

AUDITED FINANCIAL STATEMENTS

St. Joseph Health Services of Rhode Island
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

St. Joseph Health Services of Rhode Island

Audited Financial Statements

Years Ended September 30, 2009 and 2008

Contents

| | |
|--|---|
| Report of Independent Auditors..... | 1 |
| Audited Financial Statements | |
| Statements of Financial Position..... | 2 |
| Statements of Operations and Changes in Net Assets | 3 |
| Statements of Cash Flows..... | 5 |
| Notes to Financial Statements..... | 6 |

Report of Independent Auditors

Board of Trustees
St. Joseph Health Services of Rhode Island

We have audited the statements of financial position of St. Joseph Health Services of Rhode Island (the Corporation) as of September 30, 2009 and 2008, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included 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 the Corporation'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Joseph Health Services of Rhode Island at September 30, 2009 and 2008, and the results of its operations and changes in net assets, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the accompanying consolidated financial statements, in 2009 the Corporation changed its method of accounting for its endowments.

Ernst & Young LLP

February 25, 2010

St. Joseph Health Services of Rhode Island

Statements of Financial Position

| | September 30 | | September 30 | |
|--|---------------|---------------|--------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 14,360,961 | \$ 5,803,053 | | |
| Investments | 841,239 | 8,230,973 | | |
| Patient accounts receivable, less reserves of \$8,460,373 in 2009 and \$9,073,213 in 2008 for estimated uncollectible accounts | 20,919,971 | 21,484,540 | | |
| Other receivables | 2,007,265 | 1,289,567 | | |
| Inventories | 1,940,883 | 2,318,884 | | |
| Current portion of assets held by trustees under loan indenture | 1,046,865 | 1,073,374 | | |
| Current portion of pledges receivable, net | - | 89,623 | | |
| Prepaid expenses | 937,656 | 1,261,837 | | |
| Total current assets | 42,054,840 | 41,551,851 | | |
| Assets whose use is limited: | | | | |
| Held by trustees under loan indenture | 1,625,496 | 1,584,582 | | |
| Beneficial interest in perpetual trust | 5,370,447 | 5,516,026 | | |
| Held by trustee under workers' compensation program | 1,044,227 | 1,082,530 | | |
| Endowment funds | 1,195,148 | 1,168,715 | | |
| | 9,235,318 | 9,351,853 | | |
| Long-term investments | 236,104 | 376,848 | | |
| Property, plant and equipment, net | 46,118,170 | 44,868,564 | | |
| Deferred financing costs | 382,853 | 396,160 | | |
| Total assets | \$ 98,027,285 | \$ 96,545,276 | | |
| | | | | |
| Liabilities and net assets | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 11,014,812 | \$ 8,548,370 | | |
| Deferred revenue | 2,176,007 | 213,255 | | |
| Accrued expenses | 7,193,765 | 7,616,301 | | |
| Estimated settlements due to third-party payors | 1,374,156 | 8,201,412 | | |
| Current installments of long-term debt | 618,776 | 578,093 | | |
| Current obligations under capital leases | 1,490,711 | 1,485,754 | | |
| Total current liabilities | 23,868,227 | 26,643,185 | | |
| Deferred revenue | 2,672,090 | - | | |
| Insurance reserves | 3,582,120 | 3,414,516 | | |
| Pension liability | 50,871,072 | 29,345,602 | | |
| Capital lease obligations | 2,472,949 | 3,968,249 | | |
| Asset retirement obligation | 3,038,454 | 2,875,158 | | |
| Long-term debt, excluding current installments | 18,814,380 | 19,408,021 | | |
| Total liabilities | 105,319,292 | 85,654,731 | | |
| Net assets: | | | | |
| Unrestricted | (17,741,604) | 1,429,936 | | |
| Temporarily restricted | 3,876,197 | 2,823,810 | | |
| Permanently restricted | 6,573,400 | 6,636,799 | | |
| Total net assets | (7,292,007) | 10,890,545 | | |
| Total liabilities and net assets | \$ 98,027,285 | \$ 96,545,276 | | |

See accompanying notes.

St. Joseph Health Services of Rhode Island

Statements of Operations and Changes in Net Assets

| | Year Ended September 30 | |
|---|--------------------------------|----------------|
| | 2009 | 2008 |
| Unrestricted revenues, gains and other support: | | |
| Net patient service revenue | \$ 175,305,996 | \$ 173,233,027 |
| Other operating revenue | 5,819,126 | 7,154,448 |
| Net assets released from restriction | 631,916 | 281,930 |
| Total revenues, gains and other support | 181,757,038 | 180,669,405 |
| Operating expenses: | | |
| Salaries and benefits | 104,402,235 | 108,380,680 |
| Supplies and services | 52,155,418 | 55,655,207 |
| Licensing fee | 8,352,297 | 5,259,352 |
| Interest | 1,322,812 | 1,407,216 |
| Depreciation and amortization | 6,117,629 | 6,073,434 |
| Provision for bad debts | 12,658,529 | 13,134,259 |
| Total operating expenses | 185,008,920 | 189,910,148 |
| Deficiency of revenues over expenses | (3,251,882) | (9,240,743) |
| Change in unrealized gains on investments | 35,130 | 9,486 |
| Adjustment to pension liability | (15,523,033) | (18,970,104) |
| Effect of the adoption of the pension measurement provisions of ASC 715 | (872,500) | - |
| Net assets released from restrictions used for purchase of property and equipment | 440,745 | 129,888 |
| Decrease in unrestricted net assets | (19,171,540) | (28,071,473) |

St. Joseph Health Services of Rhode Island

Statements of Operations and Changes in Net Assets (continued)

| | Year Ended September 30 | |
|---|--------------------------------|----------------------|
| | 2009 | 2008 |
| Temporarily restricted net assets: | | |
| Contributions | \$ 2,116,508 | \$ 886,627 |
| Investment income | 43,889 | 72,967 |
| Cumulative effect of change in accounting principle | (39,955) | – |
| Change in unrealized gains on investments | 4,606 | – |
| Assets released from restriction | (1,072,661) | (411,818) |
| Increase in temporarily restricted net assets | <u>1,052,387</u> | <u>547,776</u> |
| Permanently restricted net assets: | | |
| Contributions | 42,225 | 25,200 |
| Cumulative effect of change in accounting principle | 39,955 | – |
| Change in unrealized gains on investments | (145,579) | (1,190,318) |
| Decrease in permanently restricted net assets | <u>(63,399)</u> | <u>(1,165,118)</u> |
| Decrease in net assets | (18,182,552) | (28,688,815) |
| Net assets at beginning of year | <u>10,890,545</u> | 39,579,360 |
| Net assets at end of year | <u>\$ (7,292,007)</u> | <u>\$ 10,890,545</u> |

See accompanying notes.

St. Joseph Health Services of Rhode Island

Statements of Cash Flows

| | Year Ended September 30 | |
|---|--------------------------------|-----------------|
| | 2009 | 2008 |
| Operating activities | | |
| Change in net assets | \$ (18,182,552) | \$ (28,688,815) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 6,117,629 | 6,073,434 |
| Restricted contributions | (2,158,733) | (911,827) |
| Net unrealized losses on investments | 61,954 | 1,107,865 |
| Adjustment to pension liability | 16,395,533 | 18,970,104 |
| Changes in: | | |
| Patient accounts receivable | 564,569 | 4,302,887 |
| Accounts payable | 2,466,442 | 1,797,584 |
| Estimated settlements to third-party payors | (6,827,256) | (7,155,987) |
| Other assets and liabilities | 9,494,331 | (377,533) |
| Net cash provided by (used in) operating activities | 7,931,917 | (4,882,288) |
| Investing activities | | |
| Purchases of property and equipment | (7,171,624) | (2,583,805) |
| Decrease in investments | 7,625,973 | 5,023,824 |
| Increase in assets whose use is limited under bond indenture | (14,425) | (6,339) |
| Net cash provided by investing activities | 439,924 | 2,433,680 |
| Financing activities | | |
| Proceeds from long-term debt | – | 516,572 |
| Payments on capital lease obligations | (1,490,343) | (1,479,438) |
| Payments of long-term debt | (571,946) | (531,427) |
| Decrease in pledges receivable | 89,623 | 74,691 |
| Restricted contributions | 2,158,733 | 911,827 |
| Net cash provided by (used in) financing activities | 186,067 | (507,775) |
| Increase (decrease) in cash and cash equivalents | 8,557,908 | (2,956,383) |
| Cash and cash equivalents at beginning of year | 5,803,053 | 8,759,436 |
| Cash and cash equivalents at end of year | \$ 14,360,961 | \$ 5,803,053 |

See accompanying notes.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements

September 30, 2009

1. Organization

St. Joseph Health Services of Rhode Island (the Corporation) is an integrated, multilevel, multihospital, healthcare delivery system whose operating divisions serve Rhode Island and Southeastern New England. Core values, as defined by the Corporation's "mission statement," are consistent with the healing ministry of the Catholic Church.

Our Lady of Fatima Hospital in North Providence, a community-based medical center, offers a wide array of inpatient acute-care services, including medical and surgical services, a variety of subspecialties, an emergency department and comprehensive outpatient diagnostic services on-site and at satellite diagnostic centers. It features a regionally recognized critical care pavilion, an ambulatory care center, the state's largest endoscopy center, leading-edge laser technology, hyperbaric medical services and other modern diagnostic services, such as MRI, PET and CT scanner services. Its medical staff has a strong community-based primary care presence, in addition to an extensive selection of specialists. Our Lady of Fatima Hospital is also home to Corporate Care, an occupational health and safety service working with small and large businesses throughout Rhode Island. Outpatient rehabilitation services are also available through a network of locations.

The St. Joseph Hospital for Specialty Care in Providence offers a wide variety of sophisticated specialty services in addition to the nationally recognized Center for Health and Human Services, an integrated network of primary care and specialty clinics serving the economically disadvantaged and minority populations. Its Center for Psychiatric Services offers comprehensive inpatient adult and geriatric services, in addition to outpatient mental health services on-site and at off-site locations. St. Joseph Hospital for Specialty Care also features the Southern New England Rehabilitation Center, a partnership with Rhode Island Hospital, offering tertiary-level medical rehabilitation for stroke, head and spinal cord trauma, and various other medical conditions. In an effort to consolidate inpatient services to one campus, all psychiatric services were moved to the Our Lady of Fatima Campus in December 2009 and the Southern New England Rehabilitation Center in January 2010. The Center for Health and Human Services will continue to operate at the Providence location.

In June 2002, Our Lady of Fatima Ancillary Services, a wholly owned subsidiary of the Corporation, entered into a joint venture with MRI Centers of N.E. and opened Northwest Rhode Island Imaging in Johnston, RI. The Corporation's investment in the venture is recognized within long-term investments on the equity basis.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

1. Organization (continued)

In October 2007, St. Joseph Health Services Foundation, Inc. (the Foundation) began operations. The Corporation is the sole member of the Foundation. The Foundation has been listed in the Official Catholic Directory and from that derives its 501(c)3 status as an exempt organization whose mission is to raise funds for the specific purpose of supporting the Corporation.

The Corporation also operates the St. Joseph School of Nursing and the St. Joseph Living Center. The latter is an assisted-living facility, and serves the emergent needs of the elderly population who desire residential living but require assistance with daily tasks. Respite care services are also provided.

The hospitals are licensed for 386 beds and are fully accredited by the Joint Commission on Accreditation of Hospitals. All operating units have received full licensure and are fully accredited by the numerous various regulating bodies. The hospitals are Medicare certified, participate in the Medicaid program and have contracts with Blue Cross and other health maintenance organization programs currently operating in the market.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Inventories

Inventories, consisting primarily of drugs and supplies, are stated at the lower of cost (first-in, first-out) or market.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs represent the costs associated with the issuance of the 1999 revenue bonds (see Note 7). These costs are being amortized proportionate to the bond maturities. Issuance costs are reported net of accumulated amortization of \$111,819 and \$98,512 at September 30, 2009 and 2008, respectively.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful life of each class of depreciable assets.

Equipment under capital lease is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. This amortization is included in depreciation and amortization expense in the financial statements.

Investments

Investments in equity and debt securities are reported at fair value in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities. The Corporation accounts for investments in joint ventures and partnerships using the equity method, with the Corporation's share of the earnings (loss) on these ventures and partnerships included in other operating revenue. Distributions from joint ventures, expected to be received within the next year, are classified as current assets.

In accordance with the Hospital's interpretation of the relevant state laws, realized and unrealized gains on endowment and specific purpose funds increase permanently and temporarily restricted net assets, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by or for the Corporation in perpetuity. Permanently restricted net assets consist primarily of the Corporation's beneficial interest in the Townsend Fund, the income from which is available to support services rendered by the Corporation.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits and reviews. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits and reviews.

The Healthcare Financing Administration (HCFA) approved a Medicaid disproportionate share plan for the State of Rhode Island. As a result, the Corporation received \$6,121,718 in 2009 and \$6,447,055 in 2008 from Medicaid, which is included in net patient service revenue in the statements of operations and changes in net assets.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give are reported at fair value at the date the condition is satisfied. The 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 statements of operations and changes in net assets as net assets released from restrictions.

Deficiency of Revenue over Expenses

The statements of operations and changes in net assets include the deficiency of revenues over expenses. Changes in unrestricted net assets, which are excluded from the deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, changes in the minimum pension liability and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purposes of acquiring such assets).

Income Taxes

The Corporation is a not-for-profit hospital as described in section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes on related income pursuant to section 501(a) of the Code.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

The Corporation has net operating loss carryforwards of approximately \$2,049,567. A potential deferred tax asset of approximately \$819,827 is offset by a corresponding valuation allowance.

Asset Retirement Obligation

Asset retirement obligations amounted to \$3,038,454 and \$2,875,158 as of September 30, 2009 and 2008, respectively. In 2009 and 2008, the Hospital did not have any asbestos abatement costs but did recognize accretion expense of \$163,296 and \$156,996, respectively.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Corporation has updated references to GAAP in its financial statements issued for the year ended September 30, 2009. The adoption of FASB ASC 105 did not impact the Corporation's financial position or results of operations.

In September 2006, the FASB issued ASC 715, *Compensation – Retirement Benefits*. ASC 715 requires an employer without publicly traded equity securities to adopt the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position, and is effective for fiscal years ending after December 15, 2008. The adoption of the measurement provisions of ASC 715 increased the net pension liability and decreased unrestricted net assets by \$872,500 as of September 30, 2009.

In September 2006, the FASB issued ASC 820-10, *Fair Value Measurements*. ASC 820-10 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures regarding fair value measurements. ASC 820-10 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation adopted ASC 820-10 in 2009. The adoption of ASC 820-10 did not have a material effect on the Corporation's balance sheets as of October 1, 2008, or September 30, 2009, or on the statements of operations and changes in net assets or cash flows for the year ended September 30, 2009. See Note 5 for related fair value disclosures. In February 2009, the

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

FASB issued amendments to ASC 820-10, which delayed the effective date of ASC 820-10 on nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, the Corporation will apply the provisions of ASC 820-10 to nonfinancial assets and liabilities beginning with the fiscal year ended September 30, 2010.

In February 2007, the FASB issued ASC 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. ASC 825-10 is effective for fiscal years beginning after November 15, 2007. The Corporation did not elect the fair value option for any of its financial instruments and, consequently, the statement did not impact the 2009 financial statements

In August 2008, the FASB issued ASC 958-205, *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to a state-enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and requires additional disclosures for the endowment funds of all not-for-profit organizations. Based on the effective date of state versions of UPMIFA in relation to the effective date of ASC 958-205, the Corporation adopted ASC 958-205 effective October 1, 2008. The adoption of ASC 958-205 resulted in a decrease to temporarily restricted net assets and an increase in permanently restricted net assets of \$39,955 at October 1, 2008.

In May 2009, the FASB issued ASC 855-10, *Subsequent Events*. ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date based on the requirements of ASC 855-10. The Corporation adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through February 25, 2010, representing the date at which the financial statements were issued. See Note 16 for a discussion of the Corporation's material subsequent event.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

3. Charity Care and Community Services

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During 2009 and 2008, the Corporation provided charity care of \$5,454,214 and \$4,994,612, respectively, measured using established rates.

In addition to the above-mentioned medical care rendered, the Corporation provides numerous other services to the community, free of charge. These services include such things as providing access to health care through interpreters, referral and transportation services, health care screening, community support groups, health educational programs, physician services and general community benefit services such as emergency preparedness programs. The cost of services provided to the community with revenues foregone were \$92,429 in 2009 and \$72,273 in 2008.

In addition to the cost of charity care and other community service programs, the Corporation provided \$12,658,529 and \$13,134,259 for uncollectible patient accounts during the years ended September 30, 2009 and 2008, respectively.

4. Investments

The composition of investments at September 30, 2009 and 2008, is set forth in the following table. Investments are stated at fair value.

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| <i>Assets whose use is limited</i> | | |
| Held by trustee under loan indenture agreements: | | |
| Money market funds | \$ 2,672,361 | \$ 2,657,956 |
| | <u>\$ 2,672,361</u> | <u>\$ 2,657,956</u> |
| Beneficial interest in perpetual trust: | | |
| Marketable equity securities | \$ 2,849,635 | \$ 3,250,442 |
| Bonds and notes | 1,931,978 | 1,774,906 |
| Money market funds | 113,294 | 156,487 |
| Other | 475,540 | 334,191 |
| | <u>\$ 5,370,447</u> | <u>\$ 5,516,026</u> |

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

4. Investments (continued)

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| Held by trustee under workers' compensation program: | | |
| Money market funds | \$ 1,044,227 | \$ 1,082,530 |
| | <u>\$ 1,044,227</u> | <u>\$ 1,082,530</u> |
| Endowment funds: | | |
| Money market funds | \$ 940,953 | \$ 24,296 |
| U.S. Treasury obligations | 254,195 | 1,144,419 |
| | <u>\$ 1,195,148</u> | <u>\$ 1,168,715</u> |
| <i>Other investments</i> | | |
| Current assets: | | |
| U.S. Treasury obligations | \$ 609,334 | \$ 1,217,365 |
| Certificates of deposit | - | 800,270 |
| Fixed income mutual funds | 200,781 | 684,161 |
| Money market funds | 31,124 | 5,529,177 |
| | <u>\$ 841,239</u> | <u>\$ 8,230,973</u> |
| Long-term investments: | | |
| Investment in partnership | \$ 158,974 | \$ 140,491 |
| Investment in joint ventures | 77,130 | 236,357 |
| | <u>\$ 236,104</u> | <u>\$ 376,848</u> |

The investment return is comprised of the following for the years ended September 30, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|---|--------------------|-----------------------|
| Included in other operating revenue: | | |
| Interest income | \$ 248,010 | \$ 607,170 |
| Income from partnership | 177,110 | 142,040 |
| Loss from joint ventures | (159,228) | (26,479) |
| | <u>\$ 265,892</u> | <u>\$ 722,731</u> |
| Unrealized investment gains (losses) included in changes in net assets: | | |
| Unrestricted | \$ 35,130 | \$ 9,486 |
| Temporarily restricted | 43,878 | 72,967 |
| Permanently restricted | (140,962) | (1,190,318) |
| | <u>\$ (61,954)</u> | <u>\$ (1,107,865)</u> |

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

5. Fair Value of Financial Instruments

As described in Note 1, on October 1, 2008, the Corporation adopted the methods of calculating fair value defined in ASC 820-10 to value its financial assets and liabilities, where applicable. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Corporation uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value as of September 30, 2009, are classified in the table below in one of the three categories described above:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------|---------------------|---------------------|----------------|----------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 4,688,665 | \$ — | \$ — | \$ 4,688,665 |
| U.S. Treasury obligations | 863,529 | — | — | 863,529 |
| Fixed income mutual funds | 200,781 | — | — | 200,781 |
| Beneficial interest in trusts | — | 5,370,447 | — | 5,370,447 |
| | <u>\$ 5,752,975</u> | <u>\$ 5,370,447</u> | <u>\$ —</u> | <u>\$ 11,123,422</u> |

The amounts reported in the table above exclude assets invested in the Corporation's defined benefit pension plan (see Note 10).

The following methods and assumptions were used in estimating the fair value of financial instruments:

Long-term debt: Debt obligations are reported in the accompanying statements of financial position at principal value less unamortized discount, which totaled \$18,654,957 at September 30, 2009. The fair value of these obligations at September 30, 2009, as estimated based on quoted market prices for related bonds totaled \$15,062,154.

6. Property, Plant and Equipment

Property, plant and equipment, by major category, is as follows at September 30:

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| Land and improvements | \$ 1,666,639 | \$ 1,657,712 |
| Buildings and improvements | 64,087,733 | 63,480,056 |
| Furniture and equipment | 63,334,227 | 62,207,172 |
| Construction in progress | 5,738,302 | 367,958 |
| | <u>134,826,901</u> | <u>127,712,898</u> |
| Less accumulated depreciation and amortization | 88,708,731 | 82,844,334 |
| Property, plant and equipment, net | <u>\$ 46,118,170</u> | <u>\$ 44,868,564</u> |

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

7. Long-Term Debt and Capital Leases

Long-term debt consists of the following:

| | September 30 | |
|--|----------------------|---------------|
| | 2009 | 2008 |
| Obligations under Rhode Island Higher Education Hospital Financing Revenue Bonds, Series 1999, net of original issue discount of \$740,043 and \$759,031 at September 30, 2009 and 2008, respectively; interest rates of 5.50% to 5.75%, due serially to October 1, 2029; interest is payable semiannually at April 1 and October 1 of each year; secured by a pledge of the Corporation's gross receipts and mortgage of certain property | \$ 18,654,957 | \$ 19,115,969 |
| Notes payable | 778,199 | 870,145 |
| | 19,433,156 | 19,986,114 |
| Less current installments | (618,776) | (578,093) |
| | \$ 18,814,380 | \$ 19,408,021 |

During 1999, the Corporation issued Rhode Island Health and Educational Building Corporation Hospital Financing Revenue Bonds, Series 1999, in the amount of \$23,145,000. These proceeds were used to refinance all of the Corporation's then-outstanding long-term debt and capital leases of \$9,025,000, and provide \$14,120,000 to be used for capital projects.

The obligations under the Rhode Island Higher Education Hospital Financing Revenue Bonds have specific covenants with which the Corporation must comply. The Corporation is in compliance with these covenants for the year ended September 30, 2009. For the year ended September 30, 2008, the Corporation was not in compliance with the required minimum debt service coverage ratio covenant. As required by the trust indenture, the Corporation retained an Independent Consultant (as required by the agreement) to make recommendations regarding rates, fees, charges, management, composition of the Board of the Governing Body or methods of operations to increase the debt service coverage ratio. The report of the Independent Consultant was filed with the Bond Trustee within one hundred and thirty-five days following the fiscal year-end as required by the trust indenture. On February 10, 2009, the Corporation received a letter from the Trustee indicating the Corporation had satisfied the requirements of the indenture and remained in compliance with the bond covenants.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

7. Long-Term Debt and Capital Leases (continued)

In addition, the Corporation is required to maintain certain deposits with a trustee. At September 30, 2009 and 2008, such deposits, which are included in assets whose use is limited, are summarized as follows:

| | <u>2009</u> | <u>2008</u> |
|---------------------------|---------------------|---------------------|
| Debt service fund | \$ 1,046,865 | \$ 1,073,374 |
| Debt service reserve fund | 1,625,496 | 1,584,582 |
| | <u>\$ 2,672,361</u> | <u>\$ 2,657,956</u> |

Cash paid for interest during 2009 and 2008 amounted to \$1,322,812 and \$1,522,140, respectively.

In 2007, the Corporation entered into a subordinated loan agreement with the Inter-Parish Loan Fund, Inc. in the amount of \$850,000. The loan was to pay for fire code renovations at the St. Joseph Living Center. The ten-year loan payable carries an interest rate of 4.5% payable in monthly installments of \$9,015 until November 2017.

In 2008, the Corporation entered into six individual loan agreements to purchase vehicles previously under operating leases. The term of each agreement is five years and carries interest rates between 8.79% and 11.94%. The cumulative monthly payment of principal and interest for these obligations is \$2,998.

The required annual principal payments of long-term debt at September 30, 2009, for the next five years are as follows:

| | |
|------|------------|
| 2010 | \$ 618,776 |
| 2011 | 637,623 |
| 2012 | 659,053 |
| 2013 | 696,903 |
| 2014 | 735,045 |

Capital Leases

The Hospital classifies certain noncancelable leases as capital leases and includes the property under lease in its property and equipment along with the related accumulated depreciation.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

7. Long-Term Debt and Capital Leases (continued)

Future minimum lease payments due under capital lease arrangements at September 30, 2009, are as follows:

| | |
|---|--------------|
| 2010 | \$ 1,613,891 |
| 2011 | 1,288,580 |
| 2012 | 1,288,580 |
| Total minimum lease payments | 4,191,051 |
| Less amount representing interest | (227,391) |
| Present value of net minimum lease payments | \$ 3,963,660 |

8. Operating Leases

The Corporation has entered into noncancelable operating lease agreements with several vendors for the lease of certain computer, radiology and other equipment. Total rental expense amounted to \$2,657,467 and \$2,572,897 for the years ended September 30, 2009 and 2008, respectively. Future minimum payments as of September 30, 2009, under noncancelable operating leases, are as follows:

| | |
|------|--------------|
| 2010 | \$ 1,060,896 |
| 2011 | 636,815 |
| 2012 | 442,383 |
| 2013 | 264,216 |
| 2014 | 176,144 |
| | \$ 2,580,454 |

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2009 and 2008:

| | 2009 | 2008 |
|----------------------|--------------|--------------|
| Capital projects | \$ 2,520,703 | \$ 2,145,033 |
| Operating activities | 1,327,570 | 613,381 |
| Educational | 27,924 | 65,396 |
| | \$ 3,876,197 | \$ 2,823,810 |

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

9. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets at September 30, 2009 and 2008 are restricted to:

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| Investments to be held in perpetuity, the income from which is available to support health care services | \$ 6,441,523 | \$ 6,555,470 |
| Investments to be held in perpetuity, the income from which is available to support education | 131,877 | 81,329 |
| | <u>\$ 6,573,400</u> | <u>\$ 6,636,799</u> |

10. Pension Plan

The Corporation's defined benefit pension plan covers substantially all of the Corporation's employees. Plan participants' benefits are computed as a percentage of final average earnings (five highest consecutive rates of annual earnings over the last ten years of employment) less a percentage of Social Security benefits, proportionately reduced for services less than 30 years. Although the plan is not subject to ERISA, the Corporation's intent is to fund \$1,500,000 if financial resources allow. Effective October 1, 2007, the Hospital froze participation in the defined benefit pension plan for all new non-union and Federation of Nurses and Healthcare Professionals (FNHP) Bargaining Unit employees. In addition on October 1, 2008, the Corporation froze participation for all new hires in the United Nurses and Allied Health Professionals (UNAP) Bargaining Unit. These new employees will be eligible to participate in a defined contribution plan once certain requirements are met.

On September 30, 2009, the Board of Trustees of the Corporation adopted a resolution to freeze the Plan for all non-union employees effective September 30, 2009. As a result of this resolution to freeze the Plan, unrecognized prior service costs were reduced resulting in a curtailment loss of \$1,639,940. This loss is included in salaries and benefits expense in the accompanying statements of operations. All non-union employees will be eligible to participate in a 403(b) defined contribution pension plan that carries a matching formula if certain criteria are met.

The Corporation, in accordance with ASC 715, was required to change the measurement date of the pension plan to coincide with the fiscal year-end of the Corporation. This change was made at September 30, 2009, and was reflected as a decrease in unrestricted net assets of \$872,500.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

10. Pension Plan (continued)

The components of the net periodic benefit cost for each of the plans for the years ended September 30, 2009 and 2008, are as follows:

| | <u>2009</u> | <u>2008</u> |
|---------------------------------|---------------------|---------------------|
| Service cost | \$ 3,059,713 | \$ 3,106,681 |
| Interest cost | 8,179,787 | 7,745,979 |
| Expected return on plan assets | (8,827,098) | (9,840,725) |
| Prior service cost amortization | 562,761 | 562,761 |
| Amortization of actuarial loss | 514,834 | — |
| Net periodic cost | <u>\$ 3,489,997</u> | <u>\$ 1,574,696</u> |

The weighted-average assumptions used to determine net periodic benefit cost as of September 30, 2009 and 2008, are as follows:

| | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|
| Discount rates | 6.25% | 6.25% |
| Rates of increase in future compensation levels | 3.50% | 3.50% |
| Expected long-term rate of return on plan assets | 8.75% | 8.75% |

A reconciliation of the changes in the Corporation's Retirement Plan projected benefit obligations and the fair value of assets for the years ended September 30, 2009 and 2008, and a statement of funded status of the plans as of September 30 for both years, follows:

| | <u>2009</u> | <u>2008</u> |
|--|--------------------|--------------------|
| Changes in benefit obligations | | |
| Projected benefit obligations at beginning of year | \$ 132,262,854 | \$ 125,019,624 |
| Service cost | 3,824,641 | 3,106,681 |
| Interest cost | 10,224,734 | 7,745,979 |
| Benefits paid | (6,233,745) | (4,782,977) |
| Effect of curtailment | (16,714,817) | — |
| Experience loss | 13,541,818 | 1,173,547 |
| Projected benefit obligation at end of year | <u>136,905,485</u> | <u>132,262,854</u> |

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

10. Pension Plan (continued)

| | <u>2009</u> | <u>2008</u> |
|--|------------------------|------------------------|
| Changes in plan assets | | |
| Fair value of plan assets at beginning of year | \$ 102,917,252 | \$ 114,718,822 |
| Actual return on plan assets | (10,649,094) | (8,518,593) |
| Employer contributions | – | 1,500,000 |
| Benefits paid | (6,233,745) | (4,782,977) |
| Fair value of plan assets at end of year | <u>86,034,413</u> | <u>102,917,252</u> |
| Funded status | | |
| Funded status of the plan | <u>\$ (50,871,072)</u> | <u>\$ (29,345,602)</u> |
| Accumulated benefit obligation | <u>\$ 126,218,962</u> | <u>\$ 107,848,493</u> |

The weighted-average assumptions used to determine the pension benefit obligation at September 30, 2009 and 2008, are as follows:

| | <u>2009</u> | <u>2008</u> |
|--|----------------|---------------|
| Discount rates | 5.58% | 6.25% |
| Rates of increase in future compensation levels | 3.50% | 3.50% |
| Expected long-term rate of return on plan assets | 8.75% | 8.75% |
| Measurement date | Sept. 30, 2009 | June 30, 2008 |

Included in unrestricted net assets at September 30, 2009 and 2008, respectively, are the following amounts that have not yet been recognized in net periodic pension cost: prior service cost of \$1,048,487 and \$3,391,878 and unrecognized actuarial losses of \$38,017,444 and \$20,151,020. 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, 2010, are \$219,477 and \$1,900,000, respectively

Plan Assets

The primary investment objective of the Corporation's defined benefit pension plan is to provide pension benefits for its members and their beneficiaries by ensuring a sufficient pool of assets to meet the Plan's current and future benefit obligations. These funds are managed as permanent funds with disciplined longer-term investment objectives and strategies designed to meet cash flow requirements of the plan.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

10. Pension Plan (continued)

Management of the assets is designed to maximize total return while preserving the capital values of the fund, protecting the fund from inflation, and provide liquidity as needed for plan benefits. The objective is to provide a rate of return that meets inflation, plus 5.0%, over a long-term horizon.

The plan aims to diversify its holdings among sectors, industries and companies.

A periodic review is performed of the pension plan's investment in various asset classes. The current asset allocation target is 70% equities and 30% fixed income.

The Corporation's pension plan asset allocations at September 30, 2009 and 2008, by asset category are as follows:

| | Plan Assets at September 30 | |
|---|------------------------------------|-------------|
| | 2009 | 2008 |
| Marketable equity securities | 66% | 70% |
| U.S. government obligations and corporate bonds | 27 | 28 |
| Other | 7 | 2 |
| Total | 100% | 100% |

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be as follows:

| <u>Fiscal Year</u> | <u>Pension Benefits</u> |
|--------------------|-------------------------|
| 2010 | \$ 5,077,000 |
| 2011 | 5,361,000 |
| 2012 | 5,714,000 |
| 2013 | 6,169,000 |
| 2014 | 6,679,000 |
| Years 2015–2018 | 43,292,000 |

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

11. Professional Liability Insurance

The Corporation insures its professional liability risks pertaining to medical malpractice on a claims-made basis. From October 1, 1998 to October 1, 2001, the Corporation was insured for professional liability loss contingencies by an insurance company that, on August 16, 2001, was placed into rehabilitation by the insurance commissioner of the Commonwealth of Pennsylvania. The Corporation has established reserves to cover professional liability exposure that may not be covered by current or prior insurance policies, including a reserve for estimated claims incurred but not reported to the insurance company.

12. Workers' Compensation

As of December 1, 1999, the Corporation obtained commercial insurance for its workers' compensation liability. The Corporation maintains a stop-loss insurance policy for workers' compensation claims made prior to December 1, 1999. Accordingly, amounts up to the stop-loss limit are self-insured by the Corporation. The Corporation has accrued its estimate of the ultimate potential workers' compensation loss based upon an actuarial study, which developed the estimated loss based upon actual paid claims. The estimated ultimate losses were discounted using a rate of five percent. In order to provide for the ultimate payment of the estimated loss, the Corporation has deposited amounts into a trust that are sufficient to fund the estimated liability. In addition, the Corporation has posted a \$650,000 surety bond.

13. Third-Party Payment Arrangements

The Corporation maintains agreements with the Social Security Administration under the Medicare program, the State of Rhode Island under the Medicaid Program, Blue Cross of Rhode Island and United Health Plans of New England, among others, that govern payment to the Corporation for services rendered to patients covered by these programs.

Medicare utilizes a prospective payment system for inpatient medical surgical, rehabilitation and transitional care services where payment is based on the classification of a case into a diagnosis-related group (DRG). Inpatient psychiatric nonacute services related to Medicare beneficiaries are paid based on cost up to a specified limit. Medicare outpatient services are paid on a prospective payment system based upon ambulatory payment classifications (APC). The method of payment for Rhode Island Blue Cross is a per diem system for inpatient services and a negotiated fee schedule for outpatient services.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

13. Third-Party Payment Arrangements (continued)

The majority of Rhode Island Medicaid patients are reimbursed under the RiteCare program funded by the State of Rhode Island. The RiteCare program is administered by area insurance companies and HMOs. Most of the Corporation's revenue from the RiteCare program is through United Health Plans of New England and Neighborhood Health Plan, and payments are based upon per diems for inpatients and fee schedules for outpatient services. Medicaid patients not included in the RiteCare program are reimbursed based on budgeted costs under a prospective cost contract and reimbursement is adjusted based upon actual patient volume.

The Corporation has entered into contracts with other insurance companies and health maintenance organizations whereby they are generally paid on a per-diem or case rate (DRG) basis for inpatients and fee schedules for outpatient services.

Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The Corporation has settled with Medicaid through 2006, and with Medicare through 2007.

Revenues from the Medicare and Medicaid programs accounted for approximately 31% and 5% at September 30, 2009, and 33% and 7% at September 30, 2008, of the Corporation's gross patient revenue. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. There is at least a reasonable possibility that recorded amounts could change by a material amount in the near term. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenues in the year that such amounts become known. Such differences increased revenues by approximately \$4,987,670 and \$925,567 for the years ended September 30, 2009 and 2008, respectively.

During fiscal 2009 and 2008, hospitals in Rhode Island were subject to a state license fee based on a percentage of gross charges, which is reflected as an expense in the statement of operations. The license fee was \$8,352,310 and \$5,259,352 for the years ended September 30, 2009 and 2008.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

14. Concentrations of Credit Risk

The Corporation grants credit to patients, substantially all of whom are local residents. The Corporation generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations and commercial insurance policies).

The mix of receivables from patients and third-party payors at September 30, 2009 and 2008 is as follows:

| | <u>2009</u> | <u>2008</u> |
|----------------------------------|-------------|-------------|
| Medicare | 23% | 29% |
| Blue Cross | 16 | 14 |
| Medicaid | 8 | 6 |
| Health maintenance organizations | 30 | 31 |
| Commercial | 3 | 3 |
| Workers' compensation | 2 | 1 |
| Self-pay | 18 | 16 |
| | <u>100%</u> | <u>100%</u> |

15. Endowment

The Corporation's endowment consists of several individual funds established by donors for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

15. Endowment (continued)

Interpretation of Relevant Law

The State of Rhode Island requires the preservation of the purchasing power of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the Hospital and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the Hospital.

The following represent the net asset classes of the Corporation's endowment funds as well as the changes in endowments for the year ended September 30, 2009:

| | Temporarily Restricted | Permanently Restricted | Total |
|---|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets at October 1, 2008 | \$ 180,952 | \$ 1,160,728 | \$ 1,341,680 |
| Contributions | 3,025 | 42,225 | 45,250 |
| Investment income | 24,462 | - | 24,462 |
| Unrealized gain on investments | 4,606 | - | 4,606 |
| Net assets released from restrictions | (8,600) | - | (8,600) |
| Endowment net assets at September 30, 2009 | <u>\$ 204,445</u> | <u>\$ 1,202,953</u> | <u>\$ 1,407,398</u> |

St. Joseph Health Services of Rhode Island

Notes to Financial Statements (continued)

16. Subsequent Event

In May 2008, the Corporation entered into a memorandum of understanding with Roger Williams Medical Center to affiliate. Under the proposed affiliation, each hospital will operate under their current license while all administrative, strategic planning, financial operations and capital control will be managed by the parent corporation, CharterCARE Health Partners. Pursuant to statutory requirements, the Corporation, Roger Williams Hospital, and Roger Williams Medical Center filed a joint application with the Rhode Island Department of Health and Attorney General's Office in 2009. Both the Department of Health and Attorney General's Office have issued an approval of the proposed affiliation with certain conditions. The effective date of the affiliation was January 4, 2010.