AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Caritas Christi
Years Ended September 30, 2007 and 2006
With Report of Independent Auditors

Caritas Christi

Audited Consolidated Financial Statements

Years Ended September 30, 2007 and 2006

Contents

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Report of Independent Auditors

Caritas Christi:

We have audited the accompanying consolidated balance sheets of Caritas Christi and its member organizations as of September 30, 2007, and the related consolidated statements of operations, changes in net assets, and cash flows for the year 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 audit. The financial statements of Caritas Christi and its member organizations as of September 30, 2006 were audited by other auditors, whose report, dated February 6, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 2007, 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.

As discussed in Note 9 to the consolidated financial statements, Caritas Christi and its member organizations adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R)*, in 2007, which changed its method of accounting for its defined benefit pension plans.

Ernst + Young LLP

February 19, 2008

Caritas Christi

Consolidated Balance Sheets

(Amounts in thousands)

	September 30	
Assets	**2007**	**2006**
Current assets:		
Cash and cash equivalents	**$ 73,486**	$ 80,353
Short-term investments	**28,792**	30,426
Current portion of assets whose use is limited	**12,252**	13,031
Patient accounts receivable, less allowance for uncollectible accounts of $41,415 in 2007 and $44,507 in 2006	**97,684**	109,309
Other accounts receivable	**9,884**	17,740
Other current assets	**23,157**	21,482
Total current assets	**245,255**	272,341
Assets whose use is limited:		
Long-term investments	**123,154**	109,232
Funds held in trust under bond agreements	**33,174**	36,069
Professional liability trust	**45,492**	41,428
Temporarily restricted investments	**27,516**	24,525
Permanently restricted investments	**10,624**	10,291
Total assets whose use is limited	**239,960**	221,545
Property and equipment – net	**349,253**	348,715
Other assets – net	**7,477**	10,001
Total assets	**$841,945**	$852,602
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 22,254**	$ 23,015
Accounts payable and accrued expenses	**169,065**	170,026
Current portion of estimated settlements with third-party payors	**19,716**	30,752
Other current liabilities	**7,575**	7,585
Total current liabilities	**218,610**	231,378
Other long-term liabilities:		
Long-term debt – net of current portion	**241,910**	263,609
Estimated settlements with third-party payors – net of current portion	**24,673**	26,884
Professional liability costs	**43,590**	41,263
Other liabilities	**31,283**	36,852
Total other liabilities	**341,456**	368,608
Total liabilities	**560,066**	599,986
Net assets:		
Unrestricted	**239,701**	209,188
Temporarily restricted	**31,998**	33,578
Permanently restricted	**10,180**	9,850
Total net assets	**281,879**	252,616
	$841,945	$852,602

See accompanying notes.

Caritas Christi

Consolidated Statements of Operations
(Amounts in thousands)

	Year Ended September 30 2007	2006
Unrestricted revenue and other support:		
Net patient service revenue	**$1,081,381**	$1,057,984
Premium revenue	**103,556**	95,033
Other revenue	**45,865**	55,495
Research	**7,642**	9,787
Net assets released from restrictions used for operations	**2,239**	2,181
Total unrestricted revenue and other support	**1,240,683**	1,220,480
Expenses:		
Salaries, wages, and fringe benefits	**721,547**	689,775
Supplies and other expenses	**352,144**	341,518
Purchased provider services and other expenses related to premium revenue	**54,565**	56,371
Depreciation and amortization	**48,020**	44,530
Interest	**16,390**	17,160
Provision for bad debts	**44,332**	43,453
Total expenses	**1,236,998**	1,192,807
Income from operations	**3,685**	27,673
Nonoperating gains – net	**17,067**	10,265
Excess of revenue over expenses	**20,752**	37,938
Other changes in unrestricted net assets:		
Net change in unrealized gains and losses on investments	**12**	129
Minimum pension liability adjustment	**3,125**	10,967
Net assets released from restrictions used for purchases of property and equipment	**6,192**	4,937
Contribution of property and equipment	**432**	398
Total other changes in unrestricted net assets	**9,761**	16,431
Increase in unrestricted net assets before cumulative effect of change in accounting principle	**30,513**	54,369
Changes in accounting principles	**–**	(6,767)
Increase in unrestricted net assets	**$ 30,513**	$ 47,602

See accompanying notes.

Caritas Christi

Consolidated Statements of Changes in Net Assets
(Amounts in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 and research	-	(2,181)	-	(2,181)
Purchases of property and equipment	4,937	(4,937)	-	-
Contributions of property and equipment	398	-	-	398
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
Excess of revenue over expenses	20,752	-	-	20,752
Contributions	-	4,178	58	4,236
Investment income, gains, and losses	-	1,574	219	1,793
Net change in unrealized gains and losses on investments	12	1,099	53	1,164
Minimum pension liability adjustment	3,125	-	-	3,125
Net assets released from restrictions used for:				
Operations and research	-	(2,239)	-	(2,239)
Purchases of property and equipment	6,192	(6,192)	-	-
Contributions of property and equipment	432	-	-	432
Change in net assets	30,513	(1,580)	330	29,263
Balance – September 30, 2007	$239,701	$31,998	$10,180	$281,879

See accompanying notes.

Caritas Christi

Consolidated Statements of Cash Flows

(Amounts in thousands)

	Year Ended September 30	
	2007	**2006**
Operating activities		
Increase in net assets	**$ 29,263**	$ 49,255
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	**47,911**	44,301
Provision for bad debts	**44,332**	43,453
Contributions of property and equipment	**(432)**	(398)
Restricted contributions and investment income	**(6,029)**	(8,373)
Net change in unrealized gains and losses on investments	**(7,885)**	(527)
Net realized gains on investments	**(4,929)**	(5,050)
Minimum pension liability adjustment	**(3,125)**	(10,967)
(Decrease) increase in cash resulting from a change in:		
Patient accounts receivable	**(32,707)**	(52,648)
Other current assets	**6,181**	(8,759)
Accounts payable and accrued expenses	**(961)**	24,641
Estimated settlements with third-party payors	**(13,247)**	(5,005)
Limited use assets	**(4,822)**	-
Short-term investments	**1,634**	-
Professional liability costs	**2,327**	3,055
Other liabilities	**(2,454)**	(4,654)
Net cash provided by operating activities	**55,057**	75,091
Investing activities		
Purchase of property and equipment	**(45,897)**	(44,273)
Increase in limited use assets	-	(9,515)
Increase in short-term investments	-	(2,324)
Decrease (increase) in noncurrent other assets	**(129)**	(4,218)
Net cash used in investing activities	**(46,026)**	(60,330)
Financing activities		
Proceeds from borrowings	-	6,846
Repayment of long-term debt	**(23,148)**	(21,708)
Proceeds from restricted contributions and investment income	**7,250**	11,140
Net cash used in financing activities	**(15,898)**	(3,722)
Net (decrease) increase in cash and cash equivalents	**(6,867)**	11,039
Cash and cash equivalents at beginning of year	**80,353**	69,314
Cash and cash equivalents at end of year	**$ 73,486**	$ 80,353

Caritas Christi

Consolidated Statements of Cash Flows (continued)
(Amounts in thousands)

	Year Ended September 30 2007	2006
Supplemental disclosure of cash flow information		
Cash paid for interest	**$17,126**	$17,424
Supplemental schedule of noncash investing and financing activity		
Purchase of property and equipment financed by capital leases	**$ 797**	$ 60
Donated equipment	**$ 432**	$ 398

See accompanying notes.

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 (Note 10).

- Caritas Christi Support Services, Inc. (Support Services) – the parent company for Caritas Christi Diagnostic Support Services, Inc. (Diagnostic Support Services), which operated a magnetic resonance imaging (MRI) service at Caritas St. Elizabeth's and CGSMC, until September 30, 2006, at which time it gave up its license and transferred the assets and operations to Caritas St. Elizabeth's and CGSMC.

1. Organization (continued)

- 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.

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

- Caritas Home Care, Inc. (Home Care), an organization 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, Caritas Carney, 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.

2. Summary of Significant Accounting Policies (continued)

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 2007 and 2006, changes in prior-year estimates increased net patient service revenue by approximately $19,700,000 and $18,100,000, respectively.

Estimated Settlements With Third-Party Payors

A portion of the accrual for estimated settlements with third-party payors at September 30, 2007 and 2006 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.

2. Summary of Significant Accounting Policies (continued)

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 $0.27 million in 2007 and $3.7 million in 2006, recorded as an expense in the accompanying consolidated statements of operations. As of September 30, 2007 and 2006, approximately $0.15 million and $3.3 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

In previous years, substantially all of the Caritas Christi's investments (Note 5) were classified as nontrading. As such, unrealized gains and losses that were considered temporary were excluded from excess of revenues over expenses. Beginning in 2007, Caritas Christi changed the designation of its investment portfolio to trading, with unrealized gains and losses included in excess of revenues over expenses.

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 and unrealized 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.

2. Summary of Significant Accounting Policies (continued)

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 $0 in 2007 and $180,000 in 2006. 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 are reported as other current assets and other assets in the accompanying consolidated balance sheets. Expected collections as of September 30, 2007, of these pledges, are as follows:

Due in:	
Less than one year	$2,362
One to five years	1,182
Total	3,544
Discounts and allowances	(644)
Net	$2,900

2. Summary of Significant Accounting Policies (continued)

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).

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, 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 Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes.* The provision for taxes on income, which was not material in 2007 and 2006, is recorded with supplies and other expenses in the accompanying consolidated statements of operations.

2. Summary of Significant Accounting Policies (continued)

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, 2007 and 2006. 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 Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) to recognize the funded status of their postretirement benefit plans in the consolidated statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated statement of financial position, and provide additional disclosures. On September 30, 2007, Caritas Christi adopted the recognition and disclosure provisions of SFAS No. 158. There was no impact on the accompanying consolidated financial statements as a result of the adoption.

Effective September 30, 2006, Caritas Christi adopted the provisions of 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.

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

2. Summary of Significant Accounting Policies (continued)

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.

Recently Issued Accounting Pronouncements

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes*, which is effective for financial statements for fiscal years beginning after December 15, 2006. FIN 48 provides guidance to all enterprises, including pass-through entities, for how uncertain tax provisions should be recognized, measured, presented, and disclosed in the financial statements. Caritas Christi is evaluating the potential impact, if any of FIN 48 upon adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Caritas Christi has not yet determined the effect that the adoption of SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Caritas Christi has not yet determined the effect that the adoption of SFAS No. 159 will have 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

3. Charity Care and Community Benefit (continued)

include various clinics, health screening programs, health education programs, and support area groups operated in the local area. Caritas Christi and its members work actively with other 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 2007 and 2006, the member organizations provided approximately $43,489,000 and $44,891,000 in charity care, respectively. The equivalent percentage of charity care patients to all patients served was approximately 2.2% and 2.3% in 2007 and 2006, respectively. Such amounts and percentages are determined using charges foregone based on established rates.

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:

4. Third-Party Reimbursement (continued)

Medicare

The acute care hospitals are subject to a federal prospective payment system (PPS) for Medicare noncapitated 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 nonphysician 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 2007 and 2006 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, 2007 and 2006 consisted of the following (in thousands of dollars):

	2007	**2006**
Corporate debt and U.S. government securities	**$145,019**	$ 140,448
Marketable equity securities	**92,992**	78,150
Temporary cash investments	**17,125**	16,745
Mutual funds	**17,663**	23,389
	$272,799	$ 258,732

Such amounts are recorded in the consolidated balance sheets at September 30, 2007 and 2006 as follows (in thousands of dollars):

	2007	**2006**
Short-term investments	**$ 28,792**	$ 30,426
Current portion of assets whose use is limited	**12,252**	13,031
Assets whose use is limited:		
Long-term investments	**123,154**	109,232
Funds held in trust under bond agreements	**33,174**	36,069
Professional liability trust	**37,287**	35,158
Temporarily restricted investments	**27,516**	24,525
Permanently restricted investments	**10,624**	10,291
	$272,799	$258,732

Funds held in trust under bond agreements include approximately $627,000 and $833,000 at September 30, 2007 and 2006, respectively, in borrowed funds which are restricted for capital expenditures. At September 30, 2007 and 2006, professional liability trust investments in the accompanying consolidated balance sheets include approximately $8,205,000 and $6,270,000, 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, are as follows (in thousands of dollars):

	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

The composition of investment return for the years ended September 30, 2007 and 2006 is as follows (in thousands of dollars):

	2007	**2006**
Interest and dividend income included in:		
Other revenue	**$ 6,299**	$ 5,320
Nonoperating gains – net	**6,707**	4,814
Net realized gains on sale of unrestricted investments	**4,929**	5,050
Net change in unrealized gains and losses on investments	**7,885**	527
Donor-restricted investment income, gains, and losses	**1,793**	1,676
	$27,613	$ 17,387

6. Property and Equipment

Property and equipment at September 30, 2007 and 2006 consisted of the following (in thousands of dollars):

	2007	2006
Land and improvements	**$ 20,007**	$ 19,731
Buildings and improvements	**432,791**	423,471
Equipment	**530,220**	502,993
Leasehold improvements	**34,153**	30,959
	1,017,171	977,154
Less accumulated depreciation and amortization	**(692,617)**	(646,262)
	324,554	330,892
Construction-in-progress	**24,699**	17,823
	$ 349,253	$ 348,715

7. Debt

Debt at September 30, 2007 and 2006 consisted of the following (in thousands of dollars)

	2007	2006
Massachusetts Health and Education Facilities Authority (HEFA) Revenue Bonds:		
Caritas Christi Obligated Group, Series A, 5.25% – 5.75%, payable through 2028	**$135,955**	$145,845
Caritas Christi Obligated Group, Series B, 5.75% – 6.75%, payable through 2022	**87,835**	93,635
Valley Regional, Series C, 5.75% – 7.00%, payable through 2018	**21,370**	22,840
HEFA Capital lease, 3.80% – 4.12%, payable through 2013	**9,421**	12,946
Caritas St. Elizabeth's Medical Center notes payable, variable (7.46% at September 30, 2006), payable through 2009	**5,506**	5,994
Caritas Carney note payable, variable (6.88% at September 30, 2006), payable through 2007	**-**	638
Other notes payable	**731**	1,133
Capital lease obligations *(Note 8)*	**1,824**	1,854
	262,642	284,885
Plus original issue premium	**1,522**	1,739
	264,164	286,624
Less current portion	**22,254**	23,015
Long-term debt	**$241,910**	$ 263,609

7. Debt (continued)

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 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.

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. (Note 14)

Line of Credit

Certain affiliates of Caritas Christi maintain a $11,000,000 line of credit with a commercial bank, which bears interest at LIBOR plus 100 basis points and expires August 9, 2008. No amounts were outstanding under the line of credit agreement at September 30, 2007 or 2006.

7. Debt (continued)

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.

7. Debt (continued)

Aggregate Principal Payments

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

Year Ending September 30	
2008	$ 21,119
2009	20,468
2010	18,298
2011	18,023
2012	18,388
Thereafter	164,522
	$260,818

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, 2007 were as follows (in thousands of dollars):

Year Ending September 30	Capital Leases	Operating Leases
2008	$ 999	$ 8,209
2009	643	6,909
2010	208	5,564
2011	67	4,099
2012	-	3,242
Thereafter	-	3,834
		$31,857
Total minimum lease payments	1,917	
Less amount representing interest	93	
Capital lease obligations *(Note 7)*	$1,824	

The net book value of equipment recorded under capital leases amounted to approximately $2,493,000 and $1,665,000 at September 30, 2007 and 2006, respectively.

Rent expense amounted to approximately $15,619,000 and $16,029,000 for the years ended September 30, 2007 and 2006, respectively.

9. Employees' Retirement Plan

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 a significant portion of the 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 $6,401,000 in 2007 and $4,366,000 in 2006, 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, 2007, the measurement date for the Plan, the accumulated benefit obligation and projected benefit obligation of the Plan, both measured utilizing a discount rate of 6.1%, were approximately $330,076,000 each. The assets of the Plan at market value were approximately $309,402,000 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.

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 $21,221,000 and $19,101,000 in 2007 and 2006, respectively.

Defined Benefit Plans

Two of the Caritas Christi affiliates, Caritas Norwood and CGSMC, sponsor frozen defined benefit plans that provide retirement benefits for vested 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 Plan (continued)

On September 30, 2007, Caritas Christi adopted the recognition and disclosure provisions of SFAS No. 158. The adoption had no impact on the accompanying consolidated financial statements because the plans are frozen.

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, 2007 and 2006 (in thousands of dollars):

	2007	**2006**
Change in benefit obligation:		
Benefit obligation at beginning of year	**$127,308**	$132,108
Service cost	**3,173**	2,966
Interest cost	**7,838**	7,568
Actuarial (gain) loss	**(166)**	(9,838)
Benefits paid	**(5,441)**	(5,496)
Benefit obligation at September 30	**132,712**	127,308
Change in plan assets:		
Fair value of plan assets at beginning of year	**93,532**	85,853
Actual return on plan assets	**10,932**	7,386
Employer contributions	**8,447**	5,789
Benefits paid from plan assets	**(5,441)**	(5,496)
Fair value of plan assets at September 30	**107,470**	93,532
Benefit obligation in excess of plan assets	**25,242**	33,776
Employer contributions after measurement date	**(2,181)**	(3,081)
Unrecognized net loss	**-**	(16,772)
Unrecognized prior service credit	**-**	(134)
Accumulated minimum pension liability	**-**	16,772
Accrued benefit cost (included in other long-term liabilities)	**$ 23,061**	$ 30,561
Net periodic benefit cost:		
Service cost	**$ 3,173**	$ 2,966
Interest cost	**7,838**	7,568
Expected return on plan assets	**(7,989)**	(7,256)
Net amortization and deferral	**215**	1,008
Benefit cost for the year ended September 30	**$ 3,237**	$ 4,286

In 2006, a minimum pension liability adjustment was required because the actuarial present value of accumulated benefits exceeded plan assets and accrued pension liabilities. The accumulated benefit obligation of the plans was $132,712,000 and $127,308,000 as of September 30, 2007 and 2006, respectively.

9. Employees' Retirement Plan (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:

	2007	**2006**
Discount rates	**5.75% – 6.25%**	5.75% – 6.25%
Rates of compensation increase	**5.50%**	5.50%
Expected return on plan assets	**8.00% – 8.50%**	8.00% – 8.50%

Included in unrestricted net assets at September 30, 2007 are the following amounts that have not yet been recognized in net periodic pension costs; unrecognized prior service cost of $123,844 and unrecognized actuarial losses of $13,458,837. The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2008 are $10,425 and $73,000, respectively.

The following table details the pension plan asset allocations:

	Fiscal Year Ending	**Assets at September 30**	
	September 30, 2008	**2007**	**2006**
Equity securities	60%	**63%**	63%
Debt securities	40	**24**	29
Cash and fixed income	-	**13**	8
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.

9. Employees' Retirement Plan (continued)

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

September 30, 2008 – expected employer contributions	$ 7,143
Estimated future benefit payments reflecting expected future service for the fiscal year ending June 30:	
2008	$ 6,139
2009	6,020
2010	6,140
2011	6,187
2012	6,337
2013 – 2017	34,390

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 2007 and 2006 in the accompanying consolidated financial statements.

Through December 31, 2007, Caritas Norwood and Caritas Southwood had obtained their malpractice insurance and comprehensive liability coverage on a claims-made basis through a policy which was subject to annual renewal and retrospective adjustment. The claims-made policy covered 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 purchased an unlimited optional extended reporting coverage endorsement to provide coverage on unreported claims for an unlimited reporting period for all claims made after January 1, 2007. Effective January 1, 2007, Caritas Norwood and Caritas Southwood are securing their medical malpractice and comprehensive general liability coverage from TRACO.

10. Professional Liability Insurance and Other Contingencies (continued)

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. Caritas Good Samaritan Medical Center's $2,100,000, Caritas Norwood's $1,600,000, and Valley Regional's $1,400,000 letters are supported by the collateral pool with a commercial bank (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.

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, 2007 and 2006, consisted of the following:

	2007	**2006**
Medicare	**28%**	28%
Medicaid	**12**	10
BlueCross	**14**	13
Other commercial insurance companies, HMOs and patients	**46**	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.

Investments

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

12. Fair Value of Financial Instruments (continued)

Long-Term Debt

The fair value of the HEFA Revenue Bonds (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 $271,343,000 and $299,410,000 at September 30, 2007 and 2006, respectively.

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2007 and 2006 (in thousands of dollars):

	2007	2006
Plant and equipment	**$25,066**	$26,614
Research	**606**	1,065
Education	**2,097**	1,905
Health care services	**4,229**	3,994
Total	**$31,998**	$33,578

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 Events

In November 2007, Caritas Christi amended the master lease for its HEFA tax-exempt capital lease to finance the acquisition of additional capital equipment. New borrowings of $13,980,000 bear interest at a rate of 3.94%, and are payable through 2014.