Caritas Christi

Consolidated Financial Statements for the Years Ended September 30, 2006 and 2005 and Independent Auditors' Report

CARITAS CHRISTI

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INDEPENDENT AUDITORS' REPORT

Caritas Christi:

We have audited the accompanying consolidated balance sheets of Caritas Christi and its member organizations as of September 30, 2006 and 2005, 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 management of Caritas Christi. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Caritas Christi'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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Caritas Christi and its member organizations as of September 30, 2006 and 2005 and the results of their consolidated operations, changes in their consolidated net assets, and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

February 6, 2007

CARITAS CHRISTI

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2006 AND 2005
(In thousands of dollars)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 80,353	$ 69,314
Short-term investments	30,426	28,102
Current portion of assets whose use is limited	13,031	10,340
Patient accounts receivable, less allowance for uncollectible accounts of $44,507 in 2006 and $43,777 in 2005	109,309	100,114
Other accounts receivable	17,740	9,037
Other current assets	21,482	21,425
Total current assets	272,341	238,332
ASSETS WHOSE USE IS LIMITED:		
Long-term investments	109,232	105,749
Funds held in trust under bond agreements	36,069	34,592
Professional liability trust	41,428	38,502
Temporarily restricted investments	24,525	20,823
Permanently restricted investments	10,291	9,478
Total assets whose use is limited	221,545	209,144
PROPERTY AND EQUIPMENT—Net	348,715	345,729
OTHER ASSETS—Net	10,001	11,395
TOTAL	$852,602	$804,600

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES:		
Note payable	$ -	$ 381
Current portion of long-term debt	23,015	21,336
Accounts payable and accrued expenses	170,026	145,385
Current portion of estimated settlements with third-party payors	30,752	34,726
Other current liabilities	7,585	6,052
Total current liabilities	231,378	207,880
OTHER LIABILITIES:		
Long-term debt—net of current portion	263,609	279,998
Estimated settlements with third-party payors—net of current portion	26,884	27,915
Professional liability costs	41,263	38,208
Other liabilities	36,852	47,238
Total other liabilities	368,608	393,359
Total liabilities	599,986	601,239
NET ASSETS:		
Unrestricted	209,188	161,586
Temporarily restricted	33,578	32,489
Permanently restricted	9,850	9,286
Total net assets	252,616	203,361
TOTAL	$852,602	$804,600

See notes to consolidated financial statements.

CARITAS CHRISTI

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands of dollars)

	2006	2005
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Net patient service revenue	$ 1,057,984	$ 1,022,068
Premium revenue	95,033	83,465
Other revenue	55,495	57,754
Research	9,787	8,019
Net assets released from restrictions used for operations	2,181	2,360
Total unrestricted revenue and other support	1,220,480	1,173,666
EXPENSES:		
Salaries, wages, and fringe benefits	689,775	652,904
Supplies and other expenses	341,518	341,452
Purchased provider services and other expenses related to premium revenue	56,371	48,794
Depreciation and amortization	44,530	43,299
Interest	17,160	17,285
Provision for bad debts	43,453	43,012
Total expenses	1,192,807	1,146,746
INCOME FROM OPERATIONS	27,673	26,920
NONOPERATING GAINS—Net	10,265	6,064
EXCESS OF REVENUE OVER EXPENSES	37,938	32,984
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Net change in unrealized gains and losses on investments	129	1,646
Minimum pension liability adjustment	10,967	(9,250)
Net assets released from restrictions used for purchases of property and equipment	4,937	6,817
Contribution of property and equipment	398	412
Total other changes in unrestricted net assets	16,431	(375)
INCREASE IN UNRESTRICED NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	54,369	32,609
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(6,767)	-
INCREASE IN UNRESTRICTED NET ASSETS	$ 47,602	$ 32,609

See notes to consolidated financial statements.

CARITAS CHRISTI

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
BALANCE—October 1, 2004	$ 128,977	$ 32,351	$ 8,342	$ 169,670
Excess of revenue over expenses	32,984			32,984
Contributions		5,857	927	6,784
Investment income, gains, and losses		2,366	(112)	2,254
Net change in unrealized gains and losses on investments	1,646	1,092	129	2,867
Minimum pension liability adjustment	(9,250)			(9,250)
Net assets released from restrictions used for:				
Operations		(2,360)		(2,360)
Purchases of property and equipment	6,817	(6,817)		-
Contributions of property and equipment	412			412
Change in net assets	32,609	138	944	33,691
BALANCE—September 30, 2005	161,586	32,489	9,286	203,361
Excess of revenue over expenses	37,938			37,938
Contributions		6,282	415	6,697
Investment income, gains, and losses		1,602	74	1,676
Net change in unrealized gains and losses on investments	129	323	75	527
Minimum pension liability adjustment	10,967			10,967
Net assets released from restrictions used for:				
Operations		(2,181)		(2,181)
Purchases of property and equipment	4,937	(4,937)		-
Contributions of property and equipment	398			398
Cumulative effect of change in accounting principle	(6,767)			(6,767)
Change in net assets	47,602	1,089	564	49,255
BALANCE—September 30, 2006	$ 209,188	$ 33,578	$ 9,850	$ 252,616

See notes to consolidated financial statements.

CARITAS CHRISTI

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands of dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 49,255	$ 33,691
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle	6,767	-
Depreciation and amortization	44,301	43,069
Provision for bad debts	43,453	43,012
Contributions of property and equipment	(398)	(412)
Restricted contributions and investment income	(8,373)	(9,038)
Net change in unrealized gains and losses on investments	(527)	(2,867)
Net realized gains on investments	(5,050)	(2,328)
Loss on sale of property and equipment	-	404
Minimum pension liability adjustment	(10,967)	9,250
(Decrease) increase in cash resulting from a change in:		
Patient accounts receivable	(52,648)	(39,947)
Other current assets	(8,759)	458
Accounts payable and accrued expenses	24,641	(1,685)
Estimated settlements with third-party payors	(5,005)	1,151
Professional liability costs	3,055	10,874
Other liabilities	(4,654)	105
Net cash provided by operating activities	75,091	85,737
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(44,273)	(49,341)
Sale of property and equipment	-	3,982
Increase in limited use assets	(9,515)	(12,119)
Increase in short-term investments	(2,324)	(12,163)
(Increase) decrease in noncurrent other assets	(4,218)	4,057
Net cash used in investing activities	(60,330)	(65,584)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	6,846	-
Repayment of long-term debt	(21,708)	(21,116)
Proceeds from restricted contributions and investment income	11,140	10,406
Net cash used in financing activities	(3,722)	(10,710)
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,039	9,443
CASH AND CASH EQUIVALENTS—Beginning of year	69,314	59,871
CASH AND CASH EQUIVALENTS—End of year	$ 80,353	$ 69,314
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest	$ 17,424	$ 17,738
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITY:		
Purchase of property and equipment financed by capital leases	$ 60	$ 1,647
Donated equipment	$ 398	$ 425

See notes to consolidated financial statements.

1. ORGANIZATION

Caritas Christi is a Catholic health care system organized by the Roman Catholic Archdiocese of Boston ("RCAB"). Member hospital organizations of Caritas Christi include St. Anne's Health Care System, Inc. and affiliates, including St. Anne's Hospital Corporation (collectively, "St. Anne's"); Caritas St. Elizabeth's Medical Center of Boston, Inc. ("Caritas St. Elizabeth's Medical Center") and affiliates (collectively, "Caritas St. Elizabeth's"); Caritas Valley Regional Health System, Inc. and affiliates, including Caritas Holy Family Hospital, Inc. (collectively, "Valley Regional"); Caritas Carney Hospital, Inc. and affiliates ("Caritas Carney"); Caritas Norwood Hospital, Inc. ("Caritas Norwood"); Caritas Southwood Hospital, Inc. ("Caritas Southwood"); and Caritas Good Samaritan Medical Center, Inc. ("CGSMC") and affiliates. Caritas Christi serves as the sole corporate member of each of these organizations, except St. Anne's, of which Caritas Christi is one of two corporate members. St. Anne's other corporate member, the Dominican Sisters of the Presentation, reserves the power with respect to changing the philosophy, objectives, or purposes of St. Anne's. Joint powers include the ability to amend the articles of organization and bylaws of St. Anne's, and to incur certain indebtedness. Caritas Christi exercises substantially all other corporate powers with respect to St. Anne's.

Caritas Christi also includes the following entities:

- Caritas Christi Physician Network, Inc., Caritas Carney Medical Group, Inc., and Caritas Good Samaritan Medical Practice Corporation (collectively, "Physician Initiatives")—physician practice groups that employ physicians who provide primary care and specialty care at Caritas Christi hospitals and in community settings throughout eastern Massachusetts.

- Caritas Good Samaritan Hospice, Inc. ("Hospice")—an organization that provides nursing and medical services for the terminally ill.

- Tailored Risk Assurance Company, Ltd. ("TRACO")—a captive insurance company owned by Caritas Christi. TRACO is incorporated and based in the Cayman Islands whose principal activity is to provide professional liability insurance (see Note 10).

- Caritas Christi Support Services, Inc. ("Support Services")—the parent company for Caritas Christi Diagnostic Support Services, Inc. ("Diagnostic Support Services"), which operates a magnetic resonance imaging ("MRI") service at Caritas St. Elizabeth's and CGSMC.

- Health Care Enterprises, Inc. ("Health Care Enterprises")—the parent company for Physician Practice Support, Inc. ("PPSI"), which provided billing and practice management services to both affiliated and nonaffiliated physicians through September 30, 2004.

- Caritas St. Mary's Women and Children's Center , Inc. ("St. Mary's")—an organization which provides health and human services, including residential services, to at-risk women and children.

1. ORGANIZATION (CONTINUED)

- Caritas Por Cristo, Inc. ("Por Cristo")—an organization which provides volunteer medical services.

- The Caritas St. Joseph Nursing Care Center, Inc. ("St. Joseph Home")—an organization which owned and operated a 123-bed nursing facility. During fiscal year 2003, Caritas Christi signed a purchase and sale agreement to sell certain assets and the business of St. Joseph Home. The sale was completed on November 30, 2004, resulting in gross proceeds of approximately $4,020,000 and a loss on the sale of approximately $404,000.

- Caritas Home Care, Inc. ("Home Care"), Norfolk Bristol Homemaker Services, Inc., and Helping Hands at Home, Inc. (collectively, "Caritas Home Care, Inc.")—organizations engaged in the provision of home care services.

- Caritas PET Imaging, LLC. ("CPET")—a joint venture with Radiology Associates of Norwood, Inc., which operates a mobile PET imaging service at Caritas St. Elizabeth's, St. Anne's, CGSMC, Caritas Norwood, and certain non-Caritas hospitals.

- Caritas Christi Network Services, Inc.—an organization that negotiates and monitors managed care contracts.

The corporate Members of Caritas Christi are the Chairman of Caritas Christi who, ex-officio, is the Roman Catholic Archbishop of Boston and such other persons as the Chairman appoints. Caritas Christi may not take certain actions, such as the incurrence of debt or the creation of encumbrances upon assets, without the approval of the Members, who have certain exclusive reserved powers, including the power to amend the Articles of Organization and bylaws of Caritas Christi.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The accompanying consolidated financial statements include the accounts of Caritas Christi and its member organizations and their consolidated affiliates. Significant intercompany accounts and transactions among the consolidated organizations have been eliminated in preparing the consolidated financial statements. The assets of any member of the consolidated group may not be available to meet the obligations of other members in the group, except as disclosed in Note 7.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition—Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement to member organizations are subject to negotiation, audit, and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. In 2006 and 2005, changes in prior-year estimates increased net patient service revenue by approximately $18,100,000 and $16,700,000, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated Settlements With Third-Party Payors—A portion of the accrual for estimated settlements with third-party payors at September 30, 2006 and 2005, has been classified as long term because such amounts, by their nature or by virtue of regulation or legislation, will not be assessed within one year.

Premium Revenue and Capitation Arrangements—Certain member organizations have agreements with various health maintenance organizations ("HMOs") to provide medical services to subscribing participants. Under these agreements, the member organization receives monthly capitation payments based on the number of covered participants, regardless of services actually performed by the member organization. Expenses incurred related to services provided by health care providers other than the member organization, pursuant to capitation arrangements entered into by the member organization, are accrued in the period in which the services are provided, based, in part, on estimates, including an accrual for medical services incurred, but not reported. These expenses, along with other expenses incurred by Caritas Christi related to capitated arrangements, are reported as "purchased provider services and other expenses related to premium revenue" in the accompanying consolidated statements of operations.

Research Contracts—Caritas St. Elizabeth's engages in research activities funded by contracts from U.S. government agencies and other private sources. Revenue related to grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with the government agencies.

Other Revenue—Other revenue includes certain investment income, parking and cafeteria revenue, and other nonpatient revenue.

Employee Termination Benefits—Caritas Christi has implemented various programs to restructure certain functions within the organization. As a result, certain positions were eliminated or replaced, resulting in termination benefits totaling approximately $3.7 million in 2006 and $2.0 million in 2005, recorded as an expense in the accompanying consolidated statements of operations. These costs have been accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* As of September 30, 2006 and 2005, approximately $3.3 million and $3.0 million, respectively, of these termination benefits were unpaid and were included as accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Cash and Cash Equivalents—Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less when purchased, excluding amounts whose use is limited.

Investments and Investment Income—With respect to Caritas Christi and its not-for-profit affiliates, investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Investment income that is considered central to the provision of health care services is reported as other revenue. Other investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating gains (losses), unless the income (loss) is restricted by donor or law. Realized gains (losses) on the sale of investments are generally determined by use of average costs. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses and reported as a change in net assets, except that declines in fair value that are judged to be other-than-temporary are reported as realized losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments are periodically reviewed for impairment to determine if such declines are other-than-temporary. Caritas Christi reported realized losses of approximately $0 and $41,000 relating to declines in fair value of equity securities that were determined by management to be other-than-temporary during 2006 and 2005, respectively.

TRACO accounts for its investments using SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* SFAS No. 115 does not apply to not-for-profit corporations. In accordance with SFAS No. 115, TRACO's management has classified its investments as available-for-sale. Such investments are stated at fair value.

During 2006, investments in marketable equity securities generated $123,362,000 and $64,361,000 in purchases and sales, respectively.

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets and statements of operations.

Supplies—Supplies are recorded at the lower of cost (first-in, first-out method) or market and are included in other current assets in the accompanying consolidated balance sheets.

Assets Whose Use Is Limited—Assets whose use is limited include assets set aside by the Board, assets pledged as collateral, assets held by TRACO to provide for insurance claims, and assets held in trust under bond agreements, self-insurance trust arrangements, and donor-restricted investments. Internally designated investments may, at the Board's discretion, subsequently be used for other purposes.

Property and Equipment—Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation and amortization expense in the accompanying consolidated statements of operations.

Gifts of long-lived assets, such as land, buildings, and equipment, are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets**—**Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Costs of Borrowing—Interest costs incurred on borrowed funds during the period of construction of capital assets, net of investment income on borrowed assets held by trustees, are capitalized as a component of the cost of acquiring those assets. The amount of interest which was capitalized, net of the related interest income, totaled $180,000 in 2006 and $816,000 in 2005. Deferred financing costs and original issue discounts are amortized over the period the related obligation is outstanding.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

Caritas Christi has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. State law allows an organization's Board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering the organization's long- and short-term needs, price level trends, and general economic conditions.

Gifts—Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are substantially met. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statements of operations. Pledges receivable were reported as other current assets and other assets in the accompanying consolidated balance sheets. Expected collections as of September 30, 2006, of these pledges are as follows:

Due in:	
Less than one year	$ 3,163
One to five years	2,403
Total	5,566
Discounts and allowance	(1,195)
Net	$ 4,371

Statements of Operations—For presentation purposes, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenue and expenses. Other transactions not considered major or central to the provision of health care services are reported as nonoperating gains (losses).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Excess of Revenue Over Expenses—The consolidated statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, include transfers of assets to and from affiliates for other than goods and services, unrealized gains and losses on investments, contributions of property and equipment (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets), the minimum pension liability adjustment, and the cumulative effect of change in accounting principles.

Functional Expenses—Substantially all expenses in the accompanying consolidated statements of operations are related to the delivery of health care services.

Tax Status—Caritas Christi and certain affiliates are listed within The Official Catholic Directory. As such, these entities derive their tax-exempt status from the group tax-exemption of the Roman Catholic Church. Certain other Caritas Christi affiliates have previously been determined by the Internal Revenue Service ("IRS") to be organizations described in Internal Revenue Code ("IRC") Section 501(c)(3). As participants in the Catholic Church's group tax-exemption or as entities recognized by the IRS as having separate tax-exempt status, these entities are exempt from federal income taxes on related income under IRC Section 501(a). Any income not substantially related to these organizations' exempt purposes may be considered unrelated business income ("UBI") under IRC Section 511 and, as such, subject to tax at normal corporate rates. TRACO is registered under the laws of the Cayman Islands and is exempt from local income, profits, and capital gains taxes until 2009. Certain of Caritas Christi's affiliates are for-profit entities and, as such, are subject to income taxes. For these entities, Caritas Christi applies the provisions of SFAS No. 109, *Accounting for Income Taxes*. The provision for taxes on income, which was not material in 2006 and 2005, is recorded with supplies and other expenses in the accompanying consolidated statements of operations.

Fair Values of Financial Instruments—The estimated fair values of financial instruments presented herein are based on pertinent information available to management as of September 30, 2006 and 2005. Although management is not aware of any factors that would significantly affect the estimated fair value disclosures, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and accordingly, current estimates of fair value may differ significantly from the amounts presented.

Adoption of New Accounting Pronouncement—Effective September 30, 2006, Caritas Christi adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 143, *Accounting for Asset Retirement Obligations*, as clarified by Financial Interpretation No. ("FIN") 47, *Accounting for Conditional Asset Retirement Obligations,* issued in March 2005. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation is factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an asset retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. SFAS No. 143 requires the fair value of a liability for the legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upon adopting FIN 47, Caritas Christi recorded a liability of $6,767,000, all of which was recognized as the cumulative effect of a change in accounting principle. The estimated future undiscounted value of the asset retirement obligation is approximately $12,152,000. Because SFAS No. 143 requires retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 5.0%. The cumulative effect of the adoption of FIN 47 reflects the accretion of the liability and depreciation of the related asset component from the liability inception date through September 30, 2006.

Substantially all of the impact of adopting FIN 47 relates to estimated costs to remove asbestos that is contained within Caritas Christi's hospital facilities. If Caritas Christi had adopted FIN 47 effective October 1, 2004, the liability would not have been materially different from the liability recorded at September 30, 2006 and the impact on operating results in 2005 and 2006 would have been immaterial. Expected accretion costs for 2007 are approximately $338,000.

Recently Issued Accounting Pronouncements—In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*—an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement will require Caritas Christi to recognize the overfunded or underfunded status of its defined benefit plan as an asset or liability in its consolidated balance sheet. The Statement will also require Caritas Christi to recognize changes in the funded status of the plan in the year in which the changes occur as a change in unrestricted net assets presented below the excess of revenue over expenses in its consolidated statement of operations and changes in net assets. Caritas Christi is required to initially recognize the funded status of its defined benefit plan and to provide certain related disclosures as of September 30, 2007. The statement will also require employers to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year end. This provision is effective for fiscal years ending after December 15, 2008. Caritas Christi is currently evaluating the impact of this Statement on its consolidated financial statements.

3. CHARITY CARE AND COMMUNITY BENEFIT

Community Benefit—In furtherance of its charitable purpose, Caritas Christi and its members provide a wide variety of services to the community in order to ensure access to appropriate care for populations in need. Caritas Christi and its members support services which target not only the general population in each member's respective service area, but also particular populations with special health care needs, including the poor, the elderly, children, and minority populations. Supported services include various clinics, health screening programs, health education programs, and support groups operated in the local area. Caritas Christi and its members work actively with other area service providers to ensure the development of an effective community health network. Caritas Christi and its members also participate in activities designed to foster a vital local economic and civic environment.

Charity Care**—**Several of the member organizations provide care without charge or at amounts less than established rates to patients who meet certain criteria under the organizations' charity care policies. Because the member organizations do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During 2006 and 2005, the member organizations provided approximately $44,891,000 and $42,043,000 in charity care, respectively. The equivalent percentage of charity care patients to all patients served was approximately 2.3% and 2.2% in 2006 and 2005, respectively. Such amounts and percentages are determined using charges foregone based on established rates.

3. CHARITY CARE AND COMMUNITY BENEFIT (CONTINUED)

Uncompensated Care Pool—The Commonwealth operates an Uncompensated Care Pool (the "Pool") to reimburse acute care hospitals for a portion of the cost of uncompensated care. Hospitals have been assessed a uniform allowance based on estimates of the statewide cost of uncompensated care and have been reimbursed for their estimated levels of uncompensated care, subject to certain limits. Reimbursable uncompensated care includes net charity care and bad debts relating to emergency services. The member hospitals have recorded the gross assessment due to the Pool, net of reimbursement from the Pool, as a component of net patient service revenue. Final determination of the amounts due to or from the Pool for several years remains subject to final review by the Commonwealth. Recoveries from the Pool are based on historical uncompensated care amounts from a base year, which are then trended forward for estimated changes in charge levels and costs.

4. THIRD-PARTY REIMBURSEMENT

Caritas Christi and its member organizations have agreements with third-party payors that provide for payments to the respective organizations at amounts different from their established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare—The acute care hospitals are subject to a federal prospective payment system ("PPS") for Medicare non-capitated inpatient hospital services, inpatient skilled nursing facility services, and certain outpatient services. Under these prospective payment methodologies, Medicare pays a prospectively determined rate per discharge, per day, or per visit for non-physician services. These rates vary according to the Diagnosis Related Group ("DRG"), Resource Utilization Group ("RUG"), or Ambulatory Payment Classification ("APC") of each patient. Capital costs related to Medicare inpatient PPS services are paid based upon a standardized amount per discharge weighted by DRG. Certain outpatient services are reimbursed according to fee screens. The hospitals are reimbursed for cost-reimbursable items at a tentative interim rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

U.S. Family Health Plan—The U.S. Family Health Plan (the "Health Plan") is a U.S. Department of Defense ("DOD") sponsored health plan available to families of active duty military, uniformed services retirees and their eligible family members, including those age 65 and over. The National Defense Authorization Act of 1997 established six civilian organizations as designated providers of the Health Plan. Brighton Marine Health Center, Inc. ("Brighton Marine") is the designated provider in Massachusetts and Rhode Island. Under the current provisions of a five-year contract with the government, the program requirements and the methodology for capitation rate payments are established for this fully at risk program. The current term of Brighton Marine's contract ends on May 31, 2008. In order to meet the terms of their DOD contract, Brighton Marine has subcontracted most of the administration of the Health Plan and all of the financial risk for provision of services to Caritas St. Elizabeth's Medical Center. This subcontract is co-terminus with Brighton Marine's contract with the Government. To assist it with its responsibilities, Caritas St. Elizabeth's Medical Center has subcontracted with Caritas Christi to provide executive leadership for the Health Plan's management team, to arrange for the network of health care delivery in Massachusetts and Rhode Island, and to administer the Health Plan operations. Caritas Christi has, in turn, subcontracted with Tufts Health Plan to assist it with the administration of the Health Plan and to access its network of providers. When Brighton Marine enters into a new contract in 2008, Caritas St. Elizabeth's Medical Center will have right of first offer to continue to provide services for the Health Plan. A significant portion of the premium revenue in the 2006 and 2005 consolidated statements of operations is attributed to this arrangement.

4. THIRD-PARTY REIMBURSEMENT (CONTINUED)

Other Payor Arrangements—Caritas Christi and its member organizations have entered into other payment agreements with BlueCross BlueShield of Massachusetts, the Commonwealth's Division of Medical Assistance, commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge and per day, discounts from established charges, fee screens, and capitation fees earned on a per-member, per-month basis.

5. INVESTMENTS

Investments at September 30, 2006 and 2005 consisted of the following (in thousands of dollars):

	2006	2005
Corporate debt and U.S. government securities	$ 140,448	$ 130,573
Marketable equity securities	78,150	71,852
Temporary cash investments	16,745	18,197
Mutual funds	23,389	21,837
	$ 258,732	$ 242,459

Such amounts are recorded in the consolidated balance sheets at September 30, 2006 and 2005, as follows (in thousands of dollars):

	2006	2005
Short-term investments	$ 30,426	$ 28,102
Current portion of assets whose use is limited	13,031	10,340
Assets whose use is limited:		
Long-term investments	109,232	105,749
Funds held in trust under bond agreements	36,069	34,592
Professional liability trust	35,158	33,375
Temporarily restricted investments	24,525	20,823
Permanently restricted investments	10,291	9,478
	$ 258,732	$ 242,459

Funds held in trust under bond agreements include approximately $833,000 and $886,000 at September 30, 2006 and 2005, respectively, in borrowed funds which are restricted for capital expenditures. At September 30, 2006 and 2005, professional liability trust investments in the accompanying consolidated balance sheets include approximately $6,270,000 and $5,127,000, respectively, related to reinsurance recoverables.

5. INVESTMENTS (CONTINUED)

The amortized cost and estimated fair value of investments included above, held as available-for-sale by TRACO, at September 30, 2006 and 2005, are as follows (in thousands of dollars):

September 30, 2006	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Temporary cash investments	$ 1,387	$ -	$ -	$ 1,387
U.S. treasury securities	16,844	38	(85)	16,797
Federal agency debt securities	2,422	1	(38)	2,385
Corporate debt securities	6,786	27	(96)	6,717
Equity securities	7,039	1,072	(239)	7,872
	$ 34,478	$ 1,138	$ (458)	$ 35,158
September 30, 2005				
Temporary cash investments	$ 719	$ -	$ -	$ 719
U.S. treasury securities	15,927	11	(184)	15,754
Federal agency debt securities	2,226	4	(36)	2,194
Corporate debt securities	7,670	38	(121)	7,587
Equity securities	6,455	1,051	(385)	7,121
	$ 32,997	$ 1,104	$ (726)	$ 33,375

The amortized cost and estimated fair value of marketable debt securities classified as available-for-sale by TRACO at September 30, 2006, by contractual maturity, are as follows (in thousands of dollars):

	Cost	Fair Value
Due after one year through five years	$ 18,451	$ 18,275
Due after five years through ten years	7,478	7,501
Due after ten years	123	123
	$ 26,052	$ 25,899

The composition of investment return for the years ended September 30, 2006 and 2005 is as follows (in thousands of dollars):

	2006	2005
Interest and dividend income included in:		
Other revenue	$ 5,320	$ 4,275
Nonoperating gains—net	4,814	4,632
Net realized gains on sale of unrestricted investments	5,050	2,328
Net change in unrealized gains and losses on investments	527	2,867
Donor-restricted investment income, gains and losses	1,676	2,254
	$ 17,387	$ 16,356

5. INVESTMENTS (CONTINUED)

The following table shows the gross unrealized losses and the fair value of Caritas Christi's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2006 and 2005 (in thousands of dollars):

At September 30, 2006	Less Than Twelve Months		Twelve Months or Greater		Total	
Description of Security	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt and U.S. government securities	$ 46,538	$ 982	$ 13,994	$ 216	$ 60,532	$ 1,198
Equities	12,641	1,720	1,014	100	13,655	1,820
Total	$ 59,179	$ 2,702	$ 15,008	$ 316	$ 74,187	$ 3,018

At September 30, 2005	Less Than Twelve Months		Twelve Months or Greater		Total	
Description of Security	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt and U.S. government securities	$ 75,993	$ 1,403	$ 3,311	$ 92	$ 79,304	$ 1,495
Equities	12,285	1,443	862	290	13,147	1,733
Total	$ 88,278	$ 2,846	$ 4,173	$ 382	$ 92,451	$ 3,228

The unrealized losses on Caritas Christi's investments in U.S. government securities and equities were caused by interest rate increases and unfavorable market conditions, respectively. Caritas Christi has evaluated the severity and duration of the impairment and does not consider these investments to be other-than-temporarily impaired at September 30, 2006 and 2005.

6. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2006 and 2005 consisted of the following (in thousands of dollars):

	2006	2005
Land and improvements	$ 19,731	$ 19,439
Buildings and improvements	423,471	419,034
Equipment	502,993	472,816
Leasehold improvements	30,959	28,955
	977,154	940,244
Less accumulated depreciation and amortization	(646,262)	(606,063)
	330,892	334,181
Construction-in-progress	17,823	11,548
Property and equipment—net	$ 348,715	$ 345,729

7. DEBT

Debt at September 30, 2006 and 2005 consisted of the following (in thousands of dollars):

	2006	2005
Massachusetts Health and Education Facilities Authority ("HEFA") Revenue Bonds:		
Caritas Christi Obligated Group, Series A, 5.25%–5.75%, payable through 2028	$ 145,845	$ 155,245
Caritas Christi Obligated Group, Series B, 5.75%–6.75%, payable through 2022	93,635	99,120
Valley Regional, Series C, 5.75%–7.00%, payable through 2018	22,840	24,290
HEFA Capital lease, 3.80% to 4.12%, payable through 2013	12,946	9,494
Caritas St. Elizabeth's Medical Center notes payable, variable (7.46% at September 30, 2006), payable through 2009	5,994	6,441
Caritas Carney note payable, variable (6.88% at September 30, 2006), payable through 2007	638	1,488
Other notes payable	1,133	1,477
Capital lease obligations (Note 8)	1,854	1,811
	284,885	299,366
Plus original issue premium	1,739	1,968
	286,624	301,334
Less current portion	23,015	21,336
Long-term debt	$ 263,609	$ 279,998

Obligated Group—During 1999, the Caritas Christi Obligated Group (the "Obligated Group") issued HEFA Revenue Bonds, Series A, in the amount of $197,735,000 which was used for the construction, renovation, and equipping of various facilities, to establish debt service funds, and to repay and defease existing debt.

During 2002, the Obligated Group issued HEFA Revenue Bonds, Series B, in the amount of $113,665,000. Of this amount, approximately $39,300,000 was for the construction, renovation, and equipping of various facilities. The balance of the proceeds was used to establish debt service funds and to repay existing debt.

The Obligated Group consists of Caritas Christi, Caritas St. Elizabeth's Medical Center, Inc., St. Anne's Hospital Corporation, Valley Regional Health System, Inc., Holy Family Hospital, Inc., Caritas Carney Hospital, Caritas Norwood, and Caritas Good Samaritan Medical Center, Inc.

In connection with the sale of St. Joseph Home (see Note 1) in November 2004, the Obligated Group requested and was granted from the bond trustees the withdrawal of St. Joseph Home from the Obligated Group. All outstanding bonds of St. Joseph Home along with the proceeds of the sale were transferred to Caritas Christi.

7. DEBT (CONTINUED)

HEFA Capital Lease—In January 2004, certain affiliates of Caritas Christi entered into a HEFA tax-exempt capital lease transaction to finance the acquisition of capital equipment and to refinance a note payable of $2,017,000. During 2006, Caritas Christi amended the master lease to finance the acquisition of additional capital equipment. Borrowings under the lease bear interest at rates between 3.80% and 4.12%, and are payable through 2013.

Line of Credit—Certain affiliates of Caritas Christi maintain a $7,500,000 line of credit with a commercial bank, which bears interest at LIBOR plus 150 basis points and expires April 10, 2007. During 2001, Diagnostic Support Services borrowed $2,283,000 under this line of credit to purchase a mortgage note on a medical office building on the campus of CGSMC, of which $0 and $381,000 remained outstanding at September 30, 2006 and 2005, respectively. No other amounts were outstanding under the line of credit agreement at September 30, 2006 or 2005.

Loan Guarantees—Caritas St. Elizabeth's Medical Center has guaranteed the obligations of an affiliate to a commercial bank, the Caritas Carney note payable, a Valley Regional note payable, and letters of credit for Caritas Norwood and Valley Regional. The same obligations and any borrowings under the line of credit are collateralized by approximately $9,000,000 in investments pledged by Caritas St. Elizabeth's Medical Center, Valley Regional, St. Anne's Hospital Corporation, Caritas Norwood, and Diagnostic Support Services which are held in trust for the benefit of the bank. The pledged investments are reported as long-term investments in the accompanying consolidated balance sheets.

Collateral—The following is a summary of collateral under various debt agreements:

Issue	Collateral
Obligated Group revenue bonds	Pledge of gross receipts and mortgage on a portion of the property of Caritas St. Elizabeth's Medical Center
Valley Regional revenue bonds	Pledge of gross receipts
Caritas St. Elizabeth's Medical Center, Caritas Carney and other notes payable	Mortgage on property and equipment and pledged investments

Loan Covenants—Several of the loan agreements contain covenants and financial ratios which require compliance by the various member organizations. Certain of the agreements also provide for restrictions on, among other things, additional indebtedness, transfers between affiliates, and dispositions of property.

Aggregate Principal Payments—Aggregate principal payments, excluding capital leases, are due as follows (in thousands of dollars):

Year Ending September 30	
2007	$ 22,178
2008	21,172
2009	20,089
2010	17,868
2011	18,023
Thereafter	183,701
	$ 283,031

8. LEASES

Caritas Christi and its affiliates lease equipment and office space under various capital and operating leases. Minimum lease payments under capital lease obligations and noncancelable operating leases at September 30, 2006, were as follows (in thousands of dollars):

Year Ending September 30	Capital Leases	Operating Leases
2007	$ 932	$ 7,815
2008	558	6,090
2009	269	4,724
2010	208	2,996
2011	70	2,083
Thereafter	-	10,756
Total minimum lease payments	2,037	$ 34,464
Less amount representing interest	183	
Capital lease obligations (see Note 7)	$ 1,854	

The net book value of equipment recorded under capital leases amounted to approximately $1,665,000 and $1,776,000 at September 30, 2006 and 2005, respectively.

Rent expense amounted to approximately $16,029,000 and $13,776,000 for the years ended September 30, 2006 and 2005, respectively.

9. EMPLOYEES' RETIREMENT PLANS

Multiemployer Pension Plan (the "Plan")—Caritas Christi and certain of its affiliates participate in a multiemployer, noncontributory, defined benefit pension plan, administered by the RCAB, covering substantially all employees of those affiliates. Participating affiliates of Caritas Christi, including former affiliates, represent approximately 90% of the obligations of the Plan. Total pension expense under the Plan aggregated approximately $4,366,000 in 2006 and $6,846,000 in 2005, including amortization of past service costs over 15 years. Substantially all amounts provided have been paid to the Plan Trust.

In August 2003, the trustees of the Plan voted certain amendments to the Plan effective January 1, 2004, including the freezing of benefit accruals as of that date.

At June 30, 2006, the measurement date for the Plan, the accumulated benefit obligation and projected benefit obligation of the Plan, both measured utilizing a discount rate of 6.25%, were approximately $313,583,000 each. The assets of the Plan at market value were approximately $277,778,000 as of that date.

Management believes that it is reasonably possible that it will continue to make future contributions to the Plan as a result of the funding shortfall. In addition, if Caritas Christi were to withdraw from the Plan, management believes that such withdrawal

may result in an obligation to the Plan for a portion of the unfunded benefit obligation.

9. EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Defined Contribution Plan—In September 2003, the Board of Governors of Caritas Christi voted to establish a new defined contribution retirement savings plan for employees of Caritas Christi and certain of its affiliates effective January 1, 2004. Plan participants have to perform one year of continuous service and have reached the age of 21 in order to be eligible to receive a match or core contribution under the Plan. Under this plan, the participating entities contribute an amount equal to one-half of the participant's contribution up to 4.0% of eligible participants' wages. Additionally, the participating entities make an annual core contribution for all eligible employees up to 4.5% of eligible wages based upon age and years of service. Pension expense under this plan amounted to approximately $19,101,000 and $17,897,000 in 2006 and 2005, respectively.

Defined Benefit Plans—Two of the Caritas Christi affiliates, Caritas Norwood and CGSMC, sponsor frozen defined benefit plans that provide retirement benefits for substantially all of their employees. Benefits are generally based on the participant's age, years of credited service, and compensation. The plans are funded in conformity with the funding requirements of applicable government regulations. Plan assets consist primarily of stocks and bonds.

9. EMPLOYEES' RETIREMENT PLANS (CONTINUED)

The following table provides a reconciliation of benefit obligations, plan assets, and the funded status of the Caritas Norwood and CGSMC defined benefit plans and the related amounts that are recognized in the accompanying consolidated balance sheets at September 30, 2006 and 2005 (in thousands of dollars):

	2006	2005
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 132,108	$ 118,954
Service cost	2,966	2,821
Interest cost	7,568	7,453
Actuarial (gain) loss	(9,838)	8,023
Benefits paid	(5,496)	(5,143)
Benefit obligation at September 30	127,308	132,108
Change in plan assets:		
Fair value of plan assets at beginning of year	85,853	78,698
Actual return on plan assets	7,386	5,067
Employer contributions	5,789	7,231
Benefits paid from plan assets	(5,496)	(5,143)
Fair value of plan assets at September 30	93,532	85,853
Benefit obligation in excess of plan assets	33,776	46,255
Employer contributions	(3,081)	(899)
Unrecognized net loss	(16,772)	(27,740)
Unrecognized prior service credit	(134)	(145)
Accumulated minimum pension liability	16,772	27,740
Accrued benefit cost (included in other long-term liabilities)	$ 30,561	$ 45,211
Net periodic benefit cost:		
Service cost	$ 2,966	$ 2,820
Interest cost	7,568	7,453
Expected return on plan assets	(7,256)	(7,015)
Net amortization and deferral	1,008	731
Benefit cost for the year ended September 30	$ 4,286	$ 3,989

A minimum pension liability adjustment is required when the actuarial present value of accumulated benefits exceeds plan assets and accrued pension liabilities. The accumulated benefit obligation of the plans was $127,308,000 and $132,108,000 as of September 30, 2006 and 2005, respectively.

9. EMPLOYEES' RETIREMENT PLANS (CONTINUED)

Caritas Christi measured its plans at June 30 and September 30, and used the following assumptions in determining the preceding amounts for the defined benefit plans:

	2006	2005
Discount rates	5.75–6.25%	5.25–5.50%
Rates of compensation increase	5.50%	5.25
Expected return on plan assets	8.00%–8.50%	8.00–8.75%

The following table details the pension plan asset allocations:

	Fiscal Year Ending September 30, 2007	Assets at September 30 2006	Assets at September 30 2005
Equity securities	60 %	63 %	57 %
Debt securties	40	29	37
Cash and fixed income	-	8	6
Total	100 %	100 %	100 %

The investment policy and strategy, as established by the Caritas Christi Investment Committee, is to provide for growth of capital with a moderate level of volatility by investing assets based on the target allocations stated above. Caritas Christi plans to reallocate its investments periodically to meet the above target allocations. Caritas Christi also plans to review its investment policy periodically to determine if the policy should be changed.

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 10% to 11% over the long-term, while cash and fixed income is expected to return between 4% and 6%. Based on historical experience, the Investment Committee expects that the plan's asset managers will provide a modest (0.5% to 1.0% per annum) premium to their respective market benchmark indices.

The following table shows expected cash flows of the plans (in thousands of dollars):

September 30, 2007—expected employer contributions	$ 7,675
Estimated future benefit payments reflecting expected future service for the fiscal year ending June 30:	
2007	$ 5,306
2008	5,226
2009	5,430
2010	5,521
2011	5,664
2012-2016	31,393

10. PROFESSIONAL LIABILITY INSURANCE AND OTHER CONTINGENCIES

Malpractice Insurance—Caritas Christi and certain of its affiliates and associated physicians secure medical malpractice and comprehensive general liability coverage from TRACO. TRACO provides insurance coverage on a modified claims-made basis. The TRACO premium is prospectively assessed and subject to retrospective adjustment. The TRACO policy covers claims made during its term but not those occurrences for which claims may be made after expiration of the policy. Caritas Christi and its affiliates that obtain their insurance coverage from TRACO intend to renew their coverage on a claims-made basis and have no reason to believe that they will be prevented from such renewal.

The amount of professional and comprehensive general liability insurance expense is based, in part, upon estimates prepared by independent actuaries. The accrual for professional and comprehensive general liability costs includes a provision for asserted and unasserted claims which have been discounted at the rate of 5.5% in both 2006 and 2005 in the accompanying consolidated financial statements.

Caritas Norwood and Caritas Southwood have obtained their malpractice insurance and comprehensive liability coverage on a claims-made basis through a policy which is subject to annual renewal and retrospective adjustment. The claims-made policy covers claims made during its term, but not those occurrences for which claims may be made after expiration of the policy. Both Caritas Norwood and Caritas Southwood intend to renew their coverage on a claims-made basis and have no reason to believe that they will be prevented from renewing such coverage. Management believes that there are no asserted or unasserted claims that warrant accrual or disclosure. Management does not believe that claims made from incurred but unreported incidents as of September 30, 2006, will have a material impact on Caritas Christi's consolidated financial position or results of operations.

Workers' Compensation—Valley Regional, Caritas Norwood, and CGSMC (other than Caritas Good Samaritan Occupational Health Services, Inc.) are licensed by the Commonwealth to provide workers' compensation coverage on a self-insured basis. The organizations have obtained surety bonds to support their potential obligations for coverage, have purchased excess insurance coverage to limit their exposure in the event of adverse claims experience, and have provided bank letters of credit to obtain the surety bonds. CGSMC has pledged $2,100,000 of investments as collateral for its bank letter of credit, while Caritas Norwood's $1,600,000 and Valley Regional's $1,400,000 letters are supported by the collateral pool with a commercial bank (see Note 7).

Environmental Matters—Caritas Southwood is located on land formerly owned by the Commonwealth, on which the Commonwealth operated a state hospital facility. Caritas Southwood's property includes a landfill formerly used by the Commonwealth which was closed in the 1970s. Management is currently working with the Department of Environmental Protection and other governmental agencies to develop a plan of corrective action to address environmental issues associated with the Caritas Southwood site, including formally closing the landfill, remediation of soil contamination, and ongoing monitoring of potential groundwater contamination. Although the ultimate outcome of the environmental matters cannot be determined with certainty, management does not believe that the resolution of these matters will have a material adverse impact on Caritas Christi's consolidated financial position or results of operations.

10. PROFESSIONAL LIABILITY INSURANCE AND OTHER CONTINGENCIES (CONTINUED)

Other Contingencies—Caritas Christi and its member organizations are parties in various legal proceedings and potential claims arising in the ordinary course of their business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Such compliance in the health care industry has recently come under increased governmental scrutiny. Management does not believe that these matters will have a material adverse effect on Caritas Christi's consolidated financial position or results of operations.

11. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject Caritas Christi and its member organizations to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable.

Caritas Christi and its member organizations' investments are managed by investment managers based upon guidelines established by the Board of Governors.

Caritas Christi and its affiliated organizations provide services throughout eastern Massachusetts. The member hospitals and certain other affiliates grant credit without collateral to their patients, many of whom are local residents and are insured under third-party payor agreements. Net patient accounts receivable at September 30, 2006 and 2005, consisted of the following:

	2006	2005
Medicare	28 %	27 %
Medicaid	10	10
BlueCross	13	14
Other commercial insurance companies, HMOs and patients	49	49
	100 %	100 %

A significant portion of the accounts receivable from commercial insurance companies and HMOs is derived from two Massachusetts managed care companies. Although management expects the amounts recorded as net accounts receivable at September 30, 2006, to be collectible, this concentration of credit risk is expected to continue in the near term.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate, when practical, the fair value of each class of financial instruments:

Cash and Cash Equivalents—The carrying amount of such assets approximates fair value because of the short maturities of these instruments.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments—The fair value of these instruments is estimated based on quoted market prices.

Long-Term Debt—The fair value of the HEFA Revenue Bonds (see Note 7) is based on quoted market prices. The remaining long-term debt instruments have a carrying value that approximates their fair value. Total fair value of long-term debt amounted to approximately $299,410,000 and $303,074,000 at September 30, 2006 and 2005, respectively.

13. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at September 30, 2006 and 2005 (in thousands of dollars):

	2006	2005
Plant and equipment	$ 26,614	$ 25,065
Research	1,065	1,274
Education	1,905	1,993
Health care services	3,994	4,157
Total	$ 33,578	$ 32,489

Permanently restricted net assets are invested in perpetuity, the income from which is generally expendable to support the delivery of health care services.

14. SUBSEQUENT EVENT

On February 6, 2007, Caritas Christi entered into a non-binding letter of intent ("LOI") with St. Louis, Missouri based Ascension Health. The LOI establishes a framework under which both parties will conduct good faith negotiations for the potential change in canonical sponsorship of Caritas Christi from the RCAB to the Northeast Province of the Daughters of Charity. The LOI expires on July 1, 2007.

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