,358
Inventories	7,965	48	-	-	166	-	-	-	8,179
Other current assets	310	-	-	-	215	-	7	-	532
Total current assets	90,186	1,334	247	6,979	2,073	326	496	(8,303)	93,338
Long-term investments	6,006	-	-	-	-	-	-	-	6,006
Assets limited as to use:									
Net funds held in escrow pursuant to tax-exempt bond agreements	8,777	127	-	-	-	-	-	-	8,904
Funds held in trust for estimated workers' compensation liabilities	8,678	-	-	-	-	-	-	-	8,678
Other investments	92,229	2,677	-	14,149	1,138	-	-	(23,868)	86,325
Less current portion	(1,339)	(19)	-	-	-	-	-	-	(1,358)
Total assets limited as to use, net of current portion	108,345	2,785	-	14,149	1,138	-	-	(23,868)	102,549
Property and equipment, net	106,007	6,788	-	-	1,611	-	29	-	114,435
Other long-term assets	6,249	183	-	4,789	7,092	-	621	(5)	18,929
Total assets	\$ 316,793	\$ 11,090	\$ 247	\$ 25,917	\$ 11,914	\$ 326	\$ 1,146	\$ (32,176)	\$ 335,257

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2008

*(In thousands)*

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
<b>Liabilities and net assets</b>									
Current liabilities:									
Accounts payable and accrued expenses	\$ 53,602	\$ 1,251	\$ –	\$ 39	\$ 1,122	\$ 57	\$ 174	\$ (5)	\$ 56,240
Interest payable	636	27	–	–	–	–	–	–	663
Due to third-party payers	1,708	572	–	–	–	–	–	–	2,280
Due to affiliates	70	5,455	–	218	1,574	–	984	(8,301)	–
Current portion of postretirement benefit obligations	10,800	–	–	–	–	–	–	–	10,800
Current portion of long-term debt	4,617	–	–	–	36	–	–	–	4,653
Long-term debt classified as payable in one year	73,185	6,979	–	–	–	–	–	–	80,164
Total current liabilities	144,618	14,284	–	257	2,732	57	1,158	(8,306)	154,800
Estimated workers' compensation liabilities	8,856	–	–	–	–	–	–	–	8,856
Postretirement benefit obligations, net of current portion	69,919	–	–	–	–	–	–	–	69,919
Long-term debt, net of current portion and amounts classified as payable in one year	4,384	–	–	–	46	–	–	–	4,430
Other long-term liabilities	47,864	40	–	127	–	–	129	–	48,160
Total liabilities	275,641	14,324	–	384	2,778	57	1,287	(8,306)	286,165
Net assets:									
Unrestricted	9,528	(5,871)	247	(3,282)	9,130	269	(141)	(5)	9,875
Temporarily restricted specific purpose	18,909	2,245	–	14,441	6	–	–	(13,932)	21,669
Permanently restricted endowment	12,715	392	–	14,374	–	–	–	(9,933)	17,548
Total net assets	41,152	(3,234)	247	25,533	9,136	269	(141)	(23,870)	49,092
Total liabilities and net assets	\$ 316,793	\$ 11,090	\$ 247	\$ 25,917	\$ 11,914	\$ 326	\$ 1,146	\$ (32,176)	\$ 335,257

Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2009

*(In thousands)*

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



Saint Raphael Healthcare System, Inc. and Subsidiaries

Consolidating Statement of Operations (continued)

Year Ended September 30, 2008

*(In thousands)*

	Consolidated Hospital of Saint Raphael	Sister Anne Virginie Grimes Health Center	Auxiliary	Saint Raphael Foundation, Inc.	DePaul Health Services Corporation	Xavier Services Corporation	Parent	Eliminations	Consolidated Total
Unrestricted revenues and other support:									
Net patient service revenue	\$ 422,760	\$ 12,131	\$ –	\$ –	\$ 10,088	\$ –	\$ –	\$ –	\$ 444,979
Other revenues, net	23,815	18	–	1,536	267	–	–	(1,536)	24,100
Net assets released from restrictions, used in operations	3,411	–	–	–	–	–	–	–	3,411
Total unrestricted revenues and other support	449,986	12,149	–	1,536	10,355	–	–	(1,536)	472,490
Expenses:									
Compensation, related fringe benefits, and fees	301,007	9,551	–	1,093	10,216	–	59	(944)	320,982
Supplies and other	126,885	2,751	–	282	3,111	–	103	(279)	132,853
Depreciation and amortization	18,677	646	–	–	595	–	9	–	19,927
Interest	3,994	304	–	–	17	–	–	–	4,315
Provision for uncollectible accounts	21,669	692	–	–	650	–	–	–	23,011
Total operating expenses	472,232	13,944	–	1,375	14,589	–	171	(1,223)	501,088
Operating (loss) income	(22,246)	(1,795)	–	161	(4,234)	–	(171)	(313)	(28,598)
Nonoperating (loss) income:									
Realized investment losses for capital preservation <i>(Notes 1 and 4)</i>	–	–	–	–	–	–	–	–	–
Other <i>(Note 1)</i>	1,699	–	(6)	–	1,736	–	–	(608)	2,821
Nonoperating (loss) income, net	1,699	–	(6)	–	1,736	–	–	(608)	2,821
Net (loss) income before loss on discontinued operations, change in unrealized (depreciation) appreciation of investments, and realized and unrealized loss on interest rate swap agreement	(20,547)	(1,795)	(6)	161	(2,498)	–	(171)	(921)	(25,777)
Change in unrealized appreciation (depreciation) appreciation of investments	(8,136)	–	–	(162)	(465)	–	–	–	(8,763)
Realized and unrealized loss on interest rate swap agreement	(967)	(67)	–	–	–	–	–	–	(1,034)
Net loss	\$ (29,650)	\$ (1,862)	\$ (6)	\$ (1)	\$ (2,963)	\$ –	\$ (171)	\$ (921)	\$ (35,574)

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Balance Sheet

September 30, 2009

(In thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 21,037	\$ -	\$ -	\$ -	\$ 21,037
Receivables:					
Patient care, net of allowance for doubtful accounts of \$24,690	53,666	-	-	-	53,666
Due from third-party payers	3,545	-	-	-	3,545
Other receivables	2,113	-	-	-	2,113
Total receivables	59,324	-	-	-	59,324
Due from affiliates	8,130	-	-	-	8,130
Current portion of assets limited as to use	1,903	-	-	-	1,903
Inventories	7,867	-	-	-	7,867
Other current assets	371	-	-	-	371
Total current assets	98,632	-	-	-	98,632
Long-term investments	1,499	-	-	-	1,499
Assets limited as to use:					
Net funds held in escrow pursuant to tax- exempt bond agreements	8,179	-	-	-	8,179
Funds held in trust for estimated workers' compensation liabilities	7,328	-	-	-	7,328
Other investments	41,607	30,572	15,403	(7,870)	79,712
Less current portion	(1,903)	-	-	-	(1,903)
Total assets limited as to use, net of current portion	55,211	30,572	15,403	(7,870)	93,316
Property and equipment, net	100,117	-	-	-	100,117
Other long-term assets	2,871	-	-	-	2,871
Total assets	\$ 258,330	\$ 30,572	\$ 15,403	\$ (7,870)	\$ 296,435

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Balance Sheet (continued)

September 30, 2009

(In thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 57,138	\$ —	\$ —	\$ —	\$ 57,138
Interest payable	457	—	—	—	457
Due to third-party payers	1,494	—	—	—	1,494
Due to affiliates	69	—	—	—	69
Current portion of postretirement benefit obligations	11,000	—	—	—	11,000
Current portion of long-term debt	4,787	—	—	—	4,787
Long-term debt classified as payable in one year	69,578	—	—	—	69,578
Total current liabilities	144,523	—	—	—	144,523
Estimated workers' compensation liabilities	7,839	—	—	—	7,839
Postretirement benefit obligations, net of current portion	122,776	—	—	—	122,776
Long-term debt, net of current portion and amounts classified as payable in one year	3,187	—	—	—	3,187
Other long-term liabilities	10,735	25,930	5,592	—	42,257
Total liabilities	289,060	25,930	5,592	—	320,582
Net assets:					
Unrestricted	(59,114)	4,642	9,811	(7,870)	(52,531)
Temporarily restricted specific purpose	15,697	—	—	—	15,697
Permanently restricted endowment	12,687	—	—	—	12,687
Total net assets	(30,730)	4,642	9,811	(7,870)	(24,147)
Total liabilities and net assets	\$ 258,330	\$ 30,572	\$ 15,403	\$ (7,870)	\$ 296,435

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Balance Sheet (continued)

September 30, 2008

*(In thousands)*

	<b>Hospital of Saint Raphael</b>	<b>Lukan Indemnity Company, Ltd.</b>	<b>Caritas Insurance Company, Ltd.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 11,377	\$ —	\$ —	\$ —	\$ 11,377
Short-term investments	3,935	—	—	—	3,935
Receivables:					
Patient care, net of allowance for doubtful accounts of \$25,900	50,102	—	—	—	50,102
Due from third-party payers	5,228	—	—	—	5,228
Other receivables	2,083	—	—	—	2,083
Total receivables	57,413	—	—	—	57,413
Due from affiliates	7,872	—	—	(25)	7,847
Current portion of assets limited as to use	1,339	—	—	—	1,339
Inventories	7,965	—	—	—	7,965
Other current assets	310	—	—	—	310
Total current assets	90,211	—	—	(25)	90,186
Long-term investments	6,006	—	—	—	6,006
Assets limited as to use:					
Net funds held in escrow pursuant to tax- exempt bond agreements	8,777	—	—	—	8,777
Funds held in trust for estimated workers' compensation liabilities	8,678	—	—	—	8,678
Other investments	44,826	33,271	22,010	(7,878)	92,229
Less current portion	(1,339)	—	—	—	(1,339)
Total assets limited as to use, net of current portion	60,942	33,271	22,010	(7,878)	108,345
Property and equipment, net	106,007	—	—	—	106,007
Other long-term assets	6,249	—	—	—	6,249
Total assets	<u>\$ 269,415</u>	<u>\$ 33,271</u>	<u>\$ 22,010</u>	<u>\$ (7,903)</u>	<u>\$ 316,793</u>

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Balance Sheet (continued)

September 30, 2008

(In thousands)

	Hospital of Saint Raphael	Lukan Indemnity Company, Ltd.	Caritas Insurance Company, Ltd.	Eliminations	Total
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 53,602	\$ —	\$ —	\$ —	\$ 53,602
Interest payable	636	—	—	—	636
Due to third-party payers	1,708	—	—	—	1,708
Due to affiliates	70	25	8	(33)	70
Current portion of postretirement benefit obligations	10,800	—	—	—	10,800
Current portion of long-term debt	4,617	—	—	—	4,617
Long-term debt classified as payable in one year	73,185	—	—	—	73,185
Total current liabilities	144,618	25	8	(33)	144,618
Estimated workers' compensation liabilities	8,856	—	—	—	8,856
Postretirement benefit obligations, net of current portion	69,919	—	—	—	69,919
Long-term debt, net of current portion and amounts classified as payable in one year	4,384	—	—	—	4,384
Other long-term liabilities	12,519	25,780	9,565	—	47,864
Total liabilities	240,296	25,805	9,573	(33)	275,641
Net assets:					
Unrestricted	(2,505)	7,466	12,437	(7,870)	9,528
Temporarily restricted	18,909	—	—	—	18,909
Permanently restricted	12,715	—	—	—	12,715
Total net assets	29,119	7,466	12,437	(7,870)	41,152
Total liabilities and net assets	\$ 269,415	\$ 33,271	\$ 22,010	\$ (7,903)	\$ 316,793

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Statement of Operations

Year Ended September 30, 2009

(In thousands)

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

**Hospital of Saint Raphael and Subsidiaries**  
**Consolidating Statement of Operations (continued)**

Year Ended September 30, 2008  
*(In thousands)*

	<b>Hospital of Saint Raphael</b>	<b>Lukan Indemnity Company, Ltd.</b>	<b>Caritas Insurance Company, Ltd.</b>	<b>Eliminations</b>	<b>Total</b>
Unrestricted revenues and other support:					
Net patient service revenue	\$ 422,760	\$ -	\$ -	\$ -	\$ 422,760
Other revenues, net	20,476	4,861	2	(1,524)	23,815
Net assets released from restrictions, used in operations	3,411	-	-	-	3,411
<b>Total unrestricted revenues and other support</b>	<b>446,647</b>	<b>4,861</b>	<b>2</b>	<b>(1,524)</b>	<b>449,986</b>
Expenses:					
Compensation, related fringe benefits, and fees	301,007	-	-	-	301,007
Supplies and other	117,389	8,166	2,830	(1,500)	126,885
Depreciation and amortization	18,677	-	-	-	18,677
Interest	4,018	-	-	(24)	3,994
Provision for uncollectible accounts	21,699	-	-	-	21,669
<b>Total operating expenses</b>	<b>462,760</b>	<b>8,166</b>	<b>2,830</b>	<b>(1,524)</b>	<b>472,232</b>
<b>Operating loss</b>	<b>(16,113)</b>	<b>(3,305)</b>	<b>(2,828)</b>	<b>-</b>	<b>(22,246)</b>
Nonoperating (loss) income::					
Realized investment losses for capital preservation <i>(Notes 1 and 4)</i>	-	-	-	-	-
Other <i>(Note 1)</i>	1,699	-	-	-	1,699
<b>Nonoperating (loss) income, net</b>	<b>1,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,699</b>
Net loss before change in unrealized (depreciation) of investments and realized and unrealized loss on interest swap agreement					
	(14,414)	(3,305)	(2,828)	-	(20,547)
Change in unrealized appreciation (depreciation) of investments					
	(1,986)	(2,191)	(3,959)	-	(8,136)
Realized and unrealized loss on interest rate swap agreement					
	(967)	-	-	-	(967)
<b>Net loss</b>	<b>\$ (17,367)</b>	<b>\$ (5,496)</b>	<b>\$ (6,787)</b>	<b>\$ -</b>	<b>\$ (29,650)</b>