



CATHOLIC HEALTH EAST

**Quarterly Report**

**Management's Discussion and Analysis  
and  
Consolidated Financial Information**

**For the Twelve Months Ended  
December 31, 2011  
(Unaudited)**

2/14/2012

# **Catholic Health East**

## **Management's Discussion and Analysis**

### **For the Year Ended December 31, 2011**

#### **Summary**

Unaudited operating results and other financial information for the twelve months ended December 31, 2011 for Catholic Health East (CHE) are attached. These financial statements have been prepared by management. For comparison purposes, these financial statements and related variance explanations have been prepared comparing the balance sheet to the twelve month period ended December 31, 2010 (prior year-end or prior year) and comparing the statement of operations for the twelve months of 2011 to the twelve months of 2010 (or prior period or same period last year).

#### ***St. Peter's Health Partners***

In February 2011, St. Peter's Hospital issued \$34.2 million of tax-exempt revenue bonds, Series 2011 (the Series 2011 Bonds), through the City of Albany Capital Resource Corporation. The proceeds of the Series 2011 Bonds were used for Master Facility Plan building and equipment projects totaling approximately \$27.3 million, to fund a debt service reserve fund, and to pay capitalized interest and debt issuance costs on the Series 2011 Bonds.

On October 1, 2011, St. Peter's merged with local healthcare organizations Northeast Health and Seton Health System (formerly a ministry of Ascension Health) to form St. Peter's Health Partners, the sole corporate member of which is Catholic Health East.

Contribution income of \$375.2 million is recorded in the consolidated financial statements. Of this amount, \$316.0 million represents unrestricted net assets and is included as a non-operating gain in the accompanying statement of operations and changes in net assets. Temporarily restricted net assets and permanently restricted net assets of \$16.6 million and \$42.6 million, respectively, were recorded as restricted contribution income in the appropriate categories in the accompanying consolidated statement of changes in net assets.

#### ***Mercy SEPA***

On November 30, 2011, Mercy SEPA finalized the sale of its equity ownership interests in Medicaid managed care organizations Amerihealth Mercy Health Plan and Keystone Mercy Health Plan to Independence Blue Cross and Blue Cross/Blue Shield of Michigan. Mercy Health System recognized a gain on sale of \$99.3 million related to this transaction.

#### ***Saint Joseph's Health System***

On December 31, 2011, St. Joseph's Health System and Emory Healthcare each contributed certain of its entities into a Joint Operating Company (JOC), of which CHE retains a 49% non-controlling ownership interest. The entities contributed to the JOC include St. Joseph Hospital of Atlanta, Saint Joseph's Real Estate Corporation, Saint Joseph's Service Corporation, The Medical Group of Saint Joseph's, Saint Joseph's Translational Research Institute, and the International College of Robotic Surgery. The non-controlling ownership interest totaling \$158.8 million is included in Investments in Joint Operating Agreements in the accompanying consolidated balance sheet. The related operating results are classified separately within operating income.

#### ***Mercy Miami***

In June 2010, the Board of Trustees of Mercy Hospital, Miami approved a non-binding Letter of Intent (LOI) with the Hospital Corporation of America (HCA) for the sale of certain Mercy Hospital entities to HCA. The entities subject to the LOI include Mercy Hospital, Sister Emmanuel Hospital for Continuing Care, Mercy Medical Development, and Mercy Physician Group. In February 2011, HCA and Mercy Hospital, Miami signed a definitive agreement for the sale of these entities. Fixed assets, prepaid expenses, and inventories of these entities were classified as assets held for sale and certain liabilities were classified as liabilities related to

assets held for sale on the consolidated balance sheet prior to the date of sale. Additionally, the results of these operations are reflected as discontinued operations. The sale transaction was completed on May 1, 2011. Proceeds from the sale were used in part to redeem Mercy Miami's outstanding long-term debt of \$119.0 million on June 1, 2011.

### ***St. James Mercy Health System***

On June 7, 2011, St. James announced that it had entered into an affiliation with Guthrie Health System aimed at enhancing physician recruitment and expanding technological enhancement at St. James Mercy Hospital. The affiliation was effective July 1, 2011.

### ***Maxis Health System***

On November 28, 2011, the Maxis Health System Board of Directors passed a resolution calling for the closure of acute care and behavioral health services at Marian Community Hospital by February 28, 2012. The results of the acute care and behavioral health operations are reflected as discontinued operations.

### **Balance Sheet**

Through December 31, 2011, unrestricted net assets increased from the prior year by \$374.7 million, or 14.5%. The primary drivers of this increase are operating income (excluding losses from St. Joseph's) of \$49.9 million, contribution income of \$316.0 million from the unrestricted net assets contributed in conjunction with the St. Peter's Health Partners transaction, gains on the sale of assets (primarily Mercy Health Plan interests) of \$105.1 million, income from joint operating agreements of \$86.4 million, and net investment gains from the CHE investment program (net of operating investment income) of \$8.3 million. These gains are offset by losses from Saint Joseph's Health System of \$34.1 million, an unfavorable pension adjustment of \$165.2 million, an unfavorable change in the market value of interest rate swaps of \$11.7 million, losses from discontinued operations of \$35.9 million, impairment charges of \$2.8 million, a loss on extinguishment of debt of \$827 thousand, and unrealized investment losses of \$8.1 million on investments not managed by CHE (related to Mercy Health Plan). Total net assets increased over the prior year by \$402.6 million, or 14.7%. Excluding the impact of the St. Peter's Health Partners transaction, total net assets increased over the prior year by \$98.4 million, or 3.6%.

At December 31, 2011, unrestricted cash and investments totaled \$1.94 billion. Excluding cash and investments acquired as part of the St. Peter's Health Partners transaction, this represents an increase of \$102.7 million compared to the prior year. Through December 31, 2011, Days Cash on Hand increased 18.8 days to 183.1 from the prior year of 164.3 days.

Year-to-date, excluding amounts contributed as part of the St. Peter's Health Partners transaction, net patient accounts receivable decreased by \$72.0 million compared to prior year, or 14.7%. Net days in accounts receivable is 39.3, which is a decrease of 5.7 days compared to the prior year. Excluding the impact of Northeast Health and Seton Health, other accounts receivable decreased \$35.2 million, due to a receipt of Medicaid funds at Sister of Providence of \$7.1 million, a decrease in health plan receivables of \$7.3 million, collection of pledges receivable during 2011 of \$5.0 million, decreases in county grant receivables at Pittsburgh Mercy Health System of \$4.1 million, and a decrease in payroll taxes receivable at the System Office of \$3.6 million.

Other long term assets increased \$41.2 million due to the balances acquired in the St. Peter's Health Partners transaction of \$18.7 million, a long term pledge receivable (recorded at net present value) associated with the Mercy Health Plan transaction of \$30.6 million (described on page 1) and goodwill and intangible assets of \$13.2 million related to the acquisition of ACC and SJHG by Lourdes Health System.

Collateral received on securities pledged (recorded as an asset) and collateral due broker on securities pledged (recorded as a liability) both increased by \$95.3 million.

Capital spending through December 31, 2011 totaled \$207.4 million. Year-to-date capital spending is higher than year-to-date depreciation and amortization expense of approximately \$183.3 million by \$24.1 million.

Year-to-date, excluding amounts contributed as part of the St. Peter's Health Partners transaction, total liabilities decreased by \$116.0 million and total current liabilities increased by \$71.7 million. The increase in current liabilities is due to collateral due broker on securities pledged increasing \$95.3 million, RHC inter-company borrowing increasing \$58.7 million offset by a decrease in accounts payable of \$54.3 million, and accrued expenses increasing \$19.1 million.

Long Term Debt, excluding amounts contributed as part of the St. Peter's Health Partners transaction, decreased \$127.5 million primarily as a result of the repayment of Mercy Miami debt issuances (see page 2 for a description of this transaction).

The Average Payment Period decreased from 108.0 days at December 31, 2010 to 103.6 days at December 31, 2011, or 4.4 days.

### **Operations**

The twelve months ended December 31, 2011 operating income of \$15.8 million is favorable compared to the prior period operating income of \$10.7 million by \$5.1 million. The year-to-date operating margin of 1.1% is favorable compared to the prior period of 0.8%. At December 31, 2011, excess of revenues over expenses totaling (\$519.0 million) compares favorably to prior period excess of revenues over expenses of \$233.7 million by \$285.3 million. The year-to-date excess margin of 1.1% compares unfavorably to the prior period excess margin of 0.8%.

Year-to-date net patient service revenue totaling \$4.3 billion is favorable to the prior period by \$256.2 million, or 6.8%. Year-to-date, total discharges are unfavorable to the prior period by 2.5%. Other revenue is favorable compared to the prior period by \$18.9 million. Operating investment income is \$8.1 million favorable to the prior period. Total operating revenue is favorable compared to the prior period by \$321.5 million, or 8.0%.

Year-to-date, total operating expenses are unfavorable compared to the prior period by \$303.0 million, or 7.6%. Salaries and benefits are unfavorable to prior period by \$164.2 million or 8.1%. Combined medical supplies and drug expenses are favorable compared to the prior period by \$1.7 million or 0.3%.

Total year-to-date bad debt expense is favorable compared to prior period by \$4.4 million, or 1.7%. Purchased services and other are unfavorable compared to prior period by \$124.3 million, or 14.8%. Interest expense is unfavorable to prior period by \$5.6 million, or 10.1%. Insurance expense is unfavorable to prior period by \$891 thousand or 1.9%. Year-to-date depreciation and amortization is unfavorable compared to the prior period by \$14.1 million or 8.3%.

### **Investment Returns**

Investment returns include both realized and unrealized investment income and losses. Year-to-date, the net investment gain in the CHE investment program is \$19.8 million. This amount includes \$47.9 million in realized investment gains and \$28.1 million in unrealized losses.

### **SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

Certain statements or elements included in Management's Discussion and Analysis section of this document may include certain "forward-looking statements" which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. Actual actions or results may differ materially from those discussed above. Specific factors that might cause such differences include competition from other healthcare facilities in the service areas of Catholic Health East's Regional Health Corporations, federal and state regulation of healthcare providers, and reimbursement policies of the state and federal governments and managed care organizations. In particular, statements preceded by, followed by or that include the words "believes," "estimates," "expects," "anticipates," "plans," "intends," "scheduled" or other similar expressions are or may constitute forward-looking statements.

**CATHOLIC HEALTH EAST**  
**Consolidated Balance Sheets**  
(In Thousands)

	<u>Actual</u> <u>12/31/11</u>	<u>Audit</u> <u>12/31/10</u>	<u>\$ Change</u>		<u>Actual</u> <u>12/31/11</u>	<u>Audit</u> <u>12/31/10</u>	<u>\$ Change</u>
<b>ASSETS</b>				<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Assets</b>				<b>Current Liabilities</b>			
Cash & investments	\$889,370	\$540,149	\$349,221	Current installments of long term debt	\$87,008	\$87,826	(\$818)
Patient accounts receivables, net	465,384	489,120	(23,736)	Accounts payable	270,026	324,309	(54,283)
Other accounts receivable	129,238	137,811	(8,573)	RHC intercompany short-term borrowings	174,806	116,081	58,725
Prepaid expenses and inventories	117,260	123,386	(6,126)	Accrued expenses	204,128	185,042	19,086
Collateral received on securities pledged	130,364	35,104	95,260	Collateral due broker on securities pledged	130,364	35,104	95,260
Assets held for sale	36,144	378,792	(342,648)	Other current liabilities	305,699	262,193	43,506
				Liabilities related to assets held for sale	18,850	28,307	(9,457)
<b>Total Current Assets</b>	<u>1,767,760</u>	<u>1,704,362</u>	<u>63,398</u>	<b>Total Current Liabilities</b>	<u>1,190,881</u>	<u>1,038,862</u>	<u>152,019</u>
Property, plant & equipment, net	2,061,201	1,720,195	341,006	Long term debt, net	1,542,539	1,669,177	(126,638)
Investments	432,451	408,382	24,069	Other liabilities	98,793	143,781	(44,988)
Assets whose use is limited	383,867	371,095	12,772	Insurance liabilities	296,853	303,718	(6,865)
Trustee held funds	174,153	211,623	(37,470)	Pension liabilities	452,084	290,536	161,548
Donor restricted funds	126,342	72,467	53,875	Deferred revenue from entrance fees	92,085	45,679	46,406
				<b>Total Liabilities</b>	<u>3,673,235</u>	<u>3,491,753</u>	<u>181,482</u>
Investments in joint operating agreements	1,158,952	1,095,978	62,974	<b>Net Assets:</b>			
Investments in unconsolidated organizations	306,123	229,223	76,900	Unrestricted	2,958,757	2,584,038	374,719
Equity investments in managed funds	230,698	286,121	(55,423)	Temporarily restricted	118,081	132,304	(14,223)
Other assets	178,597	136,619	41,978	Permanently restricted	70,071	27,970	42,101
				<b>Total Net Assets</b>	<u>3,146,909</u>	<u>2,744,312</u>	<u>402,597</u>
<b>Total Assets</b>	<u>\$6,820,144</u>	<u>\$6,236,065</u>	<u>\$584,079</u>	<b>Total Liabilities and Net Assets</b>	<u>\$6,820,144</u>	<u>\$6,236,065</u>	<u>\$584,079</u>

**CATHOLIC HEALTH EAST**  
**Consolidated Statement of Operations**  
**Unaudited**

	Twelve Months Ending December 31		\$ Change Favorable/ (Unfavorable)	% Change
	2011	2010		
	(In Thousands)			
<b>Unrestricted revenue, gains &amp; other support</b>				
Net patient service revenue	\$4,016,717	3,760,489	\$256,228	6.8%
Equity in income (loss) from unconsolidated organizations	62,680	24,400	38,280	156.9%
Operating investment income (loss)	11,547	3,474	8,073	232.4%
Other operating revenue	250,117	231,236	18,881	8.2%
	<u>4,341,061</u>	<u>4,019,599</u>	<u>321,462</u>	<u>8.0%</u>
<b>Expenses</b>				
Salaries & benefits	2,201,760	2,037,589	(164,171)	(8.1%)
Medical supplies & drugs	582,512	584,220	1,708	0.3%
Depreciation and amortization	183,319	169,239	(14,080)	(8.3%)
Interest	61,311	55,688	(5,623)	(10.1%)
Bad debt	247,177	251,579	4,402	1.7%
Insurance	48,886	47,995	(891)	(1.9%)
Purchased services & other	966,185	841,878	(124,307)	(14.8%)
	<u>4,291,150</u>	<u>3,988,188</u>	<u>(302,962)</u>	<u>(7.6%)</u>
<b>Operating income before Saint Joseph's operations</b>	<b>49,911</b>	<b>31,411</b>	<b>18,500</b>	<b>58.9%</b>
Operating loss from Saint Joseph's Health System	(34,079)	(20,679)	(13,400)	(64.8%)
<b>Operating income</b>	<b>15,832</b>	<b>10,732</b>	<b>5,100</b>	<b>47.5%</b>
<b>Non-operating gains (losses)</b>				
Investment returns, net	8,289	87,959	(79,670)	(90.6%)
Restructuring and impairment expenses	(2,758)	(17,364)	14,606	84.1%
Contribution income from acquired assets	316,010	-	316,010	0.0%
Non-recurring charges	2,628	671	1,957	291.7%
Gain on extinguishment of debt	(827)	657	(1,484)	(225.9%)
(Decrease) in fair value of interest rate swaps	(11,690)	(13,036)	1,346	10.3%
Gain on sale of assets	105,113	3,336	101,777	3050.9%
Equity in income from JOAs and unconsolidated organizations	86,449	160,776	(74,327)	(46.2%)
<b>(Deficit) excess of revenues over expenses</b>	<b>519,046</b>	<b>233,731</b>	<b>285,315</b>	<b>122.1%</b>
Unrealized losses on investments, related to JOAs and unconsolidated organizations	(8,063)	4,711	(12,774)	(271.2%)
Loss from discontinued operations	(35,855)	(42,404)	6,549	15.4%
Pension adjustment	(165,235)	(45,681)	(119,554)	261.7%
Other changes	64,826	(15,346)	80,172	522.4%
<b>(Decrease) increase in unrestricted net assets</b>	<b>\$374,719</b>	<b>\$135,011</b>	<b>\$239,708</b>	<b>177.5%</b>

**Catholic Health East**  
**Consolidated Statement of Changes in Net Assets**

(000's Omitted)

	<b>Twelve Months Ending</b>	
	<b>December 31</b>	
	<b>Actual</b>	<b>Actual</b>
	<b>2011</b>	<b>2010</b>
<b>Unrestricted Net Assets:</b>		
Excess of revenues over expenses	\$519,046	\$233,731
Change in unrealized gains on available for sale investments	(8,063)	4,711
Pension adjustment	(165,235)	(45,681)
Loss from discontinued operations	(35,855)	(42,404)
Other changes	64,826	(15,346)
<b>Changes in Unrestricted Net Assets</b>	<b>374,719</b>	<b>135,011</b>
<b>Temporarily Unrestricted Net Assets:</b>		
Contributions	22,569	27,295
Realized gains (losses)	911	3,632
Unrealized (losses) gains	(531)	666
Net assets released from restrictions	(41,767)	(28,220)
Contribution income from acquired assets	16,611	0
Other	(12,016)	1,968
<b>Changes in Temporarily Restricted Net Assets</b>	<b>(14,223)</b>	<b>5,341</b>
<b>Permanently Restricted Net Assets:</b>		
Contributions	62	585
Realized & unrealized (losses) gains	858	1,300
Contribution income from acquired assets	42,615	0
Other	(1,434)	81
<b>Changes in Permanently Restricted Net Assets</b>	<b>42,101</b>	<b>1,966</b>
<b>Changes in Net Assets</b>	<b>402,597</b>	<b>142,318</b>
Net Assets, Beginning of the Year	2,744,312	2,601,994
<b>Net Assets, End of the Year</b>	<b>\$3,146,909</b>	<b>\$2,744,312</b>



**Catholic Health East  
Consolidated Statement of Cash Flows**

(000's Omitted)

	<b>Twelve Months Ending December 31</b>	
	<b>Actual 2011</b>	<b>Actual 2010</b>
<b>Operating Activities:</b>		
Change in net assets	\$402,597	142,318
Loss on discontinued operations	35,855	42,404
Contribution income for contributed assets	(375,236)	-
Depreciation and amortization	183,319	169,239
Loss (gain) on sale of assets	(105,113)	(3,336)
Pension adjustment	165,235	45,681
Equity earnings of unconsolidated organizations	109,239	(160,776)
Loss (gain) on extinguishment of debt	827	(657)
Net realized and unrealized (gains) losses on investments	(19,836)	(52,882)
(Increase) decrease in market value of interest rate swaps	11,690	11,836
Entrance fees received net of refunds	46,406	5,346
Provision for bad debts	247,177	251,579
<b>(Increase) Decrease in:</b>		
Accounts receivable	(222,583)	(248,617)
Assets held for sale	(13,109)	7,991
Prepaid exp, other recbles & other assets	(922)	19,503
<b>Increase (Decrease) in:</b>		
Payables and accrued expenses	(20,692)	67,915
Liabilities related to assets held for sale	(9,457)	(376)
Pension liabilities	(3,687)	(38,695)
Other liabilities	(67,104)	(24,875)
Net cash used in operating activities of discontinued operations	(35,855)	(32,000)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>328,751</b>	<b>201,598</b>
<b>Investing Activities:</b>		
Additions to property and equipment	(226,467)	(209,162)
contributed net assets of Northeast Health and Seton Health System , net of cash	147,327	-
Net assets contributed to Joint Operating Agreement	(70,000)	-
Increase on collateral received on securities pledged	(95,260)	12,272
Net change in other long term assets	148,003	27,700
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(96,397)</b>	<b>(169,190)</b>
<b>Financing Activities:</b>		
Repayment of long term debt	(163,303)	(423,266)
Proceeds from issuance of long-term debt	40,910	441,132
Proceeds from assets held for sale	144,000	-
Increase (decrease) on collateral received on securities pledged	95,260	(12,272)
<b>Net Cash Provided by (Used In) Financing Activities</b>	<b>116,867</b>	<b>5,594</b>
 Net Increase in Cash	 349,221	 38,002
Cash and Cash Equivalents, Beginning of Period	540,149	506,709
 <b>Cash and Cash Equivalents, End of Period</b>	 <b>\$889,370</b>	 <b>\$544,711</b>

**CATHOLIC HEALTH EAST**  
**Financial Ratios & Statistics**

FINANCIAL INDICATORS	Twelve Months Ending		% Change	Audit 12/31/10
	December 31			
	2011	2010		
Liquidity Ratios				
Days cash on hand	183.1	164.3	11.4%	164.3
Days revenue in accounts receivable	39.3	47.1	16.6%	47.1
Average payment period	103.6	108.0	(4.1%)	108.0
Leverage Ratios				
Debt to capitalization	34.1%	39.0%	12.6%	39.0%
Debt service coverage (MTI)	2.17	2.31	(6.1%)	2.31
Cash to debt	125.5%	96.2%	30.5%	96.2%
Profitability Ratios				
Operating margin	1.1%	0.8%	37.5%	0.8%
Excess margin	10.7%	5.5%	94.5%	5.5%
Return on assets	5.5%	2.2%	150.0%	2.2%
Return on equity	11.9%	4.9%	142.9%	4.9%

STATISTICAL INDICATORS	Twelve Months Ending		Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
	December 31			
	2011	2010		
<b>Acute Care</b>				
Beds in operations	4,349	3,905	444	11.4%
Total discharges	184,620	189,382	(4,762)	(2.5%)
Total patient days	936,506	949,774	(13,268)	(1.4%)
Acute length of stay	5.07	5.02	(0.05)	(1.0%)
Outpatient, primary care and emergency room visits	3,876,190	3,622,387	253,803	7.0%
<b>Long Term Care</b>				
Long term care & skilled nursing facility patient days	621,018	580,757	40,261	6.9%
<b>Other</b>				
Home health visits	775,737	643,367	132,370	20.6%

**CATHOLIC HEALTH EAST**  
**Payor Mix**  
**Unaudited**

	<u>Twelve Months Ending</u>	
	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
<b>PAYOR MIX BY NET PATIENT REVENUE</b>		
Medicare	38.3%	38.1%
Medicaid	7.2%	7.6%
Self pay	5.7%	5.7%
Medicare managed care	9.9%	9.2%
Medicaid managed care	11.1%	9.8%
Other managed care	14.1%	15.6%
Commercial	9.5%	9.9%
Other	4.2%	4.1%
<b>Total</b>	<u>100.0%</u>	<u>100.0%</u>