



# CareGroup

HEALTHCARE SYSTEM

August 26, 2011

Ms. Shana Shanks  
Digital Assurance Certification, LLC

Dear Shana,

Pursuant to CareGroup's requirements under each Continuing Disclosure Agreement Section 4 for the following debt issues, Series E-1 and E-2, dated June 9, 2008, Series D, dated August 3, 2004, Series A and B dated January 15, 1998, and Beth Israel Hospital issue Series H, dated April 24, 1996, attached is the following data for the quarter and nine-months ended June 30, 2011:

CareGroup, Inc. and Subsidiaries – Consolidated Balance Sheets

CareGroup, Inc. and Subsidiaries – Summary of Consolidated Statements of Operations and Changes in Unrestricted Net Assets

CareGroup, Inc. – Obligated Group Consolidated Utilization

CareGroup, Inc. – Aggregate Payor Mix

Sincerely,

John T. Szum  
Executive Vice President and Chief Financial Officer

(This Report is Dated August 26, 2011)

**CareGroup, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

(in thousands of dollars)

	(Unaudited)			
	June 2011		June 2010	
Assets	Obligated Group	Total CareGroup	Obligated Group	Total CareGroup
Current assets:				
Cash and cash equivalents	\$ 185,887	\$ 227,548	\$ 168,513	\$ 205,111
Investments	544,122	640,472	468,290	557,601
Patient accounts receivable, net	209,910	236,479	191,872	218,619
Other current assets	75,829	80,965	76,761	83,565
Total current assets	<u>1,015,748</u>	<u>1,185,464</u>	<u>905,436</u>	<u>1,064,896</u>
Assets limited or restricted as to use:				
Held by trustees under debt and other agreements	67,887	67,887	72,588	72,588
Held for specific purposes and endowments	205,380	205,391	192,775	192,806
	<u>273,267</u>	<u>273,278</u>	<u>265,363</u>	<u>265,394</u>
Long-term investments	25,677	45,075	22,560	40,828
Property and equipment, net	812,194	817,065	813,936	818,746
Contributions receivable, net	8,290	8,290	13,651	13,651
Debt issuance costs, net	6,807	6,807	7,534	7,534
Other assets	6,471	6,471	6,016	6,016
Total assets	<u>\$ 2,148,454</u>	<u>\$ 2,342,450</u>	<u>\$ 2,034,496</u>	<u>\$ 2,217,065</u>
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Current portion of long-term debt	\$ 25,057	\$ 25,057	\$ 24,131	\$ 24,131
Accounts payable and accrued expenses	235,750	263,164	240,193	267,336
Estimated settlements with third-party payors	50,406	50,406	29,607	29,957
Total current liabilities	311,213	338,627	293,931	321,424
Long-term debt	627,494	627,494	653,305	653,305
Professional liability	7,590	22,068	6,780	20,839
Pension liability	125,792	125,792	111,647	111,647
Postretirement benefits	14,715	14,715	13,829	13,829
Deferred gains on sale of real estate	19,349	19,349	20,384	20,384
Other liabilities	20,017	21,728	19,843	21,864
Total liabilities	<u>1,126,170</u>	<u>1,169,773</u>	<u>1,119,719</u>	<u>1,163,292</u>
Net assets:				
Unrestricted	808,214	958,596	708,563	847,528
Temporarily restricted	147,670	147,681	141,367	141,398
Permanently restricted	66,400	66,400	64,847	64,847
Total net assets	<u>1,022,284</u>	<u>1,172,677</u>	<u>914,777</u>	<u>1,053,773</u>
Total liabilities and net assets	<u>\$ 2,148,454</u>	<u>\$ 2,342,450</u>	<u>\$ 2,034,496</u>	<u>\$ 2,217,065</u>

(This Report is Dated August 26, 2011)

**CareGroup, Inc. and Subsidiaries**  
**Summary of Consolidated Statements of Operations**  
**and Changes in Unrestricted Net Assets**

(in thousands of dollars)

(Unaudited)

	Three months ended June 2011		Three months ended June 2010	
	Obligated Group	Total CareGroup	Obligated Group	Total CareGroup
Operating revenue:				
Net patient service revenue	\$ 442,897	\$ 514,151	\$ 427,454	\$ 500,978
Research revenue	62,896	62,896	54,865	54,865
Contributions and investment income	5,964	6,042	1,405	1,461
Other revenue	25,064	29,587	23,273	30,243
	<u>536,821</u>	<u>612,676</u>	<u>506,997</u>	<u>587,547</u>
Operating expenses:				
Salaries and benefits	268,403	343,281	257,024	331,076
Supplies and other expenses	191,894	188,497	180,606	178,892
Uncompensated care	12,728	16,013	17,808	21,916
Depreciation	26,648	27,057	26,378	26,892
Interest	8,175	8,178	8,245	8,262
	<u>507,848</u>	<u>583,026</u>	<u>490,061</u>	<u>567,038</u>
Income from operations	<u>28,973</u>	<u>29,650</u>	<u>16,936</u>	<u>20,509</u>
Nonoperating gains:				
Net realized gains on sales of investment securities	1,987	2,805	2,223	2,578
Unrealized change in equity interests in limited partnerships	2,527	2,876	(4,981)	(6,202)
	<u>4,514</u>	<u>5,681</u>	<u>(2,758)</u>	<u>(3,624)</u>
Excess of revenue over expenses	33,487	35,331	14,178	16,885
Change in net unrealized gains on investments	595	547	(4,203)	(5,376)
Net assets released from restrictions used for purchase of property and equipment	1,515	1,515	1,184	1,184
Transfers (to) from affiliates	(502)	—	(386)	—
Increase in unrestricted net assets	<u>\$ 35,095</u>	<u>\$ 37,393</u>	<u>\$ 10,773</u>	<u>\$ 12,693</u>

In 2010, Beth Israel Deaconess Medical Center, Inc. ("BIDMC"), a subsidiary of CareGroup, Inc. ("CareGroup") received a subpoena from the Office of the Inspector General of the United States Department of Health and Human Services ("OIG"), working in coordination with the United States Department of Justice and the Civil Division of the United States Attorney's Office for the District of Massachusetts (collectively "DOJ"). The subpoena seeks documents and other information related to short-stay admissions during the period June 1, 2004 through February 4, 2010. BIDMC has provided information requested by the subpoena and is cooperating in the matter. BIDMC and the OIG/DOJ have executed a series of tolling agreements related to this matter. Discussions between counsel for BIDMC and OIG/DOJ are ongoing. At this time, no prediction can be made about the outcome of this matter. However, based on the universe of claims that may be involved in this matter, an adverse determination with respect to the appropriateness of reimbursement for these cases could have an adverse effect on the consolidated financial statements.

In 2010, CareGroup agreed to an \$8.5 million settlement to resolve a class action suit brought against CareGroup's four hospitals and their affiliates over claims of certain unpaid wages. The settlement resolved all asserted claims for employees who worked at the hospitals or at some of their affiliates, on or after September 3, 2006. As a result, CareGroup recorded an \$8.5 million charge in salaries and benefits in the month of March, 2010.

(This Report is Dated August 26, 2011)

**CareGroup, Inc. and Subsidiaries**  
**Summary of Consolidated Statements of Operations**  
**and Changes in Unrestricted Net Assets**

(in thousands of dollars)

(Unaudited)

	Nine months ended June 2011		Nine months ended June 2010	
	Obligated Group	Total CareGroup	Obligated Group	Total CareGroup
Operating revenue:				
Net patient service revenue	\$ 1,290,318	\$ 1,502,919	\$ 1,252,382	\$ 1,464,121
Research revenue	179,980	179,980	160,503	160,503
Contributions and investment income	12,211	12,611	7,404	7,652
Other revenue	72,887	90,464	68,485	87,779
	1,555,396	1,785,974	1,488,774	1,720,055
Operating expenses:				
Salaries and benefits	802,696	1,032,061	764,257	985,688
Supplies and other expenses	568,135	557,976	535,567	526,251
Uncompensated care	38,849	48,527	41,292	54,049
Depreciation	80,062	81,472	77,515	79,053
Interest	24,522	24,529	24,824	24,877
	1,514,264	1,744,565	1,443,455	1,669,918
Income from operations	41,132	41,409	45,319	50,137
Nonoperating gains:				
Net realized gains on sales of investment securities	7,769	10,091	6,741	8,363
Unrealized change in equity interests in limited partnerships	19,253	22,630	10,255	11,987
	27,022	32,721	16,996	20,350
Excess of revenue over expenses	68,154	74,130	62,315	70,487
Change in net unrealized gains on investments	4,154	4,926	(1,700)	(1,817)
Net assets released from restrictions used for purchase of property and equipment on interest rate swaps	5,813	5,813	4,689	4,689
Transfers (to) from affiliates	(1,175)	—	(1,082)	—
Other	—	—	(1,349)	(1,349)
Increase in unrestricted net assets	\$ 76,946	\$ 84,869	\$ 62,873	\$ 72,010

(This Report is Dated August 26, 2011)

**CareGroup, Inc. and Subsidiaries**  
**Obligated Group Consolidated Utilization**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>June</b>	<b>June</b>	<b>June</b>	<b>June</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Licensed beds	990	980	990	980
Beds in service	969	959	969	959
Discharges (excluding newborns)	14,786	15,446	43,868	44,559
Patient days (excluding newborns)	64,326	66,098	198,124	195,217
Average length of stay (days)	4.4	4.3	4.5	4.4
Percentage occupancy (of beds in service)	72.9%	75.7%	74.9%	74.6%
Observation cases	4,414	3,617	12,120	10,459
Ambulatory surgery cases	7,377	7,444	21,804	22,070
Emergency room visits	27,747	27,705	80,863	79,873

Note - The financial information furnished herein is unaudited. The audited consolidated financial statements of CareGroup and subsidiaries for fiscal years ended September 30, 2010 and 2009, are on file pursuant to the Continuing Disclosure Agreement, with the Nationally Recognized Municipal Securities Information Repositories and the information contained therein is hereby incorporated in this Quarterly Report by reference. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in CareGroup and subsidiaries most recent audited financial statements have been omitted.

Patient volumes and revenue are subject to seasonal variations caused by a number of factors, including, but not necessarily limited to, seasonal cycles of illness, climate and weather conditions, vacation patterns of both hospital patients and admitting physicians and other factors relating to the timing of elective hospital procedures. Quarterly operating results are not necessarily representative of operations for a full year for various reasons, including levels of occupancy and other patient volumes, interest rates, unusual or non-recurring items and other seasonal fluctuations. These same considerations apply to all year-to-year comparisons.

(This Report is Dated August 26, 2011)

**CareGroup, Inc. and Subsidiaries**  
**Obligated Group Consolidated Payor Mix**  
**(Percent of Hospital Gross Patient Service Revenue by Payor)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>June</b>	<b>June</b>	<b>June</b>	<b>June</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Blue Cross	22%	23%	22%	24%
Commercial	3%	3%	3%	3%
Managed Care	23%	23%	23%	23%
Medicaid	10%	10%	9%	10%
Medicare	38%	37%	38%	36%
Self Pay and Other	<u>4%</u>	<u>4%</u>	<u>5%</u>	<u>4%</u>
Total *	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

\* For payors that have both traditional and managed care plans, revenue has been included with the payor, not in the managed care classification.