

Franciscan Sisters of Christian Charity HealthCare Ministry, Inc.



Manitowoc, Wisconsin

Genesis HealthCare System

Zanesville, Ohio

COMBINED FINANCIAL STATEMENTS -- Unaudited

For the Six Months Ended June 30, 2011 and 2010

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<u>The Obligated Group consists of:</u>	
FSCC HealthCare Ministry, Inc. (FHCM), Manitowoc, WI (Corpora	
Holy Family Memorial, Inc. (HFM), Manitowoc, WI	
Franciscan Care Services, Inc. (FCS), West Point, NE	
St. Paul Elder Services, Inc. (SPES), Kaukauna, WI	
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**FRANCISCAN SISTERS OF CHRISTIAN CHARITY
HEALTHCARE MINISTRY, INC.**

Management's Discussion

For the six months ended June 30, 2011

The System

Franciscan Sisters of Christian Charity HealthCare Ministry, Inc. (FHCM) is a not-for-profit, non-stock, health care holding company. Its sole member is Holy Family Convent of the Franciscan Sisters of Christian Charity.

The financial statements include the accounts of the Obligated Group which consists of FHCM and its not-for-profit affiliates:

- ◆ Holy Family Memorial Hospital, Inc., Manitowoc, WI
 - Holy Family Memorial Hospital (167 licensed beds)
 - Physician clinics (60 employed physicians, 6 sites)
- ◆ Franciscan Care Services, Inc., West Point, NE
 - St. Francis Memorial Hospital (25-bed critical access hospital)
 - Physician clinics (6 employed physicians, 5 sites)
 - St. Joseph's Retirement community (63-unit assisted living facility)
- ◆ St. Paul Elder Services, Inc., Kaukauna, WI
 - St. Paul Home and St. Paul Recovery Inn (129 skilled nursing beds)
 - St. Paul Villa (89-unit assisted living facility)
 - Hospice and community outreach
- ◆ Good Samaritan Medical Center, Zanesville, OH

In addition, the following corporations are included in the consolidated financial statements:

- ◆ Holy Family Health Services, Inc., Manitowoc, WI
- ◆ North End Home Medical Services, LLC, Manitowoc, WI

In 1997 Good Samaritan and FHCM entered into an affiliation agreement with Bethesda Care System, an Ohio nonprofit corporation. Together Good Samaritan and Bethesda integrated operations under Genesis HealthCare System. Genesis comprises two hospital campuses with 289 total beds and other integrated services.

FHCM and Bethesda are 50 percent co-members of Genesis. FHCM accounts for Genesis on the equity method and reports its share of Genesis' earnings as other income.

FHCM Obligated Group

Holy Family Memorial and Franciscan Care Services have integrated delivery of care across a continuum. Several years ago both organizations established networks of employed physicians and physician assistants that are strategically and culturally aligned with the goals of the System. Holy Family Memorial's sophistication of electronic medical records and other information systems are recognized as among the top 1% nationwide. This technology provides an infrastructure for coordination of care, as well as optimization and efficiency. Lastly, the members of the System are market leaders in the communities they serve and have consistently maintained market share.

Six Months Ended June 30, 2011

For the six months ended June 30, 2011, operating income for Franciscan HealthCare Ministry, was \$2.8M compared to \$1.5M in 2010. Net income, including equity interest in Genesis HealthCare System and investment income, totaled \$10.4M, compared to \$2.1M for 2010.

From a balance sheet perspective, cash and board-designated funds grew by \$11.0M (14.3%) year over year due to solid operating results, prudent review of capital expenditures, and moderate investment returns. Days cash on hand increased from 177.3 to 201.4 year over year. Debt capitalization decreased over the prior year from 33.6% to 30.7%.

In June Thomson Reuters named FSCC HealthCare Ministry (including Genesis) in the top quintile of health systems. Winners of this award outperformed their peers by providing better care, following standards of care more closely, creating fewer patient complications and safety errors, and earning better overall patient satisfaction scores.

Holy Family Memorial is the largest member of the Obligated Group. Inpatient volume for the first half of the year was below last year but consistent with the trends of other local providers. Outpatient visits and surgeries continued their growth path, and year-over-year patient services revenue was level. Decreased expenses for supplies, bad debt and interest led to increased operating income of \$1.9M versus \$1.3M in 2010.

Franciscan Care Services had net operating income of \$800,000 and a 6.7% operating margin as volumes were considerably up from the prior year. In and outpatient surgeries were substantially higher as the facility builds its reputation for clinical expertise. The addition of a sixth employed physician one year ago has broadened the primary-care patient base, and Franciscan Care Services announced the third-quarter 2011 hiring of an orthopedic surgeon. Operating results at St. Joseph Retirement Community improved from a loss of \$56,000 in 2010 to a gain of \$22,000 in 2011.

St. Paul Elder Services had operating earnings of \$79,000 compared to \$73,000 in 2010. A 12-bed free-standing orthopedic surgery recovery inn opened in 2010. By transferring beds to St. Paul Recovery Inn, St. Paul's name recognition is growing in a new community and 24 private rooms were created, improving St. Paul Home's ability to attract residents. However, low inpatient activity at local hospitals is affecting the census at both St. Paul locations and growth in patient revenue was below target levels. St. Paul Villa, the assisted living complex on the main campus, consistently brings positive returns and boasts a tenant waiting list.

Genesis HealthCare System had YTD operating income of \$3.5M, compared to \$674,000 in prior year. Positive impact was derived from the purchase of the minority interest in the surgery center, improved staff utilization and higher volumes in most areas except heart procedures. In addition, the Northside Companies (pharmacies and DME) and the Community Ambulance Service did well. Genesis completed a \$55M taxable syndicated loan package and \$15M revolving credit facility. Approximately \$50M was used to refinance existing debt to improve cash flow.

The Genesis Medical Group now employs approximately 75 physicians. In further readiness for payment reform, additional modules of the EPIC electronic medical record system will be deployed throughout the year. In March, Thompson Reuters named Genesis as one of the Top 100 Hospitals. In July, Cleverly & Associates recognized Genesis with a Top 100 Community Value Leadership Award for quality and financial efficiency.

James Vopat
Senior Vice President, Finance

Franciscan Sisters of Christian Charity HealthCare Ministry and Affiliates
Unaudited Combined Balance Sheets
June 30, 2011

(\$'s in 000's)	Obligated Group (1)		Total FHCM	
	June 30		June 30	
	2011	2010	2011	2010
<u>Assets</u>				
Current Assets:				
Cash and short term investments	\$ 11,761	\$ 11,389	\$ 13,821	\$ 13,000
Patient accounts receivable	24,419	22,530	25,263	23,412
Other current assets	6,634	5,243	7,275	5,848
	42,814	39,162	46,359	42,259
Assets limited as to use:				
Board-designated funds	74,459	64,259	74,459	64,259
Trustee-held	6,170	6,942	6,170	6,942
Donor and other designated	11,147	8,426	11,147	8,426
	91,776	79,626	91,776	79,626
Property, plant and equipment, net	111,275	101,596	111,611	101,977
Investment in Genesis HealthCare System	105,374	94,303	105,374	94,303
Other assets	5,962	5,552	2,493	2,493
	\$ 357,200	\$ 320,238	\$ 357,613	\$ 320,658
<u>Liabilities and net assets</u>				
Current liabilities:				
Current portion of long-term debt	\$ 3,965	\$ 3,292	\$ 3,965	\$ 3,292
Accounts payable & accrued salaries/benefits	17,587	17,005	17,870	12,528
Other accrued expenses	1,461	(760)	1,457	3,984
	23,013	19,538	23,292	19,804
Other accrued liabilities	9,725	6,576	9,725	6,576
Long-term obligations, less current portion	68,130	66,787	68,130	66,787
	100,869	92,901	101,148	93,168
Net assets	256,331	227,337	256,465	227,490
	\$ 357,200	\$ 320,238	\$ 357,613	\$ 320,658

(1) Excludes non-obligated group members: Holy Family Health Services and North End Home Medical Services

Franciscan Sisters of Christian Charity HealthCare Ministry and Affiliates
Unaudited Combined Statement of Operations
For the Six Months Ended June 30, 2011 and 2010

(\$'s in 000's)	<u>Obligated Group (1)</u>		<u>Total FHCM</u>	
	June 30		June 30	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue:				
Net patient service revenue	\$ 85,292	\$ 83,516	\$ 85,292	\$ 83,516
Other revenue	<u>2,004</u>	<u>2,142</u>	<u>3,515</u>	<u>3,697</u>
Total operating revenue	<u>87,297</u>	<u>85,658</u>	<u>88,807</u>	<u>87,213</u>
Expenses:				
Salaries and wages	42,215	40,967	43,008	41,737
Employee benefits	9,837	10,738	10,086	10,947
Supplies and other	22,892	22,386	23,158	22,643
Bad debts	2,332	3,005	2,342	3,014
Interest	1,389	1,523	1,405	1,540
Depreciation and amortization	<u>5,972</u>	<u>5,823</u>	<u>5,994</u>	<u>5,849</u>
Total operating expenses	<u>84,636</u>	<u>84,442</u>	<u>85,994</u>	<u>85,731</u>
Income (loss) from operations	2,660	1,216	2,813	1,483
Non operating gains (losses)	<u>3,307</u>	<u>1,460</u>	<u>3,288</u>	<u>181</u>
Excess of revenues and gains over expenses	5,967	2,676	6,101	1,663
Investment in Genesis HealthCare System	4,339	433	4,339	433
Restricted contributions and other	<u>(754)</u>	<u>(601)</u>	<u>(754)</u>	<u>(601)</u>
Change in Unrestricted Net Assets	<u>\$ 9,552</u>	<u>\$ 2,508</u>	<u>\$ 9,686</u>	<u>\$ 1,495</u>

(1) Excludes non-obligated group members: Holy Family Health Services and North End Home Medical Services

FSCC HealthCare Ministry and Affiliates
Combined Utilization Statistics
For the Six Months Ended June 30, 2011 and 2010

<u>INPATIENT:</u>	<u>Holy Family</u>	<u>Franciscan Care Serv.</u>	<u>St. Paul Elder Serv.</u>	<u>FHCM Combined</u>
LICENSED BEDS / ASSISTED LIVING UNITS				
2011	167	25 / 70	129 / 89	480
2010	167	25 / 70	129 / 89	480
BEDS IN SERVICE				
2011	62	25/63	129 / 89	368
2010	62	25/64	129 / 89	369
DISCHARGES, excluding newborns				
2011	1,591	287	n/a	1,878
2010	1,680	242	n/a	1,922
PATIENT DAYS, excluding newborns				
2011	5,481	1,330	n/a	6,811
2010	5,821	1,356	n/a	7,177
RESIDENT DAYS (Long term care)				
2011	n/a	10,335	37,565	47,900
2010	n/a	9,774	37,564	47,338
INPATIENT SURGERIES				
2011	578	56	n/a	634
2010	620	30	n/a	650
AVERAGE LENGTH OF STAY				
2011	3.4	4.6	n/a	n/a
2010	3.5	5.6	n/a	n/a
CASE MIX INDEX - MEDICARE				
2011	1.387	1.037	n/a	n/a
2010	1.401	1.042	n/a	n/a
BIRTHS				
2011	116	31	n/a	147
2010	98	31	n/a	129
<u>OUTPATIENT:</u>				
EMERGENCY ROOM VISITS				
2011	6,521	3,033	n/a	9,554
2010	6,641	3,127	n/a	9,768
OUTPATIENT REGISTRATIONS				
2011	72,472	18,090	n/a	90,562
2010	72,211	17,323	n/a	89,534
PHYSICIAN CLINIC VISITS				
2011	72,526	12,259	n/a	84,785
2010	72,030	11,365	n/a	83,395
HOME HEALTH VISITS				
2011	n/a	747	n/a	747
2010	n/a	868	n/a	868
OUTPATIENT SURGERIES				
2011	1,443	353	n/a	1,796
2010	1,307	339	n/a	1,646
<u>FULL TIME EQUIVALENTS</u>				
2011	957	200	228	1,385
2010	951	200	215	1,366

FRANCISCAN SISTERS OF CHRISTIAN CHARITY HEALTHCARE MINISTRY, INC. AND AFFILIATES

Unaudited Consolidating Schedule - Balance Sheet Information

June 30, 2011

(\$'s in 000's)	Franciscan HealthCare Ministry	Holy Family Memorial	Franciscan Care Services	St. Paul Elder Services	Elimin. & Adjust.	Obligated Group (2)
<u>Assets</u>						
Current Assets:						
Cash and short term investments	\$216	\$6,841	\$2,646	\$2,058	\$0	\$11,761
Patient accounts receivable	0	19,874	2,847	1,699	0	24,419
Other current assets	144	8,248	601	192	(2,550)	6,634
	<u>360</u>	<u>34,962</u>	<u>6,094</u>	<u>3,949</u>	<u>(2,550)</u>	<u>42,814</u>
Assets limited as to use:						
Board-designated funds	8,735 (1)	48,309	14,727	2,689	0	74,459
Trustee-held	0	5,424	0	745	0	6,170
Donor and other designated	5,887	4,301	0	958	0	11,147
	<u>14,622</u>	<u>58,034</u>	<u>14,727</u>	<u>4,392</u>	<u>0</u>	<u>91,776</u>
Property, plant and equipment, net	33	74,573	25,630	11,038	0	111,275
Investment in Genesis HealthCare System	105,374					105,374
Other assets	0	5,146	703	113	0	5,962
	<u>0</u>	<u>5,146</u>	<u>703</u>	<u>113</u>	<u>0</u>	<u>5,962</u>
Total assets	<u>\$120,389</u>	<u>\$172,716</u>	<u>\$47,153</u>	<u>\$19,492</u>	<u>(\$2,550)</u>	<u>\$357,200</u>
<u>Liabilities and net assets</u>						
Current liabilities:						
Current portion of long-term debt	\$0	\$3,245	\$191	\$529	\$0	\$3,965
Accounts pay & accrued salaries/benefits	413	13,288	2,932	953	0	17,587
Other accrued expenses	857	2,577	410	168	(2,550)	1,461
	<u>1,270</u>	<u>19,110</u>	<u>3,534</u>	<u>1,650</u>	<u>(2,550)</u>	<u>23,013</u>
Other accrued liabilities	7,567	1,797	276	85	0	9,725
Long-term obligations, less current portion	0	53,888	6,520	7,722	0	68,130
	<u>0</u>	<u>53,888</u>	<u>6,520</u>	<u>7,722</u>	<u>0</u>	<u>68,130</u>
Total liabilities	<u>8,837</u>	<u>74,795</u>	<u>10,330</u>	<u>9,457</u>	<u>(2,550)</u>	<u>100,869</u>
Net assets	<u>111,552</u>	<u>97,921</u>	<u>36,824</u>	<u>10,034</u>	<u>0</u>	<u>256,331</u>
Total liabilities and net assets	<u>\$120,389</u>	<u>\$172,716</u>	<u>\$47,153</u>	<u>\$19,492</u>	<u>(\$2,550)</u>	<u>\$357,200</u>

(1) Includes Good Samaritan Medical Center investment

(2) Excludes non-obligated group members: Holy Family Health Services and North End Home Medical Services

FRANCISCAN SISTERS OF CHRISTIAN CHARITY HEALTHCARE MINISTRY, INC. AND AFFILIATES

Unaudited Consolidating Schedule - Operating Information

For the Six Months Ended June 30, 2011 and 2010

(\$'s in 000's)	Franciscan HealthCare Ministry	Holy Family Memorial	Franciscan Care Services	St. Paul Elder Services	Elimin. & Adjust.	Obligated Group (2)
Revenue:						
Net patient service revenue	\$0	\$65,703	\$11,999	\$7,591	\$0	\$85,292
Other revenue	1,130	899	264	151	(440)	2,004
Total operating revenue	<u>1,130</u>	<u>66,602</u>	<u>12,263</u>	<u>7,742</u>	<u>(440)</u>	<u>87,297</u>
Expenses:						
Salaries and wages	680	31,747	5,641	4,147	0	42,215
Employee benefits	242	7,193	1,425	977	0	9,837
Supplies and other	183	18,116	3,091	1,943	(440)	22,892
Bad debts	0	2,080	226	26	0	2,332
Interest	0	1,216	48	125	0	1,389
Depreciation and amortization	7	4,506	1,014	446	0	5,972
Total operating expenses	<u>1,111</u>	<u>64,858</u>	<u>11,444</u>	<u>7,663</u>	<u>(440)</u>	<u>84,636</u>
Income (loss) from operations	19	1,744	819	79	0	2,660
Non operating gains (losses)	343 (1)	2,323	583	59	0	3,307
Excess of revenues and gains over expenses	362	4,067	1,401	138	0	5,967
Investment in Genesis HealthCare System	4,339					4,339
Restricted contributions and other	(840)	6	25	56	0	(754)
Change in Unrestricted Net Assets	<u>\$ 3,860</u>	<u>\$ 4,072</u>	<u>\$ 1,426</u>	<u>\$ 194</u>	<u>\$ -</u>	<u>\$ 9,552</u>

(1) Includes GSMC investment income

(2) Excludes non-obligated group members: Holy Family Health Services and North End Home Medical Services

Genesis HealthCare System
Unaudited Combined Balance Sheets
June 30, 2011

(\$'s in 000's)	Total Genesis			
Assets	Genesis System	Genesis Foundation	June 30	
			2011	2010
Current Assets:				
Cash and short term investments	\$ 20,182	\$ 474	\$ 20,656	\$ 10,445
Patient accounts receivable	51,038	0	51,038	47,454
Other current assets	21,008	9	21,017	15,212
	<u>92,227</u>	<u>483</u>	<u>92,710</u>	<u>73,111</u>
Assets limited as to use:				
Board-designated funds	79,370	30,551	109,921	93,787
Trustee-held	925	13,322	14,246	19,505
Donor and other designated	0	0	0	138
	<u>80,295</u>	<u>43,873</u>	<u>124,168</u>	<u>113,431</u>
Property, plant and equipment, net	101,011	225	101,236	118,799
Other assets	22,168	1,487	23,655	22,544
	<u>22,168</u>	<u>1,487</u>	<u>23,655</u>	<u>22,544</u>
Total assets	<u>\$ 295,701</u>	<u>\$ 46,068</u>	<u>\$ 341,769</u>	<u>\$327,884</u>
<u>Liabilities and net assets</u>				
Current liabilities:				
Current portion of long-term debt	\$ 1,875	\$ -	\$ 1,875	\$ 10,434
Accounts pay & accrued salaries/benefits	32,535	0	32,535	33,535
Other accrued expenses	881	0	881	270
	<u>35,292</u>	<u>0</u>	<u>35,292</u>	<u>44,239</u>
Other accrued liabilities	41,270	0	41,270	29,199
				0
Minority interests	880	0	880	2,960
				0
Long-term obligations, less current	53,578	0	53,578	62,881
	<u>131,020</u>	<u>0</u>	<u>131,020</u>	<u>139,279</u>
Total liabilities	<u>131,020</u>	<u>0</u>	<u>131,020</u>	<u>139,279</u>
Net assets	<u>164,681</u>	<u>46,067</u>	<u>210,748</u>	<u>188,605</u>
Total liabilities and net assets	<u>\$ 295,701</u>	<u>\$ 46,068</u>	<u>\$ 341,769</u>	<u>\$ 327,884</u>

Genesis HealthCare System
Unaudited Combined Statement of Operations
For the Six Months Ended June 30, 2011 and 2010

(\$'s in 000's)	Genesis System	Genesis Foundation	Total Genesis June 30	
			2011	2010
Revenue:				
Net patient service revenue	\$ 125,879	\$ -	\$ 125,879	\$ 111,581
Other revenue	56,845	320	57,165	66,310
Total operating revenue	182,724	320	183,044	177,891
Expenses:				
Salaries and wages	74,859	0	74,859	73,167
Employee benefits	19,409	0	19,409	19,758
Supplies and other	66,139	70	66,210	66,014
Bad debts	9,707	0	9,707	9,252
Interest	1,262	0	1,262	1,528
Depreciation and amortization	7,873	7	7,879	7,395
Total operating expenses	179,249	77	179,326	177,114
Income (loss) from operations	3,475	243	3,718	777
Non operating gains (losses)	3,344	1,136	4,479	88
Excess of revenues and gains over expenses	6,819	1,379	8,197	866
Restricted contributions and other	0	480	480	272
Increase in Unrestricted Net Assets	\$ 6,819	\$ 1,858	\$ 8,677	\$ 1,138

Genesis HealthCare System
Combined Utilization Statistics
For the Six Months Ended June 30, 2011 and 2010

<u>INPATIENT:</u>	<u>Genesis</u>
LICENSED HOSPITAL BEDS	
2011	600
2010	600
HOSPITAL BEDS IN SERVICE	
2011	289
2010	316
DISCHARGES, excluding newborns	
2011	8,544
2010	7,897
PATIENT DAYS, excluding newborns	
2011	35,367
2010	33,299
INPATIENT SURGERIES	
2011	1,557
2010	1,552
AVERAGE LENGTH OF STAY	
2011	4.1
2010	4.2
CASE MIX INDEX - MEDICARE	
2011	1.566
2010	1.558
BIRTHS	
2011	658
2010	707
 <u>OUTPATIENT:</u>	
EMERGENCY ROOM VISITS	
2011	33,235
2010	32,453
OUTPATIENT REGISTRATIONS	
2011	151,565
2010	142,808
HOME HEALTH VISITS	
2011	n/a
2010	n/a
OUTPATIENT SURGERIES	
2011	6,469
2010	5,411
 <u>FULL TIME EQUIVALENTS</u>	
2011	2,179
2010	2,179