



# CareGroup

HEALTHCARE SYSTEM

December 14, 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 twelve-months ended September 30, 2011:

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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,

/S

John T. Szum  
Executive Vice President and Chief Financial Officer

(This Report is Dated December 14, 2011)

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

(in thousands of dollars)

	(Unaudited)			
	Sept 2011		Sept 2010	
Assets	Obligated Group	Total CareGroup	Obligated Group	Total CareGroup
Current assets:				
Cash and cash equivalents	\$ 184,235	\$ 224,100	\$ 165,883	\$ 207,119
Investments	500,988	586,586	492,758	586,384
Patient accounts receivable, net	215,454	243,148	197,417	223,940
Other current assets	76,559	82,908	80,328	83,130
Total current assets	977,236	1,136,742	936,386	1,100,573
Assets limited or restricted as to use:				
Held by trustees under debt and other agreements	34,211	34,211	41,729	41,729
Held for specific purposes and endowments	190,073	190,073	198,938	198,949
	224,284	224,284	240,667	240,678
Long-term investments	30,986	54,891	28,148	46,908
Property and equipment, net	809,039	814,289	812,665	817,319
Contributions receivable, net	7,245	7,245	15,908	15,908
Debt issuance costs, net	6,456	6,456	7,301	7,301
Other assets	8,633	8,633	5,143	5,143
Total assets	\$ 2,063,879	\$ 2,252,540	\$ 2,046,218	\$ 2,233,830
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Current portion of long-term debt	\$ 26,255	\$ 26,255	\$ 25,041	\$ 25,041
Accounts payable and accrued expenses	204,246	232,876	214,069	242,874
Estimated settlements with third-party payors	48,798	48,798	42,143	42,143
Total current liabilities	279,299	307,929	281,253	310,058
Long-term debt	603,263	603,263	628,339	628,339
Professional liability	8,290	23,768	7,590	22,068
Pension liability	143,118	143,118	126,670	126,670
Postretirement benefits	15,413	15,413	15,833	15,833
Deferred gains on sale of real estate	19,153	19,153	20,207	20,207
Other liabilities	20,508	21,156	20,127	21,986
Total liabilities	1,089,044	1,133,800	1,100,019	1,145,161
Net assets:				
Unrestricted	776,788	920,693	731,268	873,727
Temporarily restricted	131,620	131,620	149,992	150,003
Permanently restricted	66,427	66,427	64,939	64,939
Total net assets	974,835	1,118,740	946,199	1,088,669
Total liabilities and net assets	\$ 2,063,879	\$ 2,252,540	\$ 2,046,218	\$ 2,233,830

(This Report is Dated December 14, 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 Sept 2011		Three months ended Sept 2010	
	Obligated Group	Total CareGroup	Obligated Group	Total CareGroup
Operating revenue:				
Net patient service revenue	\$ 429,779	\$ 499,383	\$ 418,738	\$ 493,278
Research revenue	62,787	62,787	62,832	62,832
Contributions and investment income	1,264	1,413	2,536	2,657
Other revenue	27,268	30,557	27,727	32,228
	<u>521,098</u>	<u>594,140</u>	<u>511,833</u>	<u>590,995</u>
Operating expenses:				
Salaries and benefits	235,141	308,201	236,931	313,369
Supplies and other expenses	222,245	219,177	214,761	213,930
Uncompensated care	11,396	14,807	9,143	13,547
Depreciation	23,996	24,568	25,717	26,322
Interest	7,885	7,886	8,153	8,186
	<u>500,663</u>	<u>574,639</u>	<u>494,705</u>	<u>575,354</u>
Income from operations	<u>20,435</u>	<u>19,501</u>	<u>17,128</u>	<u>15,641</u>
Nonoperating gains:				
Net realized gains on sales of investment securities	4,816	6,247	3,090	3,813
Unrealized change in equity interests in limited partnerships	(23,239)	(27,576)	11,984	14,256
Loss on extinguishment of debt	(2,131)	(2,131)	—	—
	<u>(20,554)</u>	<u>(23,460)</u>	<u>15,074</u>	<u>18,069</u>
Excess of revenue over expenses	(119)	(3,959)	32,202	33,710
Change in net unrealized gains on investments	(14,005)	(17,252)	4,589	6,009
Net assets released from restrictions used for purchase of property and equipment	1,306	1,306	2,344	2,344
Change in funded status of employee benefit plans other than net periodic pension cost	(17,998)	(17,998)	(15,864)	(15,864)
Transfers (to) from affiliates	(610)	—	(566)	—
Increase (decrease) in unrestricted net assets	<u>\$ (31,426)</u>	<u>\$ (37,903)</u>	<u>\$ 22,705</u>	<u>\$ 26,199</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 and discussions between counsel for BIDMC and OIG/DOJ are ongoing. It is not possible to state at this time whether and to what extent a liability will be imposed or a settlement will be reached.

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 December 14, 2011)

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

(in thousands of dollars)

(Unaudited)

	Year ended Sept 2011		Year ended Sept 2010	
	Obligated Group	Total CareGroup	Obligated Group	Total CareGroup
Operating revenue:				
Net patient service revenue	\$ 1,720,097	\$ 2,002,302	\$ 1,671,120	\$ 1,957,399
Research revenue	242,767	242,767	223,335	223,335
Contributions and investment income	13,475	14,024	9,940	10,309
Other revenue	100,155	121,021	96,212	120,007
	<u>2,076,494</u>	<u>2,380,114</u>	<u>2,000,607</u>	<u>2,311,050</u>
Operating expenses:				
Salaries and benefits	1,037,837	1,340,262	1,001,188	1,299,057
Supplies and other expenses	790,380	777,153	750,328	740,181
Uncompensated care	50,245	63,334	50,435	67,596
Depreciation	104,058	106,040	103,232	105,375
Interest	32,407	32,415	32,977	33,063
	<u>2,014,927</u>	<u>2,319,204</u>	<u>1,938,160</u>	<u>2,245,272</u>
Income from operations	<u>61,567</u>	<u>60,910</u>	<u>62,447</u>	<u>65,778</u>
Nonoperating gains:				
Net realized gains on sales of investment securities	12,585	16,338	9,831	12,176
Unrealized change in equity interests in limited partnerships	(3,986)	(4,946)	22,239	26,243
Loss on extinguishment of debt	(2,131)	(2,131)	—	—
	<u>6,468</u>	<u>9,261</u>	<u>32,070</u>	<u>38,419</u>
Excess of revenue over expenses	68,035	70,171	94,517	104,197
Change in net unrealized gains on investments	(9,851)	(12,326)	2,889	4,192
Net assets released from restrictions used for purchase of property and equipment	7,119	7,119	7,033	7,033
Change in funded status of employee benefit plans other than net periodic pension cost	(17,998)	(17,998)	(15,864)	(15,864)
Transfers (to) from affiliates	(1,785)	—	(1,648)	—
Other	—	—	(1,349)	(1,349)
Increase in unrestricted net assets	<u>\$ 45,520</u>	<u>\$ 46,966</u>	<u>\$ 85,578</u>	<u>\$ 98,209</u>

(This Report is Dated December 14, 2011)

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

	<b>Three months ended</b>		<b>Twelve months ended</b>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Licensed beds	1,041	980	1,041	980
Beds in service	977	958	972	959
Discharges (excluding newborns)	13,940	14,835	57,808	59,394
Patient days (excluding newborns)	62,956	66,317	261,080	261,534
Average length of stay (days)	4.5	4.5	4.5	4.4
Percentage occupancy (of beds in service)	70.0%	75.2%	73.6%	74.7%
Observation cases	4,949	3,717	17,069	14,176
Ambulatory surgery cases	7,166	6,937	28,970	29,007
Emergency room visits	27,888	27,959	108,751	107,832

Note - The financial information furnished herein is unaudited. The audited consolidated financial statements of CareGroup and subsidiaries for fiscal year ended September 30, 2010 is 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 December 14, 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>Twelve months ended</b>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Blue Cross	21%	22%	22%	23%
Commercial	3%	3%	3%	3%
Managed Care	24%	23%	23%	23%
Medicaid	9%	10%	9%	10%
Medicare	38%	37%	38%	37%
Self Pay and Other	<u>5%</u>	<u>5%</u>	<u>5%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>